

ANNUAL REPORT 2017



TRANSFORMATION CONTINUES

AEROSTAR S.A. Bacău

REPORT OF THE BOARD OF DIRECTORS

AEROSTAR S.A. Bacău

Identification Data

Date of report: 31.12.2017

Name of the company: **AEROSTAR S.A. Bacău**

The registered head office: Strada Condorilor nr. 9, Bacau, România

Telephone number: 0234 575070

Individual Identification Number: RO 950531

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

Code LEI: 315700G9KRN3B7XDDBB73

Subscribed and paid-in registered capital: 48.728.784 lei

Number of shares issued: 152.277.450

Nominal value: 0,32 lei / share

The regulated market on which the real estate issued are traded:

Bucharest Stock Exchange ('ARS' indicator) – Standard Category

Contents

CHAPTER	Page
IN GENERAL, ABOUT AEROSTAR	5
Significant facts	7
2017 in Key Figures	8
Events of the year 2017	10
LETTER OF PRESIDENT & GENERAL DIRECTOR	11
Vision	12
AEROSTAR, A HISTORY OF 65 YEARS, A JOURNEY INTO THE PAST, PRESENT AND FUTURE	13
COMPANY'S MISSION	13
"AEROSTAR" (ARS) SHARES	16
Relation with Shareholders and Capital Market	19
Aerostar's Relation with the Parent Company and companies in which it has capital holdings	20
Related Parties	21
AEROSTAR MANAGEMENT	22
Business Management	23
AEROSTAR MARKET IS PART OF GLOBAL MARKET	28
OPERATIONAL PERFORMANCE	
Commercial Aspects	
Aerostar businesses, between the customers' requirements and expectations	44
Investments	
AEROSTAR no. 1 in Romania in aeronautical products	35
MRO civil aviation Centre of Excellence	37
Defence systems	39
Aerostar Employees	
The optimization continues. Sustainable use of resources	
WE ARE CONTINUOUSLY IMPROVING AEROSTARS' MODEL OF SUCCESS	
About AEROSTAR business sustainability, Statement about non-financial aspects reporting	44
Business Model	1
About the Policy and Diligence Process in Quality and Environment field	32
RISK MANAGEMENT	
Respecting human rights	52
Social and labour aspects	53
Fighting against corruption and bribery	57
Aerostar Principles and Values	58
Tangible assets	
CORPORATE GOVERNANCE	60
INTERNAL CONTROL SYSTEM	
Aerostar businesses are targeting a solid future. The transformation continues!	63
Appendix, relating to Compliance with Corporate governance Code of BSE	

Chapter 1

ABOUT AEROSTAR, IN GENERAL

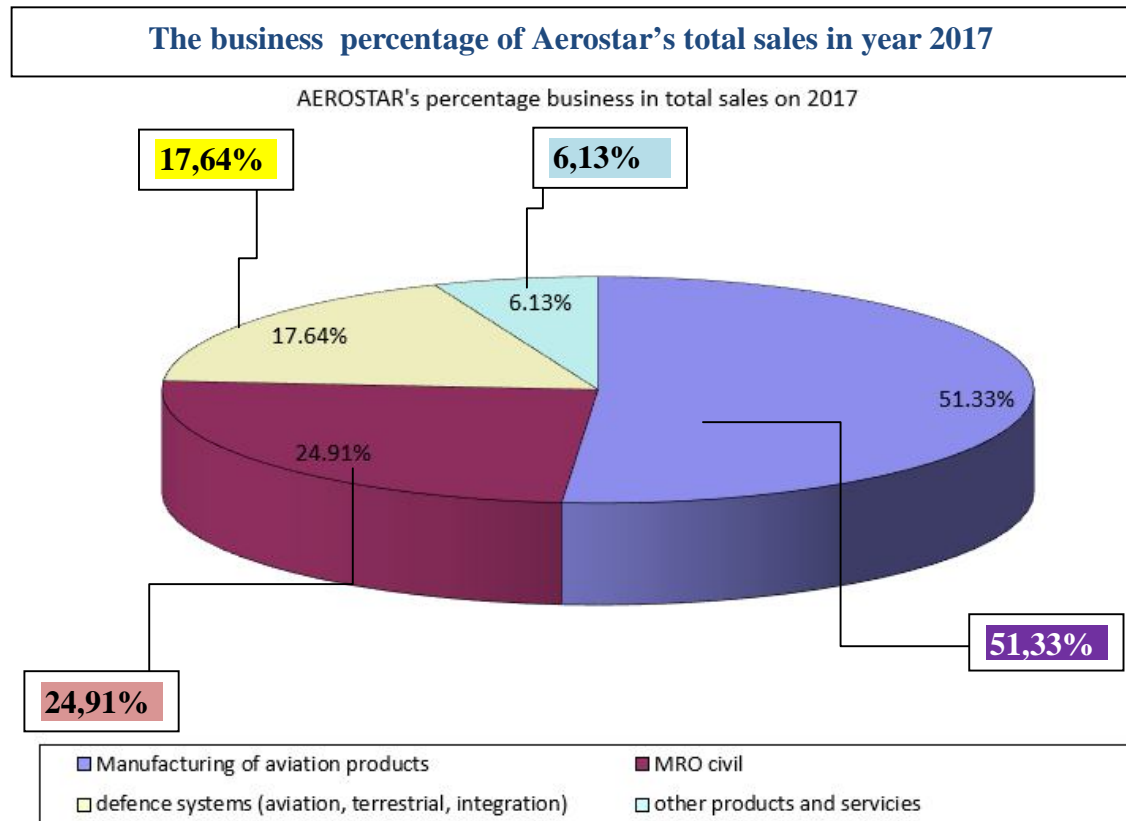
AEROSTAR was established in 1953 and acts in accordance with the Romanian law. It was registered in year 1991 as a shareholding company at the Bacau 3333Trade Register under trade number J04/1137/1991 with the current name ‘AEROSTAR’ S.A., having the individual identification number 950531.

The registered headoffice is located on Condorilor Street, no. 9, Bacau, postcode 600302 and recently there has been registered a secondary site, secondary place of business in Iasi.

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

The main business lines of AEROSTAR are:

- **Manufacturing of aviation products**
- **Commercial aircraft maintenance**
- **Aero, terrestrial and naval defense systems**



In the date of 29 September 2017, AEROSTAR has received a new registration certificate containing the unique identification code at a European level:

EUID: ROONRC.J04/1137/1991.

A private company, publicly listed at the Bucharest Stock Exchange, the evidence of the shares and shareholders is kept, under the law, at the Depozitarul Central S.A.

To realise its objective of activity, the resources of the company are used in a synergic manner through a unitary management of the processes and business relations of the company.

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

- **Number 1 in aviation manufacturing;**
- **Number 1 in civil aircraft maintenance.**

- AEROSTAR is a significant supplier for the solutions in the field the aero, terrestrial and naval defence systems

AEROSTAR is regional leader in these market domains.

AEROSTAR's footprint in the global aeronautical manufacturing programmes is significant, creating itself from a centre of development in the aeronautical and defence industry.

SIGNIFICANT FACTS

- **In 2017 the investments realized by AEROSTAR from its own sources were of 23.447 thousand LEI.
Total investments realised by AEROSTAR, from its own funds and from attracted ones, overcome 50 million Euro from its privatisation.**
- **AEROSTAR has founded the future Civil MRO Centre in Iasi – the first development outside the main headoffice. At this secondary headoffice, AEROSTAR will perform activities in the field of civil aircraft maintenance.**
- **In 2017, 245 young employees have found a job in AEROSTAR, the medium age in company being of 45 years.**
- **AEROSTAR was designated the manufacturer of the year by the SAFRAN Landing Systems (Messier □ Bugatti □ Dowty) with the occasion of the yearly meeting ‘Quality Day’, organized with the manufacturers highlighted for the performance in the quality and on-time delivery field, as well as for the innovation capacity and to sustain the Safran activities.**
- **AEROSTAR has received the Airbus prize for partnership in the field of part and components manufacturing with the occasion of the Airbus Group Detail Parts Suppliers Conference for the performance realized, highlighting Airbus’ appreciation for AEROSTAR’s successful support in Airbus programs.**
 - **In October 2017 the Memorandum of agreement between AEROSTAR and Raytheon International Defence Systems, a first step of long collaboration in the equipment and components field related to the air defence multilevel integrated system – the equipping program of the Romanian army with Patriot systems.**

Year 2017 in key figures

The export sales has increased. The objective is to increase the export sales to 80% from the turnover.

