



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

9 MONTHS REPORT AS ON 30 SEPTEMBER 2017



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As per Annex 30A to Regulations no 1 /2006 with subsequent modifications regarding the issuers and the operations with securities

Date of the Report: 30.09.2017

Name of the company: S.C. AEROSTAR S.A. BACAU

Registered capital: Strada Condorilor nr. 9

Telephone No: 0234 575070

Registration with Bacau Trade Register Office: 950531

Registration No in Bacau Trade Register: J04/1137/1991

Registered capital, subscribed and paid: 48.728.784 lei

Regular market for transactions with securities issued: BUCHAREST STOCK EXCHANGE
(symbol "ARS")

S.C. AEROSTAR S.A. BACAU
REPORT OF THE BOARD OF DIRECTORS FOR 9 MONTHS 2017

A PERSPECTIVE ON AEROSTAR
Report on AEROSTAR business for 9 months 2017

INTRODUCTION

The objective of this interim report of the Board of Directors of AEROSTAR S.A. is to inform the investors on the modifications of the position and performance of the company, which took place in the period January-September 2017, as well as on the predictable evolutions of AEROSTAR's market, and also in connection with the growth and development opportunities of the company.

In accordance with the usual practice, the financial statements prepared as on the date of 30 September 2017 are not accompanied by the report of the independent financial auditor.

The individual financial statements prepared for 30 September 2017 were audited by the internal auditor of the company.

On the date of 29.09.2017 AEROSTAR obtained the new registration certificate holding the European identification (EUID): ROONRC.J04/1137/1991.

In accordance with the classification of the activities in the national economy, AEROSTAR's main object of activity is code CAEN 3030- manufacture of aircraft and spaceships.

The main field of activity is production.

Synthetic data for 9 months 2017, compared with 9 months 2016

	MU	30.09.2017	30.09.2016
Registered Capital	thousands lei	48.729	48.729
Turnover	thousands lei	223.799	240.127
• Export sales	thousands lei	182.962	193.335
Expenses for investments	thousands lei	11.745	13.732
Actual No of employees, of which:	no	2.100	2.060
• Own employees	no	1.947	1.785
• Employees attracted through temporary labour agent	no	153	275
Gross Profit	thousands lei	34.658	57.243
Net Profit	thousands lei	26.984	48.334

THE SHARE "AEROSTAR"

"ARS" stock exchange symbol	30.09.2017	30.09.2016
Number of shares	152.277.450	152.277.450
Market value per share at the end of the period (lei) *)	4,27	3,09
Stock exchange capitalization (lei) *)	650.224.712	470.537.321
Transaction price during the period (minimum level / maximum level) (lei)	3,25 / 4,55	2,24 / 3,22

**) Source: Monthly Bulletin issued by Bucharest Stock Exchange*

MAIN EVENTS DURING THE PERIOD JANUARY-FEBRUARY 2017

AEROSTAR MARKET AND COMPANY'S BUSINESS DEVELOPMENT

AEROSTAR operates on the global market, highly competitive, where the dynamics of the dominant players- the large companies which integrate final products- steadily pursue their major objective of business growth.

While the growth dynamics seems not to be affected by the geopolitics of the recent and present periods, the Original Equipment Manufacturers focus on those levers able to support growth: key cooperations within the supply chains, growing their share of the services and support business associated with their products.

The approaches related to innovative technologies, the progress in the digital transformation, as well as cybersecurity, are the aspects which are setting the growth coordinates in the aviation and defence industry.

AEROSTAR acts in a consistent, intensive and transparent way to pursue the growth opportunities and ensure its access in the new programmes in the field of aviation and defence.

The growth potential envisaged is in the business area with a consolidated technological tradition in AEROSTAR's expertise, in accordance with the Mission statement of the company, and which has the perspective of continuity and development on mid and long term.

AEROSTAR initiated several projects which aim to substitute certain defence related products and services with products and services in the current generation of defence related technologies. These projects are very important to complete the cycle of transformation and implementation of new technologies, initiated at company level after the year 2000.

AEROSTAR operations are aligned with the specific trends in the global aviation and defence industry, a synergic correlation of the business lines, which enable the capacity to act on the market and sustain the power to integrate complex programmes.

AEROSTAR's main lines of business are:

- Manufacturing of aviation products**
- MRO commercial aircraft**
- Aero & ground defence systems, production and integrations.**

AEROSTAR maintained its positioning as number 1 in Romania for its object of activity.

- Number 1 in aviation manufacturing
- Number 1 in maintenance of commercial aircraft

Aerostar is a significant supplier for the solutions in the field of aero & ground defence systems.

AEROSTAR holds a significant footprint in the global aeronautical manufacturing programmes.

Aerostar fulfills the performance and competitiveness criteria at a high level, and was specifically distinguished by AIRBUS and SAFRAN Landing Systems on the occasion of their annual meetings with their suppliers in the manufacturing programmes.

**AEROSTAR, DESIGNATED AS SUPPLIER OF THE YEAR BY SAFRAN LANDING SYSTEMS
(Messier-Bugatti-Dowty)**

The award granted to AEROSTAR during the annual meeting “Quality Day”, attended by suppliers in Safran’s chain of supply, is specially important as it is a new confirmation received for the compliance with customers’ requirements and expectations.

The award was handed on 31 May 2017 during the annual Supplier Conference organized by Safran at its headoffice in Bidos and congratulations were transmitted to the entire AEROSTAR team.

The suppliers selected got recognition thus for their performance in the field of quality and on-time delivery, as well as for their capacity to innovate and support the activities of Safran Landing Systems.

Safran Landing Systems is the world leader in the design, development and manufacture of aircraft landing and braking systems. As a major supplier for Safran, Aerostar specializes in the production and testing of hydraulic systems: complete landing gears, various categories of actuators, complex parts and subassemblies, kits of parts for global aviation programmes such as Airbus 320, Airbus 330/350/380, Boeing 787 and others.

Safran purchasing policy is based on solid, long-lasting, balanced relationships with their suppliers, selected according to demanding criteria in terms of performance, expertise and technological innovation. At the same time, Safran supports its suppliers in a drive for shared growth, based on continuous improvement at all levels.

AEROSTAR AND AIRBUS AWARD D2P DETAIL PARTS PARTNER 2017

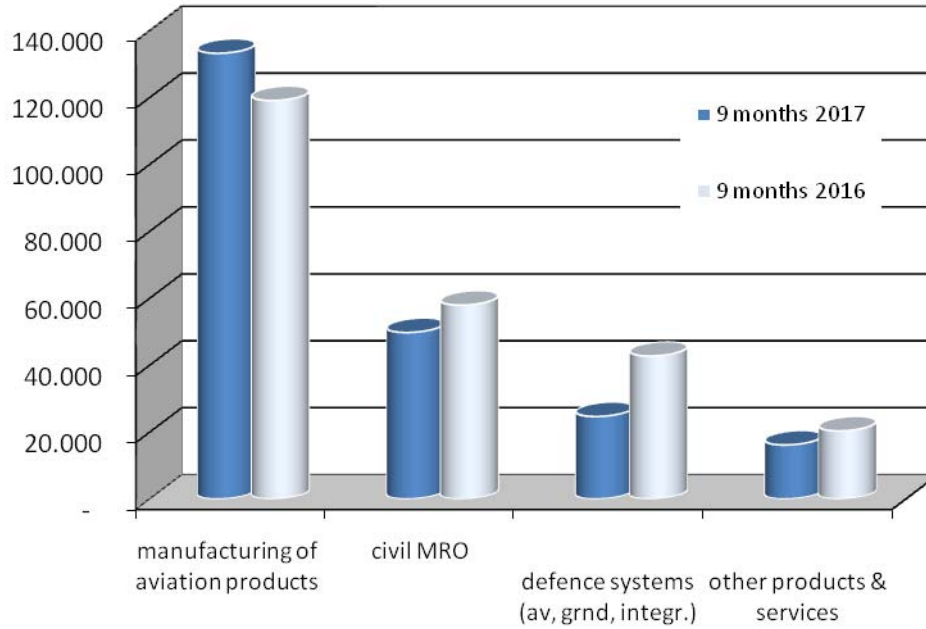
In June 2017, on the occasion of Airbus Group Detail Parts Supplier Conference, Aerostar received the award for the performance achieved reflected in the co-operation with Airbus/PAG outlining the appreciation for *Aerostar support for Airbus programmes successes*.

Aerostar’s positioning on the market is characteristic for the tier 2 suppliers in the global supply chains in the aviation industry.

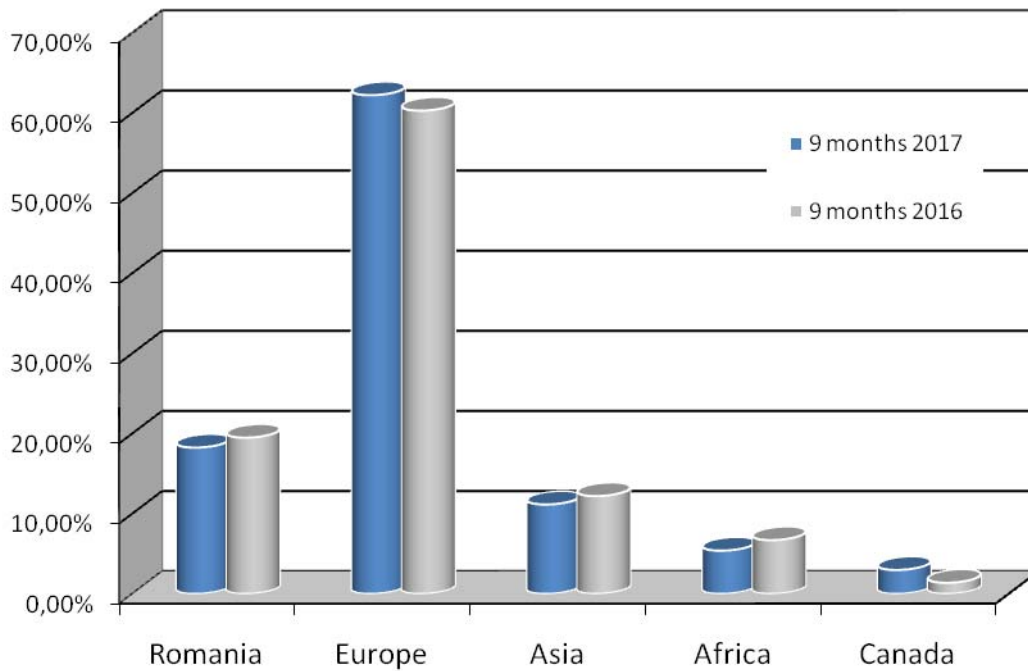
AEROSTAR’s contribution in the supply chains of the two dominant global players, AIRBUS and BOEING, is based on the technological development and of the production systems.

In the period January-September 2017 AEROSTAR sales were in amount of 223.799 thousand lei, of which the equivalent of 182.962 thousand lei was export sales, to a large variety of customers, in a large number of different production programmes.

Comparative evolutions of the sales of products and services:



Aerostar sales were made on a global market, of large geographical spread, both in the civil aviation and in defence.



INVESTMENTS

The expenses for investments made in the period January-September 2017 totalled 11.745 thousand lei, fully financed from Aerostar funds.

