
AEROSTAR S.A.



**AEROSTAR S.A.
QUARTERLY REPORT AT 31.03.2020**

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THE QUARTERLY REPORT OF THE BOARD OF DIRECTORS AT 31.03.2020

Introduction

The current Report of the Board of Directors is prepared in accordance with Law no. 24/2017 dd. 21.03.2017 regarding the issuers of financial instruments and market operations and Regulation no. 5/2018 of the Financial Supervisory Authority (ASF) regarding the issuers of financial instruments and market operations, Annex 13 and Annex 12 respectively.

The scope of this report of the Board of Directors on AEROSTAR's business for the first quarter of the year 2020 is to inform the investors regarding the modifications in the company's position and performance which took place between January-March 2020 as well as regarding the predictable evolutions in the aviation and defence industry market and regarding the company's growth and development opportunities.

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

The individual financial statements at 31.03.2020 are not accompanied by the the statutory financial auditor's report. They were audited by the internal auditor of the company.

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.

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

In the circumstances of the public health crisis and declaration of the SARS Cov-2 pandemic, the period we are facing is a major challenge which impacts on all the aspects of our life while the risks of Covid-19 infection are permanent.

We expect the economic consequences are long term as well and persistent long after the pandemic is over. The downturn of the global economy and the adaptation to the new context require firm and effective actions to manage this special situation of an exceptional nature.

Our option has been made to continue the activity. AEROSTAR's Mission will continue!

We take firm and responsible action to provide the safety at the work places for our employees. This is our first priority and responsibility in order to secure our objectives and commitments made.

Our continuity plan takes into account and is adequate in relation to the severity of the public health situation but also the severity of the global economic downturn and its impact on the aviation and defence industry.

We rely on the success of our adaptation effort.

We will continue to apply the adequate strategy consistently, step by step, to preserve the resources and capabilities of the company with a view to capitalize on them when the economy is relaunching.

AEROSTAR will go through this and will adjust successfully to the new mode to perform the business operations. We will provide full safety of the work places for our employees. We have the capacity to contribute to our customers' relaunch and rebound efforts. We assure them that we trust in our capacity to fulfill our object of activity, to meet the requirements and expectations of our customers and to transform into opportunities the impact determined by the present context.

Grigore FILIP
President & General Director

AEROSTAR PROFILE, GENERAL ELEMENTS

AEROSTAR's main field of activity is production.

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

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

During the first quarter of 2020 AEROSTAR consolidated its position as a leader in Romania for its object of activity.

AEROSTAR's main business lines are:

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

These activities are in the category of „manufacturing industry” according to the Romanian labour legislation.

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

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

The successive names held were URA (Aircraft Repair Plant)-1953, IRAv (Aircraft Repair Enterprise)-1970, 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.

The unique identification code at European level (EUID) is ROONRC.J04/1137/1991 and the LEI identification code as a legal entity is 315700G9KRN3B7XDBB73.

KEY FIGURES

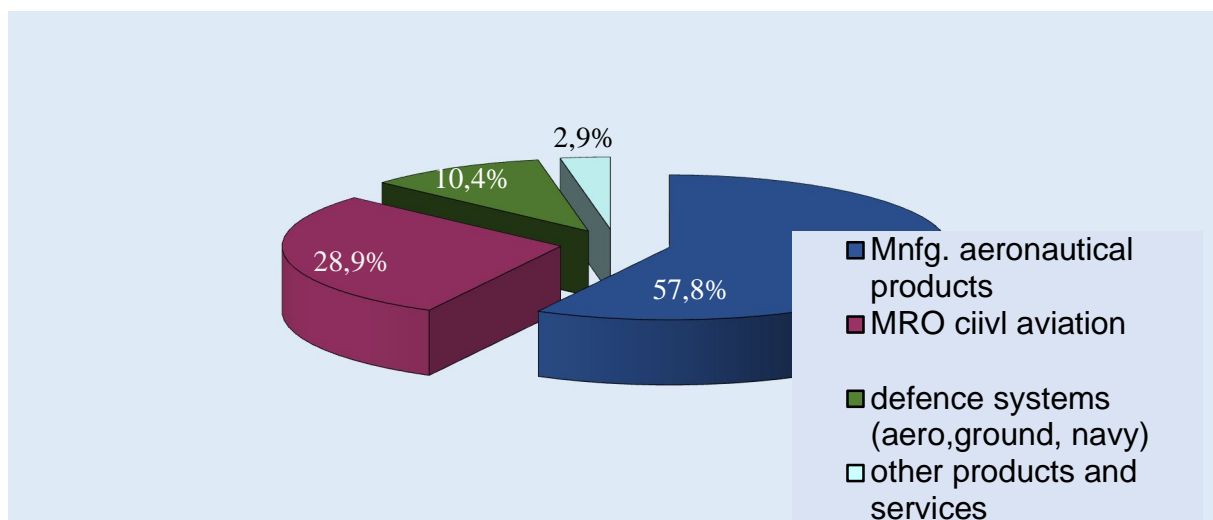
AEROSTAR prepares the individual financial statements in accordance with the international financial reporting standards (IFRS).

	MU	31.03.2020	31.03.2019
Share capital	thousand lei	48.729	48.729
Turnover	thousand lei	99.932	96.039
○ export sales	thousand lei	90.959	85.609
	%	91%	89,9%
Actual headcount, of which:	no	1.955	1.973
- own employees	no	1.831	1833
- attracted through temporary labour agent	no	124	140
Net Profit	thousand lei	21.677	16.420
Cash Flow	thousand lei	213.448	190.108
General Liquidity	-	7,23	7,14
Investment Expenses From company funds	thousand lei	18.142	3.080

	Result
Current Liquidity Indicator	7,23
Indebtness Rate	0
Rate of Clients Debits	60
Rate of Immobilization Assets	0,55
General Solvency Rate	10,62
Rate of Financial Return	0,06
Net Profit Rate	21,69 %
Net Treasury	42.569 thousand lei

The exchange rates of the national currency for Q1 of 2020:

	MU	31.03.2020	31.03.2019
Average exchange rate EURO/3 months	lei/euro	4,7951	4,7335
Average exchange rate USD/3 months	lei/USD	4,3489	4,1654
Average exchange rate GBP/3 months	lei/GBP	5,5721	5,4226
Inflation	%	1,16	2,13



THE SHARE “AEROSTAR” (ARS)

The shares of AEROSTAR S.A. Bacau are traded under the ARS stock exchange indicator since 1998 on the regular market under the administration of the Bucharest Stock Exchange. Since the year 2000 the company is fully private capital.

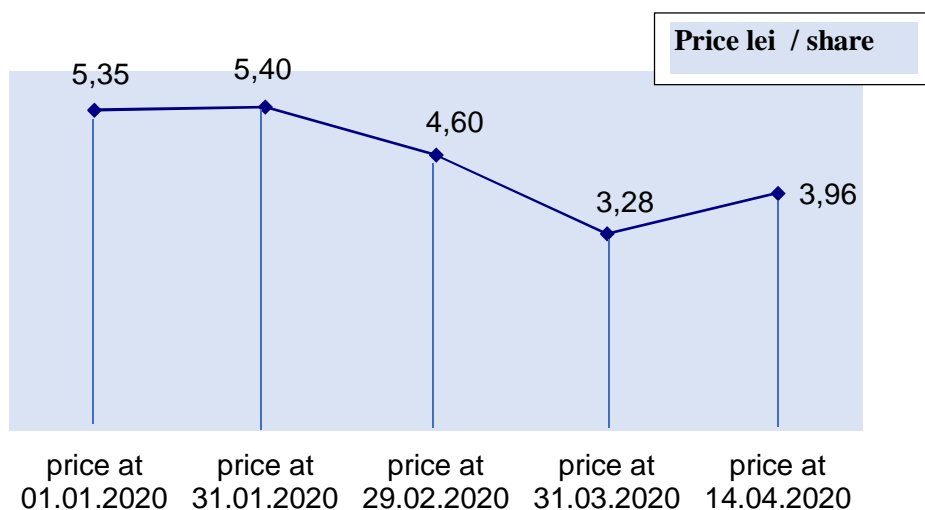
The main characteristics of the issued shares: 152.277.450 shares which are nominative, ordinary, of equal value, integrally paid, issued in dematerialized form and registered in the Shareholders Register. The register of AEROSTAR shareholders is under the administration of Depozitarul Central S.A. Bucharest.

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

Aerostar shares-in figures	31.03.2020	31.03.2019	31.03.2018
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Price at the end of the period (lei) *)	3,28	5,00	5,26
Stock Exchange Capitalisation (lei)	499.470.036	761.387.250	800.979.387
Maximum price (lei) *)	5,70	5,08	5,36
Minimum price (lei) *)	3,00	4,78	4,65
Result per share (lei)	0,142	0,108	0,139

*) source: *Monthly Bulletin of the Bucharest Stock Exchange*

Monthly evolution of the reference price for ARS shares during Q1 of 2020



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

The variation during Q1 of 2020 compared to the beginning of the year 2020 (%):

- 31 January 2020 / 01 January 2020, a slight increase of 0,93 %
- 29 February 2020 / 01 January 2020, the decrease was -14,01 %
- 31 March 2020 / 01 January 2020, the decrease was -38,69 %

The highest price decrease of ARS shares occurred in March 2020 (-28,69%).

In mid April 2020, the price of Aerostar shares increased with 20,73 % compared to the end of March 2020.

During Q1 of 2020 there was no company programme to buy its own shares.

During Q1 of 2020 Aerostar did not issue bonds or other similar securities.

During Q1 of 2020 no new subscriptions of shares were made, nor participation certificates, convertible bonds, options or similar rights.

MAIN EVENTS DURING FIRST QUARTER OF 2020

- At 28 February 2020 AEROSTAR presented the preliminary financial results of the year 2019 in accordance with the legal requirements applicable.
- At the date of 6 March 2020, AEROSTAR's Board of Directors launched the programme „AEROSTAR AWARDS FOR YOU”.

This is a programme to encourage the young students and graduates, in special from Bacau, to pursue for a career in AEROSTAR.

- At the date of 11 March 2020, the World Health Organization declared the new coronavirus Covid-19 pandemic while starting with the date of 16 March 2020 the emergency state was set on Romania's territory by presidential decree for an initial duration of 30 days as a result of the epidemiologic situation.
- At the date of 16 March 2020 the yearly negotiation was concluded with reference to the employees benefits . The impact of the salaries increase on the costs of the year 2020 will exceed 8 million lei.
- At the date of 18 March 2020 the current report was published to convene the extraordinary general meeting of the shareholders and the ordinary general meeting of the shareholders on the date of 21 April 2020 in accordance with the legal provisions applicable. The Convening notice, the agenda, the draft resolutions, the documents submitted for the general meetings of the shareholders and the forms requested by AEROSTAR were posted on the company website page www.aerostar.ro at the Investors Relation section.

EVENTS AFTER THE REPORTING DATE

- At the date of 21 April 2020 took place the Extraordinary General Meeting of the Shareholders and the Ordinary General Meeting of the Shareholders in accordance with the legal provisions applicable. The quorum was met in a proportion of 87,6392%.

In the Ordinary General Meeting of the Shareholders of 21 April 2020, Aerostar shareholders approved:

The distribution of the net profit of financial year 2019 on the following destinations:

- the legal reserve of the reinvested profit in amount of	11.674.595,35 lei;
- Allocation to reserves in amount of	34.500.000,00 lei;
- Allocation as dividends in amount of	19.796.068,50 lei

and a gross dividend per share: 0,13 lei, corresponding to a share with a nominal value of 0,32 lei;

The date of 23 June 2020 as the Payment Date for the dividends of the financial year 2019.

The distribution of dividends due to Aerostars' shareholders for the year 2019 will be made in accordance with the applicable legal provisions.

THE BUSINESS MODEL

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

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

Under the special conditions of an exceptional character of the Covid-19 pandemic, the business model of the company was not modified but the execution of the activities was adjusted in relation to the specific features of the flows of activities.

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

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

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

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

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

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

The context of the organization and interested parties for AEROSTAR

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

To achieve AEROSTAR's objectives, the factors contributing to the decision-making process, must be aware and able to assume multiple aspects present both in the internal and external context of the company under the form of issues, situations, events which can arise in the future and which may have an impact on obtaining the results intended.