	UM	31.12.2017	31.12.2016
Registered capital	thousand lei	48.729	48.729
Turnover	thousand lei i	340.172	356.219
• Export sales	thousand lei	258.390	255.274
The effective number of personnel, from which:	no.	2.100	2.164
- own employees	no.	1.953	1.878
- employees attracted through temporary labour agent	no.	147	286
EBITDA*	thousand lei	82.669	96.047
EBIT**	thousand lei	58.787	65.865
Profit net	thousand lei	53.170	56.472
Cash - flow	thousand lei	163.886	163.153

* Earnings before interest, tax, depreciation & amortization

**Earnings before interest and tax

General liquidity	-	7,03	4,74
--------------------------	---	-------------	-------------

Expenses for investments from company sources	thousand lei	23.447	19.498
--	--------------	---------------	---------------

FINANCIAL PERFORMANCE (thousand lei)	31.12.2017	31.12.2016
• Total revenues	359.925	372.807
• Total expenses	301.138	306.942
• Gross Profit	58.787	65.865

FINANCIAL POSITION (thousand lei)	31.12.2017	31.12.2016
• Imobilized Assets (net value)	153.686	154.397
• Circulating assets	278.451	256.174
• Registered capital	48.729	48.729
• Company capitals	252.967	213.908
• Total Debts	54.472	72.939

The exchange rate of the main foreign currencies in which the AEROSTAR business was performed:

	UM	2017	2016
Average exchange rate EURO/12 months	lei/euro	4,5677	4,4907
Average exchange rate USD/12 months	lei/USD	4,0542	4,0585
Average exchange rate GBP/12 months	lei/GBP	5,2144	5,5016

Inflation	%	3,32	0,99
------------------	----------	-------------	-------------

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

EVENTS OF 2017

- **In the general ordinary general meeting from 20 April 2017, the shareholders of the company AEROSTAR have approved the repartition of the amount of 13.704.970,0 lei from the profit of the year 2016 for dividends, which corresponds to a 0,09 lei gross dividend per share.**

The payment of the dividends was made starting with the date of 20.09.2017. In the balance payment at the date of 31.12.2017 the remaining amount of 557 thousand lei which were not presented at the counters of the CEC Bank S.A. payment agent (the payment agent designated by AEROSTAR).

- **In the date of 7 September 2017 AEROSTAR has signed with the Iasi County Council the concession contract for an initial period of 49 years for a surface of 16.000 mp situated in the perimeter of Iasi International Aeroport with the purpose of building a new production capacity for maintenance activities and maintenance civil aircraft;**

In the date of 15 January 2018, the Trade Register Office from Bacau has issued the resolution no. 469/12.01.2018 regarding the admission of registration request of the second headquarter as it was formulated.

- **In the date of 18 October the Memorandum of Agreement was signed between the Minister of Economy, through S.C. Aerostar S.A., and the american company Raytheon International Defence Systems, regarding the collaboration in the equipments and components related to the airline defence multilevel integrated system**

By this document it was realised the equipping program of the army with Patriot systems, while the technology transfer and technical assistance are foreseen, necessary for the upgrading and retooling of the existent equipments, as well as the assurance of the technical support for the Patriot systems.

Chapter 2

,WE SET OFF THE FOUNDATIONS FOR THE FOLLOWING DECADES' – THE TRANSFORMATION CONTINUES

- The letter of the President – General Director

I am addressing to all the parties interested in AEROSTAR's business, in relation with the company results of year 2017.

These results reflect an advanced positioning on the strategic directions of growth and development provided in the Mission of the company.

The continuity and consistency of the changes for the upgrade of the business lines in the field of aviation products manufacturing and of civil aircraft maintenance have imposed the successful business model which brings satisfaction towards all the relevant interested parties: customers, employees, investors.

Aerostar has accomplished the provisions established through the budgeted approved in the Ordinary General Meeting and has made important progresses in regards to the market repositioning of the company in parallel with a good management business, realising a significant program in the investment field.

In year 2017, Aerostar sales were in the amount of 340 million lei, the gross profit in the amount of 59 million lei. Investments of almost 23,5 million lei were made, with 20% more than the year 2016.

In the same year, we have established the first significant foundation outside the main business headoffice. We will build the future Aircraft Maintenance Centre in Iasi, which will be in addition to the Excellence Centre from Bacau, from the Part 145 authorized services field for civil aircraft maintenance.

In year 2018 and in the following years we will continue the investigations according to the budgeted approved on the three main fields from the strategy of development.

Grigore FILIP

**PRESIDENT OF THE BOARD OF DIRECTORS –
GENERAL DIRECTOR**

VISION

AEROSTAR is a market and people-oriented company.

We consistently action for a long-lasting and sustainable development of the company, at higher and higher performance levels, in conditions of profitability and responsibility.

The synergy of our competences and expertise for the civil and military market contributes to the AEROSTAR consolidation as a company for the future.

Our objective is to create VALUE and to be COMPETITIVE and to obtain a long-term SUCCESS.

We focus to improve performance and on the continuous improvement.

We encourage the personal development of our employees in the spirit of integrity, innovation and initiative.

Chapter 3

A HISTORY OF 65 YEARS

A JOURNEY INTO THE PAST, PRESENT AND FUTURE

In 2018, Aerostar marks the 65 years anniversary from its establishment.

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

The successive names held were URA-1953, Intreprinderea de Reparatii Avioane-IRAv (Aircraft Repair Enterprise)-1970, Intreprinderea de Avioane-IAv (Aircraft Enterprise)- 1978 and since 1991 was registered as a shareholding company with fully state-owned capital, under the current name - AEROSTAR S.A.

Since the year 2000 it is a fully private company, with the shares traded at Bucharest Stock Exchange, since 1998, with the ARS indicator.

The Mission statement set-up at the establishment of URA (Aircraft Repair Plant), the forerunner of today's AEROSTAR, was maintained and updated in the conditions generated by Romania's accession to NATO and European Union, and in the present, in order to secure the development of the company business, Aerostar's mission focuses on three lines of business, all in aeronautics and defence:

- Maintain the supplier status in the field of aviation and ground defence systems mainly for the Romanian Ministry of National Defence.
- Consolidation of AEROSTAR's position as supplier of parts, aerostructures, subassemblies and equipment for the commercial and general aviation, in such a way as to become a major subcontractor for the globalized aviation industry
- Consolidation of AEROSTAR's activities as a prime supplier of maintenance for civil aircraft and for conversion / upgrade of civil aircraft.



The 65 years anniversary from the establishment of the company is a journey in history, as well as it is a journey in present which foreshadows the future.

As a powerful industrial base in the field of aviation and defence, Aerostar holds a valuable know-how in all its activity fields, developed based on knowledge accumulations, abilities and exceptional ingenuity of its specialists.

The mark of the company Aerostar S.A. is internationally registered and has an international reputation. The market, the customers and partners are recognizing the value associated to this name and to this industrial culture.

AEROSTAR S.A. was established in the year 1953 having the initial purpose of repair and maintenance for military aircrafts from the Romanian Air Forces.

From its establishment to present, the company had a continuous development both in aeronautic field and in the military equipment, as well as in the products designed for civil markets.

The period 1960-1970 represented the extension of the capabilities in the domain of the reparation and maintenance of military aircraft but also the initiation of the products of terrestrial defence systems. Until 1990 the company has been the only manufacturer of liquefied petroleum gas cylinders.

1970-1980's is highlighted by realizing the prototype of the first Romanian IAR-93 fighter, the establishment of the IAK-52 light trainer aircraft factory, an airplane type manufactured by AEROSTAR in over 1900 exemplars. The Hydropneumatics and Land gears equipment factory was established also in this stage/phase, with the purpose of their manufacturing for all the aircraft types manufactured in Romania.

The engine and aviation reduction gears factory and the radio and electronic equipment factory were established during the 1980-1990's.