From this amount, 11.009 thousand lei was spent for the acquisition of technological equipment, hardware, measurement and control units, installations, finalization of the refurbishment and modernizations of the work spaces and improved comfort for the employees (dining rooms, locker rooms, etc.), outer thermoinsulating of a number of production hangars, while 204 thousand lei was spent for the acquisition of software licenses and 532 thousand lei for the development of the IT system applicable to the production management.

On 7 September 2017, in accordance with the provisions of Bucharest Stock Exchange Code (art.99) AEROSTAR informed all shareholders and investors in connection with the signature with the County Council Iasi, of the Lease (concession) for a surface area of 16.000 sm, for an initial duration of 49 years, located within the premises of the Iasi International Airport.

This step opens the road to make the investment to build a new production capacity to perform civil aircraft maintenance activities.

AEROSTAR AS AN EMPLOYER

In the first 9 months 2017 a number of 2100 employees were working in AEROSTAR, of which 153 were made available by AIRPRO CONSULT S.R.L., which operates on the market as a temporary labour agent.

During this period Aerostar continued the recruiting and selection policies for the replacement manpower; the qualification and training processes were continued with the objective to train the new employees at the level of the requirements of the jobs released through the natural departure of the older employees.

The mobility rate foreseen is 7-10%, which outlines the special efforts made by the company with the employees' development programmes.

AEROSTAR provides training of its employees for specialties and skills which are not provided otherwise on the labour market.

The total attendance in the professional formation programmes was 2.526 as a number while the expenses for this activity were in amount of 940 thousand lei.

These figures do not include the numbers from the people employed through the temporary labour agent company and utilized in the production processes in AEROSTAR.

The average union membership was 75,62%.

The negotiations for a new collective labour contract were finalized on 22 March 2017 with validity in force from the date of 01 April 2017 until 31 March 2019.

QUALITY AND ENVIRONMENT

Aspects related to the Quality & Environment Management System

During the first nine months 2017 AEROSTAR maintained the certifications and approvals issued either by the certification bodies, or by the customers or other regulatory authorities.

As regards **quality**, surveillance audits were performed in AEROSTAR both by the Romanian Civil Aeronautical Authority in order to maintain the Part 21G and Part 145 approvals, by the certification body AEROQ in order to maintain the certification in accordance with the requirements of SR EN ISO 9001, by DQS in order to maintain the certification in accordance with the requirements in AS9100, as well as by OMCAS in order to maintain the certification in accordance with the requirements in AQAP 2110.

On 20 September 2017, Aerostar obtained the approval certificate for civil aircraft maintenance from the Federal Aviation Authority, the equivalent of the European agency EASA; the new approval will provide for the company to perform Part 145 maintenance work, for customers who have aircraft under lease from USA entities, or under FAA jurisdiction.

As regards the **environment**, four inspections were made by Garda de Mediu (environment police), an on site inspection by the Environment Protection Agency Bacau as a first step in the process to renew the approval, as well as the audit for the validation of the GES (greenhouse effect gas) certificates for the year 2016, as well as the monitoring audit for the environment management system made by the auditing team from DQS Germany.

Also, the GES certificates were submitted in order to provide compliance with the applicable legislation.

During this period also, water, air and soil monitoring inspections were made for the entire company site in accordance with the requirements in the Integrated Environment Approval.

The process to get a new integrated environment approval is under way, the same for the water management approval.

IMPORTANT EVENT DURING THE REPORTING PERIOD

**- DISTRIBUTION OF THE DIVIDENDS FROM THE PROFIT OF THE YEAR 2016,
DISTRIBUTION METHOD AND PERIOD**

On the date of 1 September 2017, AEROSTAR informed the shareholders of the company in a press release on:

- ✓ The coordinates for the payment of the dividends to the shareholders, distributed from the profit of the year 2016:

- a) **the gross dividend** per share is **0.09 lei**, of which the tax on dividends withheld is as per the legal rate in force on the payment date; the payment related costs will be covered from the net dividend value;
- b) **the "ex date"** was set for the date of 31.08.2017 as approved by the O.G.M.S. held on 20.04.2017;
- c) the shareholders entitled to receive dividends from the net profit of the financial year 2016 are those registered in the consolidated shareholders' register on **01.09.2017 - Record Date** (approved by the O.G.M.S. held on 20.04.2017);
- d) the dividends distributed from the profit made during the financial year 2016 were paid to the shareholders starting with the date of **20.09.2017- Payment Date** (approved by the O.G.M.S. held on 20.04.2017);

- ✓ **Payment of the dividends** (the detailed presentation was included in the press release)

1. In case of a shareholder who has an account opened with an intermediary participating in the clearing-settlement and register system of Depozitarul Central, the payment of dividends is made through Depozitarul Central and the participants in the clearing- settlement and register system of Depozitarul Central.
2. In case of a shareholder who does not have an account opened with an intermediary participating in the clearing-settlement and register system of Depozitarul Central, the payment of dividends is made by Depozitarul Central through **CEC Bank S.A.** (the payment agent designated by **AEROSTAR**).
3. In case of deceased shareholders, the dividends are paid upon request to the successors only after Depozitarul Central performs the transfer of shares to the inheritors' names.

EVENTS SUBSEQUENT TO THE DATE OF THE 9 MONTHS REPORT

In the field of civil aviation, on the date of 16 October 2017, Airbus si Bombardier announced their partnership set for the “C series” programme, agreement which was designated as the biggest surprise of the year 2017 in aviation.

This agreement is considered to impact on the profile of the aviation market by bringing together Airbus’ global reach and scale with Bombardier’s newest, state-of-the-art jet aircraft family, positioning both partners to fully unlock the value of the C Series platform and create significant new value for customers, suppliers, employees and shareholders.

Under the agreement, Airbus will provide procurement, sales and marketing, and customer support expertise to the C Series Aircraft Limited Partnership (CSALP), the entity that manufactures and sells the C Series.

Aerostar is a significant supplier in the Airbus chain of supply, while being also a supplier of parts and components for Bombardier programmes since 2015.

“At Victoria Palace the Memorandum of Understanding was executed, which will enable launching the procurement programme for Army’s Patriot systems”

On 18 October, at Victoria Palace, in the presence of Mihai Tudose, Romania’s Government Prime Minister, the Memorandum of Understanding was signed between the Ministry of Economy, through S.C.Aerostar S.A. and the American company Raytheon International Defence System, on the cooperation in the field of the equipments and components related to the integrated multilevel air defence system.

At the signature event attended officials of the Government of Romania, Hans Klemm, the Ambassador of the United States of America in Romania, representatives of the companies Raytheon and Aerostar.

The document provides the technology transfer and technical assistance necessary to modernize and implement new technologies for the existing equipments, as well as the technical support specific for the Patriot missile system.

The signature of the memorandum enables the launching of the procurement procedures for the first Patriot system for the inventory of the Romanian Army, in accordance with the Procurement Plan for 2017-2026 and within the context of Romania’s arrangements as partner state in NATO’s eastern flank and strategic partner in the relation with USA.

The representatives of the two signatory companies, Grigore Filip, president, general director of S.C.Aerostar S.A. and William Schmieder, President Raytheon International Defence System Europe, respectively, outlined that this is a first step of a long term cooperation, which includes Romania in the major acquisition programmes in the field of defence. New opportunities will thus be created to implement the state-of-the-art technologies in the field while the development of the most advanced air and missile defence system is not only a security warrant for Romania, but also accomplishing Romania’s assumed commitments as a NATO partner state.

FINANCIAL POSITION AND PERFORMANCE OF THE COMPANY
IN THE PERIOD JANUARY- SEPTEMBER 2017

Financial Position

	30 September 2017	31 December 2016
ASSETS		
Immobilized Assets		
Tangible Immobilizations	139.946	146.007
Intangible immobilizations	1.500	1.689
Investment Property	6.961	6.499
Financial Immobilizations	195	202
Total Immobilized Assets	148.602	154.397
Circulating Assets		
Inventories	71.888	50.272
Commercial receivables and other receivables	53.751	42.749
Cash and cash equivalents	130.404	163.153
Total Circulating Assets	256.043	256.174
Expenses in advance	658	521
Total Assets	405.303	411.092
COMPANY CAPITALS AND DEBTS		
Capital and reserves		
Registered capital	48.729	48.729
Current result	26.984	56.472
Result carried forward	57.166	56.331
Other reserves	107.224	67.833
Debts/Receivables ref tax on deferred profit recognized on account of company capitals	(7.364)	(6.362)
Distribution of profit of the period as legal reserve	(5.719)	(9.095)
Total Company Capitals	227.020	213.908
Long term debts		
Subsidies for investments	13.295	15.001
Revenues registered in advance	29	33
Debts ref tax on deferred profit	5.466	3.804
Total long term debts	18.790	18.838
Long term provisions	74.333	71.448
Current debts		
Commercial debts	33.399	37.472
Debt with tax on current profit	850	2.215
Other current debts	7.943	14.414
Total current debts	42.192	54.101
Short term provisions	42.968	52.797

S.C. AEROSTAR S.A. BACAU
REPORT OF THE BOARD OF DIRECTORS FOR 9 MONTHS 2017

Financial Position (continued)

	30 September 2017	31 December 2016
Total provisions	117.301	124.245
Total debts	60.982	72.939
Total company capitals, debts and provisions	405.303	411.092

S.C. AEROSTAR S.A. BACAU
REPORT OF THE BOARD OF DIRECTORS FOR 9 MONTHS 2017

Performance achieved

	30 September 2017	30 September 2016
Revenues from sales	223.799	240.127
Other revenues	2.328	2.690
Revenues related to the cost of inventories of products And production in progress	27.034	16.180
Revenues from production of immobilizations	756	997
Total Revenues from Operations	253.917	259.994
Expenses		
Expenses with materials	(92.483)	(90.196)
Expenses with employee benefits	(79.930)	(72.046)
Expenses with amortization of immobilizations	(17.587)	(11.731)
Influence of adjustments related to current assets	(11.870)	(26)
Influence of adjustments related to provisions	6.944	1.373
Expenses related to external services	(20.691)	(27.833)
Other expenses	(1.872)	(1.641)
Total Expenses with Operations	(217.492)	(202.100)
Profit from Operations	36.425	57.894
Financial Revenues	3.332	4.103
Financial Expenses	(5.099)	(4.754)
Financial Period	(1.767)	(651)
Profit before tax	34.658	57.243
Tax on current profit, deferred	(7.674)	(8.909)
Net Profit of the Period	26.984	48.334

B. ECONOMIC & FINANCIAL INDICATORS

Indicator	Calculation Method	Result
1. Current Liquidity Indicator	Current Assets/Current Debts	6,07
2. Endebtness Ratio	Capital loaned/Company capital x 100	0
3. Rotation of Client Debits	Average Client Balance/Turnover x 270	56
4. Rotation of Immobilized Assets	Turnover/ Immobilized Assets	1,51

GENERAL DIRECTOR,
GRIGORE FILIP

FINANCIAL DIRECTOR,
DORU DAMASCHIN

**INDIVIDUAL FINANCIAL STATEMENTS
AS ON 30 SEPTEMBER 2017**

**The individual financial statements prepared for 30 September 2017
were audited by the internal auditor of the company AEROSTAR S.A. Bacau**

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S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION FOR 30 SEPTEMBER 2017
(all amounts are in thousands lei unless specified otherwise)

