

ANNUAL REPORT

for the financial year 2014

S.C.AEROSTAR S.A. Bacău

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The year 2014, the reconfirmation of success

As far as AEROSTAR is concerned, the year 2014 meets several criteria of success: Value for the Customers, increase of sales and profit, increase of the company's registered capital, a well-sustained investment programme, a good capacity to secure business for the future and last, but not least, create jobs for the young.

S.C. AEROSTAR S.A. Bacău is a Romanian legal person being an open shareholding company in accordance with its Constitutive Deed and the applicable regulations.

Established in 1953, AEROSTAR is present on the market with products and services which respond to the current demand: manufacturing of aeronautical products, maintenance, repairs and upgrades of aircraft, production and integrations of aero and ground systems, with civil applications or in the field of security and defence.

In 2014 AEROSTAR's footprint increased in the chains of supply of the international aeronautical industry while adopting a business model capable to secure the accomplishment in fact of the Vision of growth for the company.

AEROSTAR has operated in conditions of continuity in the aviation and defence industry.

The main field of activity is production.

In accordance with the classification of activities in Romanian economy, the main object of activity is the manufacture of aircraft and spaceships- Code CAEN 3030.

There was no merger or significant reorganization of the company during the year 2014.

AEROSTAR, summary in figures

The financial statements of SC AEROSTAR SA for the year 2014 were prepared and published in accordance with the international financial reporting standards (IFRS).

	MU	31.12.2013	31.12.2014
Registered Capital	thousand Lei	37.484	48.729
Turnover	thousand Lei	212.023	261.051
• export sales	thousand Lei	182.941	183.846
Expenses for investments	thousand Lei	18.952	12.144
Employees, of which	no.	1.862	1.868
- own employees	no.	1.695	1.738
- employees from temporary labour agent	no.	167	130
Total Gross Profit (before tax)	thousand Lei	18.223	25.001
Net Profit	thousand Lei	14.864	19.744

“AEROSTAR” Shares

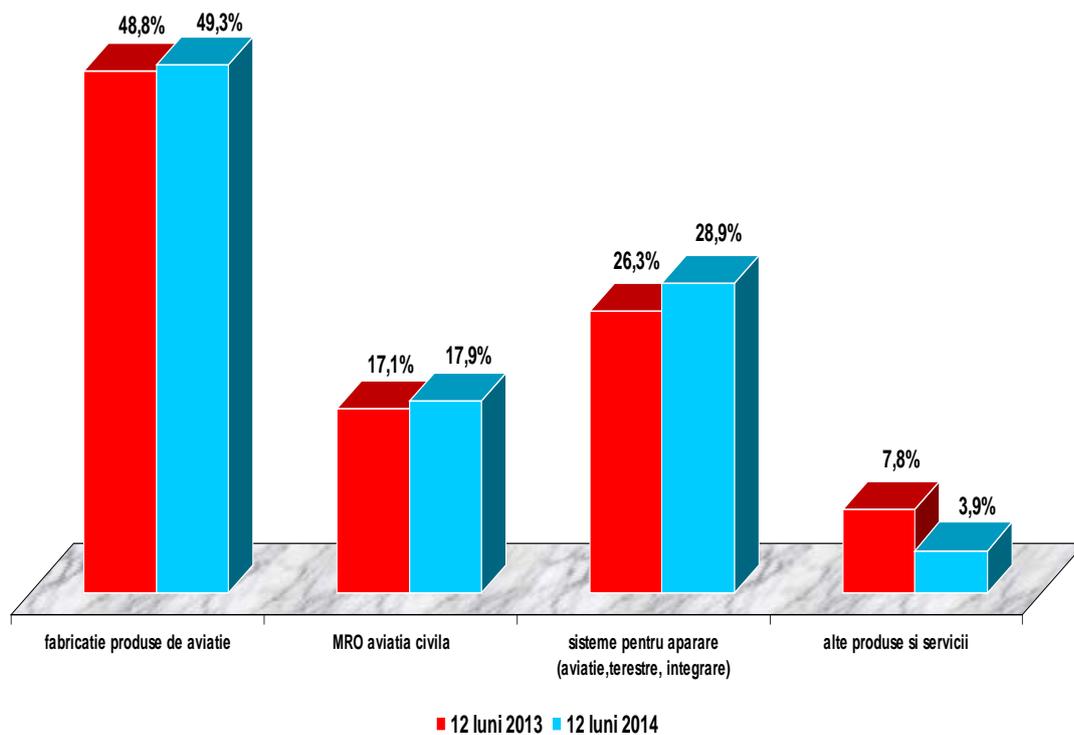
Stock Exchange symbol “ARS”		year 2013	year 2014
Number of shares	no.	117.136.530	152.277.450
Nominal Value per share	Lei	0,32	0,32
Net profit per share (EPS ratio)	Lei	0,110	0,147
Market value per share at year end	Lei	1,599	1,850
Stock market capitalization	Lei	187.301.311	281.713.283

MACRO-ECONOMIC INDICATORS

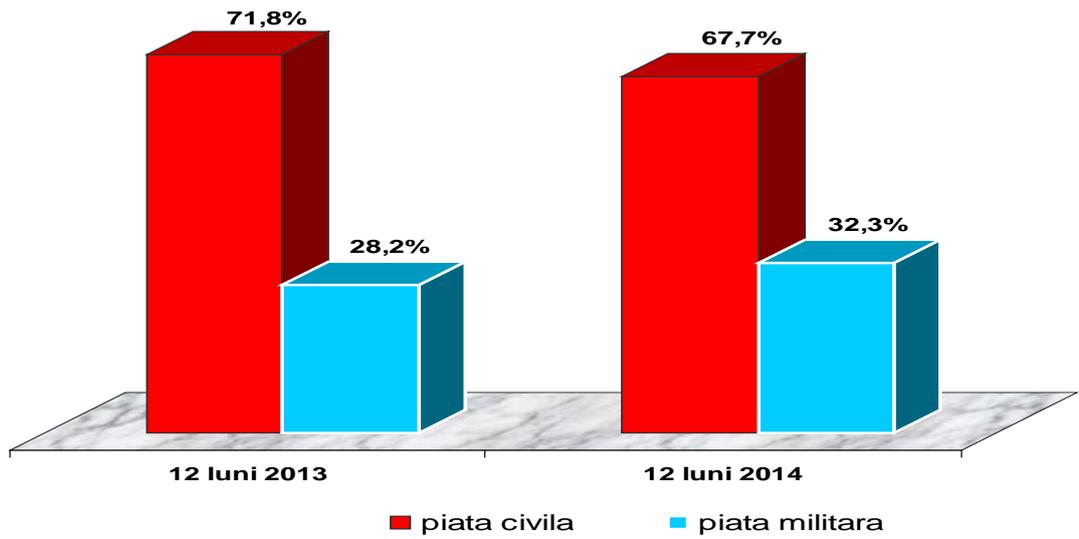
	MU	2013	2014
Inflation	%	1,55%	0,83%
Average exchange rate Euro/12 months	lei/euro	4,4187	4,4446
Average exchange rate USD/12 months	lei/USD	3,3282	3,3475
Average exchange rate GBP/12 months	lei/GBP	5,2038	5,5115

<u>Financial Position (thousand Lei)</u>	31.12.2013	31.12.2014
• Immobilized Assets (net values)	128.859	129.667
• Circulating Assets	120.884	170.449
• Registered Capital	37.484	48.729
• Company Capitals	132.385	142.799
• Total Debts	50.994	67.855

Turnover distribution on main products & services in 2014



Sales distribution on civil/ defence market



AEROSTAR, as a model of success

Important events of the year 2014

In the general meeting of shareholders held on 23rd April 2014, AEROSTAR shareholders approved the distribution of the amount of 10.430.298 lei from the profit of the year 2013 for dividends, which corresponds to a gross dividend per share of 0,089 lei.

AEROSTAR fully paid the dividends of the year 2013 to AEROSTAR shareholders in cash, by bank transfers or by post office order.

◀◀ INCREASE OF REGISTERED CAPITAL

In the general meeting of shareholders held on 23rd April 2014, AEROSTAR shareholders approved to increase the share capital from the amount of 37.483.689,60 lei to 48.728.784 lei by incorporating the reserves, to reach a total number of shares after the capital increase of 152.277.450, with the same nominal value, that is 0,32 lei.

◀◀ In June 2014 the project “Set-up of a new manufacturing facility for production diversification and export growth” was successfully completed, a project co-financed by the European Regional Development Fund based on a contract with the Ministry of Economy, Commerce and Business Environment as Management Authority.
The project financed through the Sectorial Operational Programme for Increase of the Economic Competitiveness (Priority Axis 1 „An innovative and eco-efficient production system” was implemented in the timeframe 14.06.2012 – 14.06.2014, at company’s site.

Declaration of the General Director

The year 2014 ended with good results which strongly consolidate the good and consistent results of the recent years.

AEROSTAR is part of the growth core of the Romanian industry.

The growth strategy which we adopted in Aerostar has been successfully implemented in practice, in a consistent and predictable way, so that the business of the year 2014 confirms the expectations and brings special reasons of satisfaction for all the involved parties: customers, employees, shareholders.

The total revenues made are 276.334 thousand lei, with a profit rate of 7,6%.

The increase of the share capital, made by incorporating the reserves, increased the registered capital to 48.728.784 lei.

The activities of the company take place on a global market, very competitive and of high added value. AEROSTAR is a significant player in the aeronautical and defence industry. The actions we have performed, currently and in the future, aim to maintain and grow further on on the aeronautical and defence market.

The exports in 2014 are higher than in 2013 and represent approximately 70% of the turnover.

In the development perspective which we have consolidated year by year, our attention has been constantly focused on the requirements and expectations of our customers, on the quality which we deliver and on the markets where we operate.

Therefore, we will continue the investment programmes initiated several years ago and which have the scope to continue the technological restructuring, the alignment of our capabilities and production flows to the requirements and standards currently in force, to the contract requirements.

Grigore FILIP
President & General Director

AEROSTAR and the shareholders

AEROSTAR is a private company, listed at Bucharest Stock Exchange since 1998.

Aerostar shares are nominative, ordinary, of equal value, issued in dematerialized form and identified by registration in the Register of Shareholders. This is under the administration of S.C. Depozitarul Central S.A. Bucharest.

According to the records available at Depozitarul Central S.A. the share issuer AEROSTAR S.A. is registered with the following data:
Individual Registration Code 950531,
ISIN code ROAEROACNOR5, stock exchange symbol ARS.

The company has a registered share capital of 48.728.784 lei, a total number of 152.277.450 shares with a nominal value of 0,32 lei.

The main shareholders are S.C.IAROM S.A. Bucharest and SIF MOLDOVA S.A. There is a further number of shareholders, quite large, natural and legal persons, holding stock below the significance threshold as defined in the regulations of the National Securities Exchange Commission- (currently the Financial Supervisory Authority) and of the Bucharest Stock Exchange.

The General Meetings of Shareholders took place in full compliance with the provisions of the Companies Act 31/1990, the law 297/2004 regarding the capital market and the applicable regulations issued by the National Securities Exchange Commission- (currently the Financial Supervisory Authority) as well as with any other applicable legal provision.

The general meetings of the shareholders were held on 23 April and 11 December. They were convened and took place in accordance with the legal and statutory provisions.

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

AEROSTAR has fully paid the dividends of the year 2013 due to the shareholders, and observed in full the limit due date, 23 October 2014.

The company did not buy its own shares and did not issue securities or other bonds during the year 2014.

AEROSTAR, Mode of Administration

The administration of the company AEROSTAR is made in unitary system with the legal obligation to delegate the management of the company to one or several directors.

The Board of Directors of AEROSTAR consists of five members, elected in 2012 for a period of 4 years.

Members of the Board of Directors

No	Name	Position	Background
1.	FILIP GRIGORE	President of the Board of Directors	engineer
2.	DAMASCHIN DORU	Vice-president of the Board of Directors	economist
3.	TONCEA MIHAIL-NICOLAE	Member of the Board of Directors	engineer
4.	NIJNIC MARIN - ILIE	Member of the Board of Directors	engineer
5.	VIRNA DANIEL	Member of the Board of Directors	legal adviser

The direct participation of the Directors to the share capital of the company is below 1%. Mr.Grigure Filip was appointed President of the Board of Directors and General Director. Mr.Doru Damaschin was appointed Vice-president of the Board of Directors and Financial Director.

They delegate attributions to the executive management of the company.

In 2014 the executive management of the company was:

Item No.	Name	Position
1.	FILIP GRIGORE	General Director
2.	DAMASCHIN DORU	Director, Finance-Accounting
3.	POPA DAN PAUL MALIN	Director, HR & Industrial Engineering
4.	ALEXANDRU FILIP	Quality Director
5.	VLAD GABRIEL REMUS	Director, Logistics Division
6.	ARHIRE SILVIU EMANUEL	Director, Special Products Division
7.	BUHAI OVIDIU	Director, Aviation MRO & Upgrades Division
8.	IOSIPESCU SERBAN	Director, Aeronautical Products Division
9.	PLACINTA THEODOR	Director, Utilities & Infrastructure

During the year 2014 there were two position change dispositions for Mr. Sorin Petras, Quality Director and Mr. Laurentiu Pascal, Director Logistics Division.

The direct participation of the executive management members to the registered capital of the company is also below 1%.

There is no litigation between the company and its Directors or persons in the executive management of the company in connection with their activity.

None of the Directors in the Board or the management members were involved in a litigation or other administrative proceedings with AEROSTAR over the last 5 years.

AEROSTAR in relation with the capital market institutions

AEROSTAR endeavours to supply accurate, consistent, regular and quality information to all the shareholders as well as to the potential investors in compliance with the best practice of the capital market and recommendations of the capital market institutions.

In 2014 as well, AEROSTAR fulfilled all its reporting obligations arising from the legal provisions by publication of the current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the company webpage and by press releases.

Our policy related to the financial information is based on:

- equal access to information guaranteed for all the shareholders and immediately available
- compliance with the legal timeframe for the release of the financial results
- transparency of information made available to the shareholders

From the company webpage www.aerostar.ro the shareholders can obtain information on AEROSTAR such as the main events; also, the annual, 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.

The trading price of one AEROSTAR share fluctuated in 2014 between a minimum level of 1,42 lei and a maximum level of 2,39 lei.

AEROSTAR's Mission, bridges to the future

The mission established at the foundation of the company "Uzina de Reparatii Avioane" (Aircraft Repair Factory), the predecessor of S.C.AEROSTAR S.A., was maintained and updated in the conditions generated by Romania's accession to NATO and European Union; at present, with a view to provide for the development needs of the company, the mission envisages three lines of business, all in aeronautics and defence:

- Maintain the status of supplier in the field of aviation and ground defence systems for the Romanian Ministry of National Defence and for other beneficiaries, a field of activity whereof to generate over 20% of the turnover.
- Consolidation of AEROSTAR's position as supplier of parts, aerostructures, subassemblies and equipment for the commercial and general aviation, such as to become a major subcontractor for the globalized aviation industry and to generate from these activities over 55% of the turnover.
- Consolidation of AEROSTAR activities as a prime supplier of maintenance for civil aircraft and for conversion/ modernization of civil aircraft, a field of activity whereof to generate over 20% of the turnover.

Uzina de Reparatii Avioane (Aircraft Repair Factory) (UM 03767), the forerunner of AEROSTAR S.A. Bacau, was established in 1953.

It had the successive names: URA-1953, IRAv (Intreprinderea de Reparatii Avioane)- *Aircraft Repair Enterprise*- 1970, IAv (Intreprinderea de Avioane- *Aircraft Enterprise*- 1978 and since 1991 it was registered as a shareholding company with fully state-owned capital under the present name S.C.AEROSTAR S.A.

Since the year 2000 the company is fully private, with the shares traded at Bucharest Stock Exchange, indicator ARS.

AEROSTAR, focused growth in aeronautics and defence

In 2014 AEROSTAR's main lines of business are:

- Manufacturing of aeronautical products
- Maintenance of commercial aircraft
- Aero & Ground Defence Systems, production and integrations

With a clearly profiled offer in the field of manufacturing and integrations for the aeronautical and defence industry, AEROSTAR successfully capitalizes the investments made in technology, in facilities but also in organization and planning.

AEROSTAR's footprint in the chains of supply is growing. The Customers' requirements and the evolutions on the aviation and defence industry market are the basic factors to determine the business model followed by the company.

AEROSTAR's footprint, positioning on the market

AEROSTAR's operations are exclusively performed at its premises in Bacau, Romania. AEROSTAR's sales are made on a global market of large geographical spreading.

AEROSTAR's market profile as a private company which acts independently in a highly competitive environment confirms the accomplishment of the company mission and objectives by good practice of corporate governance and in full compliance with the highest national and international business standards and regulations.

The synergy of the technological development in civil aviation with the development of solutions in technologies as requested today on the defence market places AEROSTAR in the position of an important competitive advantage to capture a significant part of the market potential.

The consolidation of the positioning in the supply chains is the main vector of interest on a global growing market.

Naturally, the factors of impact on the global economy have influenced the performance of company's business in the year 2014 as well.

93% of the sales made in 2014 are in the aeronautical field.

In the field of civil aviation

AEROSTAR performs multiannual investment programmes to increase the competitiveness and the development in the field of civil aviation.

AEROSTAR holds a significant position in the aeronautical chains of supply. The company is one of the important subcontractors of parts and components for aerostructure and aviation assemblies, with an yearly volume of millions of parts or with majoritary contribution in the production of several assemblies in certain programmes, or even as sole source.

In a similar way, the company is a significant subcontractor in the production of systems or components in the range of landing gears and hydraulic systems.

In the field of defence

AEROSTAR is a major supplier of products and services in the category of aero and ground systems for defence, while its position as a first rank supplier for the Romanian Ministry of National Defence is comprised in the company mission and objectives as early as the foundation of the company.

The projections on our sales on the MRO market, as provided in the traditional list of capabilities, indicate that the demand is maintained.