After 1990, the name of AEROSTAR is related to the upgrading programs of the military, aerial and terrestrial platforms: MIG-21 Lancer fighter planes, the upgrading of the technological demonstrator MiG-29 Sniper, the upgrading of the friend-enemy identification system at a national level, as well as the maintenance and radar systems upgrading programs or of the C-130 airplanes upgrading, all the compatible and interoperational NATO programs.

AEROSTAR exemplifies a competitive business model, adaptation to market's request and of growth and development.

Chapter 4**‘AEROSTAR’ SHARES (ARS)**

The main characteristics of the real estate values issued: 152.277.450 shares, nominative, ordinary, of equal value, paid integrally, issued in dematerialized form and highlighted by registration in the Register of Shareholders.

This is managed by the S.C. Depozitarul Central S.A. Bucuresti.

The issuer AEROSTAR S.A. Bacau is registered with the following data:

Individual Identification Number 950531, ISIN ROAEROACNOR5 code, ARS stock exchange symbol, the issued shares being all in the standard category.

‘ARS’ shares

	year 2017	year 2016	year 2015
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Company capitals (lei)	252.967.021	213.908.224	181.518.081
Price at the end of the year (lei)	4,70	3,27	2,72
Stock exchange capitalization ¹ (lei)	715.704.015	497.947.262	414.194.664
Maximum price (lei)	4,78	3,27	3,25
Minimum price (lei)	3,25	2,24	1,67
Result per share (lei)	0,349	0,371	0,343
Dividend per share ² (lei/share)	0,094	0,090	0,084
The performance of the dividend ¹	2,0%	2,8%	3,0%
Distribution rate of the profit ³	27,0%	24,3%	24,5%

¹ Calculated based on the closure price of the share in the last transaction day from the year in question

² The dividend per share related to year 2017 will be submitted to AGAO approval from 19 April 2018

³ Calculated based on the net profit attributable to the shareholders of Aerostar

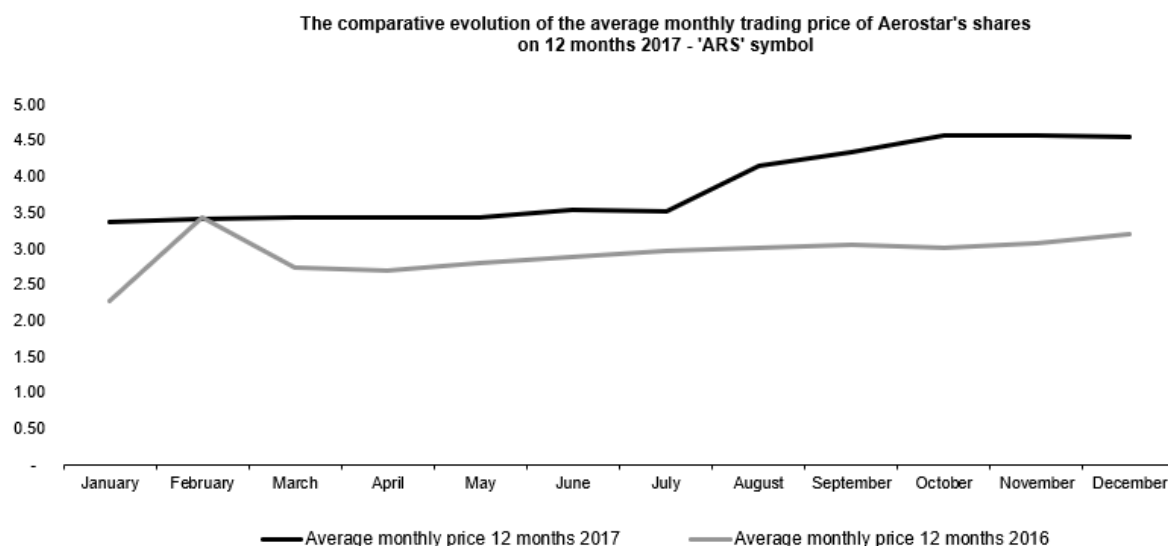
MBR indicator⁴ (market to book ratio)	2,8	2,3	2,2
--	------------	-----	-----

PER report⁵ (coeficient de capitalizare bursiera)	12,67	9,53	7,93
--	--------------	-------------	-------------

⁴ Calculated as a report between the market value and the accounting value (stock exchange capitalization/company capitals)

⁵ Calculated as a report between the market value and the result (gain) per share.

The price transaction of a AEROSTAR share oscillated in 2017 between a minimum level of 3,25 lei and a maximum level of 4,78 lei.



The evolution of the price of the shares on the Bucharest stock exchange in the year 2017



Main shareholders

The main shareholders are IAROM S.A. Bucharest and SIF MOLDOVA S.A. A large number of shareholders are added, natural and legal persons, under the materiality threshold for the purposes of the regulations issued by the Authority of Financial Supervision and the Bucharest Stock Exchange.

The most recent information regarding the structure of the ownership have been published at the Depozitarul Central for the date of 31 December 2017 and have been presented in the following table:

Shareholder	Number of shares	Holding percentage (% from the registered capital)
S.C. IAROM S.A. Bucuresti	108.568.180	71,2963
SIF MOLDOVA Bacău	22.919.887	15,0514
Natural persons	14.162.600	9,3005
Legal persons	6.626.783	4,3518
Total	152.277.450	100,0

The total number of the shareholders of Aerostar was of 6635, with no stake over 5% from the natural and legal persons – other that IAROM and SIF.

In year 2017, no subscriptions of new shares have been recorded and neither participation warranties, convertible obligations, options or similar rights.

Relation with the Shareholders and the Capital Market

Aerostar follows the work related to the ARS shares' evolution at the Bucharest Stock Exchange with no interference with the operations performed.

In the relation with the shareholders, AEROSTAR took into account, also in year 2017, to protect and assure the rights of the shareholders, respectively:

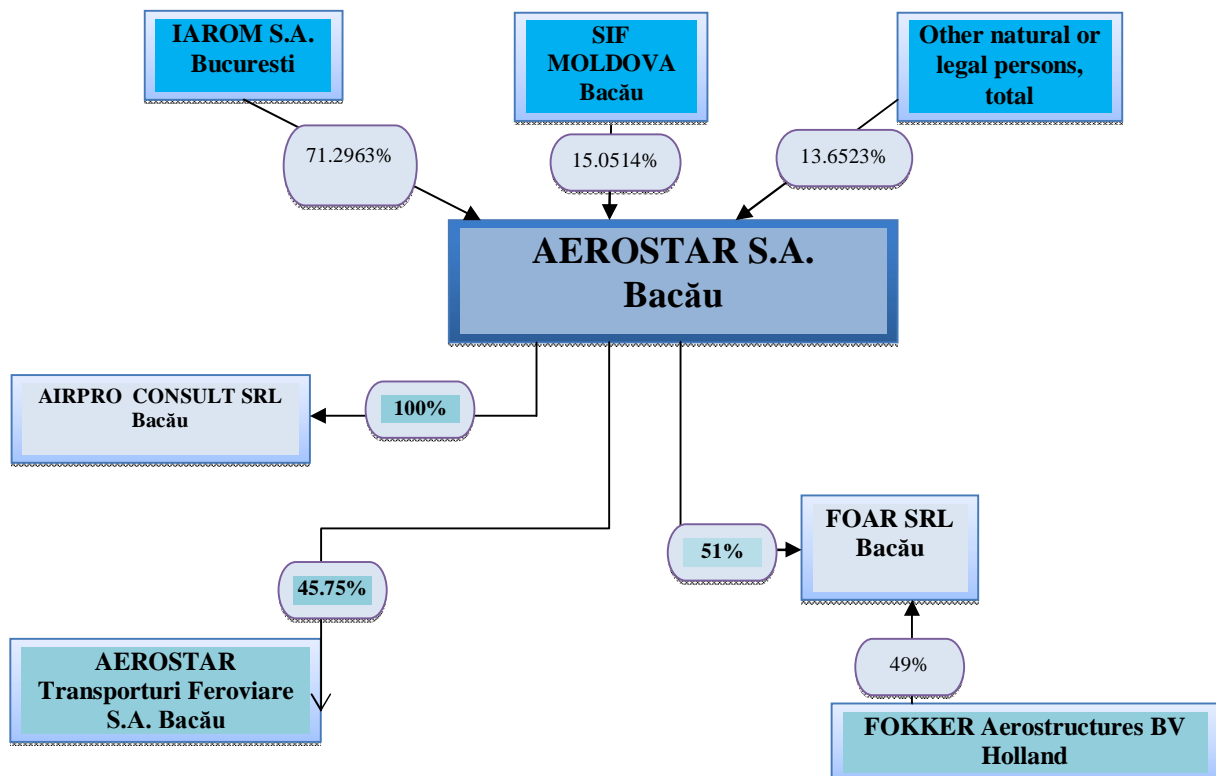
- to participate to the Ordinary General Meetings directly or by representation – by providing them special proxy, vote by correspondence, other useful information.
- to have a fair treatment, no matter the holdings
- to receive dividends proportional with the holdings of each shareholders

In the relation with the capital market, AEROSTAR has fulfilled, also in 2017, all the reporting obligations which went from the legal provisions by publishing the continuous and periodical reports in the electronic system of the Authority for the Financial Supervision and of the Stock Exchange, in the internet page of the company and by press release.