Both for understanding the organization's context and the determination of the external and internal aspects, as well as for the identification of the interested parties, the guidelines of the ISO 9001 international standard were used.

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

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

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

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

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

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

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

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

INVESTMENTS DURING THE FIRST QUARTER OF 2020

AEROSTAR fulfilled the objectives of the investment programme for the first quarter of 2020.

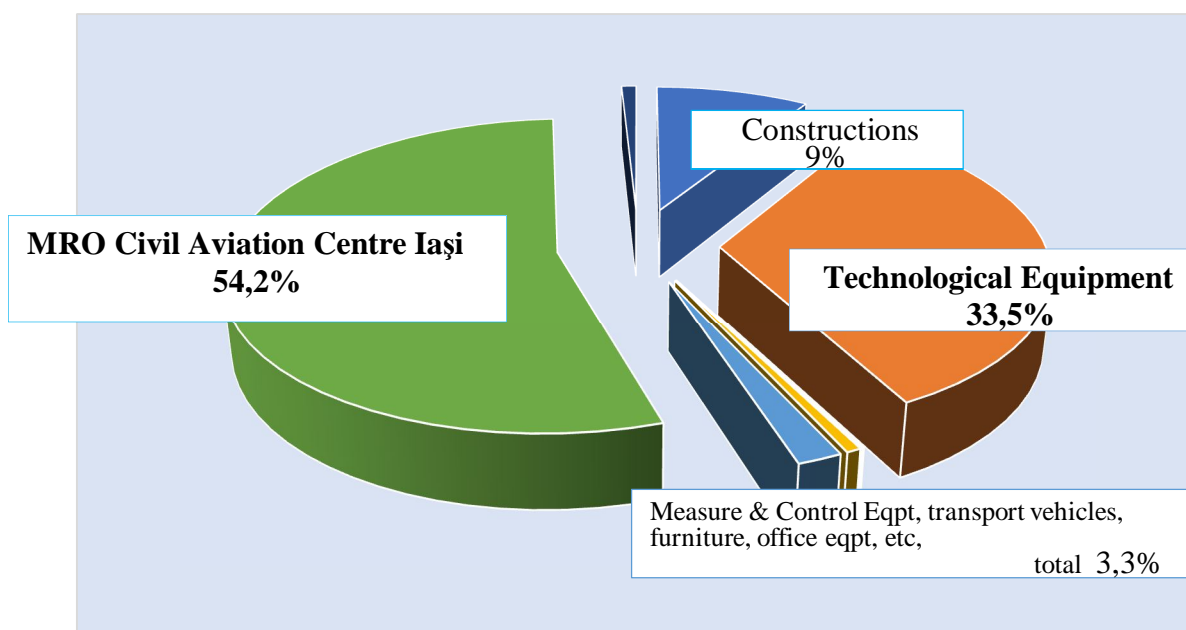
The total value of the expenses budgeted for Q1 was 25.868.941 lei, equivalent to 5.446.093 euro.

The expenses collected amount to 18.142.032 lei.

In 2020 the expenses made in Q1 are close to 6 times higher compared to the amount of 3.079.567 lei collected during the similar period of the year 2019.

In Q1 of 2020 the biggest amount was allocated for the completion of the objective of the secondary place of business at Iasi, that is the building of the MRO Centre for extending the civil aircraft maintenance capabilities, representing 54% of these investment expenses.

The acquisition of technological equipment represented 33,5% of the investment expenses in the first quarter. It is state-of-the-art equipment in advanced technologies, with low energy consumption and minimal impact on the environment, with high productivity.



Also, the company purchased and commissioned measurement and control equipment, high performance installations as to their impact on the health and safety of the employees at their workplace such as: the ventilation system, anti-pollution filtration system, fire alert and detection systems, etc.

With reference to the intangible assets, an important number of licenses were updated; the outdated hardware part was replaced, the software applications for the current production management were finalized, a.o.

The summary of the investment expenses on categories of fixed assets is structured as follows:

Category		Value (lei)	%
Tangible Immobilizations	MRO Centre Iasi	9.831.958	54,2
	Technological eqpt	6.071.790	33,47
	Constructions	1.618.312	8,9
	Transport means	110.840	0,61
	Furniture, office eqpt, a.o.	339.549	1,87
	Measure, control and adjustment eqpt.	15.110	0,083
Intangible Immobilizations		154.742	0,85
Total		18.142.302	100

The investments made by AEROSTAR are aimed to extend the capacities and diversify the services provided by the acquisitions of modern state-of-the-art equipment, steady and sustainable development, a safe and attractive work environment in compliance with all the environment directives and preparing the performance of the future generations.

AEROSTAR BUSINESS DURING Q1 OF 2020

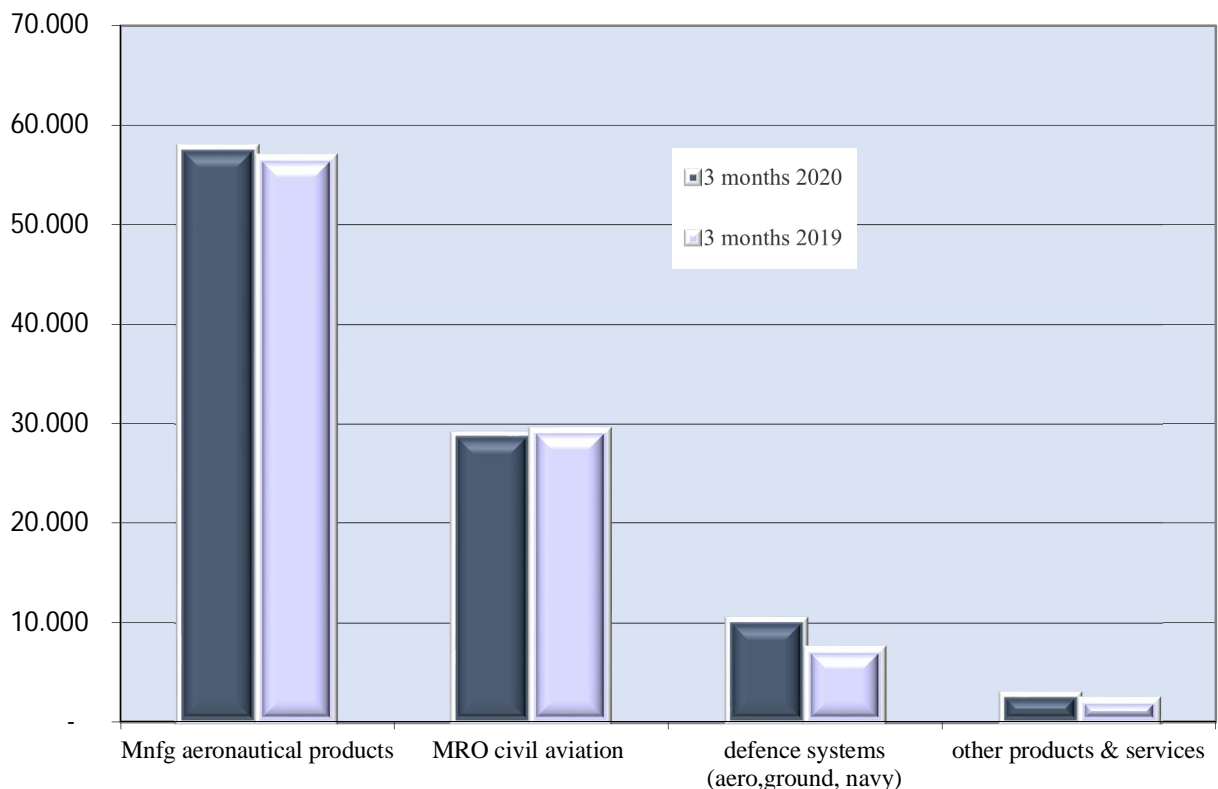
Throughout the first quarter of 2020, AEROSTAR has operated in conditions of continuity.

AEROSTAR Sales

The turnover during the first quarter of 2020 was in amount of 99.932 thousand lei, of which the sales on the export market was the equivalent of 90.959 thousand lei, representing 91% of the total.

The sales on the domestic market were in amount of 8.973 thousand lei.

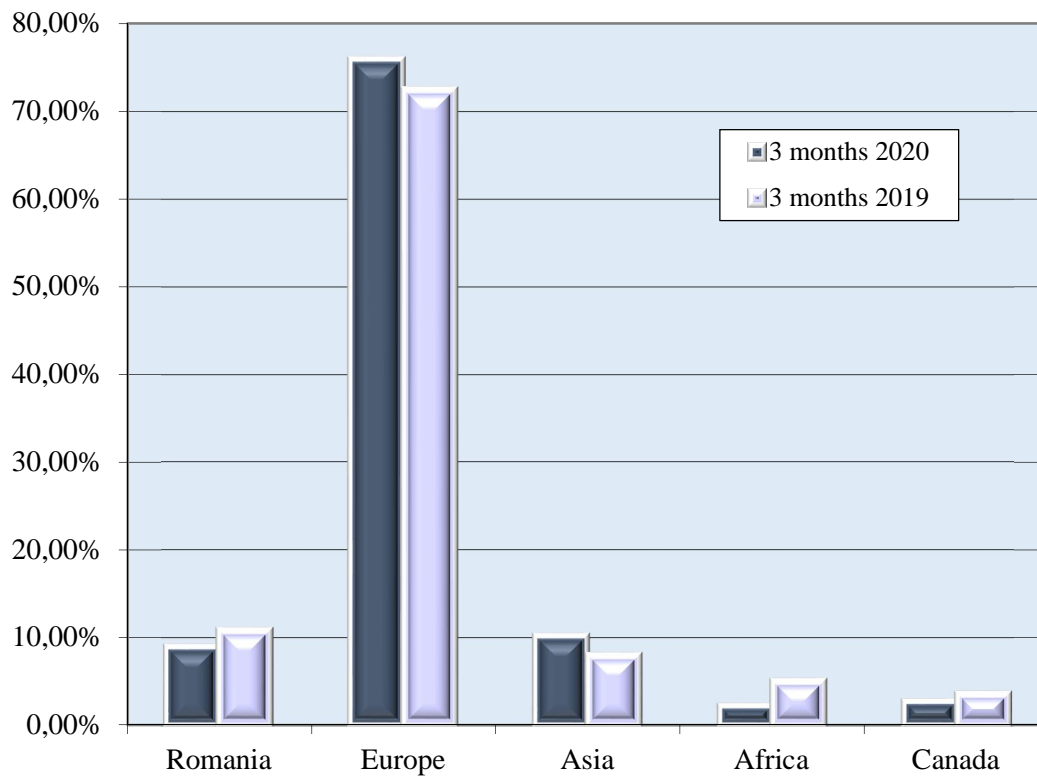
The comparative chart of the sales on products and services indicates a stable evolution.



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

The evolution on the main sales market:

	3 months 2020	3 months 2019
Romania	8,98%	10,86%
Europe	75,87%	72,46%
Asia	10,17%	8,03%
Africa	2,23%	5,05%
Canada	2,76%	3,60%



The business environment, a context based analysis

As a major supplier of products and services in the aeronautical industry, AEROSTAR operates in a very sensitive, interconnected environment. In this context, the viewpoints, decisions and actions of our interested parties have a significant impact on the success of our business.

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

With reference to the external aspects, the main evolutions during Q1 of 2020 are:

With reference to the international context:

The Brexit process was extended, the effective date being 31 January 2020. From a commercial point of view, the situation remains the same until 31 December 2020, the negotiation term of the bilateral agreement.

The company's action is to monitor the negotiation's evolution in order to evaluate the real impact for Aerostar's activities. The impact can be related to costs increases due to the customs duties and import taxes, an extended duration of the purchasing process due to the formalities, as well as due to shipment and transport.

The commercial measures implemented by the EU, especially in relation to USA, started in 2018, with the additional taxation of the semi-finished aluminium sheet imports from USA, and continued in 2019 with safeguard taxes for the imports of certain steel semi-finished goods. These measures directly lead to costs increase. Avoiding the additional or safeguarding taxes by using specific commercial procedures like inward processing approval, with discharge in the EU, is not possible for aviation either. The only case is using an inward processing authorization with discharge outside the UE, for purchasing operations related to programmes where Aerostar's customer is non-EU.