At the same time, the company expertise in the field of IFF systems and equipment determined the growth of AEROSTAR's footprint on the specific state-of-the-art systems and equipment market.

AEROSTAR has extended its range of supply for systems and equipment, as well as for integrations of identification, communication and control systems.

During the year 2014 AEROSTAR has maintained and developed a strong business base, while the new programmes represent the majority of the sales volume made in 2014.

In the field of MRO for commercial aircraft

AEROSTAR is the main independent supplier of maintenance services for commercial aircraft in this geographical area.

AEROSTAR provides **base and heavy maintenance for commercial aircraft**. Our range of maintenance services supplied covers checks for the AIRBUS 320 family, for Boeing 737 all series and BAe-146/ RJ aircraft, and aircraft components.

The company performs light and heavy maintenance, including structural modifications for these aircraft types.

Starting from the Part-145 approval from the Romanian Civil Aeronautical Authority (AACR), recognised by the European Aviation Safety Agency (EASA), AEROSTAR's MRO base has developed its position on the market by getting a wide range of civil aviation approvals from several countries.

Being among the first independent MROs to supply „Split Scimitar Winglet Retrofits” AEROSTAR increased its competitive advantage with solutions to incorporate this work in the C-check work packs and minimize the aircraft turn-around-time, which is a good position to capture work from the potential market in the area.

Commercial and Logistic Aspects

AEROSTAR runs its business and commercial transactions on its own, the same as for obtaining the licences and authorisations for the activities undertaken.

In the field of import and export operations, AEROSTAR is an Authorised Economic Agent to perform custom clearance, security and safety proceedings as approved by the Romanian Customs' Authorities.

The company is registered by the Ministry of Foreign Affairs – Exports Control Department to perform import and export operations with military products.

The implementation of the competitiveness actions at company level is correlated with the performance of the commercial and logistic operations.

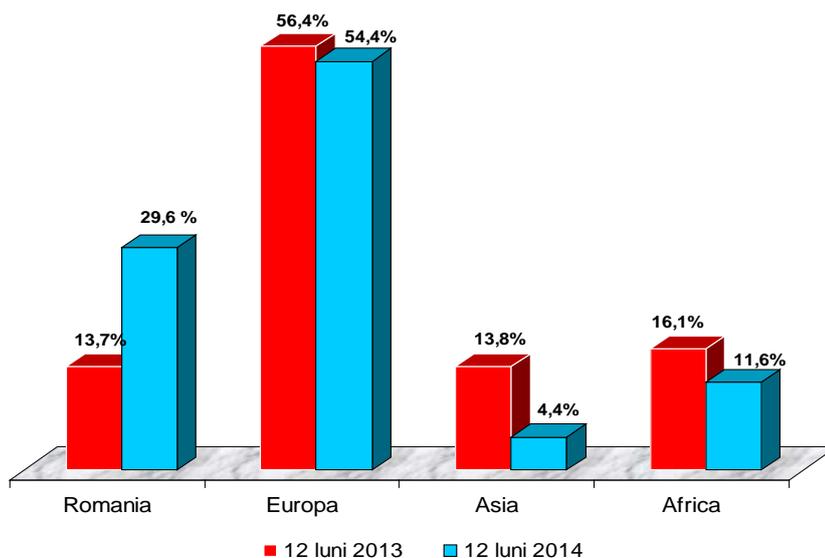
The basic scheduling and follow-up of the sequence of steps until the transactions are completed are customized on the profile of each customer and type of business.

AEROSTAR holds a lean organization and effective in the logistics of the sales and purchasing, with well-structured processes, controlled as to their effectiveness.

AEROSTAR sales in 2014 were 261.051 thousand lei, with 183.846 thousand lei from export sales, covering a wide span of customers and geographic regions.

AEROSTAR fully observes all the applicable national and international regulations on the trade and, naturally, on the production of all goods and services in its supply profile.

The main markets for AEROSTAR sales are:



The modernization of the purchasing processes and the logistics for the transactions undertaken enhanced the organization flexibility; also, the supplier base increased, an objective which is further on under attention.

The status of "Aerostar agreed supplier" is obtained after the completion of a selection and assessment process in line with commercial criteria.

Throughout the year, the company purchased goods and services for the production operations in amount of 140.856 thousand lei.

The purchase of such goods and services was made on the following markets:

- Romania 51,2%
- European Union 34,4%
- Other foreign markets 14,4%

We invest in competitiveness and sustainable development

The development priorities for competitiveness by training, innovation and knowledge determine the projections which we make for the timeperiod until 2020 with the objective of AEROSTAR coping with the competition from the emerging markets.

Most of the production capacities have renewed technologies and the process is continued. The market dynamics imposes the technological development directions to follow.

AEROSTAR complies with the applicable European Regulations and makes deliveries accompanied by the REACH Declaration.

The expenses for the investment and development programmes made in 2014 were in total of 12.144 thousand lei, representing approximately 5% of the company turnover in 2014.

- 45% of this amount was spent for the investment "Set-up of a new manufacturing facility for production diversification and export growth", co-financed by the European Regional Development Fund based on a contract with the Ministry of Economy, Commerce and Business Environment as Management Authority for the Sectorial Operational Programme for Increase of the Economic Competitiveness (Priority Axis 1 „An innovative and eco-efficient production system”, a project which was completed in June 2014.

- 54 % of this total amount was spent for purchasing and modernizations of technological equipment, CNC and measurement, control and monitoring, hardware, modernizations of social utility facilities, as well as for the required acquisitions for the project POSDRU/125/5.1/S/129302- „Active occupational measures in the aeronautical sector by innovative professional training (AEROTRAINING)”- in which AEROSTAR is the national partner 1 and participates in the qualifications in skills specific for the aviation industry.

- 1% of the total was spent on the acquisition of software licences.

The Development Activities are focused on the technological development determined by the main production programmes in the company.

The tasks undertaken aim at increasing the eco-effectiveness of the products and services supplied by Aerostar.

Some of the tasks, with or without assistance from partners, were based on firm research-development contracts and were carried out either as part of the company research-development programme, or as part of the programme PARTENERIATE (PARTNERSHIPS) included in the National Research-Development Programme for Innovation II (PNCDI II).

In the purpose to develop the capabilities as requested by the company partners, the qualification of a wide range of special processes continued. There were several development tasks, successfully completed, dedicated to meet the manufacturing requirements for a certain range of aviation products and assemblies, to extend the range of capabilities and increase the sales on the aeronautical market.

Quality and the Environment

Aspects related to the Quality Management System for the year 2014

AEROSTAR has in place- implemented, maintained and under continuous improvement- an Integrated Quality & Environment Management System.

The Quality Management System is certified by DQS Germany in accordance with the requirements of the standard EN 9100: 2009, by AEROQ in accordance with the standard SR EN ISO 9001: 2008 and by the Romanian Ministry of National Defence in accordance with the NATO requirements in AQAP 2110 with reference to quality assurance in design, development and production.

The Production Organization of AEROSTAR is approved by the Romanian Civil Aeronautical Authority in accordance with the Part-21G requirements, being authorized for the production of parts and aerostructures for the civil aviation.

The Maintenance Organization of AEROSTAR is approved by the Romanian Civil Aeronautical Authority in accordance with the Part-145 requirements, being authorized for maintenance of aircraft types Boeing 737, Airbus 320 și BAe-146/ RJ.

AEROSTAR S.A. is also authorized by national bodies of non-EU countries for aircraft maintenance activities.

Also, the company is approved for specialized testing in the civil aeronautics field in accordance with the RACR-B4 regulations. As a training centre for NDT Personnel in civil aeronautics, it is authorized by the Romanian Civil Aeronautical Authority in accordance with the RACR-NDT provisions.

AEROSTAR also holds and maintains other approvals for specific lines of business with bodies such as ISCIR, AFER, CNCAN, RAR.

AEROSTAR holds customer approvals from: Fokker Aerostructures, Messier-Bugatti-Dowty, Airbus UK, GKN Aerospace, Aero Vodochody Aerospace.

In 2014, AEROSTAR extended the qualification of certain production processes in accordance with Boeing, Bombardier and Sikorsky specifications.

Taking into consideration the compliance with customer requirements, AEROSTAR holds and maintains NADCAP accreditations for the following special processes: heat treating, chemical processes, NDT, shot-peening and welding.

Aspects related to the Environment Management System for the year 2014

AEROSTAR complies with the requirements arising from the european and national legislation which suppose to obtain and comply with the following approvals: integrated environment authorization, authorization for greenhouse gas emissions, and water management authorization.

In order to meet the expectations of the customers, of the environment authorities and of the community, AEROSTAR has implemented an Environment Management System integrated with the quality management system, being certified in accordance with the standard ISO 14001 by DQS Germany , a certification maintained during the year 2014 as well.

The environment performance of the organization gets reflected in the monitoring results for air, water, soil, noise, waste, which indicate compliance with the prescribed admitted limits; also, it is proven by the environment inspections and in relation with the environment bodies.

Based on the environment authorization for AEROSTAR operations, through the implementation and certification of an environment management system in accordance with ISO 14001, following the actions of all involved parties, the negative impact on the environment , which any economic activity may generate, could be mitigated and specifically controlled. Such proof is the environment programme, the certificates which are maintained and in special, maintaining the environment approvals with no need of conformance programmes, and why not the absence of claims from the customers or from the local community, with no environment incidents or accidents.

AEROSTAR, a company for the future

AEROSTAR is one of the main employers on the labour market in the North-East Romanian region.

With a rejuvenated structure of employees , as on 31.12.2014 Aerostar had an effective number of 1868 employees, of which 130 recruited and made available by AIRPRO CONSULT S.R.L., which acts on the market as a temporary labor agent.

The employees' training level and qualified skills are as follows:

- 497 employees are university graduates
- 592 employees are high-school and post-high school graduates
- 649 employees are either graduates of vocational schools or qualified internally.

The average percentage of trade union members in 2014 was 82,8%.

Other HR indicators, as recorded on 31.12.2014: the average period of employment at AEROSTAR is 18 years; the average age of the employees is 47; the number of employees to reach their retirement age by the end of 2015 is 94.

The social dialogue as provided in the Collective Labour Agreement consists in frequent meetings between the company's management and representatives of the representative Union and/or representatives of the employees. There are also joint committees such as the Joint Social Committee, Health and Labour Safety Committee, and the Management Board and Employees' Committees for Negotiation and follow-up for the implementation of the Collective Labour Agreement.

In 2014 a range of preoccupations were materialized:

- professional development of the employees by their inclusion in professional training programmes and annual application of individual performance evaluation processes;
- non-discrimination both in the employment procedures and on the job (including salary, professional development, promotion, etc.)
- orientation/ integration of youth and new employees, with focus on familiarization with the company, on company's regulations, of the organizational culture, of the quality requirements by inclusion in customized professional adaptation programmes (for university graduates) and on job training for high school graduates;
- identification and nominations of the successors for the management positions;
- improve the work time utilization by bar-codes clocking at all work places where this is possible, at the same time with continuous monitoring how this type of time check is used through the organization, as well as of the access control system;
- provide optimal conditions for labour security and safety for all employees, as well as the intervention methods in case of emergency situations.
- support to set-up effective internal partnerships capable to improve the flexibility throughout the organization.

The expenses with manpower made until 31.12.2014, were in amount of 82.421.678 lei, of which:

- expenses with salaries in amount of 62.810.083 lei;
- expenses with insurance and social protection in amount of 16.330.044 lei;

- meal tickets for employees in amount of 3.281.551 lei;
- bonus amounts as per the collective labour agreement in amount of 3.831.143 lei.

Also, expenses were made for:

- professional training programmes in amount of 577.505,76 lei;
- diverse expenses for labour safety and security in amount of 1.519.367 lei.

The Code of Ethics & Business Conduct implemented in AEROSTAR provides the compliance with the highest standards of business ethics. Aerostar offers to its partners guaranteed honesty and high-quality services in all the business relations where it is involved. The Code of Ethics & Business Conduct is part of the Collective Labour Agreement in force and pursues to develop among its employees a proper conduct in relation with third parties and an ethical treatment of all the activities performed, relying on non-discrimination, equal chances, fair treatment and transparency in communication.

In the year 2014, the Occupational Health and Safety Management System of the company was certified by AEROQ Bucharest in accordance with the standard SR EN OHSAS 18000/ 2008.

TANGIBLE ASSETS

The company owns a total land area of 45.12 hectares, with access to the European Highway E85.

AEROSTAR has direct access to the runway of the airport "George Enescu" of Bacau.

The production facilities of S.C. AEROSTAR S.A. are located at the company's registered head office in Bacau, 9, Condorilor Street.

At the registered head office the premises comprise all types of facilities required for the proper performance of the production activities in accordance with the company's object of activity.

The production facilities include hangars, industrial shops, test benches, as well as facilities for administrative and social activities. The company also holds space allocated for technical and economical activities.

All these facilities are properly maintained.

The effective built area is approximately 13.47 hectares.

All the buildings and special facilities are in the company's ownership.

The amortization, on categories- constructions and equipment, such categories having a significant contribution in the immobilized assets (75%) is presented as:

Immobilized Assets Category	Gross Value (lei)	Amortized Value (lei)	Degree of amortization (%)
Constructions	43.339.782	3.277.230	8%
Technological Equipment & Transport Vehicles	65.592.785	13.917.975	21%

INTERNAL CONTROL SYSTEM

The internal control system in AEROSTAR comprises the following components:

- Control of Accounts & Assets (patrimony)
- Budgetary Control
- Controlling
- Internal Audit

CONTROLLING

AEROSTAR has adopted the advanced **controlling** concept– a specific support for the management of the company, which is at the basis of a high-performance decision-making system, economic, efficient and effective, by control, coordination and consultancy in every step of the decision-making process, at the strategic and operational level as well.

Implemented and operational in the organisation as a control of the management act, it is mainly focused on data processing objectives required for the continuous improvement of the company processes and functions, providing an early warning system on the issues which can arise in individual cases or at a more general level.

At operational level, targeting the objectives of conformity, the controlling actions taking place on a current, regular or customized basis, monitor and review the planned profitability for the commodity production orders as well as the conformity of the indirect expenses within the range of planned values; the deviations are reviewed and corrective and preventive actions are proposed to the executive management.

CONTROL OF ACCOUNTS & ASSETS

The control of accounts and assets is made by inventory and the company accounts for such inventories are verified in accordance with the applicable regulations. Control documents are made and also, dedicated controls are made as instructed by the upper management.

The inventory of the company patrimony is based on the annual work plan approved by the company management.

INTERNAL AUDIT

According to the Romanian law, S.C. AEROSTAR S.A. has organised its internal audit activity in a distinct compartment of its organisational structure, in conformity with the organisation chart.

The internal audit is directly subordinated to the Board of Directors, being an independent and objective activity to ascertain and consult, designated to evaluate and improve the operations of the company.

The Internal Audit is concerned with the conformity of the internal operations with a view to protect the company assets and to provide for their effectiveness and efficiency.

The internal audit activities are carried out based on the annual program approved by the Board of Directors, similarly to any other issues related to executive management or the Board of Directors, as requested.

The internal audit department presents regular internal audit reports during the meetings of the Board of Directors.

RISK MANAGEMENT

Through the risk management processes, the company pursues to secure the medium and long-term sustainability and to reduce the uncertainty associated with its strategic and financial objectives.

The risk management processes conducted in various areas ensure the identification, analysis, assessment and administration of all risks with a view to minimising the effects thereof down to an agreed level.

The risks under current administration by the company are:

- operational risk
- credit risk
- liquidity risk
- market risk, including price risk, currency risk and interest rate risk

The Operational Risk is the risk of loss occurrence or of failure to make profits at the budgeted level, a risk which can be determined by internal factors (inadequate performance of certain activities, or engineering processes, HR related issues) or external factors (economic conditions, changes in the business environment, legislative changes).

The operational risk management is targeted to achieve a balance between the prevention of financial loss and company image impairment, on the one hand, and increasing the cost structure efficiency, on the other hand.

The weekly monitoring at the level of the divisions, directions and business modules, as well as the quarterly control of the accounts and assets are strong elements in the control of the operational risk.

The Credit Risk is the risk of AEROSTAR bearing a financial loss as a result of the failure to meet the contractual business obligations by a customer.

The credit risk is assessed and administered for each business partner based on the credit rating reviews, which also includes the country risk for the country where the customer operates.

Based on the credit rating analysis, the customers get a maximum trade credit level allocated (in terms of value and duration), while the ratings and credit limits allocated are reviewed on a regular basis.

In certain cases, specific mitigation tools will be required (advance payments, letters of bank guarantee, confirmed letters of credit).

AEROSTAR holds no significant exposure towards any single partner or group of partners with similar features (affiliated parties).

The Liquidity Risk is the risk for AEROSTAR to encounter difficulties in the compliance of its debt-related obligations as they become due.

To evaluate the liquidity risk, the cash flows from operations, from investments and from financial investments are monitored and reviewed weekly, monthly, quarterly and yearly with a view 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.

To ensure constantly the financial flexibility and liquidity, as necessary, a cash-reserve is set yearly as a Credit Line with the banks.

During the reporting period, AEROSTAR did not use the contracted Credit Line of 2,500,000 USD, all the company's activities being funded from the company's own sources.

The Market Risk is the risk of fluctuations in the just value or future cash flows of a financial instrument due to market price changes.

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

The price risk is determined by the possibility of incurring a loss or failure to obtain the estimated profits as a result of market price fluctuations, especially in case of business agreements concluded for longer periods of time (over 1 year).

The avoidance or mitigation of the price risk is made by incorporating in the commercial agreements of provisions for the yearly price update or by including of a safety margin in the contract price against the risk of changing price for the raw materials.

AEROSTAR is exposed to currency risk as 70% of its turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency (Lei).

So, the company is exposed to the risk of the exchange rate fluctuations, affecting both the net revenues and the financial position, as they are both expressed in Lei.