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

The shareholders can obtain information about AEROSTAR and its main events on the internet page www.aerostar.ro. Also, annual reports, as well as half-year and quarterly reports can be downloaded for the last five years, as well as the current reports and other useful information for the shareholders.

Aerostar’s relation with the parent-company and with the companies in which it has capital ownership



During 2017 there was no merger or significant reorganization, neither of AEROSTAR nor of the companies controlled by AEROSTAR.

As on 31.12.2017, AEROSTAR's participations in other companies are as follows:

Name of the subsidiary/related company	Basic activity	No. of shares	Voting rights	Value of the holding (thousand lei)	Financial information for the last financial year (2016) for which have been approved the financial statements of the related companies			
					Sales	Company capitals	Net profit	
SC Airpro Consult SRL	code CAEN 7820	100	100%	10	8.530	163	96	
SC Foar SRL	Code CAEN 7739	408	51%	4	471	1.927	180	
SC Aerostar Transporturi Feroviare S.A.	code CAEN 2822	9150	45,75%	92	-	272	1	
				Total	106	9.001	2.372	278

The transactions with the affiliated parties consists of:

- Supplying by AIRPRO CONSULT SRL Bacau by AEROSTAR SA Bacau of services with temporary contracting for manpower.
- Supplying by FOAR SRL Bacau by AEROSTAR SA Bacau with renting and leasing machinery.
- Supplying by AEROSTAR SA Bacau to AIRPRO CONSULT SRL Bacau and by FOAR SRL Bacau services of renting spaces and provision of utilities.
- Dividends collected by AEROSTAR SA Bacau from AIRPRO CONSULT SRL Bacau and from FOAR SRL Bacau.

In 2017, no transactions with the company Aerostar Feroviary Transport

The contributions of AEROSTAR in these companies are registered on cots. During 2017, the company had no records of modifications in increase/decrease of the contribution percentage, AEROSTAR maintaining the same influence as in 2016.

Chapter 5

AEROSTAR MANAGEMENT**THE BOARD OF DIRECTORS**

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

Name and surname	Function	Profession
FILIP GRIGORE	President of the Board of Directors	Aviation Engineer
DAMASCHIN DORU	Vicepresident of the Board of Directors	Economist
TONCEA MIHAIL- NICOLAE	Member of the Board of Directors	Aviation Engineer
DOROS LIVIU-CLAUDIU	Member of the Board of Directors	Economist
VÎRNĂ DANIEL	Member of the Board of Directors	Legal advisor

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

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

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

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

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

Business management

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

Grigore Filip, General Director:

Aerostar business proves successfully the power of the change processes consistently managed with professionalism and having constantly in mind the vision of a growth and development future.

Doru Damaschin, Financial Director:

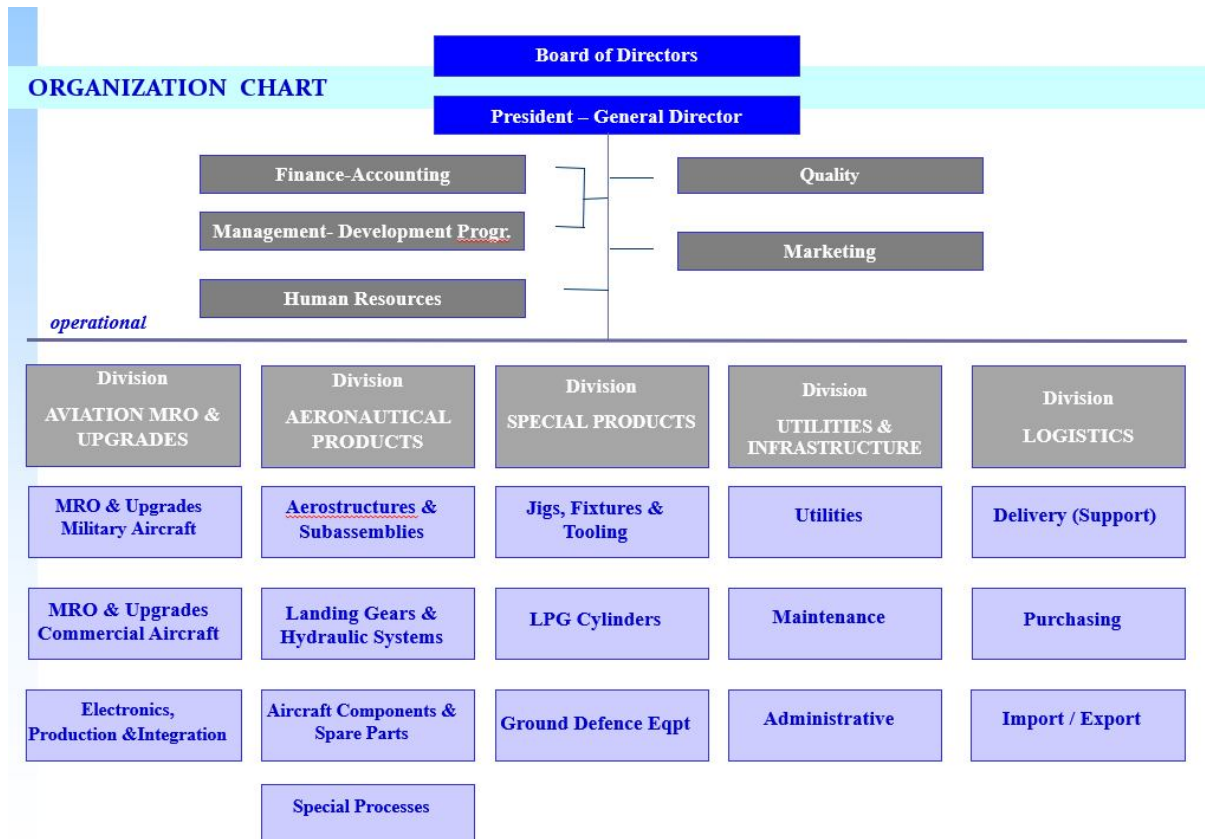
I consider the digital transformation of the processes as being one of the most modern method to increase economical efficiency, mainly by reducing the operational costs.

The members of the executive management of the company in 2017 were:

Name and surname	Position
FILIP GRIGORE	General Director
DAMASCHIN DORU	Director, Finance-Accounting
FILIP ALEXANDRU	Quality Director
POPA DAN PAUL MALIN	Director, HR & Industrial Engineering
IOSIPESCU SERBAN	Director, Aeronautical Products Division
BUHAI OVIDIU	Director, Aviation MRO & Upgrades Division <i>* from 1.01.2018, runs the Defence Systems Division</i>
ACOSTOAIIE CLAUDIU	Director, Special Products Division <i>* from 1.01.2018 runs the Ground Defence Platforms Section and GSE</i>
VLAD GABRIEL REMUS	Director, Logistics Division
BRANCHE CATALIN	Director, Utilities & Infrastructure Division

With a division type organisation structure, based on management centres in the area of operations, auxiliary activities and in the area of functional activities, Aerostar performs its scope of activity through an integrated utilization of the common resources of the organisation.