Aerostar action is to search for European sources for materials.

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

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

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

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

The forecasts of ICAO (International Civil Aviation Organization)- the specialized agency of the United Nations, indicate for the next 6 months a reduction of the passenger numbers down to 1,2 billion and a reduction of the international passengers transport capacity with 2/3 during the first 9 months of the year 2020; this generates reduced revenues of the airlines with 160 to 235 billion dollars during the same period, as result of the severity of the travel bans and the expected global recession.

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

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

- Cancellation of a significant number of passenger aircraft, shutdown of activities and factories
- All the suppliers in the supply chains are affected: slowdown of the activities, temporary shutdown but also business reorganizations, take-over or divestitures
- Complete or temporary shutdowns or on indefinite periods

- Both Airbus and Boeing announced significant reductions of the production rates in several commercial- passenger aircraft manufacturing programmes
- Loss of jobs either by furloughs or temporary unemployment, or voluntary leaves or forced by the economic situation
- Layoffs were announced by both Airbus, including over 3000 furloughs at Airbus wing centre at Broughton in Great Britain.
- Boeing announced personnel layoffs at the level of 10% of its manpower to 15% in the commercial aircraft manufacturing sector
- Notifications of termination or deferral to receive parts and subassemblies from several main customers/ the supply chains of the main aviation programmes
- The airlines suspend their activities as a result of the travel bans and of the lack of passengers; they also renounce the scheduled maintenance work. Massive interventions and state aid are urged for the salvation of the airline operators
- The global manufacturers such as Airbus and Boeing, but the airline operators as well make plans for reorganization and layoff of personnel in their effort to provide critical liquidities for the restart of the economic activity.

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

Aviation is one of the most affected fields of activity by the quarantine, travel restrictions and social distancing.

Predictability is as low as never.

With reference to the legislative context:

The law has been adopted which allows Romania to purchase from Portugal another five F-16 aircraft. Taking into consideration that in 2018 Aerostar was nominated by the Romanian State as the national maintenance centre for the F-16 aircraft, Aerostar's action is to prepare to fulfil this role including in terms of procurement aspects.

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

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

The contract was signed for the modernization of the runway of George Enescu Airport. Aerostar action is to correlate the scheduling of aircraft inputs coming for maintenance work, with the progress of the runway work.

Starting with the date of 16 March 2020 the emergency state was set on Romania's territory by presidential decree for an initial duration of 30 days as a result of the epidemiologic situation

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

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

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

With reference to the economic context:

The minimum wage was increased, the EUR/RON and USD/RON exchange rate increased, the price of utilities as well. This may lead to an increase of the purchasing price from Romania, including the increase of the production costs. Aerostar's action is to secure the prices on a term as long as possible, on a yearly or multiannual basis.

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

With reference to the global competitive environment:

- The 737MAX aircraft certification was suspended
- The 737 MAX aircraft production was suspended
- The manufacturing of the A380 aircraft was terminated
- Dassault gave up the F5X certification and launched the F6X concept
- Restructuring of the company Bombardier following the decision to renounce the C Series and shutting down 4 plants from Ireland and Morocco

-Boeing gives up the agreements initiated in the year 2018 for the acquisition of 80% of Embraer's commercial aircraft business.

-Quarantine and the passenger traffic restrictions in whatever form affected profoundly all the global players.

With reference to the technical context:

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

Focus on cybersecurity

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

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

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

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

Regarding the internal aspects, the following evolutions occurred during Q1 2020:

From the point of view of human resources:

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

The educational and training, formation and professional training processes are affected.

The market labour does not provide sufficient manpower with the specific qualifications and competences needed in the field of the aviation and defence industry.

The action consists in improving the recruitment, selection and training processes of the personnel, partnership agreements with educational institutions in order to provide training and qualifications in the required fields.

Also, actions of integration and development of the organizational culture are required, in order to ensure the inclusion of young employees and their level of competence and qualifications to execute the company's contracts.

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

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

From the point of view of the infrastructure:

The sustainable use of the resources and the energy efficiency

During Q1 of 2020, the actions were continued to rehabilitate the transport network for the waste water resulted from certain technological processes.

The industrial water is entirely provided from company's own water wells.

From the point of view of the capabilities and authorizations:

All the authorizations, certifications and accreditations held were maintained.

Detailed information can be found in the chapter **Quality and Environment**.

From the point of view of governance:

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

The action is to identify and evaluate all the impacts, to implement compliance measures or mechanisms in order to mitigate the adverse effects, or to take advantage of the opportunities, as the case may be.

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

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

The market footprint of the company has increased through new programmes and development of new capabilities.

The action is to develop the company's footprint in activities of an increased added value.

The economic performance indicators of the company are at a very good level and are presented at the section **Key Figures**.

MAIN BUSINESS LINES

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

AEROSTAR's footprint is recognized in Europe's aviation industry and not only, being a significant supplier in global manufacturing programmes but also in the field of heavy maintenance for commercial aircraft.

During the first quarter of 2020, the activities were executed in conditions of continuity, the measures of response and adaptation to the sanitary crisis and social distancing restrictions being implemented as early as 25 February 2020.

Manufacturing aeronautical products

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

Aerostar is part of the supply chain of the main global programmes with a significant success rate.

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

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

The parts, subassemblies and products manufactured by Aerostar are found on various aircraft subassemblies or systems.

We manufacture structure assemblies for the aircraft wing, parts and subassemblies for the aircraft fuselage, but also machined parts, actuators and mechanical assemblies for the landing gears of the aircraft.

There is a large diversity of the parts and materials from which they are manufactured and the technologies used, the number of different part numbers being around 10.000.

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

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

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

Increasing the production volume as a subcontractor for parts, aerostructures and equipment for the civil aviation by using modern technologies specific to metal processing: aluminium, titan, steel, a.o. is based on the partnership with our customers.

A pylon of the competitive advantage is the **Special Processes Centre**, where the main preoccupation is to introduce the state-of-the-art practice and standards requested by Aerostar's customers.

New manufacturing processes were qualified in order to make parts and subassemblies from stainless steel and titanium, steel and copper alloys, high-resistance steels, including the local application of such coatings.

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

The manufacturing processes use CNC equipment with up to 7 axes; a modern infrastructure and software applications are in place, which use the digital transfer of the data required for the manufacturing of the parts (Model Based Definition), production planning and control (MRP2).

The actions to improve the agility at reduced production time and minimal risks when production volume grows are focusing on IT applications for production management and on continuous improvement.

The investments in non-pollutant and low energy consumption technologies, implemented in an integrated manner for the upgrade and extension of the production capacity, ensures the increasing the competitiveness.

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

As a result of the impact in the aeronautical industry AEROSTAR received notifications of termination or deferral to receive parts and subassemblies from several main customers such as GKN Aerospace, Avcorp, Safran.

MRO Civil Aviation

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

Aerostar's MRO business for commercial aircraft is anchored in the sector market defined as the growth core, the Airbus 320 and Boeing 737 aircraft.

Aerostar's MRO civil aviation centre extended its customer base as well as its range of capabilities.

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

The extension of the authorization field increases the market potential, allowing Aerostar to compete for work from customers whose aircraft are under other jurisdictions.

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

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

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

The most significant investment is for the **maintenance centre** for the Airbus 320 and Boeing 737 aircraft, in the perimeter of the Iasi airport.

The total value of the investment for the future maintenance centre is around 10 million euro.

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

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

Systems for defence

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

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

In the pursuit to strengthen its position on the international market, in the spirit of the Mission established as early as 1953 and then updated in the context of the market evolutions, Aerostar closely follows the opportunities relevant for the national security.

The solutions supplied capitalize the synergy of Aerostar's industrial capabilities and create Value for the Customers.

The competitive advantage of the company is stronger given the features proven as a centre of excellence in the management of international co-operation projects and programmes.

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

In accordance with this law, following a competitive selection and evaluation process, after the execution of the procedure subject to the assessment criteria and the assessment for the three economic agents enrolled, listed in the unique register of the economic operators and capacities for production and/or services for defence in accordance with the law no 232/2016, the procedure performed by the Ministry of Economy, upon request by the RoMoND, the Government of Romania designated Aerostar in December 2018 as the maintenance centre for the F-16 aircraft in the inventory of the Romanian army.

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

The estimated value of this investment is over 10 million Euro.

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

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

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

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

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

Designated and agreed as sole supplier for the IFF systems installed on operational platforms from the army, AEROSTAR successfully implemented Mode 4 IFF equipment on different platforms (aircraft, helicopters, naval, terrestrial and aerial defence systems) and has implemented Mode 5 as of 2020, in accordance with the requirements and necessities of the RoMoND.

QUALITY, A COMPETITIVE ADVANTAGE

Following the analysis of the quality and environment management system the quality policy and the environment policy were reconfirmed.

The objectives have been set for the quality and environment management system for the year 2020.

The quality management system was recertified by OMCAS.

The activities with impact on the environment

Were kept under control by internal inspections and by the monitoring and measurements made in accordance with the provisions in the integrated environment authorisation and the waters administration authorisation.

The activities with impact on the environment were also an aspect analyzed in the annual review for the year 2019 of the environment management system.

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

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

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

OUR EMPLOYEES

- **Evaluation of manpower aspects, information about our employees**

At 31.03.2020 AEROSTAR had an effective number of 1.955 employees, 124 of them employed through the temporary labour agent (AIRPRO CONSULT S.R.L.)

From the total 1.955 employees, 182 occupy management positions.

The average union membership rate in the company during Q1 of 2020 is 65,13%.

At 31.03.2020, the average seniority in the workplace was 18 years, and the average age of Aerostar employees was 45 years on total Aerostar and Airpro.

The employees total comprises a number of 235 retired persons re-employed.

- **Labour relations and social dialogue**

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

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

- **Formation, training, professional development**

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

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

- Number of participations in professional formation programmes	1.863
- Number of employees in professional formation programmes	626

In the MRO Civil Aviation Division, there is underway an apprenticeship programme for aircraft mechanics.

A number of 179 students from partner technical and technological high schools in Bacau executed practice programmes in AEROSTAR.

At the date of 6 March 2020, AEROSTAR's Board of Directors launched the programme „AEROSTAR AWARDS FOR YOU”.

This is a programme to encourage the young students and graduates, in special from Bacau, to pursue for a career in AEROSTAR. Through this programme we want to contribute effectively to an increased quality of theoretical and professional and vocational education in Bacau.

We encourage and reward the performance of the students and graduates in fields where AEROSTAR has got an extensive experience and for which there is a future further on.

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

The company's health and safety management system is certified according to the standard OHSAS 18001: 2008. Since 2019 the migration to the new standard SR ISO 45001: 2018 has begun.

Regular measurements of the emissions are made in order to ensure the people work in full health and safety conditions.

The strategic objective of the organization in the field of health and safety at work is „ZERO Accidents”.

Starting with the date of 25.02.2020, following the epidemiologic evolution at the level of the European states and in the neighbouring countries, in the context of the Covid-19 outbreak, AEROSTAR took measures to prevent and fight against the spreading of the coronavirus in several steps with a view to protect the employees, both from the work hygiene perspective as well as with respect to social distancing.

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

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

TANGIBLE ASSETS

AEROSTAR's production facilities and capacities are located in Bacau, 9 Condorilor Street, postal code 600302, Romania, where there is also the registered headquarter of the company.

Aerostar has a secondary place of business, without legal personality at Iași, 25B Aeroportului Street.

Currently, AEROSTAR does not perform economic activities at this site.

Aerostar's production facilities and capacities are located in Bacau, 9 Condorilor Street, postal code 600302, Romania, where there is also the registered headquarter of the company.

Aerostar has a secondary place of business, without legal personality at Iași, 25B Aeroportului Street. Currently, AEROSTAR does not perform economic activities at this site.

The company owns in its property the land surface of 46,86 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 there are all types of facilities required for the proper performance of the production activities according to the object of activity.

The production location 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 locations and facilities are maintained in good condition.