An analysis of AEROSTAR's sensitivity to the currency fluctuations is detailed in Note 9 (Financial Instruments) in the Financial Statements.

As on December 31, 2014 AEROSTAR did not incur any financial loss.

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 profile for the year 2015

AEROSTAR is positioned for growth and acts consistently to achieve the budget of expenses and revenues approved for the year 2015.

The budget of the company will be executed based on the ***Strategic Development Directions and Measures for the years 2011 -2015***, consisting of:

- Priority direction „Manufacture of Aeronautical Products”
- Priority direction „Civil Aviation MRO”
- Priority direction „Defence Systems (Aero & Ground, Integrations)”
- Priority direction „Products and Services in the areas: civil electronics, special processes, utilities”

The strategy for this time period preserves and develops AEROSTAR’s main object of activity so that aeronautics is 60%-70% of the turnover. Following these priority development directions the general objective is the annual growth of the company turnover. Also, the strategic objectives provide a growing footprint on the market, especially on the international market, so that the exports represents at least 60% of our turnover.

The specific objectives which include the steady organic development of the company: the development of the centres of excellence through further modernizations, investments and continuous improvement programmes. The training programme dedicated to the consolidation of the organisational culture fully adapted to the Values specific in the aeronautical industry and for the requirements of our customers will set new development stages at the level of the entire organisation.

The improvement of the key performance indicators and their extended implementation in several areas of operations, bringing these indicators at the standardized levels or as established by the company management is one of the instruments taken under consideration to accompany these processes for the modernization of the company.

In 2015, AEROSTAR will continue as a Customer- focused organisation, focused to grow the value we bring in the value chain in the industry.

In our undertakings, the allocation of resources will provide for AEROSTAR as a strong company, which delivers Value for the Customers, which provides the sustainability of its investments and business, which is competitive and profitable and brings satisfaction for all shareholders alike, as well as for the other stakeholders involved.

President of the Board of Directors and General Director

Grigore FILIP

**The Statement “Comply or Explain” , February 2015
Code of Corporate Governance of Bucharest Stock Exchange**

Principle/ Recommendation		Question	YES	NO	If NO, then EXPLAIN
P19		Is the issuer administered in a dualist system?		X	The General Meeting of Shareholders opted for a unitary system.
P1	R1	Has the issuer elaborated a Code / Corporate Governance Regulations to describe the main aspects of corporate governance?		X	Until the date of the present Statement, such regulation was not elaborated
		Is the Code / Corporate Governance Regulation presented on the company website, and indicating the last update?		X	As it is not adopted, it could not be shown on the company website.
	R2	Does the Code / Corporate Governance Regulation define the corporate governance functions, competences and responsibilities of the Board of Directors (BoD) and of the executive management?		X	Such regulation / code was not adopted until the date of the Statement herein.
	R3	Does the Annual Report of the issuer include a chapter dedicated to corporate governance which describes all relevant events, related to corporate governance, registered during the previous financial year?		X	For the Annual Report for the year 2014 the option was just to enclose the present Statement to the Report
		Does the issuer disseminate on the company website information regarding its corporate governance policy:			They will be presented on the website in case the Code/ Corporate Governance Regulations are elaborated
		a) Description of its corporate governance structures?		X	
		b) Updated constitutive deed?	X		
		c) Internal functional regulations /essential aspects for each committee/ specialized committee?		X	They will be presented on the website after the Code/ Corporate Governance Regulations are elaborated
d) The Statement „Comply or Explain“?		X			
e) The list of BoD members with the specification of the members who are independent and/or non-executive, of the members of the executive management and the members of commissions/ specialized boards?	X				
f) A brief variant of their CV for each BoD member and of the executive management?		X	This is public information available for shareholders upon request, but which were not presented on the website until now.		
P2		Does the issuer comply with the rights of the stakeholders of financial instruments issued by the issuer, providing for an equitable treatment and submitting for approval any modification of the rights granted, in the special meetings of the respective holders?	X		

**The Statement “Comply or Explain” , February 2015
Code of Corporate Governance of Bucharest Stock Exchange**

P3	R4	Does the issuer publish in a dedicated section of its website details regarding the General Meeting of the Shareholders (GMS): a) convening of the GMS?	X			
		b) materials/documents related to the agenda as well as any other information related to the subjects on the agenda ?	X			
		c) Special proxy forms?	X			
	R6	Did the issuer elaborate, and propose to the GMS , procedures for the orderly and efficient performance of the GMS activities without prejudice however to the right of any shareholder to express freely his/her/its opinion on the subjects under debate?	X			
	R8		Does the issuer disseminate in a dedicated section on its website the rights of the shareholders, as well as the rules and procedures to participate in the GMS?	X		
			Does the issuer provide the notification in due time (immediately after the GMS) of all the shareholders by a dedicated section on its website: a) Regarding the decisions made in the GMS?	X		
			b) Regarding the detailed result of the voting?	X		
			Does the issuers disseminate by a special section on its website, easily identifiable and accessible: a) Current reports/press releases?	X		
			b) The financial calendar, annual reports, half-year reports and quarterly reports?	X		
R9	Is there in the issuer's company a specialized department/person dedicated to the investors relation?	X				
P4, P5	R10	Does the BoD meets at least once every quarter to monitor the performance of issuer's activity?	X			
	R12	Does the issuer hold a set of rules related to the reporting conduct and obligations for the transactions with shares and other financial instruments issued by the company (“securities of the company”), made on their own by the directors and other physical persons involved?	X			
		If a BoD member or a member of the executive management or another person involved makes on his/her/ own a transaction with company's securities, is such transaction disseminated on the company's website according to the relevant regulations?	X			
P6		Does the structure of the Board of Directors of the issuer	X			

**The Statement "Comply or Explain" , February 2015
Code of Corporate Governance of Bucharest Stock Exchange**

		provide balance between the executive and non-executive members (and in special the independent non-excecutive BoD members) so that no person or restricted group of persons can dominate in general the decision-making process of the BoD?			
P7		Does the structure of the Board of Directors of the issuer provide a sufficient number of independent members?	X		
P8	R15	In its activity, does the BoD have the support of some consultative committees / boards for the review of specific subjects as selected by the BoD, and for advising as to these subjects?	X		
		Do the consultative committees / boards submit activity reports to the BoD with reference to the tasks entrusted?	X		
	R16	For the evaluation of the independence of its non-executive members does the Board of Directors use the evaluation criteria stated in the Recommendation no 16?	X		
	R17	Do the BoD members permanently improve their knowledge in the field of corporate governance by training/ study?	X		
P9		Is the election of the BoD members based on a transparent procedure (objective criteria for personal /professional qualification etc.)?	X		
P10		Is there a Nomination Committee in the company ?		X	The set up such a committee was not considered opportune.
P11	R21	Does the Board of Directors review at least once a year the need to set up a remuneration commitee/ remuneration policy for the directors and executive management members?	X		
		Is the remuneration policy approved by GMS?	X		
	R22	Is there a remuneration committee made up exclusively of non-executive directors?		X	The set up such a committee was not considered opportune.
	R24	Is the remuneration policy of the company presented in the Code/ Corporate Governance Regulations?		X	Such regulation / code was not adopted until the date of the Statement herein.
P12, P13	R25	Does the issuer disseminate in the English language the information which is the subject of the reporting requirements: a) regular information (periodical supply of information)?		X	Upon request such information is also made available in English.
		b) current information (supply of current information)?		X	Upon request such information is also made available in English.

**The Statement “Comply or Explain” , February 2015
Code of Corporate Governance of Bucharest Stock Exchange**

		Does the issuer prepare and disseminate the financial reporting documents also in accordance with IFRS?	X		
	R26	Does the issuer promote, at least once a year, meetings with financial analysts, brokers, rating agencies and other market specialists with a view to present the financial elements relevant for investment decision?	X		
	R27	Is there an Audit Committee in the company?	X		
	R28	Does the BoD or Audit Committee, as applicable, review regularly the efficiency of the financial reporting, of the internal control and of the risk management system adopted by the company?	X		
	R29	Is the Audit Committee made up exclusively of non-executive directors and does it have a sufficient number of independent directors?	X		
	R30	Does the Audit Committee meet at least twice a year, and are these meetings dedicated to the preparation and dissemination of the annual and half-year results to the shareholders and the public?	X		
	R32	Does the Audit Committee make recommendations to the BoD regarding the selection, appointment, re-appointment and replacement of the financial auditor , as well as to the terms and conditions for the remuneration of the same?	X		
P14		Did the BoD adopt a procedure for the identification and adequate settlement of the conflict of interest situations?	X		
P15	R33	Do the directors notify the BoD upon the conflict of interest as such cases appear and abstain from the debates and voting of the respective subjects in accordance with applicable legal provisions?	X		
P16	R34/ R35	Did the BoD adopt specific procedures with a view to ensure correctness of procedure (identification criteria for transactions with significant impact, for transparency, objectivity, non-competition, etc) with a view to identify the procedures with involved parties?	X		
P17	R36	Did the BoD adopt a procedure regarding the internal circuit and release to third parties of documents and information related to the issuer, giving special importance to the information which can influence the market trading price of the issuer’s securities ?	X		
P18	R37/	Does the issuer perform activities related to Social and	X		

**The Statement "Comply or Explain" , February 2015
Code of Corporate Governance of Bucharest Stock Exchange**

	R38	Environment Repsonsibility of the Company ?			
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**President of the Board of Directors and General Director,
GRIGORE FILIP**

**INDIVIDUAL FINANCIAL STATEMENTS
ON DECEMBER 31, 2014**

**PREPARED IN ACCORDANCE WITH THE
INTERNATIONAL FINANCIAL REPORTING
STANDARDS**

ADOPTED BY THE EUROPEAN UNION

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
FOR DECEMBER 31, 2014
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	December 31, 2014	December 31, 2013
ASSETS			
Immobilized assets			
Tangible immobilizations	4; 3	119.987	118.735
Intangible assets	5; 3	1.561	1.882
Real estate investments	4; 3	7.642	7.237
Financial immobilizations	6; 3	477	1.005
Total immobilized assets		129.667	128.859
Circulating assets			
Stocks	8; 3	37.380	34.640
Commercial receivables and other receivables	9;10	40.643	49.517
Cash and cash equivalents	12;3	92.426	36.727
Total circulating assets		170.449	120.884
Receivables related to tax on deferred profit	7; 3	4.588	1.565
Expenses in advance		408	301
Total assets		305.112	251.609
COMPANY CAPITALS AND DEBTS			
Capital and reserves			
Registered capital		48.729	37.484
Current Result		19.744	14.864
Result carried forward	24	57.295	54.733
Other reserves	14; 3	13.829	17.850
Debts related to deferred profit tax recognized on the account of company capitals	7	6.524	7.454
Profit distribution for legal reserve		(3.322)	-
Total company capitals		142.799	132.385
Long-term debts			
Subsidies for investments	23 ;3	9.902	8.424
Revenues registered in advance	11	1.012	0
Total long-term debts		10.914	8.424
Long-term provisions	20; 3	67.044	43.650
Current debts			
Commercial debts	11	39.727	36.199
Debt from tax on current profit	11	4.231	1.024
Other current debts	11	12.983	5.347
Total current debts		56.941	42.570
Short-term provisions	20;3	27.414	24.580
Total provisions		94.458	68.230
Total debts		67.855	50.994
Total company capitals, debts and provisions		305.112	251.609

General Director
GRIGORE FILIP

Financial Director
DORU DAMASCHI

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF PROFIT OR LOSS
FOR DECEMBER 31, 2014
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	December 31, 2014	December 31, 2013
Revenues from sales	15	261.051	212.023
Other revenues	15	1.263	676
Revenues related to costs of the stocks of products	15	5.758	4.141
Revenues from production of immobilizations	15	848	1.004
Total revenues		268.920	217.844
Expenses			
Expenses with materials	16	(95.399)	(91.125)
Expenses for employees' benefits	16	(82.422)	(75.958)
Expenses for ammortization of immobilizations	16	(11.009)	(8.618)
Influence of adjustments related to current assets		(1.521)	959
Influence of adjustments related to provisions	16	(27.329)	(2.395)
Expenses related to external services	16	(22.578)	(21.356)
Other expenses	16	(4.615)	(3.339)
Total expenses		(244.873)	(201.832)
Profit from Operations		24.047	16.012
Financial revenues	19	7.414	12.048
Financial expenses	19	(6.460)	(9.837)
Financial profit		954	2.211
Profit before tax		25.001	18.222
Tax on current profit and deferred	7	(5.257)	(3.359)
Net profit of the financial year		19.744	14.863
Profit per share	22	0,147	0,110

General Director
GRIGORE FILIP

Financial Director
DORU DAMASCHIN

S.C. AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT
FOR DECEMBER 31 2014
(unless specified otherwise, all amounts are stated in thousand lei)

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Net profit of financial year	19.744	14.864
Increase of registered capital by incorporation of statutory reserves	11.245	-
Statutory reserves used to increase the registered capital	(11.245)	-
Result carried forward from the implementation of - IFRS	1.100	
Other elements of the global result	1.100	-
Total global result of the period	20.844	14.864

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN

S.C. AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE COMPANY CAPITAL MODIFICATIONS
FOR DECEMBER 31, 2014
(all amounts are stated in thousand lei)

	Registered Capital	Other reserves	Other elements of company capital	Result carried forward	Current result of financial year	Total company capitals
Global Result						
Balance on January 1, 2014	37.484	17.850	7.454	69.597	-	132.385
Profit of the year					19.744	19.744
Other elements of global result						
Increase of registered capital by incorporation of reserves	11.245					11.245
Result carried forward following transition to IFRS implementation			(930)	2.622		1.692
Result carried forward related to the reserve from reevaluation				(60)		(60)
Statutory reserves used to increase the registered capital		(11.245)				(11.245)
Distribution of profit obtained in 2014 for legal reserves, net of deferred tax		2.790			(3.322)	(532)
Total global result of the period	11.245	(8.455)	(930)	2.562	16.422	20.844
Transactions with shareholders, recognized directly in company capitals						
Statutory reserves		4.434		(4.434)		-
Dividends corresponding to year 2013		-		(10.430)		(10.430)
Total transactions with shareholders, recognized directly in company capitals		4.434		(14.864)	-	(10.430)
Balance on December 31, 2014	48.729	13.829	6.524	57.295	16.422	142.799

General Director
GRIGORE FILIP

Financial Director
DORU DAMASCHIN

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF THE TREASURY CASH FLOWS (direct method)
on DECEMBER 31, 2014
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31.12.2014	31.12.2013
TREASURY CASH FLOWS FROM OPERATIONS			
Received from customers		291.433	212.593
Reimbursement of taxes and dues from state budget		7.056	12.668
Payments to suppliers and employees		(182.212)	(183.367)
Payments of taxes and dues to state budget		(37.975)	(29.743)
Tax on profit paid		(5.073)	(2.433)
NET CASH FROM OPERATIONS		73.229	9.718
TREASURY CASH FLOWS FROM INVESTMENTS			
Received from non-reimbursable funds		2.278	5.542
Interest received from loans granted		57	22
Interest received from bank deposits		1.097	2.357
Dividends received	21	86	61
Recived from from sale of tangible immobilizations		63	51
Instalments received from loans granted		528	78
Payments for purchase of tangible and intangible immobilizations		(11.302)	(17.820)
Loans granted	21	-	(900)
NET CASH USED IN INVESTMENTS		(7.193)	(10.608)
TREASURY CASH FLOWS FROM FINANCING OPERATIONS			
Dividends paid		(10.336)	(10.434)
Financial leasing paid		-	(29)
NET CASH USED IN FINANCING OPERATIONS		(10.336)	(10.463)
Net increase / decrease of cash and cash equivalents		55.700	(11.353)
Cah and cash equivalents at beginning of financial year		36.727	48.080
Cash and cash equivalents at end of financial year	12	92.427	36.727

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED ON 31 DECEMBER 2014
(unless stated otherwise, all amounts are expressed in thousands lei)

1. GENERAL INFORMATION

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

S.C. AEROSTAR S.A. operations take place at its registered headquarters located in Bacau, 9 Condorilor Street, Code 600302.

The main field of activity of AEROSTAR is production.

The main field of activity of the company is "Manufacture of aircraft and spaceships" - code 3030.

The company was registered as a shareholding company at the Trade Register office of Bacau (under number J04/1137/1991), with the current name S.C."AEROSTAR S.A." and individual identification code 950531.

The record of its shares and shareholders is kept, as provided by law, by S.C. Depozitarul Central S.A. Bucharest.

2. FINANCIAL REPORTING BASIS- IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The individual financial statements were prepared by the company in accordance with the International Financial Reporting Standards adopted by the European Union.

These financial statements were approved for release by the Board of Directors on the date of 17.03.2015

2.1 Evaluation Basis used

The financial statements were prepared based on the historical cost.

2.2 Currency for operations and presentation

The company's accounting records are kept in lei. The company considers the Romanian currency (Leu) as functional currency in accordance with the definition in IAS 21 "The Effects of Foreign Exchange Rate variations". The financial statements are presented in thousands lei, rounded to the closest thousand lei.

2.3 Use of estimates and professional reasoning

The preparation and presentation of the individual financial statements in accordance with IFRS require the use of estimates, reasoning and hypotheses affecting the implementation of the accounting policies as well as the reported value of the assets, debts, revenues and expenditures. The actual results may differ from the estimates. Such estimates and reasonings are made based on the historic experience as well as on a series of factors considered adequate and reasonable.

The reported accounting values of the assets and debts that cannot be determined or obtained from other sources are based on these estimates considered adequate by the company management. Such estimates, as well as the reasonings and hypotheses behind them are reviewed on a regular basis and the result thereof is recognized in the period when the estimate was revised.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED ON 31 DECEMBER 2014
(unless stated otherwise, all amounts are expressed in thousands lei)

2.4 Sources of uncertainty in estimations and the management of significant risks

By risk management processes, the company aims to secure its mid and long-term sustainability and reduce the uncertainties associated to its strategic objectives under strict compliance with the law.