Organization of the operational structure during 2017:



During 2017 organizational and administrative actions were held with the purpose to implement the new organisation which entered in function at the beginning of the year 2018. The new organizational structure maintains the organizational principles and utilisation of the resources in a uniform, competitive and integrated manner.

The members of the executive management of the company on 1 January 2018:

Name and surname	Position
FILIP GRIGORE	General Director
DAMASCHIN DORU	Director, Finance-Accounting
FILIP ALEXANDRU	Quality Director
POPA DAN PAUL MALIN	Director HR & Industrial Engineering
IOSIPESCU SERBAN	Director Aeronautical Products Division
BUHAI OVIDIU	Director Defence Systems Division
VELESCU IOAN-DAN	Director Civil Aviation MRO Division
VLAD GABRIEL REMUS	Director Logistics Division
BRANCHE CATALIN	Director Utilities & Infrastructure Division

Aerostar has operated organisational changes starting with 1 January 2018 with the purpose of mobilisation and to better use the resources, to better exploit the market opportunities and to respond better to the requests of the customers.

This reorganisation preserves intact the industrial and personnel capabilities overall, assuring the development conditions of the business and the realisation of the complex programs with an increased competitiveness.

The Special Products Division went through a restructuring process, the currently SDVs manufacturing programs and respectively Terrestrial Defence Systems, creating one organizational structure under the name of 'Terrestrial Defence Division and GSE within the new division 'Defence Systems Division'.

Therefore, the old 'Aviation Maintenance and upgrading Division' is now the **Defence Systems Division** and it is exclusively focused on military programs, being composed of: Aircraft and Military Engines Repairs and Upgrading Section, Terrestrial Defensive Platforms and GSE Section, The Projection

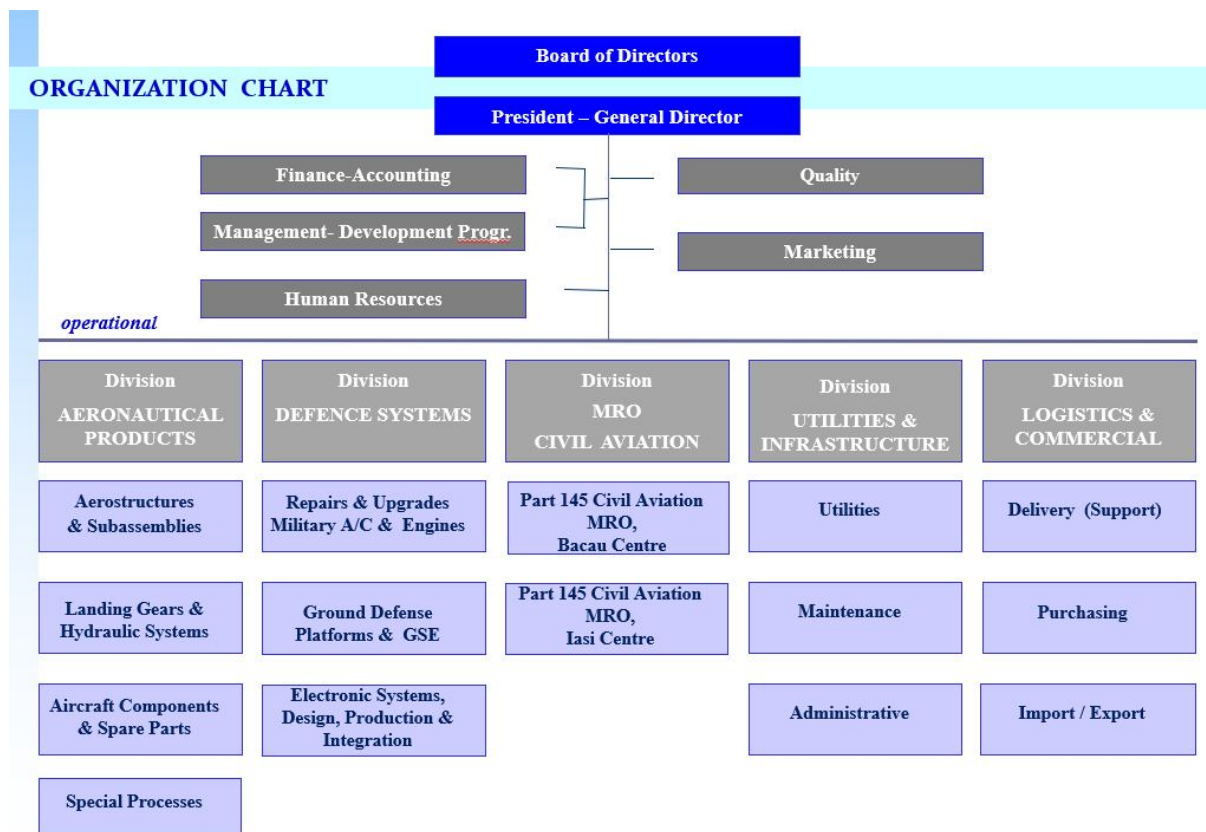
Program, Electronic Systems Production and Integration, as well as other new programs, in development.

The **MRO Civil Aviation Division** was established since 1 January 2018 and it contains the maintenance units related to MRO Civil Aviation Organization Part 145 authorized, MRO Civil Aviation Centre Part 145 from Bacau and the future MRO Civil Aviation Centre from Iasi.

The management of this division is assured by the director of the Part-145 Organization which fulfils this responsibility since 2003.

Through the school unit which functions here, the professional training necessary to the maintenance capacity from Iasi is assured (maintenance engineers and mechanics).

De la 1 ianuarie 2018, noua structură de organizare este: From 1 January 2018, the new organizational structure is:



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

Chapter 6

AEROSTAR MARKET IS PART OF THE GLOBAL MARKETS

AEROSTAR actions on a global market, strongly competitive, in which the dynamic of the dominant players – the big companies which register the final products – are following in a consistent manner the major objective of business increase.

The business in aviation and defence field are tightly related to the global flows from the mondial economy. On a global scale the raising trend and the strong demand has a significant impact over the stability of the projections regarding the future.

Boeing and Airbus projections are foreseeing that in the next 20 years the request will rise to almost 40.000 new airplanes of large size. Every year, in Asia, over 100 million people fly for the first time with the airplane. If the traffic is increasing, the airplane request follows the same pattern.

The stability and quality of the resources are critical for the supply chain, of large complexity and global geographical extend, as they are in this industry. The costs have risen, the carburants are with aproximatelt 20% more expensive than in the previous year. The costs of the manpower have also increased.

While the dynamic of the growth is dominant, instability factors, geopolitical turbulances, new types of phenomens and crises have been continuously manifested at a global scale.

The studies show that over 90% from the economical and business activities are dependent by the informatical devices. Their fiability and security are essential for the economical and social life, especially for the functioning of markets.

In the defence industry, the synergies with the aviation industries , security and cyber safetiness are assuring efficacy, as well as the fulfilment of the requests for interoperability and efficiency of the costs.

The protectionist and the populist origin evolutions determine the migration of the capital flows to the targets perceived that they can mark strategic positions, from which results a diversity of associative phenomenons.

The effects of the Brexit are also into focus.

The challenges of the current evolutions are imposing systematic abordations and procedural integrators in the management business risks.

Chapter 7

OPERATIONAL PERFORMANCE

Synergy of the business operations

The current market profit of AEROSTAR is characterised by advanced capabilities and new programs, which have successfully replaced most of the old, traditional programs.

AEROSTAR capitalizează cu succes investițiile de peste 50 milioane de Euro realizate de la privatizarea societății din anul 2000. AEROSTAR successfully capitalizes over 50 million Euro from the company's privatization in the year 2000.

The investments in capabilities, equipments and advanced technologies, in infrastructure capacities, as well as in organization and planning assures Aerostar's participation in the global flows from the aviation and defence global industry.

With a high degree of vertical integration of the value supplied, Aerostar is a competitive and significant supplier in the global programs.

The evolution of the supply chains of the big companies in OEM category, with which Aerostar is in a partnership relation, are the ones that indicate the following path to maintain competitiveness and to increase the value which Aerostar is attributing on a medium and long term.