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

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

At 31 March 2020 the tangible assets held in property by AEROSTAR to perform the activities are in gross value of 267.343 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	29.085	N/A	N/A
Constructions	59.218	38,1%	30-50 years
Investment property	10.644	29,3%	25-50 years
Technical installations, of which:	166.006	56,9%	
• technological equipment	160.499	56,6%	4-25 years
• transport vehicles	5.507	65,7%	4-18 years
Other tangible assets	2.390	33,6%	2-18 years
TOTAL	267.343	45,2%	N/A

In 2019 no risks were identified related to the ownership over the tangible assets of the company.

MAIN SHAREHOLDERS

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

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

According to the data from the Bucharest Stock Exchange, the shareholding structure (Source: Depozitarul Central at 31 December 2019) is presented below:

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

There are no litigations with the persons mentioned earlier.

During the current year, 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 to protect and secure the rights of the shareholders, that is:

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

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

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

The shareholders can obtain information about AEROSTAR and its main events on the internet page www.aerostar.ro

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

▪ **Aspects regarding the capital and administration of the company**

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

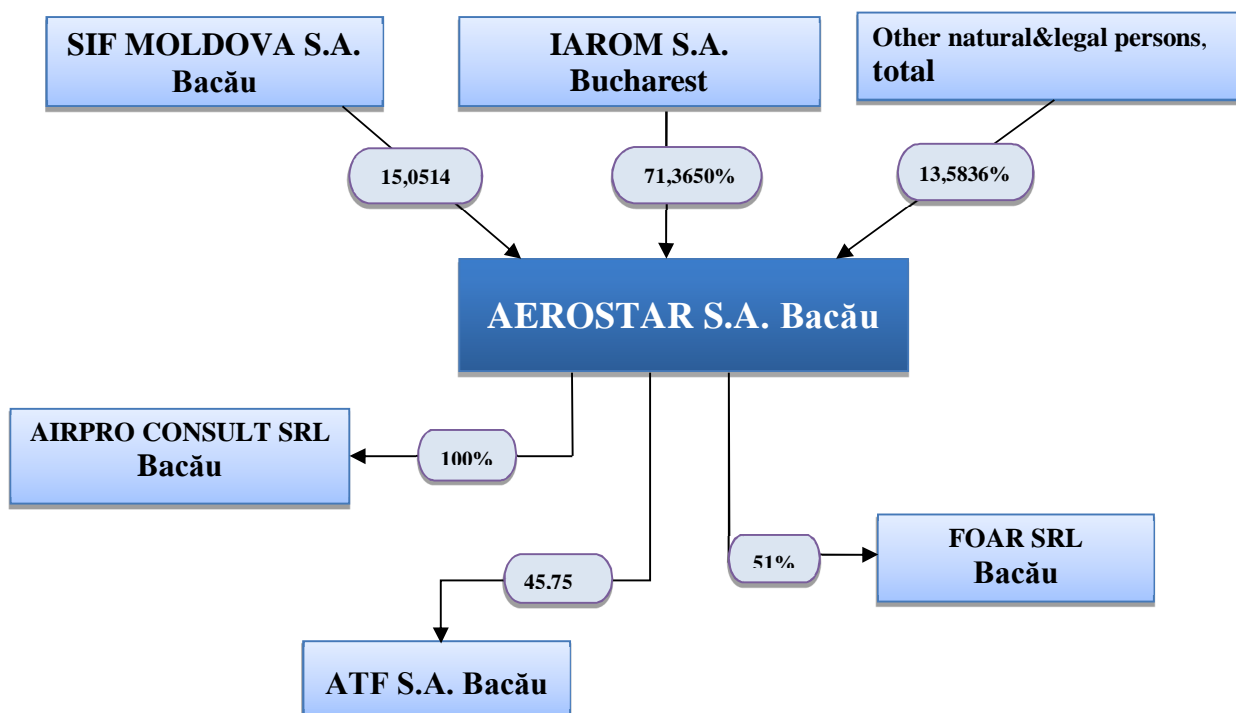
The company was not in the impossibility to respect its financial obligations during the period.

There are no modifications regarding the rights of the shareholders. There was no major transaction concluded by the company with the persons with which the company operates in collaboration or in which such persons were involved in the relevant period.

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.

**AEROSTAR's relation
with the parent company and AEROSTAR's related companies:**



During the first quarter of the year 2020 there was no merger or significant reorganization, neither of AEROSTAR or of the companies under AEROSTAR control.

RELATED PARTIES

At 31.12.2019, AEROSTAR participations in other companies are the following:

Name of the subsidiary/related company	Basic activity	No. of shares held by Aerostar	Voting rights	Value of Aerostar holding (thousand lei)	Financial information for the last financial year (2018) for which the financial statements of the related companies were approved		
					Sales	Company capitals	Net profit
Airpro Consult SRL Bacău	CAEN code 7820	100	100%	10	7.840	147	66
Foar SRL Bacău	CAEN code 7739	408	51%	4	434	1.919	171
ATF S.A. Bacău	CAEN code 2822	9150	45,75%	92	-	274	1
TOTAL				106	8.274	2.340	238

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

During the first quarter of 2020, AEROSTAR did not register modifications such as increase/decrease of its contribution percentage, AEROSTAR maintaining the same influence as in 2019.

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

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

The General Meeting of the Shareholders on 21 April 2020 adopted the resolution for the dissolution of the company ATF S.A.

AEROSTAR MANAGEMENT

- AEROSTAR's **Board of Directors** was elected for a period of four years, during the Ordinary General Meeting of the Shareholders from 5 July 2016 and has the following members:

Name and surname	Position	Background
FILIP GRIGORE	President of the Board of Directors	Aviation Engineer
DAMASCHIN DORU	Vice-president of the Board of Directors	Economist
TONCEA MIHAIL-NICOLAE	Member of the Board of Directors	Aviation Engineer
DOROȘ LIVIU-CLAUDIU	Member of the Board of Directors	Economist
VÎRNĂ DANIEL	Member of the Board of Directors	Legal Advisor

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

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

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

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

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

- **Business Management**

The administration of the company is in a unitary system.

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

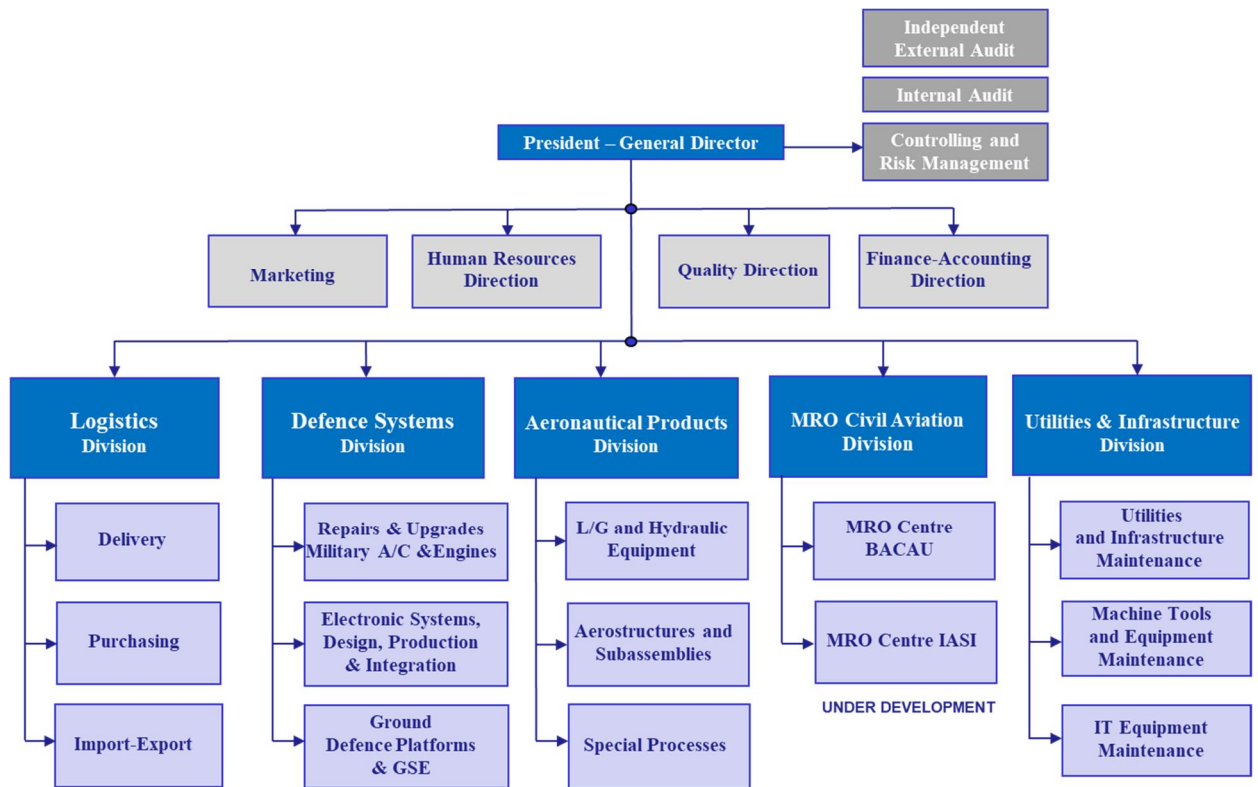
With reference to the organization and management system in Aerostar, the management structure at operational level provides the activities based on a divisional type organization, with accounts management centres in the areas of operations, auxiliary and functional activities.

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

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

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

The organizational structure implemented is represented as follows:



At 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
FILIP ALEXANDRU	Director Logistics Division
BUHAI OVIDIU	Director Defence Systems Division
IOSIPESCU ȘERBAN	Director Aeronautical Products Division
VELEȘCU IOAN-DAN	Director MRO Civil Aviation
BRANCHE CĂTĂLIN BOGDAN	Director Utilities & Infrastructure Div.

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

There are no litigations with the persons mentioned above.

CORPORATE GOVERNANCE

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

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

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

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

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

The corporate governance structures are:

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

The General Meeting of the Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board of Directors

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

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

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

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

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

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

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

In the first quarter 2020 there was no case to make nominations for members in the Board of Directors.

In the first quarter 2020, three meetings of the Board of Directors were held.

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

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

The audit committee

Based on the provisions of Corporate Governance Code in conjunction with the provisions of the Law no. 162/2017, an independent **audit committee** was established, formed from two members appointed 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 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 meets regularly, at least four times per year, as well as exceptionally, if necessary.

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

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

▪ AEROSTAR's Code of Business Conduct & Ethics

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

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

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

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

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

▪ Management of the conflicts of interest

From the accounting regulations viewpoint, AEROSTAR is a subsidiary of IAROM S.A.

Aerostar presented in transparency conditions, according to the applicable regulations, the structure of the company's shareholding and related parties. Also, Aerostar complies on term with the requirements of law 129/2019 regarding the real beneficiaries.

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

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

▪ Executive Management

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

▪ The internal Control System

The internal control system of AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

▪ Accounts Control

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

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

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

No significant deviations were found compared to the scriptic records.

▪ Budgetary Control

The budgetary control is performed by the budget managers.

From the budgeting perspective, the company is organized in:

- profit centers
- cost centers.

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

The budgetary control provides:

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

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

▪ **Controlling**

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

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

▪ **The Internal Audit**

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

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

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

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

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

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

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

▪ With reference to the non-financial reporting process

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Aerostar undertakes furthermore:

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

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

Aerostar is fundamentally committed to:

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

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

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

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

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

MANAGEMENT OF THE RISKS AND OPPORTUNITIES

The Risk Management System

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

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

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

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

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

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

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

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

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

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

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

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

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

The 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, SR EN ISO 14001 of 2016 places a particular focus 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.

Main Quality and Environment risks and their management

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

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

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

At company level, the main risks both on the line of compliance as well as on the line of the improvement of the environmental performance are related to carbon emissions and the use of dangerous chemicals.

Actions are established for both issues: risks mitigation and performance improvement.

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

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

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

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

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

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

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

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

Taking into consideration the relaxation of the restrictions when the emergency situation ends, in order to counteract the increased risk of infection with Covid-19 the measures already implemented will be supplemented with additional measures such as general organizational measures, work hygiene and control of the implementation, organize the work to provide the distancing, alert measures for the regulations applicable.

Risk Treatment

AEROSTAR's business lines, its operational results or the financial situation of the company could be affected by the materialization of the risks presented.

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.