The risk management processes taking place at various company levels ensure the identification, analysis, evaluation and management of all risks with a view to minimize the effects thereof down to an agreed level.

The company has implemented proactive countermeasures meant to reduce the risk occurrence probability, as well as reactive countermeasures meant to reduce the impact of the risks.

Risks currently managed by the company are:

2.4.1 Operational risk

The operational risk is the risk of incurring losses or failure to obtain the profits at the budgeted level, a risk which is determined by internal factors (inadequate performance of certain activities, manpower related factors or the existence of inadequate technological processes), or by external factors (economic conditions, changes in the business environment, law modifications a.o.).

The main responsibility for developing and implementing controls applicable to the operational risk belongs to the executive management of each division; the support for such responsibility is the development of general standards at company level for the management of the operational risk. The company has no significant exposure towards a sole business partner or group of partners with similar features (affiliated parties).

2.4.2 Market risk

The market risk is the risk of incurring a loss or failure to obtain the expected profit, as a result of fluctuations in prices, interest rates and foreign exchange rates.

The company is exposed to the following market risk categories:

- The price risk – there is a probability that the countervalue of the goods and services offered to fluctuate as a result of the variations in the market prices, especially in the case of business agreements over longer periods (exceeding 1 year);
- The interest rate risk or the risk of exposure to unfavorable fluctuations of the interest rate. Due to the fact that during the reported period Aerostar S.A. did not use the contracted Credit Line, the revenues and cash flows are independent from the interest rate variations on the interbanking market.
- The currency risk – the risk of exposure to unfavorable exchange rate variations.

The highest degree of exposure is with the currency risk as approximately 70% of the company turnover is reported to USD and EUR while a significant portion of the operating expenses relates to the functional currency (LEI).

The main types of risks generated by the financial instruments the company is exposed to are presented in *NOTE 9* to the financial statements – *Financial Instruments*.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED ON 31 DECEMBER 2014
(unless stated otherwise, all amounts are expressed in thousands lei)

2.4.3 Risk associated to the business environment

The strong globalization of the aeronautical, defence and security industry is a factor of impact upon the competitiveness and competing nature of the business in the area of company's operations.

Among the general features of the global evolutions, one can notice the continual decrease of the oil price during 2014 in parallel with the increased turbulence in several geopolitical areas, critical for the regional and global stability.

In the year 2015, the global economic and financial environment features uncertainties and contradictions, with risks generated by the perspective of extended economic stagnation in various segments of the Euro zone.

2.4.4 Adequacy of capitals

The management 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 the investments and business growth.

The strategy adopted develops the main object of activity of AEROSTAR so that the aeronautical field represents 60%-70% of the turnover. The general objective is the annual growth of the company turnover. The specific objectives, which sustain the general objective, comprise the continued organic development of the company: the development of the centres of excellence by continuing the modernizations, investments and the continuous improvement programmes.

2.5 Considerations on the presentation of the information in the financial statements

The financial statements are presented in accordance with the requirements of IAS 1 "Presentation of the Financial Statements". The company has opted for a presentation by nature and liquidity in the statement of the financial position, and a presentation of the revenues and expenditures by their nature in the profit or loss statement, considering that these presentation methods provide relevant information for the position of the company.

In terms of accounting regulations, S.C. AEROSTAR S.A. is the subsidiary of the company IAROM S.A., and, therefore the parent company which consolidates the financial statements of the group is S.C. IAROM S.A. Its individual identification code is 1555301 and registered office in Bucharest, 39, Aerogarii Boulevard. The consolidated Financial Statements of the financial year 2013 were filed with A.N.A.F. (National Authority for Fiscal Administration) under registration no 56506279/13.08.2014. The parent company will prepare and publish a set of consolidated financial statements in alignment with the applicable accounting regulations for the financial year concluded on 31.12.2014.

The amount for dividends proposed before the approval for release of the financial statements (not recognized as distribution to the shareholders during the period) is 10.659.421,50 lei, corresponding to a gross dividend per share of 0.070 lei.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR
ENDED ON 31 DECEMBER 2014
(unless stated otherwise, all amounts are expressed in thousands lei)

2.6 Reporting on segments

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

2.7 Standards and interpretations in force

2.7.1 Standards and interpretations in force in the current timeperiod

The following standards issued by the Committee for International Accounting Standards and adopted by the European Union are in force in the current timeperiod:

- IFRS 10 “Consolidated Financial Statements” (valid as of 01 January, 2014). IFRS 10 replaces the consolidation requirements set out in SIC –12 “Consolidation- Special Purpose Entities” and in IAS 27 “Consolidated and Individual Financial Statements”. The new regulations and supplementary guidelines are not of the nature to modify the financial statements of the company.
- IFRS 11 “Joint Agreements” - in force as of or after 01 January, 2014. IFRS 11 replaces IAS 31 “Interest in sleeping partnerships” and SIC 13 “Jointly Controlled Entities –Non-Monetary Contributions of partnerships”. The modifications provided by this standard do not have an impact as the company does not act in sleeping partnerships.
- IFRS 12 “Presentation of interest in Other Entities” is a new standard that includes the presentation requirements for all types of interest in other entities.
- IFRIC 21 “Taxes” is applicable for the financial years starting as of or after 01 January, 2014.

Summing up, the company considers that these modifications are not relevant for its financial statements and their adoption generated no modification in the accounting policies of the company.

2.7.2 New standards and interpretations

Standards (Standard Revisions) and interpretations adopted by the Committee for International Accounting Standards and the European Union, but not entered in force.

- IFRS 2 “Share-Based Payment”- modifications in force for periods as of or after 01 February, 2015.
- IFRS 3 “Combinations of enterprises”- modifications in force for periods as of or after 01 February, 2015.
- IFRS 8 “Segments of activities”- modifications in force for periods as of or after 01 February, 2015.
- IAS 16 “tangible Immobilizations”- modifications in force for periods as of or after 01 February, 2015.
- IAS 24 “Information related to affiliated parties”- modifications in force for periods as of or after 01 February, 2015.
- Amendments to IAS 38 “Intangible Immobilizations” (applicable for yearly periods as of or after 01 February, 2015).
- Amendments to IFRS 9 “Financial Instruments”- applicable to periods as of or after 01 January, 2015.
- Additions to IFRS 9 Financial Instruments” – applicable to yearly periods as of or after 01 January, 2015.

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- IAS 37 “Provisions, Contingent Debts and Contingent Assests” and IAS 39 “Financial Instruments: Recognition and Evaluation”- modifications complying with IFRS 3, in force as of or after 01 Febryary, 2015.
- Amendments to IAS 19 “Employees’ Benefits” – (in force for periods as of or after 01 February 2015).
- Modifications to IFRS 13 “Evaluations at Fair Value”, IFRS 3 “Combinations of Enterprises” and IAS 40 “ Real Estate Investments” (in force for periods as of or after 01 February 2015).

The company is currently evaluating the potential effects of the amendments to the International Financial Reporting Standards and, in accordance with the initial estimates, their adoption is not provided to have a significant impact on its financial statements.

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3. ACCOUNTING POLICIES

The accounting policies represent the specific principles, underlying basis, conventions, rules and practices applied in the preparation and presentation of the financial statements. The company management has established the accounting policies for the operations performed, as described in the accounting policy manual.

These policies were prepared taking into account the specific features of the company activity and were approved by the Board of Directors of the company. The accounting policies were prepared in compliance with the requirements of the International Financial Reporting Standards as approved by the European Union.

Modifications in the accounting policies

The modification 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 modification:
is required by an IFRS or

results in financial statements which provide reliable and more relevant information with reference to the effects of the transactions, of other events or conditions over the financial position, financial performance or cash flows of the entity.

Application of the modifications in the accounting policies:

The entity takes into the accounts a modification in the accounting policy which results from the initial implementation of an IFRS in accordance with the specific transitory provisions, if any, and

when the entity modifies an accounting policy at the first application of an IFRS which does not include specific transitory provisions.

General accounting principles

The general accounting principles which are at the basis of record into accounts of the operations, transactions, the evaluation of the elements presented in the annual financial statements as well as in the preparation of the financial statements are the following:

The principle of continuity in activity. The company continues to function normally, without entry into liquidation or significant reduction of its activity.

The consistency of methods principle. The evaluation methods and the accounting policies are applied consistently from one financial year to another.

The prudence principle, according to which, the assets and revenues must not be overevaluated while the liabilities and expenses must not be underevaluated.

The individual statement of the global result can only consider the profit obtained as on the date of the financial statements.

The financial statements consider all the debts arising during the current financial year or of the previous financial year, even if they become apparent only between the date of the balance sheet and the date when the statement was prepared.

The financial statements present all the predictable debts and the potential loss arising during the current financial year or of a previous financial year even if they become apparent only between the date of the balance sheet and the date when this was prepared.

In this purpose, the possible provisions shall also be taken into consideration, as well as the debts resulted from the contractual provisions. This is highlighted in the balance sheet or in the explanatory notes according with the nature of such debts.

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All the depreciations irrespective if the result of the period is loss or profit, are taken into account. The registration of the adjustments for depreciation or loss of value is made on the expenses account, regardless of their impact on the statement of the global result.

The principle of independent exercises

The revenues and expenses of the financial year are registered irrespective of the date when the revenues are earned or when the expenses are paid.

The principle of accrual accounting

The company prepares the financial statements based on accrual accounting except for the information on cash flows.

The principle of separate evaluation of assets and liabilities elements, according to which the components of the assets and liabilities must be evaluated separately.

The principle of non-compensation

The assets and liabilities, the revenues and expenses, respectively, are not compensated, except for the cases when the compensation is requested or allowed by a standard or by an interpretation thereof.

The principle of prevalence of economic aspects over legal aspects, according to which when presenting the values in the balance sheet and in the profit and loss account, the economic basis of the reported transaction or operation is considered, not only the legal form thereof.

The principle of significance and aggregation threshold

Each significant class of similar elements is presented separately in the financial statements.

Accounting policies on estimates and errors

Estimates

The preparation and presentation of the yearly and interim individual financial statements, in accordance with the IFRS, suppose the use of estimates, judgements and assumptions affecting the application of the accounting policies as well as the reported value of the assets, debts, revenues and expenses. Such estimates and judgements are made based on the historic experience, as well as on a series of factors considered adequate and reasonable. The reported accounting values of the assets and liabilities which cannot be determined or obtained from other sources are based on such estimates considered adequate by company management. The estimates, as well as the judgements and the assumptions behind them, are revised periodically, and the result thereof is recognized during the time period when such estimate was revised.

Any modification of the accounting estimates will be recognized prospectively by including it in the result

- for the period when the modification occurs, if it affects only the respective time period, or
- for the time period when the modification occurs and the subsequent periods, if the modification also affects such periods.

The company uses estimates in order to determine:

- uncertain customers and adjustments for the depreciation of the related debts;
- the values of the provisions for risks and expenses to set up at the end of a time period (month, quarter, year) for litigations, for the decommissioning of immobilizations, for restructuring, for warranties granted to customers, for obligations towards manpower and other obligations;
- the adjustments for the depreciation of tangible and intangible immobilizations;

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At the end of each reporting period, the company must estimate whether there are any signs of depreciation. If any such signs are identified, the recoverable value of the asset is estimated in order to establish the extent of depreciation (if any). The recoverable value is the maximum between the fair value minus the sale expenses and the value while in operation. When establishing the value in operation, the management estimates a future cash flow reduced to the current value, using a discount rate which reflects the current market value of the money value in time and the specific risks of the assets for which the cash flow estimates have not been adjusted.

- the lifetimes of the tangible and intangible immobilized assets;

The company revises the estimated lifetime of the immobilized tangible and intangible assets at least at the end of each financial year, in order to establish the degree of adequacy.

- the stocks of raw materials and materials requiring the creation of adjustments for depreciation.
- deferred taxes.

Presentation of the information

Insofar as possible, the company will present the nature and value of a modification to an accounting estimate, which has an effect in the current/subsequent periods.

Errors

The errors can arise regarding the recognition, evaluation, presentation or description of the items in the financial statements.

The financial statements are not in compliance with the IFRS standards if they contain either significant errors or insignificant errors made intentionally in order to obtain a certain presentation of the financial position as to the financial performance or the treasury cash flows of an entity.

Accounting policies on immobilizations

TANGIBLE IMMOBILIZATIONS

Recognition

The company recognizes the tangible immobilizations when:

- They are likely to generate future economic benefits for the company corresponding to the respective asset.
- The cost of the asset can be assessed in a reliable manner.

The tangible immobilizations are tangible assets which:

- Are held to be used to produce or supply goods and services, to be rented to third parties or to be used in administrative purpose;
- Are expected to be used over several periods of time.

The following are not capitalized:

- Repairs and maintenance
- General administration expenses
- Initial operation losses
- Costs related to relocation or reorganization of the activity.

The company management has established an asset capitalization threshold of 2.500 lei. All purchases below this amount shall be considered expenses of the timeperiod.

Exceptions: The computers are considered tangible immobilizations amortizable regardless of their input value, and they shall be amortized throughout the useful lifetime established by the reception board. Also, the tooling and jigs are accounted as stocks and recognized as expenses

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of the period when they are consumed, regardless of their input value, taking into account that they usually have a useful lifetime of less than a year, as well as their degree of specialization (they are customized for a particular type of product/service).

De-recognition

The accounting value of a tangible immobilization element is derecognized:

- upon assignment
- when no more future economic benefits are expected from its use or disposal.

The revenue or loss resulted from the derecognition of a tangible immobilization is included in the profit or loss when the immobilization is derecognized.

Evaluation at recognition

The costs at which a tangible immobilization is registered comprise:

- the purchasing price, including customs taxes and non-reimbursable purchasing fees net of any discount and commercial deductions
- costs which can be attributed directly to bringing the assets to the location and condition needed to operate as desired by the company management.
- the initial estimate of the costs for disassembly and restoration of the site where it is located.

For such costs to be accounted, the provisions set forth in IAS37 "Provisions, contingent debts and contingent assets" apply.

IAS 2 "Stocks" is applicable to determine the costs to make tangible immobilizations under company's own administration.

The cost of a tangible immobilization held by the company based on a leasing agreement is determined in accordance with IAS 17 "Leasing Agreements".

Assessment after recognition

The company has adopted the cost-based model as accounting policy. After the recognition as an asset, the tangible immobilizations are accounted for at its cost minus the aggregate amortization and any aggregate loss from depreciation.

Reclassification in real estate investments and immobilized assets held for sale

When the use of a tangible immobilization is modified from a tangible asset used in the production of goods or in the supply of services or used in administrative purpose, into a tangible immobilization used to be rented, this is reclassified into a real estate investment, as per IAS 40. When the conditions are met for the classification of an asset as held for sale, such asset is reclassified in accordance with IFRS 5.

Amortization of tangible immobilizations

The amortization is recognized in the profit and loss account using the linear method for the useful lifetime estimated for each tangible immobilization or component thereof, if applicable.

The amortizable value is allocated in a systematic manner throughout the useful lifetime of the asset.

The amortization methods, the useful lifetimes and the remaining values are revised at least at the end of each financial year and adjusted accordingly. The adjustment of the accounting estimates is made in accordance with IAS 8 "Accounting policies, modifications and errors in accounting estimates".

The amortization of an asset begins when the asset is available for use (i.e. when it is in the suitable location and condition to be functional as desired by the management), and ends when the asset is reclassified into another category or at the date when the asset is de-recognized.

The amortization does not cease when the asset is not in use.

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

Usually, the land has an unlimited useful lifetime and therefore it is not amortized.

For each reporting period, the company presents, in the explanatory notes the gross accounting value of the fully amortized tangible assets which are still in operation.

Depreciation

To determine whether a tangible immobilization element is depreciated, the company applies IAS 36 "Depreciation of assets".

At the end of each reporting period the company estimates whether there are any indications of assets depreciation.

If such indications are identified, the company estimates the recoverable value of the asset.

INTANGIBLE IMMOBILIZATIONS

Recognition

The company makes use of professional reasoning in the recognition of an intangible immobilization in order to decide if the most important component is the tangible or the intangible one.

Criteria for recognition of intangible immobilizations:

- the asset can be identifiable
- the company has the control over the asset
- future economic benefits are associated to the asset
- the cost (value) of the asset is measurable in a reliable and trustworthy manner.

De-recognition

An intangible immobilization is de-recognized upon disposal or when no future economic benefits are estimated to occur from its use or disposal.

Evaluation at recognition

All the intangible immobilizations, which comply with the definition and recognition criteria, are evaluated at their initial cost.

The cost is determined differently, depending on how the asset was obtained.

In case of purchase, the cost comprises:

- its purchasing price including import customs taxes and non-reimbursable purchase taxes, after deducting discounts and commercial deductions.
- Any other costs directly attributable to prepare the respective asset to be usable.

In case of intangible immobilizations internally generated, such execution steps are clearly separated into:

- Research phase. The research costs are treated as expenses of the time period
- Development phase. The development costs are recognized as intangible assets, provided the following conditions are demonstrated:
 - the technical feasibility to finalize the asset, so that it is available for use or sale;
 - availability of adequate resources – technical, financial, human to finalize the development;
 - the intention to finalize and use or sell the intangible asset;
 - the capability to use or sell the asset;
 - the manner in which the asset will generate future economic benefits;
 - the capability to assess the related costs.

If the company cannot distinguish between the research and development phase of an internal project for the creation of an intangible immobilization, the company treats the project-related costs as if incurred exclusively in the research phase.

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Items not capitalized by the company:

- internally generated trademarks
- publishing titles
- license lists (except as provided by IFRS 3)
- other similar elements.

Evaluation after recognition

The company has adopted as accounting policy the cost-related model which means that the intangible immobilizations are evaluated at their net accounting value equal with their cost less the aggregate amortization and any loss registered from depreciation, corresponding to those assets.