	Note	30 September 2017	31 December 2016
ASSETS			
Immobilized Assets			
Tangible Immobilizations	4;3	139.946	146.007
Intangible Immobilizations	5;3	1.500	1.689
Property Investments	4;3	6.961	6.499
Financial Immobilizations	6;3	195	202
Total Immobilized Assets		148.602	154.397
Circulating Assets			
Inventories	8;3	71.887	50.272
Commercial Receivables and other receivables	9;10	53.751	42.749
Cash and cash equivalents	12;3	130.405	163.153
Total Circulating Assets		256.043	256.174
Expenses in advance		658	521
Total Assets		405.303	411.092
COMPANY CAPITALS AND DEBTS			
Capital and reserves			
Registered Capital	13	48.729	48.729
Current Result		26.984	56.472
Result carried forward	13;3	57.166	56.331
Other reserves	14;3	107.224	67.833
Debts/Receivables from tax on deferred profit Recognized on account of company capitals	7	(7.364)	(6.362)
Profit distribution as legal reserve		(5.719)	(9.095)
Total company capitals		227.020	213.908
Long term Debts			
Subsidies for investments	20;3	13.295	15.001
Revenues registered in advance	11	29	33
Debts related to tax on deferred profit	7	5.466	3.804
Total long term Debts		18.790	18.838
Long term Provisions	17;3	74.333	71.448
Current Debts			
Commercial Debts	11	33.399	37.472
Debt with tax on current profit	11	850	2.215
Other Current Debts	11	7.943	14.414
Total Current Debts		42.192	54.101
Short term Provisions	17;3	42.968	52.797
Total Provisions		117.301	124.245
Total Debts		60.982	72.939
Total company capitals, debts and provisions		405.303	411.092

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS FOR 30 SEPTEMBER 2017
(all amounts are in thousands lei unless specified otherwise)

	Note	30 September 2017	30 September 2016
Revenues from Sales	14	223.799	240.127
Other revenues	14	2.328	2.690
Revenues from inventories of finished products and production in progress	14	27.034	16.180
Revenues from production of immobilizations	14	756	997
Total Revenues from Operations		253.917	259.994
Expenses			
Expenses with materials	15	(92.483)	(90.196)
Expenses with employee benefits	15	(79.930)	(72.046)
Expenses with amortization of immobilizations	15	(17.587)	(11.731)
Influence of adjustments ref current assets		(11.870)	(26)
Influence of adjustments ref provisions	15	6.944	1.373
Expenses ref external services	15	(20.694)	(27.833)
Other expenses	15	(1.872)	(1.641)
Total Expenses with Operations		(217.492)	(202.100)
Profit from Operations		36.425	57.894
Financial revenues	16	3.332	4.103
Financial expenses	16	(5.099)	(4.754)
Financial Profit/Loss		(1.767)	(651)
Profit before tax		34.658	57.243
Tax on current profit and deferred	7	(7.674)	(8.909)
Net Profit of the period		26.984	48.334

S.C. AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT FOR 30 SEPTEMBER 2017
(all amounts are in thousands lei unless specified otherwise)

	<u>30 September 2017</u>	<u>30 September 2016</u>
Net Profit of the period	26.984	48.334
Tax on profit deferred recognized on account of company capitals	(167)	-
Other Elements of Global Result	(167)	-
Total Global Result of the period	26.817	48.334

S.C. AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE COMPANY CAPITALS MODIFICATIONS FOR 30 SEPTEMBER 2017
(all amounts are in thousands lei unless specified otherwise)

	Registered Capital	Reserves	Tax on deferrred profit recognized on account of company capitals	Result Carried forward	Result of the period	Total company capitals
Global Result						
A.Balance on 1 January 2017	48.729	67.833	(6.362)	56.331	47.377	213.908
Profit of the period					26.984	26.984
Other Elements of Global Result						
Set-up of tax on deferred profit recognized on account of company capitals			(1.002)	835	-	(167)
Distribution of the profit of 2016 on destinations decided by shareholders in the GMS in April 2017 (NOTE 13)				47.377	(47.377)	-
Distribution of the profit for half tear 2017 as legal reserves in gross amounts		5.719		-	(5.719)	-
Total global result of the period		5.719	(1.002)	48.212	(26.112)	26.817
Statutory reserves allocated from the 2016 profit		33.672		(33.672)		-
Dividends distributed from profit of the year 2016				(13.705)		(13.705)
Transactions with shareholders recognized directly in company capitals		33.672		(47.377)		(13.705)
B.Balance on 30 September 2017	48.729	107.224	(7.364)	57.166	21.265	227.020
C.Modifications of company capitals (NOTE 13)	0	39.391	(1.002)	835	(26.112)	13.112

S.C. AEROSTAR S.A. BACAU
STATEMENT OF THE TREASURY CASH FLOWS (direct method) FOR 30 SEPTEMBER 2017
(all amounts are in thousands lei unless specified otherwise)

	Note	30 September 2017	30 September 2016
TREASURY CASH FLOWS FROM OPERATIONS			
collected from customers	9	222.915	246.799
recovered from taxes and excises from state budget		4.277	4.344
payments to suppliers and employees		(181.615)	(173.582)
payments of taxes, contributions, dues to state budget		(38.440)	(37.739)
payments of tax on profit		(7.493)	(8.336)
NET CASH FROM OPERATIONS		(356)	31.486
TREASURY CASH FLOWS FROM INVESTMENTS			
collected from non-reimbursable funds	20	0	4.671
collected interest from loans granted		4	5
collected interest from bank deposits		369	406
collected from sales of tangible immobilizations		73	5
dividends collected from affiliated entities	18	189	231
installments collected from loans granted		3	3
payments for purchasing of tangible and intangible immobilizations		(18.717)	(16.712)
NET CASH FROM INVESTMENT OPERATIONS		(18.079)	(11.391)
TREASURY CASH FLOWS FROM FINANCING OPERATIONS			
Dividends paid but not collected, recovered		29	88
gross dividends paid		(13.160)	(12.380)
NET CASH FROM FINANCING OPERATIONS		(13.131)	(12.292)
Net increase/decrease of cash and cash equivalents		(31.566)	7.803
Cash and cash equivalents at beginning of period		163.153	101.299
Effect of currency exchange rates variations on cash and cash equivalents		(1.182)	(268)
Cash and cash equivalents at end of period	12	130.405	108.834

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR 30 SEPTEMBER 2017

NOTE 1- GENERAL INFORMATION

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

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

In accordance with the classification of the activities in the national economy, the main object of activity of the company is "Manufacture of aircraft and spaceships" - code 3030.

The main field of activity of AEROSTAR is production.

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

On 29 September 2017 AEROSTAR obtained the new registration certification with the European registration index (EUID): ROONRC.J04/1137/1991.

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

During the period January-September 2017, no subscriptions of new shares and nor contribution certificates, convertible bonds, warrants, options or similar rights were recorded.

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NOTE 3 – ACCOUNTING POLICIES

The accounting policies represent the specific principles, bases, 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 consideration 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.

The accounting policies were developed in order to assure the provision through the financial statements, of information which shall be *intelligible*, *relevant* for users' needs in making decisions, *credible* in the sense of faithfully representing the assets, debts, financial position and profit, or the company loss, shall not contain significant errors, shall not be biased, shall be prudent, complete under all significant aspects, *comparable* so the users can compare the company's financial statements over time, to identify the tendencies in the financial position and its performance and to be able to compare the financial statements with the ones from the other companies in the evaluation of the financial position and the performance.

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

How the modifications are applied in the accounting policies:

The entity takes into account a modification in the accounting policy that 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 time application of an IFRS that does not include specific transitory provisions.

The presentation of the information:

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

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

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

- the nature of the modification of accounting policy;

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

General accounting policies

The general accounting policies which are the basis of 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 principle of continuity. The company continues its operations normally, without entering into liquidation or without reducing significantly its activity.
- The principle of consistency of methods. The evaluation methods and the accounting policies are applied consistently from one financial year to another.
- The principle of prudence, according to which the assets and revenues must not be overrated, while the liabilities and expenses must not be underrated.

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

The financial statements reveal all the debts 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 the statement was prepared.

To this end, the possible provisions shall also be accounted, as well as the debts resulted from the contractual provisions. This is accounted in the balance sheet or in the explanatory notes according with the nature of such debt.

All the depreciations are accounted, no matter if the result of the period is profit or loss. 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 independence
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 prevailing economic aspects over the 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.

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Materiality and Aggregation

Each significant class of similar elements is separately represented in the financial statements. The elements of different nature or functions are presented separately, except for the case when these are insignificant.

The information is significant if its omission or its misleading presentation can influence the economical decisions made by the users based on the financial statements.

To determine which information is significant, the following materiality thresholds are set, depending on the nature of the elements:

Element for which materiality threshold is set	Method of calculation	Value (%)
Immobilized Assets	Analysed asset/ Total Immobilized Assets	0,5%
Current Assets	Analysed Asset/ Total Current Assets	0,5%
Debts	Analysed debts/Total debts	0,25%
Revenues from Operations	Analysed income/ Total operating income	0,25%
Financial income	Analysed income/Total financial revenues	0,25%
Operating Expenses:		
-expenditure on inventories of materials	Analysed expense/Total inventories expense	0,25%
-expenditure with manpower	Analysed expense /Total expenditure with manpower	0,1%
-amortization expense	Analysed expense /Total amortization expense	0,5%
- other expenses	Analysed expense /Total other expenses	0,25%
Financial Expenses	Analysed expense /Total financial expenses	0,25%

Accounting policies on estimates and errors

Estimates

The preparation and presentation of the yearly individual financial statements, in accordance with IFRS suppose the use of estimates, judgements and assumptions affecting the application of the accounting policies as well as the reported value of assets, debts, revenues and expenses. Such estimates and judgments 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 the company management.

The estimates, as well as the judgements and assumptions behind them are reviewed on a regular basis, and the result thereof is recognized during the time period when such estimate was reviewed.

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

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

The company uses estimates in order to determine:

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- uncertain customers and adjustments for the depreciation of the related receivables;
- the value of the provisions for risks and expenses to set up at the end of a time period (month, quarter, year) for litigations, for the dismantling of tangible 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.

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 determine the extent of depreciation (if any). The recoverable value is the maximum between the fair value minus the sale expenses and the value during 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 reviews 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 inventories of raw materials and materials requiring the creation of adjustments for depreciation;
- deferred taxes.

Presentation of information

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

Errors

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

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

The company shall retroactively correct the significant errors of the previous period from the first set of financial statements whose publication was approved after their discovery, through:

- restating the comparative amounts for the previously presented period in which the error occurred, or
- if the error occurred before the first previously presented period, restating the opening balances of assets, debts and company capitals for the previous presented period.

The company shall present the following information:

- the nature of the error for the previous period;
- in so far as possible, for each of the previously presented period, the value of the correction;
- ~ for each row item affected from the financial statement;
- ~ for the basic result and diluted per share
- the amount of the correction at the beginning of the first period, previously presented;
- if the retroactive restating is impossible for a specific previous period, the circumstances which lead to the existence of such circumstance and a description of how and when such error was corrected.

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Accounting policy on immobilizations

TANGIBLE IMMOBILIZATIONS

Recognition

The company recognizes the intangible immobilizations when:

- generating future economic benefits is probable for such asset
- The cost of the asset can be assessed in a reliably 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 for administrative purposes;
- are expected to be used over several periods of time.