The operational performance, confirmed through performance indicators of large recognition, is sustained by an intensive management, based on the budgets and projects management and on a participatory management, which highlights in an integrated manner the available operations and resources in their assembly.

93% from the production of the year 2017 is in aeronautical field, which confirms the concentration on the adopted business pattern.

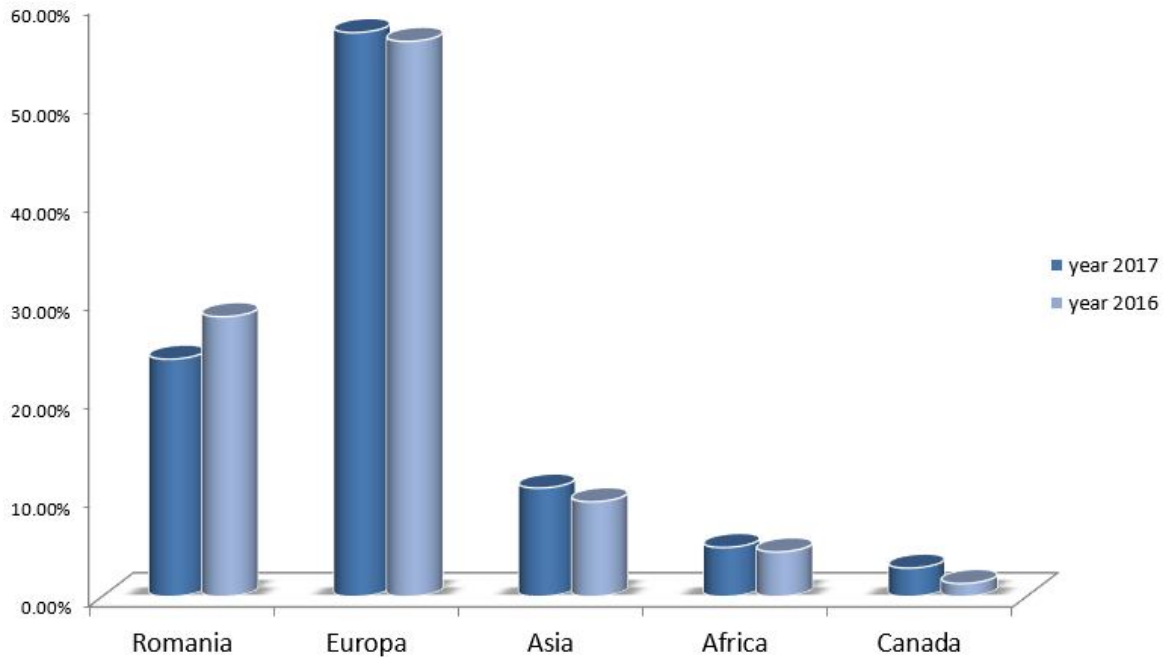
Commercial aspects in the business of 2017

AEROSTAR operates its commercial business and transactions on its own behalf, as well as the operations to obtain licences and authorisations for the ongoing activities.

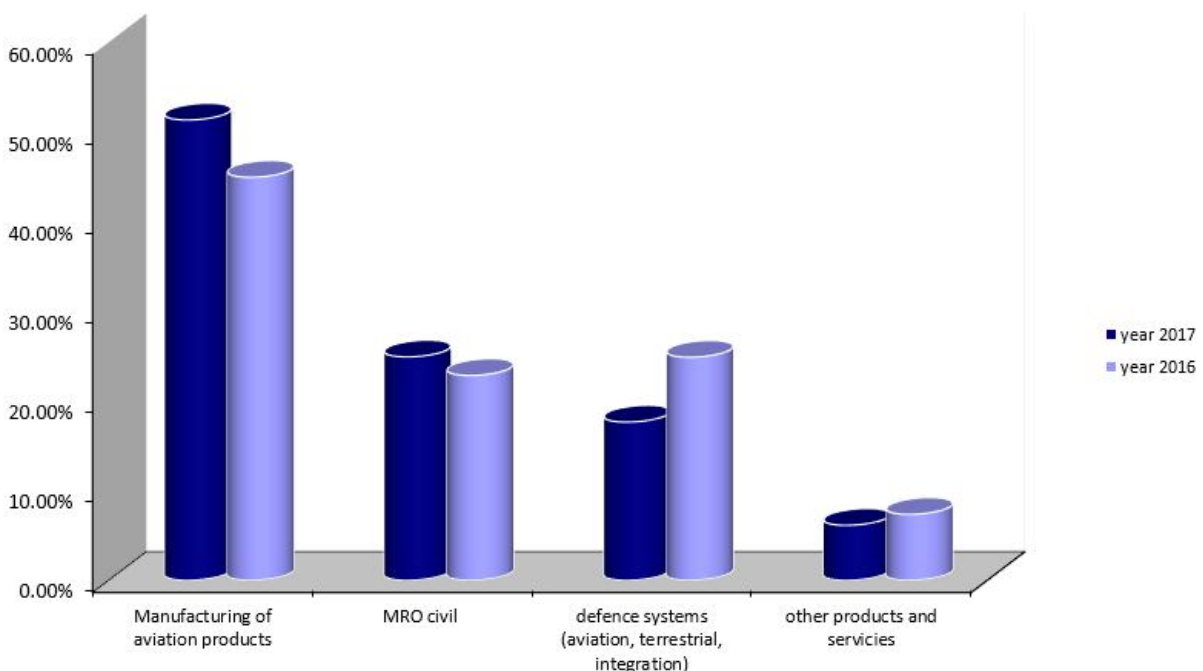
In 2017 AEROSTAR has maintained and developed a solid business line, new programs which represent the majority of the volume of sales realised while the percentage of products sales and services in the defence field sale has decreased.

In year 2017 AEROSTAR had sales in the amount of 340.173 thousand lei, from which 258.390 thousand lei were export sales, up from the perious year, with a large customer diversity, in a big number of different production programs.

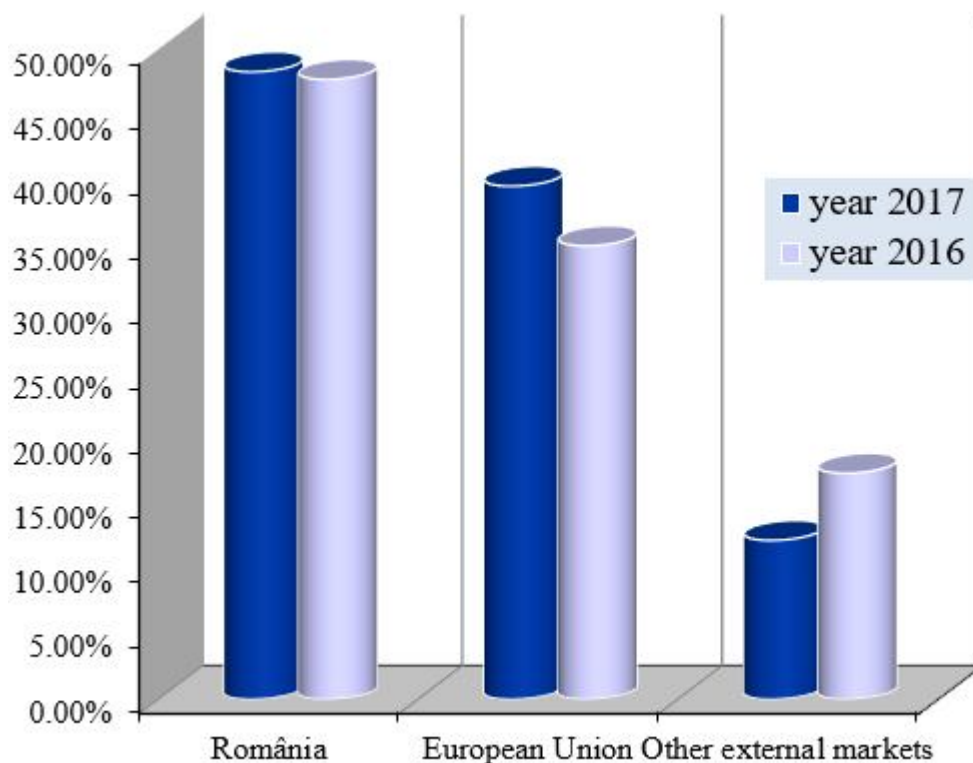
Aerostar sales are realised on a global market of large geographical extent both in the civil and defence field.