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

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

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

Also, by allocating adequate resources, the monitoring is focused on the mitigation of the possible dangers specific to cyber-attacks, including to minimize the **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.

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

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

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

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

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

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

The Liquidity Risk

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

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

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

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

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

The Market Risk

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

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

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 over **91% of the turnover in the first quarter of 2020** is related to USD and EUR, while a considerable amount of the operational expenses is denominated in LEI.

As such, AEROSTAR is exposed to the risk of the exchange rate fluctuations, affecting both its net revenues and its financial position, as they are both expressed in LEI.

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

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

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

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

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

Aviation is one of the most affected fields of activity from the quarantine, of the travel restrictions and social distancing.

Predictability is as low as never.

The evaluation of the crisis in aviation does not indicate a stabilization before the end of the year 2020 at the earliest while there are scenarios projecting the deferred stabilization as late as until 2021-2022. Until then, there is only a partial visibility on the effects of the crisis and the timing to start up the the economic relaunch measures.

The effects of the crisis on the air operators is reflected to the percentage close to 70% of the total passenger aircraft grounded at world level.

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

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

The increased risks generated by the relaxation of the restrictions in the period to follow add to the uncertainties and risks associated to the crisis.

A detailed description of these trends is available in the chapter **AEROSTAR Business during Q1 of 2020/ Modifications of the external aspects in the organization's context.**

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

The operational risk: the risk of registration of loss or failure to make the estimated profits is carefully monitored through the management system applied.

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

As a result of the impact in the aeronautical industry AEROSTAR received notifications of termination or deferral to receive parts and subassemblies from several main customers such as GKN Aerospace, Avcorp, Safran.

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

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.

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

THE SUMMARY OF THE FINANCIAL SITUATION

thousands lei

Summary of Assets, Company Equity, Debts and Provisions	31 March 2020	31 December 2019
Non-current Assets	180.694	168.023
Circulating Assets	384.909	372.879
Prepaid expenses and receivables related to deferred profit tax	16.179	5.413
Total Assets	581.782	556.315
Company Equity	384.706	363.332
Provisions	116.504	119.019
Prepaid Income	7.377	9.047
Debts	73.195	64.917
Total Company Equity, Debts and Provisions	581.782	556.315

thousands lei

Summary of Income, Expenses, Results	31 March 2020	31 March 2019
Operating Income, of which:	112.575	98.804
– sales income	99.932	96.039
Operating Expenses	(90.202)	(81.438)
Profit/Loss from operations	22.373	17.366
Financial Income	4.031	3.441
Financial Expenses	(1.189)	(997)
Financial Profit/ Loss	2.842	2.444
Profit before tax	25.215	19.810
Tax on current and deferred profit	(3.538)	(3.390)
Net Profit of the period	21.677	16.420

AEROSTAR'S SUSTAINABLE DEVELOPMENT WILL CONTINUE!

We are positive in connection with AEROSTAR's ability to manage the existing crisis so that we are better prepared when the activities are relaunched.

Our continuity plan takes into account and is adequate in relation to the severity of the public health situation but also the severity of the global economic downturn and its impact on the aviation and defence industry.

We are ready for the conservation of our resources for a considerable timeframe, to enhance the training level of our employees and use all our resources and the support which we can access.

We rely on the success of our adaptation effort and we will continue to apply consistently, step by step, the company growth and development strategy on long term.

We will continue the investment programme and provide the required resources in order to support the development.

The continuity plan in the situation of the Covid-19 pandemic provides the continuity and business growth while maintaining the mission and the objectives set.

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

The management system in the company is in a continuous adaptation process.

We act firmly and responsibly to provide full safety for our employees at the work place.

On behalf of the Board of Directors,

Grigore FILIP
President & General Director

AEROSTAR S.A. BACĂU
INDIVIDUAL FINANCIAL STATEMENTS
AT 31 MARCH 2020

WITHOUT AUDIT

The financial statements at 31.03.2020 were audited by the internal auditor of the company.

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AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION AT 31 MARCH 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 march 2020	31 december 2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	170.539	157.545
Intangible assets	5	728	888
Investment property	6	7.527	7.681
Rights of use on assets under lease	32	1.756	1.765
Financial Assets	7	144	144
Total non-current assets		180.694	168.023
Current assets			
Inventories	10	92.829	86.866
Trade receivables and other receivables	8;9	78.632	78.651
Cash and cash equivalents	11	213.448	207.362
Total current assets		384.909	372.879
Receivables regarding deferred profit tax	17	14.469	13.984
Prepaid expenses	31	1.710	1.429
Total assets		581.782	556.315
COMPANY EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	48.729	48.729
Current result	12	21.677	65.979
Result carried-forward	12	113.330	58.931
Other reserves	12	217.861	215.507
Deferred income tax recognized based on own equity	17	(14.536)	(14.140)
Distribution of profit for legal reserve	12	(2.355)	(11.674)
Total prepaid income	12	384.706	363.332
Long-term liabilities			
Subsidies for investments	14	7.377	7.935
Deferred income	31	0	1.112
Total prepaid income		7.377	9.047
Long-term liabilities			
Liabilities regarding deferred income tax	17	17.599	17.316
Other long-term liabilities	16	2.326	2.325
Total long-term liabilities		19.925	19.641
Long-term provisions	13	93.824	97.451
Current liabilities			
Trade liabilities	15	35.913	26.769
Liability with current income tax	23	3.829	2.446
Other current liabilities	16	13.528	16.061
Total current liabilities		53.270	45.276
Short-term provisions	13	22.680	21.568
Total provisions		116.504	119.019
Total liabilities		73.195	64.917
Total company equity, prepaid income, liabilities and provisions		581.782	556.315

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS AT 31 MARCH 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 march 2020	31 march 2019
Operating income			
Income from sales	19	99.932	96.039
Other income	19	777	948
Income related to the inventories of finished goods and work in progress	19	10.938	1.557
Income from production of assets	19	816	198
	19	112	62
Total operating income		112.575	98.804
Operating expenses			
Material expenses	20	(38.856)	(34.983)
Expenses with employees' benefits	20	(33.208)	(30.329)
Expenses regarding amortization of assets	20	(6.156)	(6.587)
Adjustments regarding current assets	20	(5.027)	(5.817)
Adjustments regarding provisions	20	2.514	2.128
Expenses regarding external services	20	(9.114)	(5.107)
Other expenses	20	(355)	(743)
Total operating expenses		(90.202)	(81.438)
Profit/loss from operating activity		22.373	17.366
Financial income	21	4.031	3.441
Financial expenses	22	(1.189)	(997)
Financial profit/loss		2.842	2.444
Profit before tax		25.215	19.810
Tax on current and deferred profit	17;23	(3.538)	(3.390)
Net profit of the period		21.677	16.420

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT
AT 31 MARCH 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	31 March 2020	31 March 2019
Net profit of the financial year	21.677	16.420
Deferred income tax recognized on company equity	(303)	(131)
Other elements on the global result	(303)	(131)
Total global result of the period	21.374	16.289

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE MODIFICATION OF COMPANY EQUITY AT 31 MARCH 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	Share capital	Reserves	Deferred income tax recognized on equity	Result carried forward	Result of the period	Total equity
Global result						
A. Balance on 1 January 2020	48.729	215.506	(14.139)	58.931	54.305 *)	363.332
Profit of the period					21.677	21.677
Other elements of global result						
Deferred income tax recognized on the account of equity.			(397)	94	-	(303)
Distribution of the profit of 2019 on the destinations decided by the shareholders in OGMS from the 21 April 2020 (Note 12).				54.305	(54.305)	-
Distribution of the profit of 1 st quarter 2020 for the legal reserves in gross amount.		2.355			(2.355)	-
Total global result relating to the period		2.355	(397)	54.399	(34.983)	21.374
B. Balance on 31 March 2020	48.729	217.861	(14.536)	113.330	19.322	384.706
C. Modifications on own equity (NOTE 12)	0	2.355	(397)	54.399	(34.983)	21.374

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

***) The result on 31.03.2020 is 21.677 thousand lei is influenced by the distribution of the profit on legal reserves in the amount of 2.355 thousand lei.

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE CASH FLOWS (direct method) AT 31 MARCH 2020
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 March 2020	31 March 2019
CASH FLOWS FROM OPERATIONS			
collected from customers		106.709	101.637
taxes and excises recovered from State Budget		2.931	1.016
payments to suppliers and employees		(68.240)	(61.008)
payment of taxes, contributions and dues to State Budget		(18.109)	(14.113)
payment of profit tax		(2.472)	(2.383)
NET CASH FROM OPERATIONS	27	20.819	25.149
CASH FLOWS FROM INVESTMENTS			
interest collected from bank deposits set		654	920
payments for purchasing property, plant and equipment and intangible assets		(16.306)	(3.969)
NET CASH FROM INVESTMENTS	27	(15.652)	(3.049)
CASH FLOWS FROM FINANCING ACTIVITIES			
gross dividends paid		(64)	(93)
NET CASH FROM FINANCING ACTIVITIES	27	(64)	(93)
Net increase of cash and cash equivalents		5.103	22.007
Cash and cash equivalents at the beginning of the period		207.362	167.545
Effect of the exchange rate variation over the cash and cash equivalents	27	983	556
Cash and cash equivalents at the end of the period	11	213.448	190.108

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

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NOTE 1 - DESCRIPTION OF THE COMPANY

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

The main field of activity 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 “AEROSTAR” S.A. and the individual identification code 950531, the European Unique Identifier (EUID) code ROONRC J04/1137/1991.

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

During the 1st quarter 2020, there was no subscription of new shares, nor any participation certificates, convertible bonds, warranties, options or similar rights.

In terms of accounting regulations, AEROSTAR S.A. is the subsidiary of the company IAROM S.A. and therefore, the parent company that consolidates the financial statements of the group is S.C. IAROM S.A., with the individual identification code 1555301, having its registered headquarters in Bucharest, 39 Aerogarii Blvd. The consolidated financial statements for the financial year 2018 were filed with A.N.A.F. under registration number 184767215/26.08.2019. Copies of the consolidated financial statements can be obtained from the headquarters of the parent company, IAROM S.A. The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended 31.12.2019.

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 AEROSTAR’s main object of activity, so that the aeronautical field is majority in the turnover. The general objective is the annual growth of the company’s turnover while increasing customer satisfaction. The specific objectives which support the general objective comprises the continued organic development of the company: the development of the centres of excellence through further modernizations, investments and continuous improvement programmes and the development of the organizational culture.

The company equity entirely covers the financing needs for production and investments. Through its dividend policy, the company develops its equity in relation to increasing the sales and investments.

During 1st quarter 2020, the Company did not use loan capital, neither equity contribution from the shareholders.

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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 collaterals granted to customers, for obligations towards manpower and other obligations;
- the adjustments for impairment of property, plant and equipment and intangible assets. At the end of each reporting period, the company estimates whether there is any impairment. If such signs are identified, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any).
- the lifetimes of property, plant and equipment and intangible fixed assets. The company reviews the estimated periods of use of the tangible and intangible fixed assets at least at the end of each financial year to determine the adequacy.
- the inventories of raw materials and materials requiring to set up adjustments for impairment.
- deferred taxes.

Presentation of information

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

2.2. Errors

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

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

- restatement of comparative amounts for the prior period in which the error occurred, or

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

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

- the nature of the error for the prior period;
- the value of the correction for each of the previously presented period, to the extent possible:
 - 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 restatement is impossible for a specific prior period, the circumstances that lead to the existence of such circumstance and a description of how and since such error was corrected.

2.3. Changes in the accounting policies

The change of the accounting policies is only permitted if requested by IFRS or if it results in more relevant or more reliable information with reference to the company operations.

The company modifies an accounting policy only if such change:

- is required by an IFRS or
- results in financial statements that provide reliable and more relevant information with reference to the effects of the transactions, of other events or conditions over the financial performance or cash flows of the entity.

Applying changes in Accounting Policies:

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

Presentation of the information

When the initial application of an IFRS has an effect over the current or prior period of time, the company presents, in the 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, which may also be the current period.