The following are not capitalized: repairs and maintenance and general administration expenses. The specific recognition criteria for subsequent expenditures of the nature of the work performed at the property, plant and equipment from the construction area:

- The lifespan of the work performed shall be at least equal with the expected remaining useful life of the building in question.
- The cost of the work is over 25% of the accounting value of the building.

The spare parts and service equipment are generally accounted for as inventories and recognized as expenses when they are consumed.

If the spare parts and the service equipment can be used only in relation with a tangible immobilization element, they are accounted for tangible immobilizations, where it is possible to establish the initial purchase value (at commissioning) of the part being replaced.

In order to decide if the recognition is made separately, each case in particular is reviewed on separate components using the professional judgement.

The company management set an asset capitalization threshold of 2,500 lei. All purchases below this amount shall be considered expenses of the time period.

Exceptions: The computers are considered tangible immobilizations amortizable regardless of their entry value, and they shall be amortized throughout the useful lifetime established by the reception board. Also, the tooling and jigs are accounted as inventories and recognized as expenses of the period when they are consumed, regardless of their entry value, taking into account that they usually have a useful lifetime of less than a year, as well as their degree of customization (they are intended to be used for a particular type of product/service).

Derecognition

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 derecognition of a tangible immobilization is included in the profit or loss when the immobilization is derecognized.

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Evaluation at recognition

The costs at which a tangible immobilization is accounted comprise:

- the purchasing price, including customs taxes and non-reimbursable purchasing fees net of any discount and commercial deductions;
- the 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 to dismantle and restore the site where it is located. For such costs to be accounted, the provisions set forth in IAS 37 "Provisions, contingent liabilities and contingent assets" apply.

IAS 2 "Inventories" is applicable to determine the costs to produce the 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 "Leases".

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 their cost minus the aggregate amortization and any aggregate loss from depreciation.

Reclassification in investment property 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 purposes, into a tangible immobilization used to be rented, this is reclassified into an investment property, 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 residual values are reviewed 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, changes in accounting estimates and errors".

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 on the date when the asset is derecognized.

The revaluation surplus included in the retained earnings resulting from using fair value as deemed cost at the date of transition to IFRS, is capitalized through the transfer in the retained earning representing a surplus realised from revaluation reserves during the use of the assets.

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 jointly.

Usually the land has unlimited 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 "Impairment 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 judgment in the recognition of an intangible immobilization in order to decide if the most important component is the tangible or the intangible one.

The criteria for recognition of intangible immobilizations:

- the asset can be identifiable
- the company has 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.

Derecognition

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

Evaluation at recognition

All 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 the preparation of that asset for use.

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In case of intangible immobilizations internally generated such execution phases 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 asset, provided the following conditions are demonstrated:
 - Technical feasibility to complete the asset, so that it is available for use or sale;
 - Availability of adequate resources – technical, financial, human to complete the development;
 - Intention to complete and use or sell the intangible asset;
 - Capacity to use or sell the asset;
 - The manner in which the asset will generate future economic benefits;
 - Capacity to assess the related costs.

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

Items not capitalized by the company:

- internally generated trademarks
- publication titles
- lists of licenses (except as provided in IFRS 3)
- other similar elements.

Evaluation after recognition

The company has adopted as accounting policy the cost-based 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 expected to generate net cash inputs.

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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 on the date when the asset is derecognized. 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 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 residual 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 residual 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 executed whenever there are indications that an intangible immobilization with an indefinite lifetime might be depreciated.

INVESTMENT PROPERTY

Recognition

An investment property is that property (land or 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 purposes;
- sale in the normal course of activity.

An investment property must be recognized as an asset only and only when:

- it is possible that the future economic benefits related to the investment property are generated towards the company;
- the cost of the investment property can be assessed in a reliable manner.

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Derecognition

The investment property must be derecognized upon assignment or when finally withheld from use and no more future economic benefits are likely to arise from such disposal.

The disposal of an investment property can be made by sale or by contracting a financial lease. To determine the date when the investment property was disposed of, the criteria of IAS 18 "Revenues" or IAS 17 "Leases" are applied.

Any earnings or losses generated by the write-off or assignment of an investment property must be recognized in the profit or loss at the time of withdrawal from use or assignment.

Classification

The category of investment property comprises:

- land held with a view 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 lease;
- property to be set up or refurbished for future use as an investment property.

Certain properties may include a part held for renting or with a view to increasing the capital value, and another part held for use in the production of goods, 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 an investment property and the other as a tangible immobilization.

If the parts cannot be sold or rented separately, then the property must be treated only as investment property 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 judgement is used for the appropriate decision.

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

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

Evaluation upon recognition

An investment property must be assessed initially on cost, including any other expenses directly attributable. If the payment for an investment property 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 bearing an interest.

Evaluation after recognition

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After the initial recognition, the company has opted for the cost-based model for all its investment property in accordance with the dispositions of IAS 16 for this model.

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

The transfers between categories do not change the accounting value of the transferred investment property, nor do they change the cost of that property in terms of evaluation or of the presentation of the information.

Amortization

The investment properties are amortized in accordance with the provisions set forth in IAS 16 "Property, Plant and Equipment".

ASSETS PURCHASED BASED ON LEASES

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

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

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

The other leases are classified as operational leases.

FINANCIAL IMMOBILIZATIONS

The financial immobilizations account:

- Shares held in the affiliated companies, financial assets classified as investments retained till 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 with the applicable law.
- Other immobilized receivables, as well as their related interests. This category comprises the warranties, deposits and bails deposited at third parties, the receivables related to financial leases.

Evaluation upon recognition

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

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Evaluation after recognition

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

Accounting policies on inventories

The inventories are assets:

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

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

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

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

The acquisition costs of the inventories comprise the purchasing price, the import customs taxes and other taxes (except the taxes the entity can recover at a later time from the fiscal 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 labor used to make that product. The allocation of the fixed overhead on the costs is based on a normal production capacity, expressed in direct labor hours.

The calculation of such inventories 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 account of the inventories, and such fungible assets, are evaluated and accounted by applying the Average Weighted Cost method.

Borrowing Cost

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

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The borrowing 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 assets includes only those borrowing costs connected with the production period.

The inventories category comprises:

- raw materials participating directly in the manufacture of products and found on the completed finished product in total or in part, either in their original form or transformed;
- consumables (auxiliary materials, fuels, packaging materials, spare parts and other consumables), participating or contributing to the manufacturing or in the operational process, typically not identifiable in the finished product;
- materials such as inventory objects;
- products, such as:
 - blanks/ forged items
 - finished products;
 - rejects, recoverable materials and waste;
 - merchandise;
 - packing, including reusable packaging material, purchased or manufactured, intended to be used on the sold products, and which can be kept temporarily by third parties and returned as established in the agreements;
 - production in progress.
 - goods in custody, for further processing or in consignment at third parties.

Distinct accounts are provided for purchased inventories, for which the risks and benefits have been transferred, but are still in the purchasing process.

The accounts of inventories are kept both in terms of quantity and value, by using the permanent inventory method.

Under these conditions, the accounts contain a record of all the entry and exit operations, thus allowing an accurate real time determination of the existing inventories, both in terms of quantity and value.

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

Evaluation upon recognition

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

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

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In terms of inventories, all entries of material goods in the company are submitted to the incoming reception by the reception board while the registration thereof is carried out in the stores areas.

The records in the stores are kept by the storekeeper in charge with the account.

The material goods received for processing, in custody or in consignment are received and registered distinctly as entries 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 inspection of the goods which are in the company property, the following procedure is observed:

- 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, and 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, and the following procedure is observed:

- the goods sold and not delivered are distinctly recorded in the company accounts, while in the company accounts they are registered as off-balance sheet, 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 concluded.

Evaluation after recognition

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

In AEROSTAR, 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 liabilities

The company liabilities are recorded in the accounts as third-party accounts. The bookkeeping of the suppliers and other liabilities are kept on categories, as well as on each natural or legal 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 corresponding debt bookkeeping, without transit through the revenues and expenditure accounts.

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The operations that 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)

Debts with settlement in foreign currency

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

Regular evaluation

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 month, as notified by the National Bank of Romania. The variations in 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 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 changes 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 shall be classified as short term debt, named also as current debt when:

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

All the other debts shall be classified as long term debts.

Short-term liabilities

The debts that are due within a period exceeding 12 months are long-term debts.

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

- a) the initial due date 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.

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The long-term liabilities 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 the 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 forecasted 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 sale of unused certificates is recognized only upon the actual sale thereof.

Receivables include:

- commercial receivables, which are amounts owed by the customers for goods sold and services supplied in 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 and services;
- receivables related to manpower and state budget

The receivables are registered based on accrual accounting in accordance with law or subject to the agreements in place.

The receivables account provides the record of company receivables in relation to customers, manpower, social security, state budget, shareholders and various payers.

The customer accounts are kept on categories (internal customers for services and products, as well as external customers for services and customers) and on each natural and legal person.

Any debts resulting from treasury advances not settled, from distributions of work outfits, as well as the debts 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 that 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 the currency exchange rate

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

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

At the end of each period, 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 accounts as revenues or expenses from exchange rate differences, as applicable.

At the end of each period, 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 the month. In this case, the differences that arise are recognized in the accounts as financial revenues or expenses, as applicable.

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

The receivables with prescribed past due dates are deducted from the accounts only after all legal steps have been made for their settlement.

The accounting of uncertain receivables is kept directly 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 notified by the National Bank of Romania, as valid on the date when the financial year ends.

Accounting policies on the cash and cash equivalents and their presentation in treasury cash-flow statements

Cash comprises cash on hand and at banks;

Cash equivalents shall include:

- Short-term bank deposits, which are known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cheques, commercial effects received from clients and lodged upon maturity in bank in order to collect their c/value
- Collateral deposits set at third parties;

Treasury cash flows represent the cash in- and out-flows and cash equivalent, classified on operating, investment and financing activities.

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Accounting of cash and cash equivalents and their movement, as a result of amounts collected and payments realised, shall be kept in lei and foreign currency.

Operations related to amounts received and paid in foreign currency are registered in accounting at the foreign exchange rate communicated by the National Bank of Romania, valid on the date of carrying out the operations, except the buying and selling of foreign currency operations which shall be registered in accounts at the time of settlement of the operation and at the rate exchange negotiated with the commercial bank under a contract of currency sale-purchase.

At the end of each reporting period the cash and cash equivalents expressed in foreign currency shall be reassessed at the foreign exchange rates communicated by the National Bank of Romania and valid from the last banking day of the month in question, the favourable or unfavourable rate differences recorded being recognised in accounting at the incomes from the favourable rates, respectively at the expense from the unfavourable rates differences.

The treasury cash flows are reported by using the direct method through which the major classes of gross amounts collected and paid in cash arising from operational, investing and financing activities.

The treasury cash flows arising from taxes paid on income are classified as treasury cash flows from operating activities.

The treasury cash flows arising from interest and dividends are classified as cash flows from investment activities.

The treasury cash flows arising from interest and dividends paid are classified as cash flows and financing activities.

The effect of changes in foreign exchange rates on cash and cash equivalents is presented in treasury cash flows which is separately from the cash flows arising from the operational, investments and financing activities with a view to reconcile cash and cash equivalents at the beginning and at the end of the reporting period.

Transactions which do not require the use of cash or cash equivalents are included in treasury cash flows statement, but the relevant information regarding these transactions will be presented in another part of financial statements.