Comparative evolution of the sales on products and servicies confirm the marked tendinces:



Increases of the goods and services volumes, purchased from the Romanian market continues compared to 2016.



Remus VLAD, Logistic Director

In the field of import and export transactions, AEROSTAR is an operator with a status of Authorised Economical Agent for customs, security and safetiness simplifications, authorised by the Romanian Customs Authority.

The parent-company is registered by the Minister of External Business – Exposure Control Department for operating import and export actions with the military products.

AEROSTAR fully complies with the regulations applicable at a national and international level, concerning commercialisation, delivery and, of course, concerning the production of all the goods and services from its supplier profile.

AEROSTAR BUSINESS BETWEEN REQUIREMENTS AND EXPECTATIONS OF THE CUSTOMERS

Alexandru Filip, Quality Director

In Aerostar, customer orientation is defintory in all the activitations performed.

We have maintained our focus to on-time delivery of products and contracted servicies to our customers, simultaneously with diminishing the complaints for the products and servicies under warraty. The results obtained as well as our customers' evaluations motivates us to continue the changing and upgrading process.

In 2017, Aerostar S.A. has maintained all the certifications of the management system in accordance with SR EN ISO 9001, AS/EN 9100, AQAP 2110 si SR EN ISO 14001. In this year, modifications in the manangement system have been implemented, as well as changes in the preparation for the transition which will take place in 2018 to the new version of standards.

The guidelines are the legal standing approach, promoting the risk-based reflection, the digital transformation of the processes, the implication and awareness of the employees.

In 2017, Aerostar has also maintained the authorizations relevant to the field or activity. It is to be mentioned that the authorisation field of the civil aircraft maintenance organisation has been extended also with Airbus A320 NEO aircrafts family.

The qualifications of the special processes with our customers have been maintained in 2017 and even extended. The tranzition to the special processes with a low impact on the environment has been continued, mentioning here the process of the Zn/Ni coverage and processes of pickling without hexavalent chromium.

Also on the environmental line, in 2017 the Authoriation Integrated by the Environment has been reviewed and the result of the environmental inspections has revealed compliance with all the legal requests.

INVESTMENTS

In year 2017, the level of the investments realised in Aerostar was of 23,4 million lei. In their framework, we distinguish multiple types of investments differentiated according to detination, the financing source being its own internal source.

From a destination point of view, the investments have been differentiated in: replacement investments, development investments, retrofitting investments, destined to replace the old fixed capital or to upgrade the production equipments.

A special attention to investments has been determined on the following factors: integration of the objectives of productivity increase, decreasing the action of technological processes over the environment and increasing the production capacity.

Doru Damaschin, Financial Director

AEROSTAR management considers that the digital transformation is a part of those business decisions which are ment to secure efficacy, efficiency and transparency of the processes, to perform diagnosis, in order to optimize activity flows, processes and roles.

The digital transformation is one of the main strategic development priorities of the company. The paradox is that although the technology is in the center of digital transformation, it is not in fact about technology.

It is about changing the organizatrional culture, of our way of thinking, acting and working. It is more complex than a simple introduction of some technological means in organizatonal processes.

The main core which sustain the digital transformation are the new business models and technology.

To succesfully achieve digital transformation, the company monitors four indicators:

- Revenue growth;
- Cost reduction;
- Processes simplification;
- Operational efficiency.

The company will become more focused on the data, the digital transformation process being implemented in the whole organisation, with the integration and implication of human resource.

There have been purchased and put into function last generation machine-tools numerically controlled, softwares for compatible projection with these machineries and measure and control equipments adequate to production.

The positive effects of the investments were followed to be realised not only by increasing their volume but also by assuring a proper structure on source and objectives, considering that the investments to increase productivity – those in technical equipments and modern technologies – have the most powerful drive effects.

Therefore, besides the assets mentioned, necessary to the realisation of assumed production contracts, there have also been implemented new, modern manufacturing processes, such as:

1. TFSAA-sulphuric anodizing in thin layer processes which will cover the customers' request of replacement of the chromic anodizing used in the manufacturing process of some aviation components. This coating process does not contain hexavalent-chromium (a very polluting chemical element), the coating layer (3-7 microns) assuring a good support for the parts' painting.
2. Chemical milling – will allow the replacement of the mechanical processes of processing depth for the aviation parts with complex areas and difficult accesibility, assuring a roughness comparative with the one obtained in the mechanical processes.

Direct effects, assumed, on the investments described are: growth, diversification and quality of the Aerostar offer, reduction of pollution and energetical consumption, upgrading production equipments, improvement of work conditions through work and effect, improvement of the living conditions of Aerostar's personnel.

Not least, through IT department, Aerostar focused on promoting the 'industrialisation 4.0' concept and on the integration of other domains which constitute the digital transformation subject. In Aerostar, the change has implied the majority of the company's sectors. To ensure the coherence of the changes and the cohesion of the new system, there has been implemented a strategy which declines a plan regarding to each sector involved and to avoid antagonistic effects. The digital transformation of the company will have a decisive role in increasing its profitability, in maintaining competitiveness in relation with other business partners and not least, assuring medium and long-term business sustainability.

AEROSTAR business in civil aviation domain

AEROSTAR, no. 1 in Romania in aviation products manufacturing

In the field of parts manufacturing, subassemblies and aviation components, all the manufacturing programs are new, from the category of global scale, volume, medium and long-term.

In the supply chains of aeronautical products, Aerostar's position is 'Tier 2' type, level 2 supplier, which concerns the manufacturing of aerostructure parts and subassemblies. Aerostar realises a significant volume of small parts and subassemblies made from Aluminium of over six million unities, annual, which qualifies a vast diversity of typo-dimensions, manufacturing technologies and delivery modes.

Aerostar is 'Tier 1' type supplier, level 1 supplier in subassemblies, equipments and hydraulic systems manufacturing

In some manufacturing programs of aeronautical products, AEROSTAR is a unique source.

Serban IOSIPESCU, Director Aeronautical Products Division

The objective to increase the competitiveness is sustained by investments integrally implemented for the upgrading and production capacities extension, improvement actions of agility on reduced production times and minimum risks at production increase.

The partnership with our customers will continue to be the key of future development, which means the continuation the modernisation of the aviation products manufacturing sector, continuation of the investments in the purchasing of CNC and new equipments. The objective is to increase the manufacturing capacity but also to assimilate new products from the aerostructures and aviation hydraulic field.

The increase of the manufacturing volume as sub-supplier of parts, aerostructures and equipments for civil aviation in modern technologies specific to metals processing: aluminium, titan,steels etc., has at its base the partnership with customers.

Equally important are the firm actions of improvement of the resources use in their assembly and the on-going major initiatives in regards to the improvement and growth of process efficiency, reduction of the environment impact.

A pillar of the competitive advantage is the **Special Processes Centre** and the implementation of the most modern practices and standards related to environment protection. At the same time, the developments of this capability has a synergic impact over the business lines of the company, as a whole.

Civil Aviation MRO Centre of Excellence for Airbus 320 and Boeing 737 Maintenance Under The Sign Of Growth

Number 1 in Romania, AEROSTAR is the main independent leader of maintenance services for commercial aircrafts from this area, having a significant footprint as business volume in MRO field.

Aerostar provides the maintenance work, basic and complex, for commercial airplanes from AIRBUS 320, Boeing 737, as well as for parts.

The dedicated Centre of Excellence executes current maintenance and complex verifications, including structural modifications at these type of airplanes for an large number of customers, especially in the competitive geographic area for the company.

As in the field of aviation manufacturing, Aerostar business from the field of maintenance commercial aircrafts are anchored in the sector market, defined as the center of growth, the airplanes Airbus 320 and Boeing 737; this is the most competitive field.

Starting with Part-145 authorization issued by Autoritatea Aeronautica Civila Romana (AACR), recognised by the European Aeronautical Authority (EASA), the maintained base Aerostar has developed its market position by obtaining a large variety of authorisations from the civil aviation authorities from many countries in the UE and outside of it.