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

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NOTE 3 - ACCOUNTING AND EVALUATION PRINCIPLES

3.1. Basis for the preparation and presentation of the financial statements

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

- the International Financial Reporting Standards (IFRS) adopted by the European Union;
- Accounting Law no. 82/1991, republished, as 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 for trade on a regular market;
- O.M.F.P. no. 2.844/2016 on the approval of the Accounting Regulations conforming to the International Financial Reporting Standards;
- O.M.F.P. no. 2.861/2009 for the approval of the Norms regarding the organization and execution of the inventories of elements such as assets, debts and company capitals;
- O.M.F.P. no. 1.826/2003 on the approval of the explanatory notes regarding some measures for the accounts management and control;
- O.M.F.P. no. 2.634/2015 regarding the financial accounting documents, including subsequent amendments and additions.

Accounting is kept in Romanian and in the national currency.

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

The financial year is the calendar year.

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

The financial statements are prepared based on historical cost.

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

3.2. Applied Accounting Policies

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

The most significant accounting policies are presented below:

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

The Company decided to use 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.

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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 equipment are insignificant. Practically, the residual value was calculated at the level of metal waste that may be capitalized 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:

- their effect is the improvement of the initial technical parameters;
- they are the sources of future economic benefits materialized into cash-flows supplementary to the initial estimates; 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 the profit or loss when such expenses are made. 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 reviewed using professional reasoning.

The tangible immobilizations in progress which are to be used in production or in administrative activities are presented in the statement of the financial position on a cost basis, 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 the level 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 their input value and will depreciate over the expected useful life set by the reception committee. 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 search costs are treated as expenses of the period;
- *The development phase.* The development costs are registered as an intangible asset, if the following conditions are demonstrated:
 - the technical feasibility of completing the asset, so that it is available for use or sale;
 - the availability of adequate resources - technical, financial, manpower - 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 benefits;

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- 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 decided on the accounting policy of the cost model which 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 such 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.

The category of **financial assets** comprises:

- 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 receivables as well as the interest related to them. This category includes collaterals, deposits and bills placed with third parties, receivables related to financial lease 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 inventories items**

The record for the entry of inventories is made at the time of the transfer of risks and benefits.

The calculations of such inventories which are not usually fungible and of such goods or services produced is based on the identification of their individual costs.

At the write-off of the inventories and fungible assets, they are assessed and recorded in the accounts by applying the FIFO method.

Periodically, the management of the company approves the level of 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 such as the inventories, upon each reporting period, based on the duration of inventories, the findings of the inventories commissions and/ or of the business modules management, for the presentation of assets at the lowest value between cost and net achievable value.

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

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

Income tax to be paid is recognized as a liability for the unpaid balance.

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

The operations which cannot be distinctly evidenced in the appropriate accounts and for which further clarification is required, are recorded in a separate account 473 *Suspense Accounts*.

Accounts for foreign currency liabilities are kept both in RON and 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 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.

Liabilities due within 12 months of the date of the financial statements are also considered long-term, interest-bearing liabilities 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 supplied in the normal course of the activity;
- commercial revenue (effects) to be collected, third party instruments;
- amounts owed by the employees or affiliated companies
- advance payments to the suppliers of property, plant and equipment, of goods and services;
- receivables related to manpower and state budget.

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

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

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

Receivables in foreign currencies, which are the result of the company's 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.

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• **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 the accrual accounting basis.

The revenue is evaluated at the fair value of the countervalue received or which can be received.

The sales revenue is diminished for returns, commercial reductions and other similar discounts.

Revenues from operations include:

- revenues from sales (of goods, services, commodities, residual products);
- revenues related to the cost of product inventories;
- revenues from the production of immobilizations;
- revenues from changes in adjustments of assets, respectively from reductions of provisions or resumed provisions;
- other operating revenues.

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

- the company 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;
- the economic benefits associated with the transaction are likely to 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.

Revenues from rendering of services

The contracts for the supply of services 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 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 property investments are recognized in the profit or loss account on a straight-line basis over the period of the lease.

The **financial revenues** include income from interest, from foreign exchange rates differences, from dividends and other financial income.

The **interest revenues** are recognized in the profit or loss statement on an accrual basis 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 is 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.

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- **Accounting policies for provisions**

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

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

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

Provisions for collaterals

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

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

Provisions for risk and expenses

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, 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-reimbursable funds**

The subsidies are distinctly reflected:

- government grants;
- non-refundable subsidies in the form of grants;

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- 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.

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 under capacity 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	31.03.2020
EUR (Euro)	4.8254
USD (American Dollar)	4.3983
GBP (British pound)	5.4230

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 91% 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:

1st quarter 2020	thousand EUR	thousand USD	thousand GBP
Collected from financial assets	5.161	13.517	0
Payments of financial liabilities	(2.953)	(4.460)	(165)
Net foreign currency exposure	2.208	9.057	(165)

In the reporting period, the quartely variation of the foreign exchange rate USD/LEU with:
+2,10% in 1st quarter 2020 in comparison with 31.12.2019
and

EUR/LEU:

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

has determined the registration of a financial profit from favourable exchange rate differences of 1.578 thousand LEI.

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NOTE 5 - INTANGIBLE ASSETS

	31 March 2020			01 January 2020		
	Gross values	Depreciation/ Impairment	Net accounting value	Gross value	Depreciation/ Impairment	Net accounting value
Capitalized development costs	0	0	0	41	(41)	0
Licences /Trade marks	5.363	4.747	616	5.308	(4.597)	711
Other intangible assets	1.888	1.776	112	1.808	(1.631)	177
Total	7.251	6.523	728	7.157	(6.269)	888

Net accounting value

	Balance on 1 January 2020	Increase	Reclassification	Disposals	Depreciation/ Impairment during the period	Balance on 31 March 2020
Licenses	711	55	0	0	(150)	616
Capitalized development costs	177	80	0	0	(145)	112
Total	888	135	0	0	(295)	728

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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 31.03.2020 are not depreciated and no adjustments were made for the depreciation thereof.

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

The value of the completely amortized software licenses on 31 March 2020 and which are still in use is 2.304 thousand lei.

All the intangible assets recorded in the balance sheet as on 31 March 2020 are property of AEROSTAR.

Increases in gross values of intangible assets were 135 thousand lei, from which:

- | | |
|--|------------------|
| • development of the IT management system of production: | 80 thousand lei |
| • purchasing of software licences | 55 thousand lei. |

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 2020 and 01 January 2020 comprise the following:

	31 March 2020			01 January 2020		
	Gross values	Depreciation	Net accounting value	Gross values	Depreciation	Net accounting value
Land	29.085	-	29.085	28.401	0	28.401
Constructions	59.219	(22.568)	36.651	58.880	(21.429)	37.451
Technological equipment and transport means	166.006	(94.372)	71.634	163.101	(89.875)	73.226
Other equipment and office equipment	2.389	(802)	1.587	2.239	(758)	1.481
Investment property	10.644	(3.117)	7.527	10.644	(2.963)	7.681
Property, plant and eqpt under construction	31.582	-	31.582	16.986	0	16.986
Total	298.925	(120.859)	178.066	280.251	(115.025)	165.226

Net accounting value

	Balance on 01 January 2020	Increase	Reclassification	Disposal/ Transfer	Depreciation	Balance on 31 March 2020
Land	28.401	684	0	0	0	29.085
Constructions	37.451	338	0	0	(1.138)	36.651
Technological equipment and vehicles	73.226	2.910	0		(4.502)	71.634
Other equipment and office equipment	1.481	163	0	0	(57)	1.587
Investment property	7.681	0	0	0	(154)	7.527
Property, plant and eqpt under construction	16.986	18.007	0	(3.411)	0	31.582
Total	165.226	22.102	0	(3.411)	(5.851)	178.066

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The 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 useful lives are established by committees formed by Company's specialists. The useful lifetimes of the Property, Plant and Equipment were reviewed at September 2020.

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 units – buildings which are rented to third parties based on renting contracts.

The value of renting income for this category of immobilizations in 1st quarter of 2020 was 532 thousand lei (1st quarter 2019: 510 thousand lei).

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

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

The depreciation of an asset begins when the asset is available for use (i.e. when the asset is in the location and condition necessary to operate as 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.

Internal source of information:

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- 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 0,55 rotations, slightly over the level in 1st quarter 2020 (0,63 rotations).

In conclusion, the Property, Plant and Equipment in the balance sheet on 31.03.2020 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 2020 is of 11.980 thousand lei.

On 31.03.2020 no mortgages were set on property assets in AEROSTAR ownership.

Increases in gross values of the Property, Plant and Equipment, achieved by: 22.102

- acquisition of technical equipment, hardware equipment, measuring and control equipment, modernization of buildings, etc. 3.411
- acquisition of land 15.704 m² 684
- investments performed in 1st quarter 2020 18.007

Decreases in gross values of Property, Plant and Equipment, achieved by: 3.411

- the transfer of the immobilizations in progress into Property, Plant and Equipment following their commissioning; 3.411

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NOTE 7 - FINANCIAL ASSETS

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

Details of the entity's investments at 31 March 2020 in other companies are the following:

Subsidiary name/ Registered headquarter	CAEN code	No. of shares/ shares issued	Voting rights (%) held	Value of shares held by Aerostar (thousand lei)	Financial Information Related to 2018				
					Company's Share capital	Reserve	Net profit	Nominal value/ share	Net assets/ share
Airpro Consult SRL Bacau Str. Condorilor nr.9	- main activity according to CAEN code 7820	100	100%	10	10	71	66	0,10	1,5
Foar SRL Bacau Str. Condorilor nr.9	- main activity according to CAEN code 7739	800	51%	4	8	1.739	171	0,01	2,4
ATF S.A Bacau Str. Condorilor nr.9	- main activity according to CAEN code 2822	20.000	45,75%	92	200	38	1	0,01	0,014
TOTAL	x	x	x	106	218	1.848	238	x	x

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

In 1st quarter 2020, the company contributions did not change, i.e. no increases/decreases as to the shareholding percentage, maintaining the same influence as in 2019.

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

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NOTE 8 - TRADE RECEIVABLES

	31 March 2020	31 December 2019
TRADE RECEIVABLES OF WHICH:		
Customers, of which:	56.524	61.938
Domestic customers	2.605	15.880
Foreign customers	53.919	44.734
Customers – invoices to compile	-	1.324
Uncertain customers	1.914	1.343
Adjustments for impairment of receivables - customers	(1.008)	(807)
Suppliers – debtors	13.055	10.895
Adjustments for the impairment of receivables - advances granted to customers	(46)	(57)
TOTAL TRADE RECEIVABLES	70.439	73.312

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 follows:

- in percentage of 50% from the value of the receivables not collected on time if the due date is between 30 days and 180 days. At 31 March 2020, the company registered adjustments for depreciation of this nature in the amount of 906 thousand lei;
- in percentage of 100% from the value of the receivables not collected, having no receivables with due date exceeding 180 days. At 31 March 2020, the company registered adjustments for depreciation of this nature in the amount of 102 thousand lei.

Also, the company registered adjustments for depreciation of the advances granted to the suppliers in amount of 46 thousand lei.

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

Debtors-suppliers have a settlement limit in the year 2020.

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 2020.

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 2020, were recorded in the related income or expense account.

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NOTE 9 - OTHER RECEIVABLES

	31 March 2020	31 December 2019
Receivables related to manpower and similar accounts	7	21
Receivables related to the budget of social insurance and the state budget, of which:	7.025	4.937
- VAT to be recovered	5.746	3.908
- Non-chargeable VAT	82	48
- amounts to recover from the National Health System (allowances on medical leaves)	561	467
- Excise duty to recover related to the fuel used	536	427
- Operating subsidies to collect	88	61
- Other taxes	-	14
- Other receivables related to social insurance budget and the State budget	12	12
Interest to receive from bank deposits	964	324
Diverse debtors	309	170
Adjustments for the depreciation of the receivables – diverse debtors	(112)	(113)
Other receivables	-	-
TOTAL OTHER RECEIVABLES	8.193	5.339

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 112 thousand lei.