Accounting policies on the recognition of expenses

All 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 decrease of an asset or to a debt increase. As a result, the recognition of the expenses takes place at the same time as the recognition of the debt increase and the decrease of the assets.

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

- Consumptions of inventories;
- work performed and services supplied for the benefit of the company;
- expenses for employee benefits;
- execution of legal or contractual obligations;

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- provisions;
- amortizations;
- adjustments for depreciation or loss of value.

The accounts of the expenses is kept by 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 consumables, the purchase costs of materials which are not inventories, the counter value of used utilities, the cost of sold goods;

- expenses with manpower– employee benefits (salaries, insurance and social security and other manpower-related expenses in charge of the company: expenses with training, meal tickets and social expenses);

- expenses with: services executed by third parties, insurance premiums, rents, protocol, advertising and publicity, transportation of goods and personnel, reassignments of personnel, bank services, mail and telecommunications, etc.;

- other operational expenses: losses from receivables and various debtors, fines and penalties, etc.

Employee Benefits

The employee benefits are various counter-services granted by the company in exchange for the service performed by the employees.

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

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

In AEROSTAR the following categories of employee benefits are recognized:

- short-term benefits such as salaries and contributions to social security, paid yearly vacation and 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, for example retirement related benefits
- benefits for termination of the labour agreement

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Benefits in case of lay-off of the employees

The benefits for the lay-off of the employees for non-culpable reasons are provided in the collective labour agreement.

The financial expenses are:

- expenses related to financial investments assigned;
- unfavourable changes in the currency 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 borrowing 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 actual interest method.

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

At the end of each reporting period, the elements expressed in foreign currencies are converted into the exchange rates applicable on that day.

The revenues or losses from changes in the exchange rates are reported on a 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, subject to 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 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 a debt decrease. Consequently, the revenues are recognized at the same time as the recognition of the asset increase or debt decrease.

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

The revenues are classified as follows:

- Revenues from operations;

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- Financial revenues;
- Extraordinary revenues.

Revenues are recognized based on accrual accounting.

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, subject to the management approval.

The revenues are evaluated at the fair value of the counter value received or likely to be received. The sales revenues are decreased in case of returns, discounts and other similar discounts.

Operating income include:

- revenues from sales (of goods, of services, of goods, of waste products);
- revenues related to the cost of inventories of products;
- revenues from the production of immobilizations;
- revenues from the adjustments for assets resumed, or from reductions of provisions or from provisions resumed
- other operating income.

Sales of goods

The revenues from the sale of 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 sales of 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 status of execution of the transactions, as on the report date. The execution status is assessed in relation to the review of the work carried out. In case the result cannot be estimated, the revenues are recognized down to the level of the recoverable costs.

Revenues from rent

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

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

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The revenues from interest are recognized in the profit and loss account based on accrual accounting, using the actual 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 is 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 regarding trade and financial discounts

Trade discounts are:

- a) discounts received for quality defects and are practiced as to the sale price
- b) volume discounts received in case of the sales volumes higher than agreed if the buyer has a preferential status, and
- c) discounts as price reductions calculated in the frame of the overall transactions with the same third party, during a specified period.

The financial reductions are under the form of settlement discounts of settlement for the debts paid off before the normal due term.

Recognition:

Commercial reductions granted by the supplier and entered on the purchase invoice are adjusted in the sense of reducing the acquisition cost of the goods.

Commercial discounts received after invoicing corrects the cost of the inventories to which they refer, if these are still in store. If the inventories for which subsequent discounts were received are no longer in store, these shall be kept in accounts (account 609 "Trade discounts received"), on account of third parties accounts.

Commercial discounts granted after invoicing, no matter the period to which they refer, are kept in accounts (account 709 "Trade discounts granted), on account of third parties accounts.

Accounting policies on provisions

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.

Provisions are accounted on types, depending on the nature of the function, the purpose thereof or the scope they were set up for.

Warranty Accounting

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The company sets up the warranty provision when the product or service covered by the warranty is sold.

The value of the provision is based on historical or contractual information about the warranty granted and is estimated by weighing all possible results against the probability of each to occur.

Provisions for risks and expenses

When risks and expenses are identified which the events occurred or in progress make them probable, and whose object is precisely determined, but uncertain as to their occurrence, 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 restore the site where it was located, as a consequence of using the item for a certain period of time.

Provisions for employee benefits

Are recognised in case of bonuses (financial year-end bonuses, production year-end, performance etc.) granted in accordance with the applicable collective labour agreement, if and only if:

- the entity has a legal and implicate obligation to make this kind of payments as a result of past events, and
- a reliable estimate of the obligation can be realised.

The provisions are reviewed at the end of each reporting period and are adjusted in order to reflect the best current estimation.

Accounting politics regarding debts and contingent assets

According to IAS 37, the company does not recognise assets and contingent debts, they are kept in off balance accounts.

A contingent asset is a possible asset, resulted following a past event and whose existence will be confirmed only by the occurrence or failure to occur of several future uncertain events, which are not totally under the control of the entity.

A contingent debt represents:

a possible obligation resulted from past events and whose existence will be confirmed only by the by the occurrence or failure to occur of several future uncertain events, which are not totally under the control of the entity;

a present obligation resulted from past events, but which is not recognized as it is unlikely to need resources incorporating economic benefits going out, or the value of the obligation cannot be sufficiently reliably assessed;

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Accounting policies on profit taxation

The profit taxation expenses represent the aggregate amount of taxes to be paid currently, as well as the 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 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 of the 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 reviewed 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 total 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 the deferred tax debts and assets mirrors 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 deferred tax are also recognized directly in the company's own capital.

Accounting politics on the distribution of the profit

The profit or the loss shall be established cumulatively from the beginning of the financial year.

The final result of the financial period shall be established at its closure and represents the final account of the profit and the loss determined like the difference between the incomes and expenses for the year.

Profit distribution on destinations is registered in such accounts after the approval of the annual financial statements.

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Reserves

At the end of the reporting period, legal reserves are set on account of the profit of the period, only on the basis of the applicable legal provisions.

The accounting profit which remained undistributed shall be resumed at the beginning of the financial period following the one for which annual financial statements are prepared in the account for result carried forward, from it is to be distributed on the other destinations decided by the General Meeting of Shareholders, in compliance with the legal provisions.

The closing of the accounts "Profit or Loss" and "profit distribution" is performed in the financial year following the one for which the annual financial statements are prepared.

Profit distributions on the other destinations

The record on accounts for the distribution on destinations of the accounting profit, except the legal reserve, is performed in the following financial year, according to the General Meeting of Shareholders.

The profit can be distributed for:

- cover the accounting loss carried forward;
- dividends distribution;
- other statutory reserves.

Covering the accounting loss

The accounting loss carried forward is covered from the financial year profit and the one carried forward, from reserves, capital bonuses and share capital, according to the Decision of the General Meeting of Shareholders.

In case of correcting the errors which generate loss carried forward, this is covered covered before making any profit distributions.

In the situation in which the development expenditure is not entirely amortised, no profit distribution shall be made, only if the amount of the distributable reserves and of the profit carried forward is at least equal to the one of the development expenditure not amortized.

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 attributable to the holders of ordinary shares of the company at the weighted average of the ordinary shares circulating during that period of time.

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.

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Recognition

The subsidies are recognized at their approved value.

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

The government subsidies are initially recognized as deferred revenue at the fair value when there is a reasonable assurance that such revenue will be collected 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 timeperiod 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 throughout the lifetime of the asset.

Subsidies for investments

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

The deferred revenue is accounted in the profit and loss account at the same time when the expenses with the amortizations or with the write-off or assignment of the assets are accounted.

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

Subsidies related to revenues

The revenues-related subsidies are recognized in a systematic manner as revenues of the time periods corresponding to the related expenses, which such subsidies are about to compensate.

In case during a time period subsidies are received on the account of expenses which were not made yet, the subsidies received do not represent revenues of the respective current period. These are recognized in the accounts as advance revenues and are resumed in the profit and loss account while such expenses are being made in their compensation.

The return of a subsidy related to revenues is made 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.

Accounting policies for Related Parties

A transaction with the related parties represent a transfer of resources, services or obligations between the reporting company and a related party, whether a price is levied or not.

The identification criteria of the Company related parties are according to IAS 24 "Related Parties Disclosure".

Disclosure of information

Relations between the Company and its related parties will be presented whether there have been transactions between them or not.

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The company shall present the name of the mother-company which draws up the consolidated financial statements available for public use.

If the Company had transactions with the related parties along the period covered by the financial statements, such party will present the nature of the relation with the related parties, as well as the information regarding those transactions.

The presentation of the information will at least include:

- the value of the transactions
- the value of the outstanding balances, including the undertakings;
- provisions for questionable receivables related to outstanding balance;
- the expense recognized during the period regarding the non-recoverable or questionable receivables owed by the related parties.

The presentations of information will be separately made for each of the next categories:

- mother-company;
- affiliated companies;
- subsidiaries;
- fellow subsidiaries in which the entity is an associate;
- members of key management personnel of the company or mother company, and
- other affiliated parts.

Accounting policies on the production of goods and services

The organising of the collecting accounts of SC AEROSTAR SA is based on applicable legal provisions and the procedures and working instructions manual specific of management accounts, adapted to the specific of the company's activity.

Chart of accounts

AEROSTAR uses, for management accounting, accounts from class 9 of the general Accounts Plan contained in accounting regulations conforming to the Order of the public finances minister 2844/12/12/2016 developed in analytical accounts.

The object of management accounting consists of:

- collecting of direct, indirect and auxiliary costs in accordance with their nature
- allocation of indirect costs
- settlement of direct and indirect costs.

The main purpose of management accounting is:

- determine the unfinished production
- determine the result on production orders or other services and on each organisational structure unit.

According to the accounting regulations, the following elements which are admitted as expenses for the period in which they were made are not included in the cost of the goods, works, or executed services:

- a) losses of materials, manhours or other production costs which exceed the normal limits admitted
- b) general administrations expenses.

The calculation method used in SC.AEROSTAR S.A Bacau is the method on Orders.

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This method is indicated for individual and series production. In this method the object of evidence and of cost calculation consists in the order launched for a certain quantity (batch) of products.

The production expenses are collected directly on each order (those with a direct character) or by allocation (the indirect ones).

The effective cost per product unit shall be calculated at the completion of the order by dividing the collected production costs on the associated order for the quantity of the manufactured products within the order in question.

The launching of the orders shall be made at the sale price or at the planned price, as applicable.

In case of orders related to export sales the price shall be expressed in lei by changing the currency at the budgeted exchange rate.

STEPS TO DETERMINE THE COSTS ON ORDERS

Prepare the provisional calculation of costs on orders;

Collection of direct expenses on orders;

Collection of indirect expenses;

Allocation of indirect expenses and settlement of the costs for the orders related to the auxiliary activities;

Settlement of the costs of the direct orders on indirect expenses;

Allocation of the indirect expenses related to the basic activity;

Settlement of the production cost and get the goods production and subunitary production

Determine the production in progress.

Accounting policies for events after the reporting date

The events following the reporting period are those specific events, favourable or unfavourable, which occur between the end of the reporting period and the date to which the financial statements are authorised to be issued.

The company adjusts the values recognized in its financial statements to reflect the subsequent events which lead to the adjustment of the financial statements after the reporting period, according to IAS 10 provisions.

Presentation of the information

The Company presents the date when the financial statements were approved for release, as well as who gave this approval.