The subsequent expenses are capitalized only when they increase the value of the future economic benefits incorporated in the asset they are intended for. All the other expenses, including the expenses for the commercial fund and internally generated trademarks are recognized in the profit and loss account when they are incurred.

Amortization of intangible immobilizations

The company evaluates if the useful lifetime of an intangible immobilization is definite or indefinite.

An intangible immobilization is deemed by the company to have an indefinite useful lifetime when, based on the review of all relevant factors, there is no predictable limit of the period for which the asset is estimated to generate net cash inputs.

The amortization of an intangible immobilization starts when such asset is available for use and ends when the asset is reclassified into another category or at the date when the asset is de-recognized.

The factors relevant for determining the useful lifetime are provided in IAS 38 "Intangible assets".

The intangible immobilizations with a limited useful lifetime are amortized by the company using the linear method, while the expense with the amortization is recognized in the profit or loss, except when it is included in the accounting value of another asset.

The intangible immobilizations with an indefinite lifetime are not submitted to amortization.

The useful lifetime of an intangible immobilization arising from contractual rights or from other legal rights must not exceed the validity period of the contractual rights or of the other legal rights. The amortization methods, the useful lifetimes and the residual values are revised at the end of each financial year and adjusted accordingly.

The remaining value of an intangible immobilization with a limited useful lifetime is evaluated as zero, except when:

- there is a commitment from a third party to purchase the immobilization at the end of its useful lifetime
- there is an active lifetime for the immobilization and the remaining value can be determined depending on the market likely to be available at the end of the useful lifetime of the immobilization.

Depreciation

In accordance with IAS 36, the intangible immobilizations with an indefinite lifetime must be tested yearly as to their depreciation, by comparing their recoverable value with their accounting value. The testing shall be carried out whenever there are indications that an intangible immobilization with an indefinite lifetime might be depreciated.

REAL ESTATE INVESTMENTS

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Recognition

A real estate investment is that property (land, a building or a part thereof, or both) held (by the owner or lodger based on a financial leasing agreement), for renting purposes or for increasing the capital value or both rather than for:

- use in production or for the supply of goods and services or in administrative purpose
- sale in the normal course of the activity

A real estate investment must be recognized as an asset only and only when:

- the company can generate the future economic benefits related to the real estate investment;
- the cost of the real estate investment can be assessed in a reliable manner.

De-recognition

The real estate investments must be de-recognized upon disposal or when being withdrawn for final from use and no future economic benefits are likely to arise from such disposal.

The disposal of a real estate investment can be made by sale or by contracting a financial leasing. To determine the date when the real estate investment was disposed of, the criteria of IAS 18 "Revenues" or IAS 17 "Leasing agreements" are applied.

Any revenues or losses generated by the disposal of a real estate investment must be recognized in the profit or loss at the time of withdrawal from use or disposal.

Classification

The category of real estate investments comprises:

- land held in the purpose to increase the capital value on long term
- land held for an indefinite future use
- a building owned by the company and rented based on an operational leasing agreement
- real estate to be set up or arranged for future use as real estate investments.

Certain properties may include a part held for renting or with a view to increase the capital value, and another part held for use in the production of goods, in the supply of services and for administrative purposes.

If these two parts can be sold separately (or rented separately) then, they must have separate accounts – one as real estate investment and the other one as a tangible immobilization.

If the parts cannot be sold or rented separately, then the property must be treated only as real estate if an insignificant part thereof is held for use in goods production or in the supply of services, or for administrative purposes.

In this case, the professional reasoning is used for the appropriate decisions.

When performing auxiliary services for the tenants of a real estate, and if such services are an insignificant part of the entire contract, such property will be classified as real estate investment.

If such services are a significant component of the entire contract, the property will not be classified as a real estate investment.

Evaluation upon recognition

A real estate investment must be assessed initially in terms of cost, including any other expenses directly attributable. If the payment for a real estate investment is postponed, then its cost will be its price equivalent in cash. The difference between this amount and the total payments is recognized during the crediting period as expense for the interest.

Evaluation after recognition

After the initial recognition, the company has opted for the cost based model for all its real estate investments in accordance with the dispositions of IAS 40.30 and IAS 16 respectively for this model.

The transfers into and from the real estate investment category are possible if and only if there is a modification in their use.

The transfers between various categories do not modify the accounting value of the transferred real estate, nor do they modify the cost of that real estate in terms of their evaluation or in terms of the presentation of the information.

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Amortization

The real estate investments are amortized in accordance with the provisions set forth in IAS 16 "Tangible immobilizations".

ASSETS PURCHASED BASED ON LEASING AGREEMENTS

The leasing agreements by which the company substantially assumes the risks and benefits related to the ownership right are classified as financial leasing.

At the time of the initial recognition, the asset subject to the leasing agreement is evaluated at the lesser of the fair value and the current value of the minimum leasing payments.

Subsequently to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

The other leasing agreements are classified as operational leasing.

FINANCIAL IMMOBILIZATIONS

The category of financial immobilizations comprises:

- Shares held in the affiliated companies, financial assets classified as investments retained till the due date.
- Other immobilized securities.
- Long-term loans granted, as well as their related interest. This category comprises the amounts given to third parties based on contracts for which interest is charged in accordance to law.
- Other immobilized receivables, as well as their related interest. This category comprises the warranties, deposits and bails set to third parties, the receivables related to financial leasing.

Evaluation upon recognition

The financial immobilizations recognized as assets are evaluated at the purchase cost or at the value established in their acquisition agreement.

Evaluation after recognition

The financial immobilizations are presented in the financial position statement at their input value minus possible loss from recognized depreciation.

Accounting policies on stock elements

The stocks are assets:

- held for selling during the course of the regular activity
- in production for future sale
- represented by materials and other consumables to be used in the production processes or for the supply of services.

The stocks are evaluated at the lesser of the cost and the net achievable value.

The net achievable value represents the selling price estimated for the stocks minus all estimated costs to complete and the costs necessary for selling.

The **cost** of the stocks comprises: the acquisition costs, the conversion costs as well as other costs incurred to bring the stocks in the condition and at the location where they currently are.

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The acquisition costs of the stocks comprise the purchasing costs, the import customs taxes and other taxes (except the taxes the entity can recover at a later time from the financial authorities), shipment costs, handling costs and other costs directly attributable to the acquisition of finished goods, materials and services.

The conversion costs include the direct labor costs, other direct production-related expenses, as well as the systematic allocation of indirect production expenses, fixed and variable overhead.

The allocation of overhead expenses on each product is based on the volume of work used to make that product. The allocation of the fixed overhead on the costs is based on the normal production capacity, expressed in direct labour hours.

The calculation of such stocks which are not normally fungible and of the resulting goods or services is determined by the specific identification of their individual costs.

Upon release from the inventory, the stocks and fungible assets are evaluated and registered in the accounts by applying the Average Weighted Cost method.

Indebtedness cost

The indebtedness costs are recognized as financial expenses according to the contractual provisions during the period of time when such indebtedness costs are due, or which actually occur and not directly attributable to the acquisition.

The indebtedness costs which are directly attributable to the acquisition, construction or to the production of an asset with a long manufacturing cycle are included in the cost of that asset.

The production cost of long-manufacturing cycle asset includes only those indebtedness costs connected with the production period.

The stock category comprises:

- raw materials, directly participating in the manufacture of products and found on the integral finished product in total or in part, either in their initial state or transformed;
- consumable materials (auxiliary materials, fuels, packaging materials, spare parts and other consumables), participating or contributing to the manufacturing or operational process, typically without correspondence in the finished product;
- materials such as inventory objects;
- products, i.e.: blanks, finished products, scraps, recoverable materials and waste; merchandise; packagings including reusable packagings, purchased or manufactured, intended to be used on the sold products, and which can be kept temporarily by third parties, provided that are returned as established in the agreements; production in process, goods in custody, for further processing or in consignment at third parties.

This category distinctly reflects those purchased stocks for which the risks and benefits have been transferred, but are still in the purchasing process.

Stocks accounts are kept both as quantities and as values, by using the permanent inventory.

Under these conditions, the accounts keep all the entry and exit operations, thus allowing an accurate real time determination and identification of stocks, both in terms of quantity and in terms of value.

The company management approves the level of normal technological losses on a regular basis.

Evaluation upon recognition

The accounts of all the stock entries are based on the date of the transfer of risks and benefits.

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Holding in any way of any material goods or the execution of any financial operations without recording them in the accounts is prohibited.

In terms of stocks, all entries of material goods in the company are submitted to the incoming reception by the reception board while their registration is made at the store.

The records in the store are kept by the storekeeper in charge. The material goods received for processing, in custody or in consignment are received and registered distinctly as entry in the accounts.

In the accounts, the value of such goods is registered off the balance sheet.

In case of time gaps between the purchase and the incoming reception of the goods which are in the company property, the following procedure is pursued:

- the goods arrived without invoice are recorded as inflows in the inventory both at the store and in the accounts, based on the receiving inspection and the accompanying documents.
- the goods arrived without receiving inspection are recorded as inventory inflows.

In case of time gaps between the sale and the delivery of the goods, the goods are recorded as outflows from the company; being no longer considered company property, the procedure is as follows:

- the goods sold and not delivered are distinctly recorded in the company accounts, while they are registered as off-balance sheet in the accounts, in the account 8039 – Other values off-balance sheet;
- the goods delivered, but not invoiced yet, are recorded as outflows from the company inventory, both at the store and in the accounts, based on the documents confirming the outflow from the inventory.
- the goods purchased or sold with clauses as to the ownership title are recorded in accordance with the agreements in force.

Evaluation after recognition

The stocks are evaluated at their purchase cost or production cost, as applicable. The value adjustments are made every quarter for the circulating assets, based on the findings of the Inventory committees and/or floor managers, with a view to presenting the assets at the cost value or net achievable value, whichever is lower.

In AEROSTAR SA, the depreciated goods are deemed to be the goods older than the storage period established by internal decision of the Board of Directors.

Accounting policies on the company debts

The company debts are recorded in the accounts in third-party accounts. The accounts of the suppliers and other debts are kept on categories as well as on each legal or natural person.

The tax on profit / revenue to pay is recognized as a debt up to the unpaid amount.

All excises and special funds included in prices or tariffs are recorded in the accounts for the related debts, without transiting through the revenue and expenditure accounts.

The operations which cannot be recorded distinctly in the related accounts and which require further clarifications are recorded in a distinct account 473 (Settlements from operations under clarification).

The debts in foreign currency are recorded in the accounts both in Lei, and in the foreign currency.

Monthly evaluation

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At the end of each month, the debts in foreign currency are evaluated at the exchange rate on the currency market on the last banking day of that particular month, as notified by the National Bank of Romania. The variations of the exchange rate are recognized in the accounts as revenues or expenditure from the exchange rate differences, as applicable.

At the end of each month, the debts expressed in Lei that are settled depending on a currency exchange rate are evaluated at the exchange rate on the currency market on the last banking day of that particular month, as notified by the National Bank of Romania.

The variations of the exchange rate are recognized in the accounts as financial revenues or expenses, as applicable.

The differences in the exchange rate arising at the time of clearing the debts in foreign currency at exchange rates differing from the ones used for recording such debts initially, during that month or from the ones recorded in the accounts must be recognized in the same month when they arise, as revenues or expenses from differences in the exchange rate.

The differences in value arising at the time of clearing debts in Lei at an exchange rate differing from the exchange rate used for recording such debts initially, or during that month, or from the ones recorded in the accounts must be recognized in the same month when they arise, as other financial revenues or expenses.

Short-term debts

A debt must be classified as short-term debt, also called current debt, if:

- it is expected to be cleared during the normal operating cycle of the company, or
- it is exigible within 12 months from the date of the balance sheet.
- All other debts must be classified as long-term debts.

Long-term debts

The debts which are exigible within a period exceeding 12 months are long-term debts.

They will also be considered long-term debts bearing interests even if they are exigible within 12 months from the date of the financial statements, if:

- a) the initial deadline was longer than 12 months; and
- b) there is an agreement for refinancing or rescheduling the installments, concluded before the date of the financial statements.

The long-term debts comprise:

- Long- and mid-term bank loans,
- Commercial and similar debts, as well as the interests related thereto.

Certificates for greenhouse effect gas emissions

The company acknowledges the deficit of certificates for greenhouse effect gas emissions in financial statements based on the net debt method. In accordance with this method, only the debts expected to arise from exceeding the assigned quota of certificates are recognized.

The company estimates its own yearly volumes of emissions at the end of each reporting period and recognizes the total additional debts estimated for the foreseen excess volume of greenhouse effect gas emissions at the fair value of the additional units to be purchased or the sanctions to be incurred in accordance with the national legislation. The net additional debt is recognized in the profit or loss based on the production unit method.

If the company estimates to use less than the assigned quota of certificates for greenhouse effect gas emissions, any potential revenue from the selling of unused certificates is recognized only upon the actual selling thereof.

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Accounting policies on the company receivables

Such receivables include:

- commercial receivables, which are amounts owed by the customers for goods sold and services provided during the normal course of activity;
- commercial effects to receive, as instruments from third parties;
- amounts owed by the employees or affiliated companies;
- advances given to the suppliers of immobilizations, goods or services
- receivables related to manpower and the state budget
- the receivables are registered based on accrual accounting in accordance to law or subject to the agreements in place.

The accounting of the receivables provides the record of the company receivables in relation to the customers, employees, social security, state budget, shareholders, various debtors.

The accounting of the customers is kept on categories (internal customers, services and products, and external customers, services and products) and on each natural or legal person. Any debts resulting from treasury advances not settled, from distributions of work outfits, as well as from material damages, fines and penalties established by Court orders and other receivables related to manpower are recorded as other receivables related to manpower.

The operations which cannot be recorded distinctly in the related accounts and requiring further clarifications are recorded temporarily in a distinct account (account 473). The amounts recorded in this account are clarified within three months from the date when they are found.

Receivables cleared in foreign currency or in Lei, depending on a certain currency exchange rate

The receivables and debts in foreign currency resulted as an effect of the company transactions are recorded in the accounting both in Lei, and in the foreign currency.

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

At the end of each month, the receivables in foreign currency are evaluated at the exchange rate on the currency market on the last banking day of that month, as notified by the National Bank of Romania. The exchange rate differences are recognized in the accounting as revenues or expenses from exchange rate differences, as applicable.

At the end of each month, the receivables expressed in Lei which are cleared depending on the exchange rate of a certain currency are evaluated at the exchange rate of the currency market, as notified by the National Bank of Romania for the last banking day of that month. In this case, the differences arising are recognized in the accounting as financial revenues or expenses, as applicable.

The differences in the exchange rate arising at the time of settlement of the receivables in foreign currency at exchange rates differing from the ones used for those initially registered during the month or from the ones recorded in the accounting must be recognized in the same month when they arise, as revenues or expenses from differences in the exchange rate.

The differences in value arising at the time of settlement of the receivables in Lei, at an exchange rate differing from the exchange rate used for recording such debts initially during the month, or from the ones recorded in the accounting must be recognized in the same month when they arise, as other financial revenues or expenses.

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The removal from the accounting of the receivables with prescribed past due dates is made only after all legal steps have been taken for their settlement.

The accounting of uncertain receivables is kept distinctly in the account 4118 Uncertain customers or customers in dispute at law.

In the yearly financial statements, the receivables are evaluated and presented at the value likely to be received.

Whenever it is estimated that a receivable is not to be fully received, adjustments for depreciation are recorded at the level of the amount which can no longer be recovered.

The evaluation in the financial statements of the receivables expressed in foreign currency and of the receivables to be cleared in Lei against the exchange rate of a certain currency is made depending on the exchange rate notified by the National Bank of Romania, as valid for the date to end the financial year.

Accounting policies on short-term liquidities and investments

Liquidities in foreign currency and in Lei

The current bank accounts are developed analytically per each bank.

The interest to receive, in relation to the liquidities in the bank accounts, is recorded distinctly in the accounting.

The interest to pay and to receive, for the financial year underway, is recorded as financial revenues or expenses, as applicable.

The accounting of liquidities in bank accounts/ cashier's office and their movement as a result of payments made and received, is kept distinctly in Lei and in foreign currency.

The operations related to the payments received and made in foreign currency are kept in the accounting at the exchange rate valid on the day of performing the operation, as notified by the National Bank of Romania.

The foreign currency selling-purchasing operations, including the ones performed as part of agreements with clearance on due date are recorded in the accounting at the exchange rate use by the commercial bank where the currency bid is performed, without generating exchange rate differences in the accounts.

At the end of each month, the liquidities in foreign currency and other treasury values are evaluated at the exchange rate on the currency market valid on the last banking day of that particular month, as notified by the National Bank of Romania.

The variations in the exchange rate are recognized in the accounting as revenues or expenses from differences in the exchange rates.

Treasury advances

For certain payments in cash, the company grants treasury downpayments to the employees and third parties.

Such downpayments are justified based on a settlement report prepared by such beneficiary, with attached justification documents except for the daily allowance, which requires no support to attach.

In case of payments in foreign currency made from treasury downpayments, the related expenses are recognized in the accounting at the exchange rate in force on the date of performing the related financial operations, or at the exchange rate in force on the day of settlement of the downpayment, for those expenses which are not accompanied by justification documents, e.g. for the travel daily allowance granted.

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At the date of the balance sheet, the amounts representing treasury down payments, granted and not settled yet, are recorded in the account of miscellaneous debtors or receivables related to manpower, depending on the type of receivable.

Accounting policies on the recognition of expenses

The expenses are recognized in the statement of the global result of the company when it is possible to evaluate in a reliable manner a reduction of the future economic benefits connected to a diminishing of an asset or to a debt increase. As a result, the recognition of the expenses takes place at the same time with the recognition of the debt increase or the reduction of the assets.

The company's expenses are the amounts paid or payable for:

- consumptions from stocks;
- work performed and services supplied for the benefit of the company;
- expenses for employees' benefits;
- execution of legal or contractual obligations;
- provisions;
- amortizations;
- adjustments for depreciation or loss of value.