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NOTE 10 – INVENTORIES	31 March 2020	31 December 2019
of which:		
Raw materials *	27.866	27.088
Consumables **	35.430	35.847
Other materials	177	147
Semi-finished/ Forgings	1.514	1.907
Packaging	13	26
Finished products	16.981	19.993
Products and services in progress	48.220	34.392
<i>Gross value of the inventories (unadjusted)</i>	<u>130.201</u>	<u>119.400</u>

Adjustments for impairment of inventories and production in progress

	31 December 2019	Increases/ Set-up	Decreases/ Resumed	31 March 2020
Total adjustments	<u>32.534</u>	<u>6.026</u>	<u>1.188</u>	<u>37.372</u>
Adjustments for impairment of raw materials	10.920	2.317	65	13.172
Adjustments for impairment of consumables	12.925	864	567	13.222
Adjustments for impairment of other consumables	7	0	7	0
Adjustments for impairment of production in progress	6.196	2.844	0	9.040
Adjustments for impairment of semi- finished	1.907	0	393	1.514
Adjustments for impairment of finished products	568	1	146	423
Adjustments for impairment of packaging	11	0	10	1

Note:

* The raw materials directly participate to the manufacturing of the products and are found in the semi-finished or finished product, either in their initial state, or transformed (bars, pipes, plates, profiles, wires etc);

** The consumables participate or help the manufacturing or operating process, without usually being found in the finished product (auxiliary materials, fuels, exchange parts, tools, GSE and consumables).

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

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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 34.190 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:

	31.03.2020	31.03.2019
Cash	16.783	7.982
Bank deposits	196.663	182.113
Exchange bills and trade effects to collect	2	13
Cash and cash equivalents in the cash-flow statement	213.448	190.108

The cash contains the current cash available at 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.

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NOTA 12 - COMPANY EQUITY

The company equity at 31 March 2020 is 384.706 thousand lei.

The net increase of the equity in 1st quarter 2020 in comparison with 2019 was 21.374 thousand lei.

The modifications of the main elements of the company equity incurred in first quarter 2020 in comparison with 2019 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 2.355 thousand lei** on account of distribution to reserves of the profit related to the 1st quarter of 2020.

- **Other capital elements have increased with the amount of 397 thousand lei** on account of the deferred income tax recognized in company equity.

- **The result carried forward increased with:**

- 94 thousand lei on account of the deferred income tax recognized in company equity,

- 54.305 thousand lei representing the profit related to the financial year 2019, taken over on the result carried forward until its distribution on the ordinary meeting of April 21, 2020,

the net increase of the result carried forward in the first quarter 2020 being of 54.399 thousand lei.

The balance of the result carried-forward account at 31 March 2020, is of 113.300 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 = 32.317 thousand lei;

- the result carried forward representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets were amortized = 26.708 thousand lei;

- the result carried forward representing the undistributed profit related to the financial year 2019 = 54.305 thousand lei.

- **The result of the period was of 21.677 thousand lei.**

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NOTE 13 - PROVISIONS

	31 December 2019	Increases/ Set-up/ Reclassification of provisions	Reductions/ Resumed/ Reclassification of provisions	Differences from revaluation	31 March 2020
Total provisions	119.019	5.649	(9.307)	1.143	116.504
Provisions for bonds granted to customers	44.389	2.189	(2.862)	687	44.403
Provisions for decommissioning property, plant and equipment	16.384	0	0	0	16.384
Provisions for the employee benefits	5.177	0	(2.857)	0	2.320
Provisions for litigations	5.229	0	0	46	5.275
Other provisions	47.840	3.460	(3.588)	410	48.122
- of which:					
Long-term provisions	97.451	773	(5.458)	1.058	93.824
Provisions for bonds granted to customers	27.998	773	(1.870)	635	27.536
Provisions for decommissioning property, plant and equipment	16.384	0	0	0	16.384
Provisions for litigations	5.229	0	0	46	5.275
Other provisions	47.840	0	(3.588)	377	44.629
Short-term provisions	21.568	4.876	(3.849)	85	22.680
Provisions for bonds granted to customers	16.391	1.416	(992)	52	16.867
benefits	5.177	0	(2.857)	0	2.320
Other provisions	0	3.460	0	33	3.493

Provisions set up for guarantees 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. The provisions related to the bonus for the end of the financial year 2019, for performance in 2019 and the annual holidays leave not taken by the employees during 2018 and 2019 are found in the balance.

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Provisions for litigations

Provisions for litigations on 31 March 2020 are set for probable indemnities payable by the company to a former employee.

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 defects, 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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NOTA 14 - SUBSIDIES

Subsidies related to assets

AEROSTAR registers the subsidies regarding the long-term assets in the category of income in advance.

	31 March 2020	31 March 2019
Balance on 1 January, from which:	7.935	10.239
Subsidies related to the assets received	7.914	10.214
Surplus in inventories in the category of immobilizations	21	25
Subsidies registered in income corresponding to the calculated amortization	(558)	(601)
Balance on 31 March, from which:	7.377	9.638
Subsidies related to the assets received	7.357	9.615
Surplus in inventories in the category of immobilizations	20	23

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 of 7.357 thousand lei registered on 31 March 2020 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: 1.399 thousand lei
2. contract no. 229226/14.06.2012: 1.474 thousand lei
3. contract no. 5IM/013/24.03.2015: 4.484 thousand lei

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NOTE 15 - COMMERCIAL DEBTS

	31 March 2020	31 December 2019
Prepaid amounts collected on customers' account, of which:	7.564	6.709
Domestic customers-creditors	82	69
Foreign customers-creditors	7.482	6.640
Suppliers, of which:	28.349	19.805
Domestic suppliers	8.478	6.792
Foreign suppliers	14.846	10.874
Suppliers-invoices not arrived	1.687	1.436
Suppliers of non-current assets	3.338	703
Commercial effects to pay	-	255
Total commercial debts	35.913	26.769

The payments in advance collected from the customers are for maintenance and aircraft work (98%) and for manufacturing of aviation parts (2%), with settlement date in 2020.

For the debts registered no mortgages were established.

The favourable or unfavourable exchange rate differences between the market exchange rate to which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for closing the month of March 2020, were registered in the corresponding accounts of revenues or expenses.

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NOTE 16 - OTHER LIABILITIES

	31 March 2020	31 December 2019
Other current liabilities, of which:	13.528	16.061
• <i>Liabilities related to manpower and similar accounts</i>	<i>4.796</i>	<i>3.174</i>
• <i>Liabilities related to social security budget and state budget, of which:</i>	<i>5.516</i>	<i>9.687</i>
- VAT payable	-	5.506
- Social insurance	4.117	3.064
- Labour safety contribution	263	194
- Tax on salary type revenues	810	582
- Contribution for disabled people, unemployed	148	142
- Other taxes	139	157
- Other social liabilities	39	42
• <i>Other liabilities, of which:</i>	<i>3.216</i>	<i>3.200</i>
- dividends	1.824	1.848
- diverse creditors	197	554
- warranties received	1.195	748
- liabilities and tax related to the right of use leasing assets	-	50
Other long-term liabilities	2.326	2.325

In the category *Other long-term liabilities* there are:

- the liability regarding the right of use of the land leased for the Maintenance Hangar from Iasi (1.493 thousand lei) and the tax related to the right of use (806 thousand lei); and
- warranties received (27 thousand lei).

Dividends in balance at 31 March 2020, in amount of 1.824 thousand lei represent:

- 725 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2018 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 563 thousand lei, amount to be paid by AEROSTAR for the dividends from 2017 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 536 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. (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 March 2020 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	2.173
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities on deferred tax related to reserves from the fiscal facility	13.806
4. Liabilities on deferred tax related to the reported result representing a surplus from revaluation reserves	61
Total liabilities from deferred tax	17.599

Receivables on deferred tax

1. Receivables on deferred tax related to other provisions set in 2010	828
2. Receivables on deferred tax related to provisions for bonds granted to customers set between 2014-2020	7.104
3. Receivables on deferred tax related to provisions for manpower benefits	371
4. Receivables on deferred tax related to the adjustments for depreciation of the inventories	5.979
5. Creanțe privind impozitul amânat aferente ajustărilor pentru depreciere creanțelor comerciale	187
Total receivables on deferred tax	14.469

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.

In 1st quarter 2020, the company has registered income from tax on deferred profit in the amount of 1.508 thousand lei and expenses with tax on deferred profit in amount of 1.002 thousand lei.

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NOTE 18 - FINANCIAL INSTRUMENTS

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

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

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)

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.

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:

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	31.03.2020	31.03.2019
Cash and cash equivalents	213.448	190.108
Trade receivables, net of adjustments for depreciation	55.003	54.413
Trade effects received	0	13
Immobilized receivables	38	34
Total	268.489	244.568

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

	31.03.2020	31.03.2019
Domestic market	2.705	2.366
Euro zone countries	27.278	19.128
Great Britain	19.203	22.580
Other European countries	1.189	2.412
Other regions	4.628	7.927
Total	55.003	54.413

Depreciation adjustments

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

	Gross value 31.03.2020	Adjustments for depreciation 31.03.2020	Gross value 31.03.2019	Adjustments for depreciation 31.03.2019
In due time	53.617		52.779	
Past due, total of which:	2.394	1.008	2.551	917
1-30 days	0	0	5	5
31-60 days	1.757	869	2.103	727
61-90 days	190	35	226	110
91-120 days	342	6	214	74
Over 120 days	21	14	3	1
Over 1 year	84	84	0	0
Total	56.011	1.008	55.330	917

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

	31.03.2020	31.03.2019
Balance on 1 January	807	16
Adjustments set for depreciation	899	916
Adjustments for depreciations resumed as revenues	(698)	(15)
Balance on 31 March	1.008	917

At 31.03.2020, 98% from the balance of trade receivables are related to customers which have a good payment record.

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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. 2020	Trade liabilities payable	26.662	(26.662)	(20.022)	(6.197)	(443)
	Trade effects	0	0	0	0	0
31.03. 2019	Trade liabilities	25.859	(25.859)	(18.983)	(6.042)	(834)
	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.

At 31.03.2020 AEROSTAR has no records of overdue financial liabilities.

c) Foreign currency risk

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

Exposure to the foreign currency risk

AEROSTAR is exposed to the foreign currency risks, as 91% 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.

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The net exposure to the valuation risk of financial assets and liabilities is presented below based on the carrying amounts called in the currency recorded in the final reporting period.

31.03.2020	Thousand EUR	Thousand USD	Thousand GBP
Cash and cash equivalents	2.543	1.246	20
Trade receivables	1.942	9.759	0
Trade liabilities	(1.078)	(2.597)	(52)
Net exposure in original currency	3.407	8.408	(32)

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 years, 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:

31.03.2020	
Net exposure in the currency of origin (thousand USD)	8.408
USD/LEU exchange rates	4,40
Net exposure in functional currency (thousand LEI)	36.995
Possible reasonable variation of exchange rate	+/- 10%
Effect of the variation on the financial result	+/- 3.700 thousand LEI

e) 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.

At 31.03.2020, the level of bonds granted by AEROSTAR under commercial agreements, by issue of bank bond letters amounts to 2.138 thousand USD (equivalent 9.404 thousand LEI).

At 31.03.2020 no mortgages are set on the property assets in AEROSTAR ownership.

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NOTE 19 - OPERATING INCOME

	31 March 2020	31 March 2019
Revenues from sales, from which:	99.932	96.039
Revenues from product sales	59.004	57.038
Revenues from services supplied	40.183	37.697
Revenues from selling goods	4	632
Revenues from renting	620	559
Trade discounts granted	(24)	(38)
Revenues from other activities	145	151
Revenues related to inventories of products finished and in progress	10.938	1.557
Revenues from the production of fixed assets	816	198
Revenues from operating subsidies	112	62
Other revenues from operations	777	948
Total operating income	112.575	98.804

The company obtained in the 1st quarter 2020 incomes from subsidies received for:

- set up apprenticeship agreements in amount of 46 thousand lei;
- employment of a non-employed person in the NEET category (Not in Education, Employment or Training) in amount of 18 thousand lei;
- employment of graduates who failed to get a job in accordance with their educational background in 60 days after graduation in amount of 27 thousand lei;
- expenses for international fairs and exhibitions financed by the state budget, in amount of 21 thousand lei.