If after the reporting period the Company receives information on the conditions which existed at the end of the reporting period, the Company updates the presented information which refers to such conditions, in the context of the new information.

If the events, which do not lead to the adjustment of the financial statements after the reporting period, are significant, the Company presents the following information for each category for such events: the nature of the event and an estimation of the financial effect or a declaration according to which this kind of estimation cannot be made.

Accounting policies on financial instruments

A financial instrument is a contract generating simultaneously:

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- a financial asset for an entity
- a financial debt or a company capital 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 method of accounts on the date of concluding the transaction or on the date of its settlement.

All the financial assets and liabilities are recognized initially at fair value plus, in case of a financial asset or of a financial liability which is not assessed at fair value in its profit and loss account, the transaction costs directly assignable to the acquisition or to the issue of the asset or of the financial liability. The securities without transactions are evaluated at their historic cost, minus any possible adjustments for loss of value.

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

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

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

On 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 time period.

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

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

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NOTE 4 – TANGIBLE IMMOBILIZATIONS

<u>Gross Values</u>	<u>Land</u>	<u>Constructions</u>	<u>Technological eqpt and transport vehicles</u>	<u>Other tangible immobilizations</u>	<u>Tangible Immobilizations in progress</u>	<u>Investment Property</u>	<u>Total</u>
On 1 January 2017	28.346	51.372	107.125	805	1.282	7.946	196.876
entries	-	1.843	8.457	84	11.010	825	22.219
transfer		112	-	-	-	(112)	-
immobilizations found surplus inventory			19				19
exits		-	(108)	-	(11.209)	-	(11.317)
On 30 September 2017	28.346	53.327	115.493	889	1.083	8.659	207.797

<u>Amortization</u>	<u>Land</u>	<u>Constructions</u>	<u>Technological eqpt and transport vehicles</u>	<u>Other tangible immobilizations</u>	<u>Tangible Immobilizations in progress</u>	<u>Investment Property</u>	<u>Total</u>
On 1 January 2017	-	7.092	35.619	211	-	1.447	44.369
entries	-	3.863	12.396	110	-	251	16.620
exits		-	(99)				(99)
On 30 September 2017	-	10.955	47.916	321	-	1.698	60.890

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NET ACCOUNTING VALUE OF TANGIBLE IMMOBILIZATIONS ON 30 SEPTEMBER 2017

	<u>Gross Value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Land	28.346	-	-	28.346
2. Constructions	53.327	10.955	-	42.372
3. Technological eqpt and transport vehicles	115.493	47.916	-	67.577
4. Other tangible immobilizations	889	321	-	568
5. Property Investments	8.659	1.698	-	6.961
6. Tangible immobilizations in progress	1.083	-	-	1.083
Total (1+2+3+4+5+6)	207.797	60.890	-	146.907

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

- Land;
- Constructions;
- Technological equipment (machinery, equipment, work installations);
- Means of transport;
- Other tangible immobilizations;
- Property investments.

When determining the gross accounting value of the tangible immobilizations, the company uses the historical cost method.

The tangible immobilizations are amortized by the company using the linear method throughout the 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
- property investments 25-50 years

The useful lifetimes are established by committees of specialists from the company. The useful lifetimes of the tangible immobilizations were reviewed in September 2017.

The fiscal operational durations of the tangible immobilizations are stipulated by the fiscal legislation on assets.

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

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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 relocating the assets, as well as costs for site restoration at the end of the useful lifetime.

These costs were reflected in the set-up of a provision, which is recorded in the profit and loss account throughout the lifetime of the tangible immobilizations, by inclusion in the amortization expense.

The revision of the estimates for the decommissioning and restoration provision is determined by the annual revision of the dismantling costs. The company's commission of specialists designated to review yearly any changes to the estimates will review at the end of the financial year 2017 if the initial estimates of the dismantling costs are 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 the asset is available for use (i.e. when the asset is in the location and condition necessary to operate as wanted by the management) and ends on the day when the asset is reclassified in another category or when it is derecognized.

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

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

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

In accordance with the provisions of IAS 36-Depreciation of assets, the company proceeded to the identification of any signs of asset depreciation, using external and internal data sources.

As external data source, the market value of the company was reviewed for the period January- September 2017 compared with the prior similar period, and an increase was seen, which is a positive aspect reflected by the indicator MBR-Market to book ratio:

<u>indicator MBR</u>	<u>30.09.2017</u>	<u>30.09.2016</u>
stock exchange capitalization / company capitals	2,9	2,2

The upwards trend of the indicator shows that Aerostar is rated well on the capital market and attractive for the investors, present and potential.

Based on the internal data review, the findings show:

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

- for 9 months 2017 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 30.09.2017 are not depreciated, and no adjustments were made for the depreciation thereof.

The gross accounting value of the fully amortized tangible immobilizations which were still in operation on 30 September 2017 is 3.318 thousand lei.

As on 30.09.2017 no mortgages were set on tangible assets in the property of AEROSTAR S.A.

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In February 2017, a building of which the gross accountant value is 112 thousand lei, was transferred from the *Investment property* category into the *Tangible assets* category.

Increases in gross values of the tangible immobilizations, achieved by:	<u>22.238</u>
• acquisition of technological equipment, hardware, equipment for internal transportation, for measuring and control, modernization of buildings,etc	11.209
• capitalization of expenses related to investments in progress, financed entirely by AEROSTAR	11.010
• immobilizations found as surplus inventory	19
Decreases in gross values of tangible immobilizations, achieved by:	<u>11.317</u>
• completion of investments in progress	11.209
• derecognition of certain tangible immobilizations, due to the fact that the company no longer expects future economic benefits from their use.	108

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NOTE 5 – INTANGIBLE IMMOBILIZATIONS

<u>Gross Values</u>	<u>Research-Development Expenses</u>	<u>Licenses</u>	<u>Other Intangible Immobilizations</u>	<u>Total</u>
On 1 January 2017	-	3.766	607	4.373
Entries	42	204	532	778
Exits	(42)	(19)	-	(61)
On 30 September 2017	-	3.951	1.139	5.090

<u>Amortization</u>	<u>Research-Development Expenses</u>	<u>Licenses</u>	<u>Other intangible immobilizations</u>	<u>Total</u>
On 1 January 2017	-	2.432	252	2.684
Entries	42	543	382	967
Exits	(42)	(19)	-	(61)
On 30 September 2017	-	2.956	634	3.590

NET ACCOUNTING VALUE OF INTANGIBLE IMMOBILIZATIONS ON 30 SEPTEMBER 2017

	<u>Gross Value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net Accounting Value</u>
1. Research-Development expenses	42	42	-	0
2. Licenses	3.951	2.956	-	995
3. Other intangible immobilizations	1.139	634	-	505
Total (1+2+3)	5.132	3.632	-	1.500

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

- Development expenses
- Licences
- Other intangible immobilizations

The IT programmes are accounted as part of the other intangible immobilizations.

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

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

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

The intangible immobilizations in the balance sheet account as on 30.09.2017 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.

The value of the completely amortized software licenses on 30 September 2017 and which are still in use is 931 thousand lei.

All the intangible immobilizations recorded in the balance sheet account as on 30 September 2017 are the property of AEROSTAR.

Increases in gross values of intangible immobilizations were obtained by:	<u>778</u>
• capitalization of the development expenses fully financed by Aerostar qualification of special processes	42
• development of informatical system of AEROPROD production management	532
• acquisition of software licenses	204

In the period January- September 2017 there were no entries of licences internally generated or achieved through business combinations.

In the period January- September 2017 no assets were classified as held for sale as per IFRS 5.

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NOTE 6 – FINANCIAL IMMOBILIZATIONS

	Shares held in affiliated entities	Other immobilized securities	Long-term loans	Total
On 1 January 2017	14	92	96	202
Increases/Decreases	-	-	(4)	(4)
On 30 September 2017	14	92	89*)	195

*) The company registers in financial immobilizations the outstanding balance (thousand lei) from the loans granted by AEROSTAR to an employee, with due date in over 12 months, for which AEROSTAR charges interest.

The details on the entity's investments in other companies as on 30.09.2017 are the following:

Subsidiary name/ Registered headquarter	Main activity	No. of shares	Voting rights (%)	Value of shares held by Aerostar (thousand lei)	Financial information for the last financial year (2016) with approved financial statements of the subsidiaries		
					Registered capital of the company	Reserve	Net profit
SC Airpro Consult SRL Bacau Str. Condorilor nr.9	- activities of contracting manpower on a temporary basis	100	100%	10	10	55	97
SC Foar SRL Bacau Str. Condorilor nr.9	- rental and leasing with other machinery, eqpt. and tangible goods	408	51%	4	8	1.739	180
SC Aerostar Transporturi Feroviare S.A Bacau Str. Condorilor nr.9	- manufacturing of hoisting and handling equipment	9150	45,75%	92	200	38	1
TOTAL				106	218	1.832	278

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

In the first 9 months of 2017, the company recorded no modifications i.e. no increases/decreases as to the stake-holding percentage, maintaining the same influence as in 2016.

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

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NOTE 7- TAX ON PROFIT

The profit tax corresponding to the reported time period comprises the current tax and the deferred tax. The profit tax is recognized in the statement of the profit or loss, or directly in the 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. Starting with 01.01.2017 Aerostar S.A. is paying taxes applicable to the restaurant and public food service. Therefore, the current tax related to other activities and the specific tax were determined separately. The tax rate on profit applicable for 30.09.2017 was 16% (the same rate was applied in the financial year 2016).

	31 September
	<u>2017</u>
Gross accounting profit	34.658
Expenses with current tax on profit	6.128

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	255.515	Fiscal revenues	226.629	-28.886
Accounting expenses*	221.195	Fiscal expenses	181.626	-39.569
Gross accounting profit*	34.320	Fiscal profit	45.003	+10.683
Tax (16%)	5.491	Fiscal tax (16%)	7.201	+1.710
Tax reductions	-		1.073	+1.073
Tax on final profit	5.491		6.128	+637
Applicable statutory rate	16%			
Actual average tax rate, calculated on gross accounting profit, retreated	17,86%			

*The incomes and expenses are obtained after the deduction from total incomes respectively total expenses of the incomes and expenditure relating to the activities subject to the specific tax.

The main factors which affected the rate of taxation were:

- Non-taxable revenues from the recovery of non-deductible expenses (where the revenues from resuming certain provisions for guaranties and of other provisions represented a significant part);
- Fiscal facilities representing the tax exemption on profit corresponding to the investments made in accordance with Art.22 of the Fiscal Code;
- Non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization; losses from receivables a.o.)

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The deferred tax is determined for the temporary differences arising between the fiscal basis of calculation for the tax on assets and liabilities and their accounting value. The deferred tax is calculated using the tax rates expected to apply to the temporary differences when they are resumed, under the law applicable at the reporting date.

The company estimated and registered debts regarding the deferred tax related to immobilized assets (coming from differences between the accounting and fiscal values, different durations of useful lifespans, etc) and reserves and recognized receivables related to the deferred tax regarding the provisions for warranties granted to customers, of other provisions for risks and expenses as well as adjustments for the depreciation of customers receivables.