The accounting of the expenses is kept on types of expenses, as follows:

- operational expenses;
- financial expenses;
- extraordinary expenses, including only losses from calamities and other extraordinary events.

The operational expenses comprise:

- expenses with raw materials and consumable materials, the purchase costs of unstocked materials, the countervalue of used utilities, the cost of sold merchandise;
- expenses with manpower— employees' benefits (salaries, insurance and social security and other manpower-related expenses borne by the company: expenses with training, expenses with meal tickets and social expenses;
- expenses with: services provided by third parties, insurance premiums, rents, protocol, advertising and publicity, transportation of goods and personnel, travels, temporary relocations of personnel, bank services, mail and telecommunications etc.;
- other operational expenses: losses from receivables and various debtors, fines and penalties, etc.

Employees' benefits

The employees' benefits are various counterservices granted by the company in exchange for the service made by the employees.

During its normal course of activity, the company pays to the Romanian State, on behalf of its employees, the contributions due for pensions, health insurance and unemployment. The expenses with these payments are recorded in the profit or loss during the same period of time with the related salary expenses.

All the company employees are members of the Romanian State pension plan.

In AEROSTAR the following categories of employees' benefits are recognized:

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- short-term benefits, such as salaries and contributions to social insurance, yearly paid vacation, paid medical leave and bonuses (if paid within 12 months from the end of the period), meal tickets and other benefits provided in the Collective Labour Agreement: post-employment benefits, such as the benefits related to retirement;
- benefits for cancellation of the labour agreement – negotiated periodically, as provided in the Collective Labour Agreement.

The financial expenses are:

- expenses related to financial investments disposed of;
- unfavourable differences in the exchange rates;
- interest-related expenses;
- other financial expenses.

The financial expenses comprise the expense with the interest related to loans, the loss from recognized depreciation, related to financial assets.

All the indebtedness costs not directly attributable to the purchase, construction or the production of assets with long manufacturing cycles are recognized in the profit or loss account, by using the effective interest method.

In the preparation of the financial statements, the transactions in other currencies than the functional currency of the company are recognized at the exchange rates on the dates of transactions.

At the end of each reporting period, the elements expressed in foreign currencies are converted into the exchange rates effective at that moment.

The revenues or losses from differences in the exchange rates are reported on the net basis.

The synthetic expenses accounts are developed on the structure of analytical accounts, according to the accounting regulations in force (the general plan of accounts) and depending on the company's own needs, with the management approval.

The expenses of the financial year also comprise the provisions, amortizations and adjustments for the depreciation or the loss of value, the expenses with the tax on the current and deferred profit and other taxes, calculated according to the law, which are kept distinctly, according to their nature.

Accounting policies on the recognition of revenues

The revenues are recognized in the statement of the global result of the company when it is possible to evaluate in a reliable manner an increase of the future economic benefits related to an asset increase or to a debt reduction. Consequently, the revenues are recognized at the same time with the recognition of the asset increase or debt reduction.

The revenues also include both the amounts received or to be received as such as well as the revenues from any source.

The revenues are classified as follows:

- revenues from operations;
- financial revenues;
- extraordinary revenues.

The revenues are recognized based on accrual accounting.

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The synthetic revenue accounts are developed on the structure of the analytical accounts, according to the accounting regulations in force (the general plan of accounts) and depending on the company's own needs, with the management approval.

The revenues are evaluated at the fair value of the countervalue received or likely to be received. The revenues from sales are reduced for returns, discounts and other similar discounts.

Selling of goods

The revenues from the selling of the goods are recognized when all of the following conditions are met:

- the company transferred to the buyer the risks and benefits related to the ownership title for the goods;
- the company keeps neither the continued managerial involvement down to the level usually associated to the ownership title, nor the effective control over the goods sold;
- the value of the revenue can be accurately evaluated;
- the economic benefits related to the transaction are likely to be directed to the entity;
- the costs incurred or to be incurred in relation to the transaction can be measured precisely.

In particular, the revenues obtained from the selling of the goods are recognized when the goods are delivered and the legal title is transferred.

Supply of services

The revenues from the supply of services are recognized in the profit or loss account proportionally with the stage of execution of the transactions as on the reporting date. The stage of execution is assessed in relation to the review of the work carried out. In case the result cannot be assessed, the revenues are recognized down to the level of the recoverable costs.

Revenues from rents

The revenues from rent related to the real estate investments are recognized in the profit or loss account in a linear way throughout the rental agreement.

The financial revenues comprise revenues from interests and revenues from dividends.

The revenues from interest are recognized in the profit and loss account based on accrual accounting using the effective interest method. The revenue from interest generated by a financial asset is recognized when the company is likely to obtain economic benefits and when such revenue can be measured precisely.

The revenues from dividends generated by investments are recognized when the shareholder's right to receive the payment was established (provided that the economic benefits are likely to be directed towards the group and the value of the revenues can be measured precisely). The company records the revenues from dividends at their gross value which includes the tax on dividends (when applicable), which is recognized as current expense with the profit tax.

Accounting policies on provisions

The provisions are recognized when the company has a current obligation (legal or implied) as a result of a past event, it is likely that the company is requested to pay such obligation and a precise estimate of the obligation can be made.

The amount recognized as a provision is the best estimate of the countervalue needed to settle the actual obligation at the end of the reporting period, taking into account the risks and uncertainties around this obligation.

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The accounting of the provisions is kept on types, according to the nature, the purpose thereof or the scope they were set-up for.

Guaranties

The company sets up the provision for guaranties when the product or service covered by guaranty is sold.

The value of the provision relies on historical or contractual information about the guarantees granted and is estimated by weighing all possible results against the probability of each to be achieved.

Provisions for risks and expenses

When identifying risks and expenses which the events occurred or about to occur cause them to become likely and whose is accurately determined, but of uncertain achievement, the company covers such risks by setting up provisions.

The provisions for risks and expenses are set up for elements such as:

- litigations, fines, penalties, compensations, damages and other uncertain debts.
- other actual obligations, whether legal or implicit.

Provisions for decommissioning of tangible immobilizations

Upon the initial recognition of a tangible immobilization, an estimate is made for the value of the disassembly costs, the costs for the item removal and for restoring the site, as a consequence of using the item for a certain period of time.

Accounting policies on profit taxation

The profit taxation expenses represent the aggregate amount of taxes to be paid currently as well as deferred taxes.

Current tax

The currently payable tax is based on the taxable profit made throughout the year. The accounting profit differs from the profit reported in the annual statement on the profit tax because of the elements of revenues or expenses which are taxable or deductible in certain years, as well as of the elements which are never taxable or deductible.

The company's obligation in terms of current taxes is calculated by means of the tax rates adopted at the end of the reporting period.

Deferred tax

The deferred tax is recognized based on the temporary differences between the accounting value of the goods and debts from the related financial statements and the taxation bases used for calculating the taxable profit. The deferred tax debts are recognized in general for all the temporary taxable differences.

The asset regarding the deferred tax is recognized in general for all the temporary deductible differences up to the time when such taxable revenues, to which deductibility was applied, can be used.

The accounting value of the assets, to which the deferred tax is applied, is revised at the end of each reporting period and limited to the point from where it is no longer expected to have enough taxable profits to allow the integral or partial recovery of the assets.

The assets and the debts related to the deferred taxes are measured at the level of the taxes proposed to be applied during the period of time established for recovery of the debt or to make the asset, based on the level of taxes (and fiscal laws) already in force or about to enter in force by the end of the reporting period. The measurement of deferred taxes debts and assets mirrors

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the tax-related consequences likely to result from the way in which the company anticipates, at the end of the reporting period, to recover or settle up the accounting value of its assets and debts.

Both the current tax and the deferred tax are recognized in the profit and loss account, except when they refer to elements recognized directly in the company's own capital, when the current tax and the deferred tax are also recognized directly in the company's own capital.

Accounting policies on subsidies and other non-reimbursable funds

The category of subsidies distinctly comprises:

- government subsidies;
- non-reimbursable loans of a subsidy nature;
- other amounts received as subsidies.

Recognition

The subsidies are recognized at their approved value.

The subsidies received as non-monetary assets are recognized at the fair value.

Government subsidies

The government subsidies are initially recognized as deferred revenue at the fair value when there is a reasonable assurance that such revenue is obtained and the company will comply with the terms associated to the subsidy.

The subsidies compensating the company for the expenses made are recognized in the profit and loss account in a systematic manner, during the same periods of time when the expenses are recognized. The subsidies compensating the company for the cost of an asset are recognized in the profit and loss account in a systematic manner during the lifetime of the asset.

Subsidies for investments

The subsidies for assets, including the non-monetary subsidies at fair value, are recorded as subsidies for investments and are recognized in the balance sheet as deferred revenues.

The deferred revenue is recorded in the profit and loss account while the expenses with the amortization are registered or at the write-off or at their disposal.

The return of a subsidy related to an asset is registered by reducing the balance of the deferred revenue with the reimbursable amount.

Subsidies related to revenues

The revenue-related subsidies are recognized in a systematic manner as revenues of the periods of time corresponding to the related expenses which these subsidies are expected to compensate.

If during a timeperiod subsidies are received on the account of expenses which had not been yet made, the subsidies received do not represent revenues of the current period. These are recognized in the accounting as advance revenues and resumed in the profit and loss while such expenses are made as to compensate them.

The subsidies related to revenues are returned by reducing the deferred revenues. If the reimbursed amount exceeds the deferred revenue or if there is no such revenue, the surplus, i.e. the reimbursed integral value, is recognized immediately as an expense.

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Accounting policies on establishing the result per share

The company provides information on the result per basic share. Such result per basic share is calculated by dividing the profit or loss to allocate to the holders of ordinary shares of the company at the weighted average of the ordinary shares circulating during that period of time.

Accounting policy on financial instruments

A financial instrument is a contract generating simultaneously:

- a financial asset for an entity
- a financial debt or an equity instrument for another entity.

The company will recognize an asset or a financial debt in its financial statements if and only if the company becomes part of the contractual provisions of the respective instrument.

A standard purchase or sale of financial assets will be recognized and derecognized, as applicable, using the accounting method at the date of concluding the transaction or at the date of its settlement.

All the financial assets and financial debts are initially recognized at the fair value plus, in case of a financial asset or of a financial debt which is not assessed at the fair value through the profit and loss account, the transaction costs directly assignable to the acquisition or issue of the asset or financial debt. The securities which no transactions are evaluated at the historic cost, less any adjustments for loss of value.

The company compensates a financial asset with a financial debt if and only if:

- it has the legal right to proceed as such, and
- it intends either to settle it on net basis, or
- to make the asset and to extinguish the debt simultaneously.

A financial asset is depreciated when its accounting value is higher than its estimated recoverable value.

At the date of each balance sheet the company determines the existence of any depreciation indications.

The accounting value of the asset must be reduced down to the level of the estimated recoverable value and the loss will be included in the profit and loss account for the respective period.

The loss from depreciation is the difference between the accounting value and the updated value of the future estimated cash flows.

In the application of its accounting policies, the company issues procedures, work instructions work dispositions.

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4 . TANGIBLE IMMOBILIZATIONS

<u>Gross values</u>	<u>Land</u>	<u>Constructions</u>	<u>Technical equipment and means of transport</u>	<u>Other tangible immobilizations</u>	<u>Tangible immobilizations in progress</u>	<u>Real estate investments</u>	<u>Total</u>
On January 1, 2014	27.966	42.804	55.171	71	269	7.602	133.883
Inputs, of which:		691	10.514	188	11.969	770	24.130
-by institutionalized subsidies		-	5.841	26	-	-	5.847
transfer	-	(154)			-	154	-
Outputs	-	-	(93)	-	(12.161)	-	(12.254)
On December 31, 2014	27.966	43.341	65.592	259	77	8.526	145.759

<u>Amortization</u>	<u>Land</u>	<u>Constructions</u>	<u>Technical equipment and means of transport</u>	<u>Other tangible immobilizations</u>	<u>Tangible immobilizations in progress</u>	<u>Real estate investments</u>	<u>Total</u>
						-	
On January 1, 2014	-	1.768	5.764	14	-		7.911
Inputs	-	1.664	8.205	38	-	365	10.272
-related to immobilizations entered via institutionalized subsidies	-	-	431	2	-	-	433
Transfer	-	(154)	-	-	-	154	-
Outputs	-	-	(51)	-	-	-	(51)
On December 31, 2014	-	3.278	13.918	52	-	884	18.132

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NET ACCOUNTING VALUE OF TANGIBLE IMMOBILIZATIONS ON December 31, 2014

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Land	27.966	-	-	27.966
2. Constructions	43.341	3.278	-	40.063
3. Technical equipment and means of transport	65.592	13.918	-	51.674
4. Other tangible immobilizations	259	52	-	207
5. Real estate investments	8.526	884	-	7.642
6. Tangible immobilizations in progress	77	-	-	77
Total (1+2+3+4+5+6)	145.761	18.132	-	127.629

The tangible immobilizations are classified by the Company in the following classes of assets of the same nature and similar uses:

- Land;
- Constructions;
- Technical equipment (plant, machinery, installations);
- Means of conveyance;
- Other tangible immobilizations;
- Real estate investments.

When determining the gross accounting value of tangible immobilizations, the company used the historical cost method. No reevaluations of the tangible immobilizations were made.

On 31.12.2014, the fair value of the tangible immobilizations was not significantly different from the accounting value.

The tangible immobilizations are amortized by the company using the linear method throughout their estimated useful life, as follows:

- constructions 30-50 years
- technological equipment 4-25 years
- means of transport 4-18 years
- other tangible immobilizations 2-18 years
- real estate investments 25-50 years

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

The financial periods of operation of the tangible immobilizations are stipulated by the fiscal legislation on assets.

The useful lifetimes of the tangible immobilizations were revised at the end of the financial year 2014. The effect of these revisions of the useful life on the financial results of the company is insignificant.

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

As on the date of transition to IFRS, the company estimated and included in the cost of tangible immobilizations the estimated costs for dismantling and relocation of assets, respectively costs for the site restoration at the end of the useful lifetime. These costs were reflected in the set-up of

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provision, which is recorded in the profit and loss account throughout the lifetime of the tangible immobilizations, by inclusion it in the amortization expense.

To estimate this provision, a value update rate of 5% was used (reflecting the value estimates of money over time), a level recommended by the European Union for the construction of EU financed projects.

The revision of the estimates for the decommissioning and restoration provision is determined by the annual revision of the dismantling costs. The company's committee of specialists designated to review yearly any possible modifications of the estimates found out, at the end of the financial year 2014, that the initial estimates of the dismantling costs were adequate.

The amortization expenses are recognized in the profit and loss account by using the linear method of calculation. The amortization of an asset begins when that asset is available for use (i.e. when the asset is in the location and condition necessary to operate as wanted by the management) and ends on the day when the asset is reclassified in another category or when it is derecognized.

The amortization does not end when the asset was not used.

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.

As per the provisions of IAS 36- Depreciation of assets-, the company proceeded to the identification of any signs of asset depreciations, using internal sources.

This analysis indicated that:

- the economic performance of the assets is good comparatively with the forecasted performance, all the immobilizations in operation yielding benefits to the company

- in 2014 no changes occurred with adverse effects on the extent and manner in which the assets are used, nor such modifications are expected in the near future.

To conclude, the tangible immobilizations in the balance sheet account on 31.12.2014 are not depreciated and no adjustments were made for the depreciation thereof.

The gross accounting value of the fully amortized tangible immobilizations, and which were still in operation on December 31, 2014 is 56 thousand lei.

As on 31.12.2014 no mortgages were set on the tangible assets owned by AEROSTAR S.A.

a) Increases in gross values of the tangible immobilizations, were : **24.130**

- **By acquisition** of technological equipment, CNC machinery, modernization of certain buildings 12.161
- **By capitalization** of expenses related to investments in progress: 11.969
of which
 - capitalization of expenses incurred by the completion of the investment financed by European funds „*Creating a new manufacturing capacity for diversifying production and export increase*” 5.470
 - capitalization of expenses made for the “*Aerotraining*” project 356
 - capitalization of expenses made for other investments 6.143

b) In December 2014, a building with a gross accounting value of 154 thousand lei, was transferred from the category *Tangible immobilizations* into the category *Real estate investments*.

c) Decreases in gross values of tangible immobilizations: **12.254**

- By finalization of the investments in progress 12.161
- By derecognition of the tangible immobilizations, as the company no longer expects future economic benefits from their use 93

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5. INTANGIBLE IMMOBILIZATIONS

<u>Gross values</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other intangible immobilizations</u>	<u>Total</u>
On January 1, 2014	-	2.316	177	2.493
Inputs, of which:	242	175	-	417
-by institutionalized subsidies	-	4	-	4
Outputs	242	13	-	255
On December 31, 2014	-	2.478	177	2.655

<u>Amortization</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other intangible immobilizations</u>	<u>Total</u>
On January 1, 2014	-	581	30	611
Inputs, of which:	242	465	31	737
- corresponding to inputs by institutionalized subsidies	-	1	-	1
Outputs	242	13	-	255
On December 31, 2014	-	1.033	61	1.094

NET ACCOUNTING VALUE OF INTANGIBLE IMMOBILIZATIONS ON DECEMBER 31, 2014

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Development expenses	242	242	-	-
2. Licenses	2.478	1.033	-	1.445
3. Other intangible immobilizations	177	61	-	116
Total (1+2+3)	2.897	1.336	-	1.561

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

- Development expenses
- Licenses
- Other intangible immobilizations

Other intangible immobilizations include the IT software.

The estimated useful lifetimes of intangible immobilizations are established in years. The useful lifetimes are established by committees of specialists from the company.

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

The amortization expenses are recognized in the profit or loss account using the linear method of calculation for an estimated duration of 3 years.

The intangible immobilizations in the balance sheet account as on 31.12.2014 are not depreciated and no adjustments were made for the depreciation thereof.