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NOTE 20 - OPERATING EXPENSES

	31 March 2020	31 March 2019
Expenses with employee benefits , from which:	33.208	30.329
Salaries and allowances	30.231	27.051
Expenses with benefits in kind and expenses with ticket meals granted to employees	1.466	1.914
Expenses with social security	1.511	1.364
Expenses with raw materials and materials	31.627	28.275
Energy, water and gas	4.072	3.701
Other material expenses , of which:	3.157	3.007
Expenses with non-inventory materials	594	525
Expenses with goods	1	538
Expenses with packing	116	155
Expenses with other materials	2.446	1.789
Expenses with external services , from which:	9.114	5.107
Repairs	4.466	1.479
Transport costs	907	797
Commissions and fees	1.048	505
Travels, deployments	259	203
Renting expenses	193	236
Other expenses with services supplied by third parties	1815	1.541
Trade discounts received	(50)	(1)
Amortizations	6.156	6.587
Increase/decrease of adjustments regarding provisions	(2.514)	(2.128)
Increase/decrease of adjustments regarding depreciation of current assets	5.027	5.817
Other operational expenses	405	744
Total operating expenses	90.202	81.438

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

In 1st quarter 2020, AEROSTAR registered increases/set-ups and decreases/resumed adjustments, as follows:

	31 March 2020	31 March 2019
Adjustments regarding provisions		
<i>Increases / establishments</i>	3.333	4.078
<i>Decreases / reruns</i>	5.847	6.206
Increase/Decrease of adjustments regarding provisions	(2.514)	(2.128)

In 1st quarter 2020, the impact of increases (set up) / decreases (resumed) of adjustments regarding

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provisions was an increase of the operating expenses with the amount of 2.514 thousand lei.

Adjustments regarding impairment of current assets	31 March 2020	31 March 2019
<i>Adjustments Increases / set up</i>		
Adjustments for the impairment of investments	6.027	5.172
Adjustments for impairment of receivables	905	944
<i>Total Adjustments Increases / set up</i>	6.932	6.116
<i>Adjustments decreases / resumed</i>		
Adjustments for the impairment of inventories	1.189	280
Adjustments for impairment of receivables	716	19
<i>Total Adjustments Decreases / resumed</i>	1.905	299
Increase/ decrease of adjustments regarding the impairment of current assets	5.027	5.817

In 1st quarter 2020, the impact of increase (set up) / decrease (resumed) of adjustments regarding the impairment of current assets was an increase of the operating expenses with the amount of 5.027 thousand lei.

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NOTE 21 - FINANCIAL INCOME

	31 March 2020	31 March 2019
Income from foreign currency exchange differences	2.737	2.567
Income from interest	1.294	874
Total financial income	4.031	3.441

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 2020	31 March 2019
Expenses from exchange rate differences	1.159	997
Expenses with interests related to leases contract	30	-
Total financial expenses	1.189	997

The company registered in 1st quarter 2020 in the financial expenses category:

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

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NOTE 23 - TAX ON PROFIT

Tax on profit

The tax on profit is recognized in the statement of 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 31.03.2020 was of 16% (the same rate was applied also for the financial year 2019).

31 March 2020

Gross accounting profit	25.215
Expenses with current tax on profit	4.031

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	115.489	Fiscal income	107.627	- 7.862
Accounting expenses*	90.344	Fiscal expenses	79.308	- 11.036
Gross accounting profit, restated*	25.145	Fiscal profit	28.319	+ 3.174
Accounting tax (16%)	4.023	Fiscal tax (16%)	4.531	+ 508
Tax reductions	-	<i>Tax reductions</i> , from which:	500	+ 500
		• related to investments made acc.to Art. 22 Fiscal Code	377	+ 377
		• sponsoring	123	+ 123
Tax on final profit	4.023	Tax on final profit	4.031	+ 8
Applicable legal rate	16,00%	Legal rate applicable	16,00%	
Actual average tax rate, calculated on gross accounting profit, restated		16,03%		

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

Principali factori care au afectat rata efectivă de impozitare:

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

At 31 March 2020 the company registered a debt related to the tax on current profit in amount of 3.829 thousand lei corresponding to 1st quarter 2020, benefiting from a bonus in the amount of 202 thousand lei, respectively 5% calculated on the profit tax due by large taxpayers for the advance payment of the tax until the due date April 25, 2020.

The tax specific to some activities

Starting with 01.01.2017 Aerostar S.A. is a specific tax payer of taxes for restaurant and public food serving activities. The specific tax related to 1st quarter 2020 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	<u>31.03.2020</u>	<u>31.03.2019</u>
Profit distributable to ordinary shareholders	21.676.590	16.420.438
Number of ordinary shares	152.277.450	152.277.450
	<u>0,142</u>	<u>0,108</u>

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NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is 1.736 for the 1st quarter 2020 and 1.751 for the 1st quarter 2019.

Further to this number, there is an additional average number of employees attracted through the temporary employment agent and used in the production process of AEROSTAR.

The total personnel employed in AEROSTAR's activity was:

	<u>1st quarter 2020</u>	<u>1st quarter 2019</u>
Total employees	1.851	1.884

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NOTE 26 - TRANSACTIONS WITH RELATED PARTIES

<u>Acquisitions of goods and services</u>	<u>1st quarter 2020</u>	<u>1st quarter 2019</u>
Airpro Consult SRL Bacău	1.612	1.981
Foar SRL Bacău	110	156
TOTAL	1.722	2.137
<u>Sales of goods and services</u>	<u>1st quarter 2020</u>	<u>1st quarter 2019</u>
Airpro Consult SRL Bacău	-	-
Foar SRL Bacău	1	1
TOTAL	1	1
<u>Liabilities</u>	<u>Balance at 31.03.2020</u>	<u>Balance at 31.03.2019</u>
Airpro Consult SRL Bacău	564	772
Foar SRL Bacău	77	55
TOTAL	641	827

The transactions with the affiliated parties in 1st quarter 2020 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;
- Space rental services provided by Services provided by AEROSTAR SA Bacau to FOAR SRL Bacau.

There were no transactions with the company ATF SA in 1st quarter 2020.

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NOTE 27 - INFORMATION REGARDING THE CASH FLOW

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

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

In the context of the Cash Flows Statement:

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

The treasury cash flows from the transactions performed in foreign currency are registered in the functional currency by applying 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 1st quarter of 2020:

- the amounts collected from the customers were 106.709 thousand LEI,
- the payments to the suppliers and employees were in the amount of 68.240 thousand LEI, from which 50.047 thousand LEI payments to the suppliers and 18.193 thousand LEI payments to employees;
- tax payments to the State Budget were in amount of 20.581 thousand LEI, from which 2.472 thousand LEI tax on profit.

The operating activity generated in 1st quarter of 2020 a net cash of 20.819 thousand LEI, decreasing with 4.330 thousand LEI in comparison with the previous year.

The payments to purchase tangible and intangible assets were in the amount of 16.306 thousand LEI.

The value of the treasury cash flows allocated to increase the operating capacity represents 16% from the aggregate value of the cash used in the framework of operating, investment and financing activities.

Within the financing activity, an amount of 64 thousand LEI was paid, representing the dividends due to the shareholders.

The level of cash and cash equivalents registered at the 1st quarter of 2020 is in the amount of 213.448 thousand LEI, increasing with 6.086 thousand LEI in comparison with the beginning of the year.

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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 2020	31 December 2019
• Liabilities:		
○ Gaurantees granted to customers as letters of bank guarantee	3.379	3.465
○ Guarantees received from suppliers – as letters of bank guarantees	23.205	35.664
• Goods, from which:		
○ inventories of other materials released for use (tooling, jigs, fixtures, protection equipment, measuring and control eqpt, technical library etc.)	31.707	30.947
○ 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	3.028	2.463
• Other values off-balance:		
○ Liabilities for covering certain future obligations to A.J.O.F.M. based on OUG 95/2002 regarding the defence industry	5.176	5.304
○ debtors removed from accounts, monitored further on	139	139
• Greenhouse Gas Emission Certificates	1.761	2.038

At 31 March 2020, AEROSTAR S.A. had a number of 20.738 greenhouse gas emission certificates.

The market value from the last transaction day of a GES certificate was of 17,60 Euro, according to the TDR Energy market journal (in December 2019: 26,10 Euro).

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NOTE 29 - REMUNERATION OF THE DIRECTORS

At the date of 31 March 2020, the structure of AEROSTAR's Board of Directors remained unchanged in comparison with 31 December 2019.

The Board of Directors of AEROSTAR S.A.:

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

In 1st quarter of 2020 AEROSTAR did not grant advance payments or credits to the members of the Board of Directors and did not make any undertaking on their account as a collateral of any kind.

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

In the Ordinary General Meeting from 11 December 2019 the shareholders of the company approved the following:

- a net compensation of 4.750 lei for the BOD members for the financial year 2020;
- maintaining for the financial year of 2020 the level (multiplication factor) related to the additional remunerations, established in the GMS Resolution no. 6 from 14 December 2017 for the Board members who also have executive attributions, but having as a reference the value of the net compensation of 4.750 lei.

The amount of the gross compensations for the members of the Board of Directors in first quarter of 2020, 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 to reduce the uncertainty associated with its strategic and financial objectives.

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

However, there may be risks and uncertainties additional to what is 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:

- Utilization of 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** the **Legal Risk** is associated, defined as the risk of loss, resulting from the fines, penalties and sanctions which can be charged to 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 determined.

Monitoring and disposal of the legal risk's effects is realised through a permanent information system regarding the legislative modifications, as well as by setting up a review, endorsement and approval system for 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 1st tier insurance-reinsurance companies, a civil liability insurance contract related to the main business lines (manufacturing of aircraft products and maintenance for commercial aircraft).

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

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Cash and cash equivalents are placed only in 1st tier bank institutions, considered as having a high solvency rating. The credit risk, including the country risk in which the customer operates its activity, is managed 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 91% 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 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 – PREPAID EXPENSES AND INCOME

	31 March 2020	31 December 2019
Expenses registered in advance, from which:	1.710	1.429
Amounts to resume in a period within a year	904	600
Amounts to resume in a period over a year	806	829
Income registered in advance	0	1.112

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

In the category **Prepaid Income** in records at 31.03.2020 represent the following:

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS AT 31 MARCH 2020
(unless specified otherwise, all amounts are stated in thousand lei)

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

	31 March 2020			01 January 2020		
Account 251	Gross amount	Depreciation	Net accounting value	Gross amount	Depreciation	Net accounting value
Asset related to the right of use the land for Maintenance Hangar Iasi	1.803	(9)	1.756	1.803	(38)	1.765
Total	1.803	(9)	1.756	1.803	(38)	1.765

Net accounting value

	Balance at 1 January 2019	Increases	Depreciation	Balance at 31 March 2020
Asset related to the right of use the land for Maintenance Hangar Iasi	1.765	-	(9)	1.756
Total	1.765	-	(9)	1.756

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

NOTE 33 - EVENTS AFTER THE REPORTING PERIOD

Decisions of the Ordinary & Extraordinary General Meeting of Shareholders from April 21, 2020.

In the Ordinary General Meeting of Shareholders from April 21, 2020, Aerostar shareholders approved the following:

- The distribution of net profit of financial year 2019, respectively the amount 65.979.464,74 lei:
 - Allocation to legal reserve of the reinvested profit in amount of 11.674.595,35 lei;
 - Allocation as statutory reserves in amount of 34.500.000,00 lei;
 - Allocation as dividends in amount of 19.796.068,50 leiand the establishment of gross dividend per share: 0,13 lei, corresponding to a share with a nominal value of 0,32 lei;

- **The date of 23 June 2020** as the **Payment Date** for the dividends of the financial year 2019.

The distribution of dividends due to Aerostar's shareholders for the year 2019 will be made in accordance with the applicable legal provisions.

The Financial Calendar for 2020– next events which will take place:

Presentation of the financial results for halfyear 2020	14.08.2020
Meeting with the press and interested investors for presenting the financial results for halfyear 2020	14.08.2020
Presentation of the financial results at 30 September 2020.	12.11.2020

These individual financial statements which comprise: the statement of the financial position, the statement of the profit or loss, other elements of the global result, the individual statement of the company equity's modifications, the individual statement of the cash flows and the explicative notes to the financial statements were approved by the Board of Directors at 12 May 2020 and signed on behalf of the Board of Directors by:

Grigore FILIP
President & General Director

Doru DAMASCHIN
Vicepresident & Financial Director