The structure of deferred tax as on 30.09.2017 is:

Debts from deferred tax	Amounts(thousand lei)
1. Debts from deferred tax generated by differences between the basis of accounting (bigger) and fiscal ones (smaller) of the immobilized assets	4.035
2. Debts from deferred tax related to legal reserve	1.559
3. Debts from deferred tax related to reserves from the fiscal facility	6.817
4. Debts from deferred tax related to the reported result representing a surplus realised from revaluation reserves	59
Total debts on deferred tax	12.470

Receivables from deferred tax	
Receivables from deferred tax related to adjustment for clients depreciation in 2010	38
Receivables from deferred tax related to provisions for risks and expenses established in 2010	1.012
Receivables from deferred tax related to provisions for guarantees granted to customers set in 2014-2017	5.976
Receivables regarding deferred tax regarding provisions for employee benefits	16
Total Receivables from deferred tax	7.004

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NOTE 8-INVENTORIES

	<u>30.09.2017</u>	<u>31.12.2016</u>
Raw materials	15.413	11.139
Consumables	25.543	23.270
Other materials	352	14
Semifinished products	48	48
Packings	8	2
Finished products	15.853	11.918
Products in progress	42.250	20.063
Merchandise	1	3
Adjustments for depreciation of inventories	<u>(27.581)</u>	<u>(16.185)</u>
TOTAL	<u>71.887</u>	<u>50.272</u>

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

The cost of the inventories includes: purchase costs, conversion costs as well as other costs incurred to bring the inventories in their current condition and in the present location. At the release from accounts, the inventories are evaluated and recorded in accounts by applying the Average Weighted Cost method.

The value adjustments are made on a regular basis, based on the findings of the inventory committees and/or managers of the facility, in order to present the assets at the lower value between cost and net achievable value.

The company considers as depreciated those goods which are older than the storage period established by internal decision of the Board of Directors.

The total value of the inventories recognized as expense during the reported time period is 82.044 thousand lei.

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

The company has no pledge set on inventories.

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NOTE 9- FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial debt or a company capital instrument for another entity.

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

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

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

The financial assets of AEROSTAR S.A. include:

- cash and cash equivalents
- commercial receivables
- commercial effects received
- immobilized receivables (customer-guaranties)
- loans granted with interest

The financial debts of AEROSTAR S.A. include:

- commercial debts
- commercial effects to pay

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

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

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

a) Credit risk

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

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

In certain cases, specific instruments will be requested for commercial credit risk mitigation (down payments, letters of bank guarantee for customers with good payment records, confirmed letters of credit for export).

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

Exposure to credit risk

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

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

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	30.09.2017	30.09.2016
Cash and cash equivalent	130.405	108.834
Commercial receivables net of depreciation adjustments	37.516	38.354
Commercial effects collected	71	93
Immobilized receivables (customer warranties)	0	420
Loand granted with interest	90	99
Total	168.082	147.800

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

	30.06.2017	30.06.2016
Domestic market	4.403	3.833
Countries in euro zone	17.530	19.810
Great Britain	12.144	12.253
Other regions	3.439	2.458
Total	37.516	38.354

Depreciation adjustments

Structure on duration age of the gross commercial receivables on reporting date was:

	Gross Value 30.09.2017	Adjustments for depreciation 30.09.2017	Gross Value 30.09.2016	Adjustments for depreciation 30.09.2016
On term	36.630	0	35.622	0
Outstanding, total of which:	1.344	458	4.426	1.694
1-30 days	0	0	1.809	0
31-60 days	141	141	328	0
61-90 days	98	98	454	0
91-120 days	909	23	141	0
Over 120 days	170	170	1.450	1.450
Over 1 year	26	26	244	244
Total	37.974	458	40.048	1.694

The motion of adjustments for depreciation of commercial receivables during the year is presented in the following table:

	30.09.2017	30.09.2016
Balance as on 1 January	1.024	254
Adjustments for depreciation set	5.067	4.249
Adjustments for depreciations resumed as revenues	(5.633)	(2.809)
Balance as on 30 September	458	1.694

On 30.09.2017, 99% of the commercial receivables are related to customers with good payment records.

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b) Liquidity risk

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

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

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

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

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

The time intervals used to review the contractual due dates of the financial debts, with a view to highlighting the placement of cash flows in due time, are shown in the table below:

	Financial Debts	Accounting Value	Contractual cash flows	0-30 days	31-60 days	Over 60 days
30.09.2017	Commercial Debts	24.593	(24.593)	(16.343)	(6.333)	(1.917)
	Commercial effects to pay	11	(11)	(11)	0	0
30.09.2016	Commercial Debts	22.990	(22.990)	(15.993)	(6.016)	(981)
	Commercial effects to pay	17	(17)	(17)	0	0

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

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

On 30.09.2017 AEROSTAR has no overdue financial debts in its records.

c) Foreign currency risk

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

Exposure to the foreign exchange currency risk

AEROSTAR is exposed to the foreign currency risks, as 82% of its turnover during the reporting period is denominated in USD and EUR, while a significant part of the operating expenses relates to LEI.

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

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

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30.09.2017	Thousands EUR	Thousands USD	Thousands GBP
Cash and cash equivalents	451	1.208	16
Commercial receivables	1.205	7.073	0
Commercial debts	(1.128)	(2.390)	(92)
Net Exposure , in original currency	(528)	5.891	(76)

Sensitivity analysis

Taking into consideration the net exposure calculated in the above table it can be considered that AEROSTAR is exposed mainly to the foreign exchange risk generated by the variation of the foreign exchange rate USD/RON.

Taking into consideration the statistics for the period 01.01.2015-30.09.2017 a relatively high volatility is observed for the foreign exchange rate USD/RON (9% in the year 2015 and 2% in 2016, 9% in 2017). So, a reasonably possible variation of 10% can be taken into consideration at the end of the reporting period.

The following table details the effect of reasonably possible variations of the USD/RON exchange rates over the financial year of AEROSTAR.

30.09.2017	
Net exposure, in original currency (thousands USD)	5.891
Currency exchange rate USD/RON	3.90
Net exposure, in operational currency	22.975
Reasonable possible variation for the currency exchange rate	+/- 10%
Effect of the variation on the profit and loss account	2.298 thousand LEI

d) Interest rate risk

For the reporting period AEROSTAR has contracted a Credit Facility of 7,000 thousand USD, intended for financing the company's 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 4,500 thousand USD, usable to guarantee for the contractual commercial 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 did not use the cash sub-limit of 2.500 thousand USD, the company revenues and cash flows are independent from the interest rate variations on the banking market.

On 30.09.2017, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 3.411 thousands USD (equivalent to 13.295 thousand LEI).

As on 30.09.2017 no mortgages are set on the property assets owned by AEROSTAR.

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NOTE 10- COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

RECEIVABLES	Balance on 30 September 2017	Balance on 01 January 2017
Commercial Receivables	49.556	40.823
Domestic customers	4.403	2.115
Foreign customers	36.511	36.674
Uncertain customers ¹⁾	458	1.024
Adjustments for depreciation of customer receivables	(458)	(1.024)
Suppliers-debtors	8.112	1.486
Customers – invoices to draw up	459	477
Effects to receive from the customers	71	71
Other receivables, of which:	4.195	1.926
Receivables related to manpower and assimilated accounts	53	16
Receivables related to social security budget and state budget, of which:	2.852	1.317
- VAT to collect	2.005	-
- VAT not exigible	146	339
- <i>excises to recover related to fuel consumption</i>	553	792
Interest to receive from bank deposits	252	17
Other receivables	1.065	576
TOTAL	53.751	42.749

¹⁾ Uncertain customers are recorded in a distinct company account.

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 occurred 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 to close the month of September 2017.

The favorable and unfavorable differences between the market exchange rate used for accounts of the receivables in foreign currency and the market exchange rate communicated by the National Bank of Romania for the end of September 2017 were recorded in the related revenue or expense account from the exchange rate differences, as applicable.

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NOTE 11 – STATEMENT OF DEBTS

DEBTS	Balance on 30 September 2017	Balance on 01 January 2017
Advance payments received on account of customers , of which:	8.172	10.327
Domestic customers- creditors	2.786	8.096
Foreign customers- creditors	5.386	2.231
Suppliers, total of which:	25.216	27.140
Domestic suppliers	8.926	11.143
Foreign suppliers	14.933	12.735
Suppliers- invoices not arrived	562	1.892
Suppliers of immobilizations	795	1.370
Commercial effects to pay	11	5
Debt with tax on current profit	850	2.215
Other current debts, of which:	7.943	14.414
• Debts related to manpower and similar accounts	2.568	1.892
• Debts related to social security budget and state budget	3.398	10.951
- VAT to pay	-	6.543
- Social security	2.205	2.960
• Other debts, of which:	1.977	1.571
-dividends:	1.720	1.201
○ For year 2016	686	-
○ For year 2015	508	591
○ For year 2014	427	488
○ For year 2013	99	122
TOTAL	42.192	54.101

The advance payments received on customers' account, amounting to 8.172 thousand lei are for aircraft maintenance and repair work, with settlement date in 2017 and 2018.

For the accounted debts no mortgages were set.

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At the end of September 2017 the company made undertakings as bank guarantee letters in amount of 3.411 thousand USD issued in favour of the business partners in accordance with the contractual requirements.

The exchange rate differences, favorable or unfavorable, between the market exchange rate at which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for the end of September 2017, were registered in the corresponding account – revenues or expenses – from the exchange rate differences, as applicable.

The dividends in balance as on 30 September 2017, in amount of 1.720 thousand lei represent:

- 686 thousand lei- outstanding amount, to be paid by AEROSTAR for the dividends of the year **2016**, to the shareholders who did not collect them from CEC Bank S.A. desks (payment agent designated by AEROSTAR).
- 508 thousand lei- outstanding amount, to be paid by AEROSTAR for the dividends of the year **2015**, to the shareholders who did not collect them from CEC Bank S.A. desks (payment agent designated by AEROSTAR).
- 427 thousand lei – outstanding amount, to be paid by AEROSTAR for the dividends of the year **2014**, to the shareholders who did not collect them from CEC Bank S.A. desks (payment agent designated by AEROSTAR).
- 99 thousand lei – outstanding amount, to be paid by AEROSTAR for the dividends of the year **2013**, to the shareholders who did not collect them from CEC Bank S.A. desks (payment agent designated by AEROSTAR).

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NOTE 12 – CASH AND CASH EQUIVALENTS

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

	30.09.2017	30.09.2016
Cash	2.815	3.898
Bank deposits	127.569	104.881
Cheques and commercial effects to collect	0	34
Collateral deposits	21	21
Cash and cash equivalents in the treasury cash flows statement	130.405	108.834

The cash comprises the available current amounts in cashier's desk account and at banks;

The cash equivalents comprise:

- short-terms bank deposits
- cheques and commercial effects (promisory notes) deposited in banks to collect
- collateral deposits set up in accordance with the legal requirements with the Local Customs Department 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 and payments received from the customers.

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

The value of the credit facilities not used as on 30.09.2017 and available for future operations is 9.744 thousand LEI (2,500 thousand USD).

The value of treasury flows allocated for increasing the operating capacity is 7% of the aggregate value of the cash used.

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NOTE 13- COMPANY CAPITALS

The company capitals increased with the amount of 13.112 thousand lei in the period January-September 2017.

The changes of the main company capital elements in first 9 months 2017 compared to the year 2016 are as follows:

- **Registered capital remained unchanged**

On 30 September 2017, the registered capital of SC AEROSTAR SA Bacau is of 48.728.784 lei, divided into 152.277.450 shares with a nominal value of 0,32 lei.