When determining the gross accounting value of the intangible immobilizations, the company uses the historical cost method. No reevaluations of the intangible immobilizations were made.

On 31.12.2014, the fair value of the intangible immobilizations is not distinctly different from the accounting value.

The value of the completely amortized software licenses on December 31, 2014 and which are still in use is 252 thousand lei.

All the intangible immobilizations recorded in the balance sheet account as on December 31, 2014 are the property of AEROSTAR.

a) Increases in gross values of intangible immobilizations were: **417**

- By capitalizations of the **development expenses** made for the completion of tasks provided in the development program fully financed by Aerostar, which consisted in the qualification of new special processes intended to meet the manufacturing requirements for aviation products 242
- By acquisition of **software licenses** 175

In 2014 there were no entries of licenses generated internally nor acquired by combinations of enterprises.

The software licenses acquired by institutionalized subsidies were evaluated after recognition in accordance with the cost-based model.

b) Decreases in gross values of intangible immobilizations were: **255**

- By settlement and amortization of the tasks comprised in the development program, approached and finalized in the analysed period 242
- By de-recognition of intangible immobilizations (licences) as the company no longer expects future economic benefits from the use thereof. 13

In 2014 no assets were classified as held for sale in accordance with IFRS 5.

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6. FINANCIAL IMMOBILIZATIONS

	Shares held at affiliated entities	Other immobilized titles	Long-term loans	Total
On January 1, 2014	14	92	899	1.005
Increases/Decreases	-	-	(528)	(528)
On December 31, 2014	14	92	371*)	477

✓ The details on the entity's investments in other companies on 31.12.2014 are the following:

Subsidiary name/ Registered office	Main activity	No. of shares	Voting rights (%)	Value of shares held by Aerostar (K lei)	Financial information on the last financial year (2013) for which the financial statements of the affiliated companies were approved		
					Registered capital of the company	Reserve	Net profit
SC Airpro Consult SRL Bacau 9, Condorilor Street	- activities of contracting manpower on a temporary basis	100	100%	10	10	45	86
SC Foar SRL Bacau 9, Condorilor Street	- rental and leasing of other machines, equipment and tangible goods	408	51%	4	8	1.223	417
SC Aerostar Transporturi Feroviare S.A Bacau *) 9, Condorilor Street	- manufacturing of hoisting and handling equipment	9150	45,75%	92	200	36	0
TOTAL				106	218	1.304	503

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7. TAX ON PROFIT

The profit tax corresponding to the reported financial year comprises the current tax and the deferred tax. The profit tax is recognized in the statement of the profit or loss, or directly in company capitals if the tax relates to the capital items.

Current Tax on profit

The current tax is the tax payable in relation to the profit achieved in the current period, as determined based on the applicable fiscal regulations at the reporting date. The profit tax rate applicable to the financial year 2014 was 16% (the same rate as applied for the financial year 2013).

December 31
2014

Gross accounting profit	25.001
Expenses with current tax on profit	8.280

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues	276.340	Fiscal revenues	228.868	-47.472
Accounting expenses	251.339	Fiscal expenses	170.037	-81.302
Gross accounting profit	25.001	Fiscal profit	58.831	+33.830
Tax (16%)	4.000	Fiscal tax (16%)	9.413	+5.413
Tax reductions	-		1.133	+1.133
Tax on final profit	4.000		8.280	+4.280
Actual average tax rate	16%		33,12%	+17,12%

The factors which affected the rate of taxation were: non-taxable revenues from the recovery of non-deductible expenses, as well as expenses non-deductible fiscally, a significant part of which being expenses with provisions for guarantees and other risks.

The deferred tax is determined for the temporary differences arising between the fiscal basis of calculation for the tax on assets and debts, and the accounting value thereof. The deferred tax is calculated using the tax rates expected to apply to the temporary differences once they are resumed, under the law applicable at the reporting date. The company estimated and recorded deferred tax debts related to immobilized assets and reserves and recognized receivables regarding the deferred tax corresponding to the provisions for guarantees granted to customers, other provisions, as well as to adjustments for depreciation of customer receivables.

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The deferred tax recognized on account of the result

Receivables related to deferred tax in balance sheet as on 01.01.2014	1.565
Expenses with deferred tax	1.397
Revenues from deferred tax	4.420
Receivables related to deferred tax in balance sheet as on 31.12.2014	4.588

Deferred tax recognized on account of the company capitals

Debts related to the deferred tax recognized on account of company capitals in balance sheet as on 01.01.2014	7.454
Set-up of receivables from deferred tax	1.623
Set-up of debts from deferred tax	693
Debts related to deferred tax recognized on account of the company capitals in balance sheet as on 31.12.2014	6.524

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8. STOCKS	<u>31.12.2014</u>	<u>31.12.2013</u>
Raw materials	6.732	7.149
Consumable materials	14.108	11.841
Other materials	7	13
Packages	3	-
Finished products*)	11.441	8.227
Products in progress	14.120	14.830
Goods	6	5
Adjustments for depreciation of stocks	(9.037)	(7.425)
TOTAL	<u>37.380</u>	<u>34.640</u>

The stocks are evaluated at the cost value or net achievable value, whichever is lower.
The net achievable value is the estimated sale price of socks minus all estimated costs of completion and the necessary sales costs.

The cost of stocks includes: purchase costs, conversion costs as well as other costs incurred to restore the stocks to their current condition and location.

At the outflow from the inventory, the stocks are evaluated and recorded in the accounting by applying the Average Weighted Cost method.

The value adjustments are made periodically, based on the findings of the inventory committees and/or managers of the production units, with a view to presenting the assets at the lower value between the cost and net achievable value.

In the company depreciated goods are considered the goods older than the storage period established by internal decision of the Board of Directors.

During the reported period, the following adjustments for stock depreciation were made:

	<u>31.12.2014</u>	<u>31.12.2013</u>
Set-up during the current year	3.162	5.613
Resumed during the current year	(1.551)	(7.319)

The total value of stocks recognized as expense during the reported period is 83.749 thousand lei.

The company has no lien on stocks.

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9. FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial debt or an instrument of owned capitals for another entity.

AEROSTAR's financial assets include cash and cash equivalents, commercial receivables, immobilized receivables (customer-guarantees), loans granted.

AEROSTAR's financial debts include commercial debts, debts related to financial leasing, overdrafts, long-term bank loans.

The main types of risks generated by the financial instruments the company is exposed to, are: credit risk, liquidity risk, foreign currency risk and the interest rate risk.

a) Credit risk

Exposure to the credit risk

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

The maximum exposure to the credit risk at the time of reporting was:

	<u>31.12.2014</u>	<u>31.12.2013</u>
Cash and cash equivalents	92.427	36.727
Commercial receivables net from depreciation adjustments	31.879	43.906
Immobilized receivables (customer-guarantees)	642	1.716
Loans granted	371	899
Total	125.319	83.248

The maximum exposure to the credit risk for the net commercial receivables by geographical areas:

	<u>31.12.2014</u>	<u>31.12.2013</u>
Domestic market	4.379	1.191
Euro zone countries	18.368	14.188
Great Britain	7.434	6.219
Other regions	1.698	21.164
Total	31.879	43.906

Depreciation adjustments

The timeframe structure of gross commercial receivables at the time of reporting:

	Gross value	Adjustments for depreciation	Gross value	Adjustments for depreciation
	31.12.2014	31.12.2014	31.12.2013	31.12.2013
In due time	31.407	-	43.843	-
Past due, total of which:	1.092	620	804	741

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0-30 days	472	-	63	-
Over 120 days	3	3	153	153
More than 1 year	617	617	588	588
Total	32.499	620	44.647	741

The table below shows the motions in the adjustments for depreciation of the commercial receivables during the reported period:

	<u>31.12.2014</u>	<u>31.12.2013</u>
Balance on January 1	741	1.365
Set-up of adjustments for depreciation	41	969
Adjustments for depreciation resumed as revenues	(162)	(1.593)
Balance on December 31	620	741

Based on historical data on past due payments, the company considers that, except the above, no recognition of depreciation adjustments is necessary for the commercial receivables which are overdue.

On 31.12.2014, 98% of the commercial receivables balance related to customers with good payment records.

b) Liquidity risk

The company policy on liquidities is to maintain an optimum level so as to be able to pay for the liabilities as they become due.

	<u>Financial debts</u>	<u>Accounting value</u>
31.12.2014	Commercial debts	15.186
31.12.2013	Commercial debts	14.649

The due dates for the commercial debts are less than 6 months.

On 31.12.2014, the company holds no record of financial debts related to financial leasing, overdrafts or long-term bank loans.

On 31.12.2014, the company holds no record of pastdue financial debts.

c) Foreign Currency risk

Exposure to the foreign currency risk

AEROSTAR is exposed to the foreign currency risks as 70% of its turnover registered on 31.12.2014 relates to USD and EUR, while a significant part of the operating expenses relates to Lei.

Thus, the company is exposed to the risk of being affected by the exchange rate fluctuations both in its net revenues and its financial position as stated in Lei.

The table below shows the company exposure to the foreign currency risk, based on the financial-accounting values denominated in the foreign currency:

<u>31.12.2014</u>	<u>Thousand LEI</u>	<u>Thousand EUR</u>	<u>Thousand USD</u>	<u>Thousand GBP</u>
Commercial receivables	4.378	1.856	5.203	-
Commercial debts	(7.974)	(460)	(1.308)	(58)
Net exposure	(3.596)	1.396	3.895	(58)

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31.12.2014	Thousand LEI	Thousand EUR	Thousand USD	Thousand GBP
Received from customers	92.524	13.792	41.108	-
Payments to suppliers	(66.667)	(6.945)	(13.264)	(545)
Net exposure	25.857	6.847	27.844	(545)

Sensitivity analysis

The company is exposed mainly to the USD/RON exchange rate variations, taking into consideration the total net exposure of 31.739 thousand USD recorded on 31.12.2014 and the 13% variation of the USD/RON currency pair recorded at the end of the year versus the beginning of the year.

The table below contains a detailed presentation of the company's sensitivity to an average reasonable variation of 6.50% of the Romanian Leu versus the USD currency and 5% versus the EUR and GBP currencies.

31.12.2014	Thousand LEI	Thousand EUR	Thousand USD	Thousand GBP
Total net exposure, in the currency of origin	22.261	8.243	31.739	(603)
Average exchange rates	1	4,4446	3,3475	5,5115
Total net exposure, in functional currency	22.261	36.637	106.246	(3.323)
Possible reasonable variations of exchange rates	0%	+/- 5%	+/- 6,50%	+/- 5%
Effect of the variation in profit and loss account	+/- 8.572 Thousand LEI			

d) Interest rate risk

For the reporting period AEROSTAR S.A. has contracted a Credit facility of 5.000 thousand USD, intended for financing the operations, which includes:

- 1) A cash sub-limit in the 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) A non-cash sub-limit in the amount of 2.500 Thousand USD, usable for guaranteeing the commercial contractual obligations by issuing letters of bank guarantee and import letters of credit.

The interest is applicable only for the overdraft utilized within the sub-limit of 2.500 Thousand USD.

As during the reporting period AEROSTAR S.A. did not use the cash sub-limit of 2.500 Thousand USD, the company revenues and cash flows are independent from the interest rate variation on the banking market.

On 31.12.2014, the level of guarantees granted by AEROSTAR S.A. under commercial agreements by issue of bank guarantee letters amounts to 430 Thousand USD (equivalent to 1.585 Thousand LEI); no import letters of credit were issued.

On 31.12.2014 no mortgages are set up on the property assets owned by AEROSTAR S.A.

10. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

a). Statement of the receivables

RECEIVABLES	Balance on December 31, 2014	Balance on January 01, 2014
Commercial receivables	36.596	46.092
Domestic customers	4.378	1.191
Foreign customers	31.726	43.170
Uncertain customers ¹⁾	620	741
Adjustments for depreciation of customer receivables	(620)	(741)
Suppliers-debtors	405	1.731
Customers – invoices to draw up	87	
Immobilized receivables	642	1.716
Other receivables, of which:	7.993	3.274
• Receivables related to manpower and similar accounts, of which:	26	56
- <i>salary advance payments to employees</i>	17	22
• Receivables related to the social insurance budget and state budget, of which:	1.589	1.472
- <i>VAT to recover</i>	-	426
- <i>excises to recover, related to fuel consumption</i>	1.182	715
• Amounts to receive, of subsidy nature	1.667	-
• Receivables from deferred profit tax	4.588	1.565
• Interest to receive	42	52
• Other receivables	81	129
TOTAL	45.231	51.082

¹⁾ Uncertain customers were recorded distinctly in the company accounting.

To cover the risk of non-recovery of the amounts representing uncertain receivables, the company recorded adjustments for depreciation of uncertain customers at the integral value thereof. When determining the recoverability of a commercial receivable, we took into account the changes in the customer's credit rating from the time when the credit was granted till the time of reporting.

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania for ending the month of December 2014. The favorable and unfavourable differences between the market exchange rate used for recording the receivables in foreign currency and the market exchange rate communicated by the National Bank of Romania for the end of December 2014 were recorded in the related revenue or expense account from the exchange rate differences, as applicable.

11. STATEMENT OF DEBTS

a) Statement of long-term debts

	Balance on December 31, 2014	Balance on January 01, 2014
DEBTS		
Advance payments received on customers' account	-	3.882
Foreign customers-creditors	-	3.882
Suppliers	-	205
Domestic suppliers	-	205
TOTAL	-	4.087

b) Statement of short-term debts

	Balance on December 31, 2014	Balance on January 01, 2014
DEBTS		
Advance payments received on customers' account	24.540	21.550
Domestic customers-creditors	146	101
Foreign customers-creditors	24.394	21.449
Suppliers	15.187	14.649
Domestic suppliers	6.524	6.481
Foreign suppliers	6.792	5.915
Suppliers – invoices not arrived	1.148	1.664
Suppliers of immobilizations	723	589
Debts with current profit tax	4.231	1.024
Other current debts, of which	12.983	5.347
• Debts related to manpower and similar accounts	1.558	1.436
• Debts related to social insurance budget and state budget	10.923	3.475
• Other debts, of which:		
-dividends paid by the company but not received by shareholders, for personally related reasons	502 333	436 293
TOTAL	56.941	42.570

The advance payments received on costumers' accounts, amounting to 24.540 thousand lei are intended for aircraft maintenance and repair work, with date for settlement in 2015.

The company paid in full the dividends distributed from the profit of the financial year 2013.

For the accounted debts no mortgages were set up.

At the end of December 2014 the company made undertakings under the form of bank guarantee letters in the amount of 430 thousand USD issued in favour of the business partners in accordance with the contractual requirements. For these undertakings, AEROSTAR registered provisions.

The exchange rate differences, favourable or unfavourable, between the market exchange rate at which the debts in foreign currency are registered and the market exchange rate communicated by the National Bank of Romania for the end of December 2014 were registered in the corresponding account, revenues or expenses from exchange rate differences, as applicable.

On December 31, 2014, the company has no pastdue debts.

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12. CASH AND CASH FLOW EQUIVALENTS

At the end of the reporting period the cash and cash equivalents were:

	31.12.2014	31.12.2013
Cash	41.825	499
Bank deposits	50.581	36.149
Cheques to cash	-	58
Collateral deposits	21	21
Cash and cash equivalents in the treasury cash flow statement	92.427	36.727

The cash equivalents are:

- bank deposits of high liquidity, with due dates ranging from 1 month to 6 months
- cheques deposited in banks to get their countervalue
- collateral deposits made in accordance with the legal requirements, with the Domestic Customs Office in Bacau with a view to securing the payment of current customs obligations (customs taxes and VAT).

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

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

The value of the credit facilities unused as on 31.12.2014 and available for future operations is 9.217 thousand LEI (2.500 thousand USD).

The value of the treasury flows allocated for increasing the operating capacity is 5% of the aggregate value of the treasury cash flows.

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13. REGISTERED CAPITAL

On 31 December 2014, the registered capital of SC AEROSTAR SA Bacau is 48,728,784 Lei, divided into 152,277,450 shares with a nominal value of 0.32 Lei.

During the extraordinary general meeting of 23 April 2014, the shareholders of AEROSTAR SA Bacau approved the increase of the company's registered capital from 37,483,689.60 lei to 48,728,784 lei by incorporation of the statutory reserves.

The registered capital increase was made using a number of 35,140,920 ordinary, dematerialized nominative shares with an equal nominal value of 0.32 lei.

The newly issued shares are of the same type and class of transferable securities as the existing ones.

The 35,140,920 issued shares were distributed free of charge to all shareholders registered in the shareholders' registry at the reporting date.

The proportionality coefficient (rate of allocation) was of 3 newly issued shares for each 10 owned shares.

This increase in the registered capital was recorded in the Trade Register on 7 May 2014.

On 9 July 2014, the Financial Supervision Authority (in Romanian abbreviation, ASF) issued the registration certificate for Aerostar shares as a result of the registered capital increase, and the Central Depository (where, as provided by law, the register of SC AEROSTAR shares and shareholders is kept) recorded the registered capital increase on 16 July 2014.

	<u>31.12.2014</u>		<u>31.12.2013</u>	
	<u>number of shares</u>	<u>value (lei)</u>	<u>number of shares</u>	<u>value (Lei)</u>
registered capital	152,277,450	48,728,784	117,136,530	37,483,689.60

On 31.12.2014, the company's shareholding is structured as follows:

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE %
SC IAROM SA BUCHAREST	108,252,794	71.0892
SIF MOLDOVA BACAU	22,424,285	14.7259
OTHER SHAREHOLDERS, of which	21,600,371	14.1849
<i>Natural persons</i>	<i>15,112,787</i>	<i>9.9245</i>
<i>Legal persons</i>	<i>6,487,584</i>	<i>4.2604</i>
TOTAL	152,277,450	100.0

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14.RESERVES

	31.12.2014	31.12.2013
Legal reserves	7.344	6.297
Statutory reserves	373	6.811
Reserves from fiscal facilities *	6.112	4.369
Other reserves	-	373
Total	13.829	17.850

* The company benefits from the facility of tax exemption for reinvested profit, in accordance with art. 19[^]2 of Law No. 571/2003 of the Fiscal Code.

15.REVENUES

	31.12.2014	31.12.2013
Revenues from sales, of which:	261.051	212.023
Revenues from selling products	129.482	112.637
Revenues from services supplied	124.156	92.192
Revenues from selling goods	2.830	2.548
Revenues from rents	1.981	1.441
Commercial discounts granted	(724)	-
Revenues from other activities	3.326	3.205
Revenues related to the costs of the stocks of products	5.758	4.141
Other revenues from operations	1.263	676
Revenues from the production of immobilizations	848	1.004
Total revenues from operations	268.920	217.844

16. EXPENSES

	31.12.2014	31.12.2013
Expenses with employees' benefits	82.422	75.958
Expenses with raw material & consumable materials	75.564	71.732
Energy, water and gas	9.552	9.801
Other material expenses	10.267	9.574
Expenses with external services, of which:	22.578	21.356
Transportation costs	3.008	4.378
Repairs	6.735	5.843
Expenses with rents	1.106	1.260
Other expenses with services supplied by third parties	6.120	4.964
Amortizations	11.009	8.618
Increase/decrease of adjustments ref provisions	27.329	2.395
Increase/decrease of adjustments for stock depreciation	1.521	(959)
Other operating expenses	4.631	3.357
Total operating expenses	244.873	201.832

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19. FINANCIAL RESULT

	31.12.2014	31.12.2013
Revenues from exchange rate differences	6.184	9.794
Revenues from interest	1.144	2.193
Revenues from shares held in subsidiaries	86	61
Expenses from exchange rate differences	(6.460)	(9.836)
Expenses with interest	-	(0,2)
Other financial expenses	(0,2)	(1)
Financial profit	954	2.211

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20. PROVISIONS

	31.dec.13	Increases/Setu p of provisions	Reductions/ Provisions resumed	31.dec.14
Total provisions, of which:	68.230	74.752	48.524	94.458
Provisions for guarantees granted to customers	9.252	26.587	10.285	25.554
Other provisions for risks and expenses	39.356	40.519	31.614	48.261
Provisions for litigations	0	700	0	700
Provisions for employees' benefits	3.441	6.946	6.623	3.764
Provisions for decommissioning of tangible immobilizations	16.181	0	2	16.179
Long-term provisions	43.650	41.227	17.833	67.044
Provisions for guarantees granted to customers	1.273	3.504	610	4.167
Other provisions for risks and expenses	26.196	37.723	17.221	46.698
Provisions for decommissioning of tangible immobilizations	16.181	0	2	16.179
Short-term Provisions	24.580	32.825	30.691	27.414
Provisions for guarantees granted to customers	7.979	23.083	9.675	21.387
Other provisions for risks and expenses	13.160	2.796	14.393	1.563
Provisions for litigations	0	700	0	700
Provisions for employees' benefits	3.441	6.946	6.623	3.764

Categories of provisions in balance on 31.12.2014:

1. Provisions set up for guarantees granted to customers, as provided in the agreements concluded with the customers;
2. Provisions for risks and expenses, intended for covering potential obligations to company's customers, in accordance with the specific clauses of the agreements concluded with them;
3. Other provisions for risks and expenses, set up for potential obligations to third parties;
4. Provision for covering expenses related to the company's obligations to A.J.O.F.M., as per Gov Ord. O.U.G. 95/2002;
5. Provision for decommissioning of tangible immobilizations, included in the cost thereof, the value of which was estimated using an update rate of 5% - level recommended by E.U.;
6. Provisions for benefits granted to employees as per the clauses of the applicable Collective Labour Agreement;
7. Provision for litigation, set up for any indemnities owed to a company employee;

The provisions set up in foreign currency were reevaluated in accordance with the applicable regulations, resulting into a net increase from exchange rate differences in the amount of 2,001 lei.

The Company registered contingent debts related to granted letters of bank guarantee in a total amount of 904 thousand lei.

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21. TRANSACTIONS WITH AFFILIATED PARTIES

Purchasing of goods and services	year 2014	year 2013
S.C Airpro Consult SRL Bacau	7.076	10.187
S.C Foar SRL Bacau	859	807
TOTAL	7.935	10.994

Sales of goods and services	year 2014	year 2013
S.C Airpro Consult SRL Bacau	18	21
S.C Foar SRL Bacau	5	9
TOTAL	23	30

Debts	Balance at 31.12.2014	Balance at 31.12.2013
S.C Airpro Consult SRL Bacau	647	649
S.C Foar SRL Bacau	54	72
TOTAL	701	721

Loans granted by Aerostar	year 2014	year 2013
S.C Foar SRL Bacau	-	900

Dividends collected by Aerostar	year 2014	year 2013
S.C Airpro Consult SRL Bacau	86	61

The transactions with affiliated parties in 2014 consisted in:

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

There were no transactions with S.C. Aerostar Transporturi Feroviare SA Bacau, because this company's activity is suspended as of November 2009.

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22. PROFIT PER SHARE

The profit per share was calculated based on the profit distributable to 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 potential ordinary shares.

ÎN LEI	<u>31.12.2014</u>	<u>31.12.2013</u>
Profit distributable to ordinary shareholders	19,743,624	14,863,993
Average weighted number of circulating ordinary shares *) between January and December 2014 calculated as per IAS 33	134,706,990	117,136,530
Profit per share	0.147	0.110
Published profit per share for 2013:		0.127
Profit per share for 2013, recalculated for comparability:		0.110

*) On July 9, 2014, the Financial Supervisory Authority (ASF) issued the registration certificate for Aerostar shares as a result of the registered capital increase, the number of shares issued is 35,140,920, the number of shares after increase is 152,277,450, and the nominal value is 0.32 lei.

The "Depozitarul Central" recorded the registered capital increase on July 16, 2014.

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23. SUBSIDIES

Subsidies received by Aerostar S.A.:

- a) subsidies related to the assets
- b) subsidies related to the revenues

	31.12.2014	31.12.2013
Balance on January 1	8,330	6,264
Subsidies related to assets	2,435	2,539
Subsidies related to revenues	1,432	-
Subsidies registered as revenues	(1,354)	(473)
Balance on December 31	10,843	8,330

a) Subsidies related to assets

The method of presentation of the asset-related subsidies in the financial statements recognizes the subsidy as a deferred revenue recognized systematically in the profit or loss throughout the useful lifetime of the asset.

	31.12.2014	31.12.2013
Balance on January 1	8,330	6,264
Subsidies related to assets	2,435	2,539
Subsidies registered as revenues corresponding to calculated amortization	(934)	(473)
Balance on December 31	9,831	8,330

The balance of 9,831 thousand lei represents:

- 9.559 thousand lei, subsidies related to investments in immobilized assets, subsidies collected between April 2010 and July 2014, to be registered under revenues corresponding to the calculated amortization;
The subsidies related to immobilized assets were collected under two non-reimbursable financing agreements concluded between AEROSTAR S.A. and the Ministry of Economy, Trade and Business Environment (Romanian abbreviation MECMA):
 1. Contract no. 210304/22.04.2010: Extension of the manufacturing and assembly capacities for aerostructures for civil aviation;
 2. Contract no. 229226/14.06.2012: Set-up of a new manufacturing capacity for diversification of production and export growth.
- 272 thousand lei, subsidies for investments in immobilized assets, subsidies to be collected under the non-reimbursable financing contract no. 129302/28.03.2014 aimed at implementing the project: „Active occupational measures in the aeronautical sector by innovative professional formation training”, project financed by OIR POSDRU as part of the

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Sectoral Operational Programme Development of Human Resources in North-Eastern Region.

b) Subsidies related to revenues

The method of presentation of the revenue-related subsidies in the financial statements recognizes the subsidy while the expenses are made for the current period.

	31.12.2014	31.12.2013
Balance on January 1	-	-
Subsidies related to revenues	1,432	-
Subsidies registered as revenues while the expenses are made for the current period	(420)	-
Balance on December 31	1,012	-

The balance of 1,012 thousand lei represents the value of subsidies to be registered as revenues in the periods to come while the expenses are registered.

These subsidies will be collected under the non-reimbursable financing contract no. 129302/28.03.2014 aimed at implementing the project: „Active occupational measures for the aeronautical sector by innovative professional formation training”, project financed by OIR POSDRU as part of the Sectoral Operational Programme Development of Human Resources in North-Eastern Region.

Up to 31.12.2014 the revenue-related subsidies were collected in the amount of 141 thousand lei.

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24. RESULT CARRIED FORWARD

Balance on January 1, 2014	54,733
Result carried forward related to distribution of profit for year 2013	14,864
Result carried forward related to reserve from re-evaluation of immobilizations	30
Distribution of profit for 2013, on various destinations *)	(14,864)
Decrease of the result carried forward on account of recording the tax on deferred profit recognized directly in company capitals- immobilizations	(14)
Result carried forward generated by transition to implementation of IFRS	2,546
Balance on December 31, 2014	57,295

*) AEROSTAR shareholders approved in the GMS meeting of April 23, 2014, the distribution of the profit for 2013 on the following destinations:

- For registered capital increase :4,434 thousand lei
- For dividends: 10,430 thousand lei

The structure of the balance of the result carried forward on December 31, 2014 is as follows:

- 55,871 thousand lei - result carried forward obtained from the use, on the date of transition to the application of IFRS, of the fair value as the assumed cost
- 1,234 thousand lei - result carried forward originating from recording the receivables from deferred tax, on the date of transition to IFRS
- 190 thousand lei - result carried forward representing surplus from re-evaluation reserves

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN



Str. Condorilor nr.9, Bacau 600302; Inmatriculat cu nr: J04/1137/1991-R.C.Bacau;
Cod Unic de Inregistrare: RO 950531; Capital social: 48.728.784 lei
Tel:+40234.575070; Fax:+40234.572023; 572259
e-mail:aerostar@aerostar.ro; Website:http://www.aerostar.ro

DECLARATION

The undersigned, GRIGORE FILIP, as President of the Board of Directors and General Director of SC AEROSTAR S.A. and DORU DAMASCHIN, as Vicepresident of the Board of Directors and Financial Director of S.C AEROSTAR S.A., hereby undertake the responsibility for the preparation of the individual financial statements as on 31.12.2014, and we confirm hereby that:

- a) The accounting policies used to draw up the individual financial statements as on 31.12.2014 are in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.
- b) The individual financial statements as on 31.12.2014 provide a fair image compliant with the reality of the assets, debts, financial position, global result and with the other information related to the activity performed.
- c) The Report of the Board of Directors for the financial year 2014 comprises a correct review of the development and performance of S.C. AEROSTAR S.A., as well as a description of the main risks and uncertainties specific for the activity performed.
- d) S.C. AEROSTAR S.A. BACAU performs its operations in conditions of continuity.

President of the Board of Directors and General Director,
GRIGORE FILIP

Vicepresident of Board of Directors and Financial Director,
DORU DAMASCHIN

INDEPENDENT AUDITOR'S REPORT

BENEFICIARY:

- S.C. AEROSTAR S.A.

HEAD OFFICE:

- 9 Condorilor Street, Bacau

MANAGEMENT:

- GENERAL DIRECTOR - GRIGORE FILIP
- FINANCIAL ACCOUNTING DIRECTOR - DORU DAMASCHIN

STATUTORY AUDITOR:

- Authorized Natural Person MONICA HUSANU
- Authorization No. 2401 / 2008

REGISTERED HEADOFFICE:

- Bacau, Ion Luca Caragiale Street No. 1, bl. 1, sc. D, ap. 12

MANAGEMENT:

- Financial Auditor – Ec. MONICA HUSAU

ADDENDUM NO 1. DATED 12.12.2014 TO AGREEMENT No. 28/14.12.2012

INDEPENDENT AUDITOR'S REPORT
REGARDING FINANCIAL STATEMENTS ON 31.12.2014,

1. Introduction:

We have audited the individual financial statements, prepared by S.C. AEROSTAR S.A. ("The Company") on 31.12.2014, in accordance with the International Standards on Financial Reporting adopted by the European Union, comprising: the Statement of the Financial Position, the Statement of Profit of Loss, Other Elements of the Global Result; the Statement of Company Capitals Modifications; the Statement of Treasury Cash Flows, Notes to the Individual Financial Statements, the Report of the Board of Directors, the Declaration of the Management in accordance with the provisions of art. 30 of the Accounting Act no. 82/1991 and the Regulation no. 1 *12006* issued by the National Securities Exchange Commission, currently the Financial Supervisory Authority ("ASF"), the Proposal for the Distribution of the Net Profit Achieved in the Financial Year 2014, as well as the verification balance sheet comprising the information determined in accordance with IFRS provisions.

The above-mentioned financial statements refer to:

- Total company capitals of..... 142,799,330 lei;
- Net turnover.....261,051,271 lei;
- Total net profit.....19,743,624 lei.

The annual financial statements are prepared under the responsibility of the company's management. Our responsibility is to express an opinion on these annual financial statements, as well as on the degree of conformity of the Report of the Board of Directors with the annual financial statements for the same financial year.

2. Management responsibility for the financial statements

The Company's management is responsible for preparing and presenting adequately these annual financial statements in accordance with the requirements of the accounting regulations in Romania, i.e. the Accounting Act no. 82/1991 (republished), the Order of PFM no. 1286/2012 with reference to the approval of the accounting regulations in accordance with the International Financial Reporting Standards, applicable to the companies

listed on a regular stock exchange market, and the Order no. 65/2015 of the Public Finance Ministry, regarding the main aspects related to the draw-up and submission of the annual financial statements and the annual accounting reports of the economic agents at the territorial offices of the Public Finance Ministry.

This responsibility includes: the design, implementation and maintaining an internal control relevant for the adequate preparation and presentation of the annual financial statements which should not include significant misrepresentations, due to fraud or error; the selection and application of adequate accounting policies, the elaboration of reasonable accounting estimates, given the circumstances.

3. Auditor's responsibility

Our responsibility is, based on the audit conducted, to express an opinion on these annual financial statements relying on the statutory audit conducted. We conducted the audit in accordance with the Auditing Standards issued by the Chamber of Financial Auditors of Romania and with the International Auditing Standards. These standards require that we comply with the ethical requirements, and that we plan and conduct the audit with a view to obtaining a reasonable assurance that the annual financial statements are free of significant misrepresentations.

A statutory audit consists in the execution of procedures in order to obtain the auditing evidence with reference to the amounts and information presented in the annual financial statements examined. The procedures selected are subject to the auditor's professional reasoning, including the assessment of the risks either of significant misrepresentation of the annual financial statements or due to fraud or error. In the assessment of these risks, the auditor takes into consideration the internal control relevant for the correct preparation and presentation of the annual financial statements, with a view to establishing auditing procedures adequate to the circumstances, but not intended to express an opinion on the efficiency of the Company's internal control.

A financial audit also includes the evaluation of the adequacy of the accounting policies which were used and the reasonable character of the accounting estimates elaborated by the management, as well as the conformance of the information in the audited annual financial statements with the IFRS requirements.

We consider that the auditing evidence we obtained is sufficient and adequate to constitute a basis for our audit opinion.

4. Opinion

The auditing of the annual financial statements as of 31.12.2014 was conducted with a view to expressing a pertinent opinion on the compliance of both the annual accounts with the accounting references in force, and of the latter with the International Financial Reporting Standards.

No significant deviations from the general accounting principles were found, while the data and information

registered in the annual accounts provide a fair image and satisfy the requirements of all categories of financial-accounting information users, while the rules established by the institutions or bodies in Romania, as well as the provisions of the International Financial Reporting Standards are complied with.

Subject to the above, the auditor's opinion is without reserve that the financial statements of S.C. AEROSTAR S.A. Bacau for the financial year 2014 provide a faithful image of the assets, debts, company capitals, revenues and expenses and information data of this entity. In other words, the financial statements for 31 December 2014, in accordance with IFRS, present faithfully, under all significant aspects, the financial position, the global result and the other information related to the activity performed by S.C. AEROSTAR S.A. Bacau, in accordance with the Accounting Act No. 82/1991, republished, the Regulations no. 1/2006 issued by the National Securities Exchange Commission, currently the Financial Supervisory Authority (“ASF”) and, basically with the International Financial Reporting Standards.

5. Other aspects

This report is addressed exclusively to the shareholders of the Company as a whole. Our audit was conducted with a view to being able to report to the shareholders of the Company aspects that we have to report in a financial auditing report, and in no other purposes. To the extent permitted by law, we do not accept or assume any responsibility for our auditing, our report or the opinion expressed herein, other than towards the Company and its shareholders, as a whole.

The annual financial statements attached hereto are not intended to present the financial position, the results of operations and a complete set of explanatory notes to the annual financial statements in accordance with the accounting regulations and accepted in countries and jurisdictions other than Romania. Therefore, the annual financial statements attached hereto are not prepared for the use of persons unaware of the accounting and legal regulations in Romania, namely the Accounting Act no. 82/1991 (republished), the Order of PFM no. 1286/2012 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards, applicable to the companies listed on a regular stock exchange market and the Order no. 65/2015 of the Public Finance Ministry regarding the main aspects related to the draw-up and submission of the annual financial results and annual accounting reports of the economic agents at the territorial offices of the Public Finance Ministry.

6. Report on the conformity of the Report of the Board of Directors with the annual financial statements closed at 31.12.2014.

In accordance with the requirements of the Financial Supervisory Authority (FSA), we have read the report of

the board of directors. This report is attached to the annual financial statements. In the directors' report, we did not identify any financial information significantly nonconforming with the information presented in the annual financial statements attached hereto.

Bacau, 16.03.2015

MONICA HUSANU

FINANCIAL AUDITOR, registered with

Financial Auditors Chamber no. 2401/2008