- **Reserves increased with 39.391 thousands lei on account of:**

- Allocation as reserves of the reinvested profit of the first 9 months 2017 in amount of 5.719 thousand lei.
- Allocation for statutory reserves of the amount of 33.672 thousand lei from the profit of the year 2016.

- **Other capital elements increased with the amount of 1.002 thousand lei** on account of tax on deferred profit recognized on account of company capitals.

- **Result carried forward:**

- **increased with:**

- 835 thousand lei on account of tax on deferred profit recognized on account of company capitals
- 47.377 thousand lei representing profit to distribute of the year 2016, accounted as result carried forward until its distribution on the destinations approved by the shareholders in the ordinary GMS of 20 April 2017.

- **decreased with** the profit of the year 2016, allocated as follows:

- Statutory reserves in amount of 33.672 thousand lei
- For dividends in amount of 13.705 thousand lei

The structure of the balance of the result carried forward account as on 30 September 2017, in amount of 57.166 thousand lei is:

- 43.477 thousand lei - result carried forward coming from the use, as on the date of transition to IFRS, of fair value as presumed cost
- 13.689 thousand lei – result carried forward representing earning made from revaluation reserves, capitalized in correlation with the amortization of tangible and intangible immobilizations

- **The result for first 9 months 2017 (profit)** was 26.984 thousand lei, of which the gross amount of 5.719 thousand lei was allocated as reserve from reinvested profit.

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NOTE 14- REVENUES

	30 September 2017	30 September 2016
Revenues from sales, of which:	223.799	240.127
Revenues from sale of products	143.090	135.351
Revenues from services supplied	75.653	100.167
Revenues from selling goods	3.200	2.841
Revenues from renting	1.495	1.451
Revenues from other activities	361	317
Revenues related to inventories of finished products and production in progress	27.034	16.180
Other revenues from operations	2.328	2.690
Revenues from production of immobilizations	756	997
Total Revenues from Operations	253.917	259.994

NOTE 15- EXPENSES

	30 September 2017	30 September 2016
Expenses with employee benefits, from which:	79.930	72.046
Salaries and allowances	61.149	56.562
Expenses with assistance in kind and expenses with lunch tickets given to employees	5.037	2.909
Expenses with social security	13.744	12.575
Expenses with raw materials and materials	77.083	74.364
Power, water and gas	6.173	5.650
Other material expenses	9.227	10.182
Expenses with external services, of which:	20.694	27.833
Transportation costs	2.527	2.793
Repairs	7.895	12.380
Expenses with renting	582	570
Other expenses with services supplied by third parties	5.304	5.127
Amortizations	17.587	11.731
Increase/decrease of adjustments referring to provisions	(6.944)	(1.373)
Increase/decrease of adjustments for depreciation of circulating assets	11.870	26
Other operational expenses	1.872	1.641
Total Expenses with Operations	217.492	202.100

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NOTE 15- EXPENSES – (continued)

AVERAGE NUMBER OF EMPLOYEES

	30 September 2017	30 September 2016
Average number of employees, of which:	2.039	1.930
• Average no of company's own employees	1.828	1.713
• Average no of employees attracted through temporary labour agent (AIRPRO Consult SRL)	211	217

NOTE 16- FINANCIAL RESULT

	30 September 2017	30 September 2016
Revenues from currency exchange rates differences	2.537	3.563
Revenues from interest	606	309
Revenues from shares held in affiliated entities	189	231
Expenses from currency exchange rate differences	(5.099)	(4.754)
Financial Result	(1.767)	(651)

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NOTE 17- PROVISIONS

	31 December 2016	Increases/ Set-up Provisions	Decreases/ Provisions resumed	30 Sept. 2017
Total provisions	124.245	12.620	19.564	117.301
Provisions for guaranties granted to customers	41.418	6.087	10.156	37.349
Other provisions for risks and expenses	60.635	920	3.569	57.986
Provisions for litigations	700	5.049	0	5.749
Provisions for employee benefits	5.370	564	5.836	98
Provisions for decommissioning of tangible immobilizations	16.122	0	3	16.119
- of which:				
Long term provisions	71.448	6.775	3.890	74.333
Provisions for guaranties granted to customers	7.929	1.210	3.577	5.562
Other provisions for risks and expenses	47.397	516	310	47.603
Provisions for litigations	0	5.049	0	5.049
Provisions for decommissioning of tangible immobilizations	16.122	0	3	16.119
Short term provisions	52.797	5.845	15.674	42.968
Provisions for guaranties granted to customers	33.489	4.877	6.579	31.787
Other provisions for risks and expenses	13.238	404	3.259	10.383
Provisions for litigations	700	0	0	700
Provisions for employee benefits	5.370	564	5.836	98

Categories of provisions in balance as on 30.09.2017:

1. Provisions set up for guaranties 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 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 and for obligations derived from contracts for considerations;
4. Provision for covering expenses related to the company obligations to AJOFM (Manpower Occupancy Agency), as per Gov. Ord. 95/2002;

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5. Provision for decommissioning of tangible immobilizations, included in the cost thereof, the value of which was estimated using an update rate of 5%;
6. Provisions for benefits granted to employees as per the clauses of the applicable Collective Labour Agreement;
7. Provisions for litigations, set up for any indemnities owed to the company's ex-employees;

The provisions set up in foreign currency were reevaluated in accordance with the applicable regulations, resulting in a net increase from exchange rate differences in amount of 1.531 thousand lei.

The company registers contingent debts related to granted letters of bank guarantee in a total amount 10.198 thousand lei.

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NOTE 18- TRANSACTIONS WITH RELATED PARTIES

	9 months 2017	9 months 2016
Purchasing of goods and services		
S.C Airpro Consult SRL Bacau	5.957	5.057
S.C Foar SRL Bacau	369	358
TOTAL	6.326	5.415
	9 months 2017	9 months 2016
Sales of goods and services		
S.C Airpro Consult SRL Bacau	4	2
S.C Foar SRL Bacau	2	3
TOTAL	6	5
Debts	Balance on 30.09.2017	Balance on 30.09.2016
S.C Airpro Consult SRL Bacau	561	831
S.C Foar SRL Bacau	88	82
TOTAL	649	913
Dividends collected by Aerostar	9 months 2017	9 months 2016
S.C. Airpro Consult SRL Bacau	97	50
S.C. Foar SRL Bacau	92	181
TOTAL	189	231

The transactions with the affiliated parties in first 9 months 2017 consisted in:

- Services provided by SC AIRPRO CONSULT SRL Bacau to SC AEROSTAR SA Bacau for temporary manpower
- Machinery rental services provided by SC FOAR SRL Bacau to SC AEROSTAR SA Bacau
- Services provided by SC AEROSTAR SA Bacau to SC AIRPRO CONSULT SRL Bacau and SC FOAR SRL Bacau for space rental and supply of utilities.
- Dividends collected by SC AEROSTAR SA Bacau from SC AIRPRO CONSULT SRL Bacau, a company in which AEROSTAR holds the entire joint stock and from SC FOAR SRL Bacau (NOTE 6).

There were no transactions with the company S.C.Aerostar Transporturi Feroviare SA Bacau during the period January- September 2017.

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NOTE 19- PROFIT PER SHARE

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

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

IN LEI	<u>30.09.2017</u>	<u>30.09.2016</u>
Profit to distribute to ordinary shareholders	26.984.154	48.333.823
Number of ordinary shareholders	152.277.450	152.277.450
	<hr/>	<hr/>
Profit per share	<u>0,177</u>	<u>0,317</u>

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NOTE 20 - SUBSIDIES

Subsidies related to assets

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

	30.09.2017	30.09.2016
Balance on 1 January	14.972	16.828
Subsidies related to assets	0	0
Subsidies registered as revenues corresponding to calculated amortization	(1.707)	(1.391)
Balance on 30 June	13.265	15.437

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

1. Contract no. 210304/22.04.2010: "Extension of the manufacturing and assembly capacities for aerostructures for civil aviation", performed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 5,468 thousand Lei;
2. Contract no. 229226/14.06.2012: "Set-up of a new manufacturing capacity for diversifying production and export growth", performed between June 2012 and May 2014, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 6.011 thousand Lei;
3. Contract no. 5IM/013/24.03.2015: "Consolidation and sustainable development of the mechanical processing and painting sectors by high performance investments", performed between March and December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being of 8,299 thousand Lei;

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

The balance of 13.265 thousand Lei represents subsidies related to investments in immobilized assets, to be registered under revenues corresponding to the calculated amortization, structured as follows:

1. contract no 210304/22.04.2010: 3.014 thousand lei
 2. contractul no 229226/14.06.2012: 3.553 thousand lei
 3. contractul no 5IM/013/24.03.2015: 6.698 thousand lei
- 13.265 thousand lei

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NOTE 21 – LIABILITIES AND OTHER OFF-BALANCE ITEMS

Aerostar registers in off-balance accounts, the rights, liabilities and goods which cannot be integrated in the company assets and liabilities, i.e.:

	30 September 2017	31 December 2016
• Liabilities:		
○ guaranties granted to customers as letters of bank guaranty	10.198	10.192
○ guaranties received from suppliers – as letters of bank guaranty	5.860	433
• Goods		
○ Inventories such as materials released for use (tooling & jigs, personal protective equipment, measuring and control instruments, technical library, etc.)	24.818	22.348
○ material values received in custody	1.799	1.796
○ tangible and intangible immobilizations – result of research & development, purchased through projects in cofinancing	4.151	1.151
○ material values received for processing/repairs	481	616
○ other goods off-balance sheet	178	169
• Other values off-balance sheet		
○ commitments on the covering of some future obligations to A.JO.F.M. under O.U.G. 95/2002 regarding the defence industry	6.326	6.635
○ debtors cleared from assets, yet still monitored	579	349
○ material guarantees	189	186

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NOTE 22- IMPORTANT EVENT DURING THE REPORTING PERIOD

On 01 September 2017, AEROSTAR informed the shareholders of the company in après release with the following information:

- ✓ The data for the payment of the dividends for the shareholders, distributed from the profit of the year 2016:
 - a) The gross dividend per share is 0,090 lei, the tax on dividends withheld at origin, at the rates as provided by laws in force on the payment date; the payment costs are withheld from the value of the net dividend;
 - b) The “ex date” was set for the date of 31.08.2017 as decided by the OGMS dated 20.04.2017;
 - c) The shareholders entitled to receive dividends distributed from the net profit of the year 2016 are those registered in the consolidated register of the shareholders as on 01.09.2017- Record Date (approved by OGMS dated 20.04.2017);
 - d) The dividends distributed from the profit of the financial year 2016 were paid to the shareholders starting with 20.09.2017- Payment Date (approved by the OGMS dated 20.04.2017);
- ✓ Payment Method (the detailed presentation was included in the press release).
 - 1. In case of a shareholder who has a securities account opened with an intermediary participating in the compensation- clearing system and register of Depozitarul Central, the payment of the dividends is made via Depozitarul Central and the participants in the compensation-clearing system and register of Depozitarul Central.
 - 2. In case of a shareholder who does not hold a securities account opened with an intermediary participating in the compensation- clearing system and register of Depozitarul Central, the payment of the dividends is made by Depozitarul Central via CEC Bank S.A. (the payment agent designated by AEROSTAR).
 - 3. In case of the deceased shareholders, the dividends are to be paid upon the request of the successors solely after Depozitarul Central makes the transfer of the shares on behalf of the successors.