Dan-Ioan VELESCU, Director Civil Aviation MRO Division

The objectives of growth aims the extension of work package of maintenance for civil aviation by the diversification of the work offer to Boeing 737 and to the airplanes from Airbus 320 family.

The experience gained in this field is the base of development for the future Part 145 civil aviation maintenance centre from Iasi.

Obtaining the authorisation from the american aeronautical authority FAA increases the market potential, allowing Aerostar to compete for works from customers of which airplanes are under FAA jurisdiction.

During 2017 Aerostar has contracted its first heavy maintenance at a A320 NEO airplane, a premier at an european level.

The technicians and engineers' preparation for the future MRO civil centre from Iasi is realised through co-ordination with the training from Bacau Centre.

Defence Systems, a historical commitment, present and for the future

Ovidiu BUHAI, Director Defence Systems Division

Market positioning held by Aerostar in the field of defence systems from aero, terrestrial and naval category, are reported in the first place to first tier supplier for Ministerul Apararii from Romania.

Over the years, Aerostar has consolidated a significant position in programs of systems and equipments supply – manufacturing, maintenance and upgrading, integrations and logistic support for diverse categories of force and applications, as well as on the external market

Aerostar actions in a synergic manner in terms of business' infrastructure with the purpose to create maintenance capabilities and logistic support for the new systems from Romanian army.

Aerostar build a significant position in the field of primary and secondary radar systems, of the IFF identification systems and of the communication systems, control and re-transmission of data and information, to which is added at its experience in advanced systems from the launching systems and artillery, without ignoring the programs of successive upgrading from the military aviation field.

The objective of business growth in this domain is based on experience capitalization and expertise gained in major programs from the field of repair and upgrading aircraft and military gears, in programs of manufacturing and upgrading from the category of the integrated system of artillery of the Romanian army, as well as in the field of relising more programs in communication and identification field, of the primary and secondary radar systems.

The assurance key of the value is the partnership with last generation technology suppliers, the capitalization of the creating capacity and of innovation of the company by realising a significant contribution in major programs accumulated in decades of activity in manufacturing and maintenance for the launching systems and of radar systems for the Romanian Army.

The experience gained in the successful upgrading from the aviation field, of artillery and communications, as well as the programs of integrated logistic support, the experience of the international partnerships, are a good qualification to supply services demanded by new systems to be purchased and to assure the success for our customers, also in the future.

Aerostar develops its own footprint on the market in the domain of the Ground Sustain Equipment for the aeronautical industry. The increase of complexity and supplying range takes into consideration to highlight an existent capability and to use inclusively in the new programs to be implemented in Romania.

AEROSTAR EMPLOYEES

Aerostar employees are recruited from the local labor market.

At the date of 31 December 2017 in AEROSTAR had 2.100 employees from which 147 employees made available by AIRPRO CONSULT S.R.L., which actions on the market as a temporary work agent.

In this period Aerostar has continued its policy for selection and employment of personal replacement and has actioned for realization of training processes for the new employees at a level of the requests of the posts made available by the natural leaving of former employees.

AEROSTAR realises the training in specializations and competences which are not assured on the labor market in another manner.

Dan Popa, Human Resources Director

Aerostar's management is preoccupied how to assure the Increase with no risks related to human resource.

The politic established at the management level is clear:
Business increase means to 'grow' people with expertise.

Expertise securization, maintaining and upgrading capacity of know-how of the company is the challenge with which we are confronting.

Expertise motivation is a major theme.

At the date of 31 December 2017, a percentage of 76% from Aerostar's company were union members.

On 22 March 2017, the negotiations for a new Collective Agreement were set off, available from 01 April 2017 to 31 March 2019.

AEROSTAR has the certification for the Management System of health and cupational security in accordance with SR OHSAS 18001: 2008 standard by the certification organism Bucharest AEROQ authorised.

Actions on Labour market

In order to attract young students of the preuniversity and university, AEROSTAR has partnered five technical colleges from bacau and six universities in country through which have established the terms of a long-lasting collaboration, intended to help the professional orientation and training of the youngsters to the domains of interest for AEROSTAR.

During 2017, they have performed speciality practice in AEROSTAR a number of over 50 school children and 75 students.

Preoccupation to attract new people, well prepared and motivated to work in a competitive way, in a top field of the industry, will continue in the following period.

Optimisations continue. Use of the long-lasting resource

In the continuous improvement program there have been inserted measures to improve the use of the resources and utilities in their assembly, as well as operational costs efficiency, by increasing the efficacy of use of energy, water and materials.

Cătălin Branche,
Director Infrastructure and Utilities Division

In Aerostar, there are on-going programs of energetic efficiency which have conducted and are conducting the reduction of energy request for the production processes, as well as for comfort increas at work.

In year 2017 the measures to improve the use of resources have continued, as well as the increase of energy use efficiency, potable and industrial water, thermal energy and IT infrastructure.

In the direction of securing the electric energy has continued the process of upgrading through set up of a project to realise automatical interconnection of company's supply on medium tension.

The program of envelope of AEROSTAR's buildings has continued, in 2017 exceeding to a 95% realibitated buildings with very good results relating cu the thermic confort as well as by decreasing the thermic energy requirements.

On the part of thermic agent supply, a second upgrading stage has been completed, by mounting the second thermic module and rehabilitating in proportion of 30% of the supply networks with thermic agent.

The program of efficient use of the potable, industrial and reusable water has been continued. The industrial water requirements is completely assured from its own sources by operation of the bored wells and the industrial water supply has been improved by completing the rehabilitation of the supplying networks and stations.

In the IT infrastructure domain, in year 2017 there have been implemented measures for upgrading servers from the informatical system, from a hardware and software point of view, as well as the implementation of a new solution concerning the work authentication in the internet network and intranet of the company.

Chapter 8

WE ARE CONTINUOUSLY IMPROVING AEROSTAR'S SUCCESS MODEL

About AEROSTAR business sustainability

Statement about non-financial aspects reporting

Regulatory framework established by AEROSTAR for the reporting of non-financial aspects, respectively non IFRS information, regards the development strategy for 2017-2018 period which is updating annually, as well as the effective way of achieving the reporting of these aspects, provided in Aerostar document: *The organization's background and Aerostar stakeholders*.

These are based on elements of risk management thinking, built on Aerostar understanding as an organization and the context in which operates, as well as on understanding the necessities and expectations of the stakeholders to achieve the organization's expected results.

The purpose is to establish the general framework for the treatment of risks to the extent that the risks are understood as uncertainties to meet the requirements / expectations of stakeholders, as a result of some factors that arise from the context in which the organization operates.

Ever since its first annual report drafted when Aerostar was listed on Bucharest Stock Exchange and the first financial statements reported in 1997, Aerostar has informed the stakeholders about non-financial aspects, which has been considered that can contribute to the understanding of the company's business line and the way of organizing and developing the company's business.

In the current Report on Business Sustainability, Aerostar takes into account the Minister of Finance Order no. 470/2018 from January 11, on the main aspects of the preparation and submission of annual financial statements and annual accounting reports, as well as the reporting requirements of the non-financial aspects, called non-IFRS information in international and our business partners practice.

The European Commission's Communication "Guideline concerning the Non-Financial Information Reporting" (non-financial reporting methodology - 2017 / C215 / 01), published in the Official Journal of the European Union, Series C, No 215 of July 5th, 2017.

Although it is not required to provide this non-financial data reporting, guided by business responsibility and the spirit of aviation and defence business, Aerostar is faithful to the best practices of the industry and in consonance with the practices of its business partners, Aerostar has been providing for many years explanations and data from this category of information.

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

The aspects identified as part of AEROSTAR's internal context are: human resources, infrastructure, capabilities and authorizations from governance and organizational performance field.

The stakeholders are also defined with the requirements and expectations for each of them.

Relevant stakeholders that have been identified are: Customers, employees, investors, applicable technical regulatory authorities, certification organizations, suppliers, education units, trade unions, local community and State.

Business Model

AEROSTAR activates on market as an independent company.

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

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

The management has adopted an integrated business model, grounded in system-procedural approach and RISK thinking. Company management policy is focused on maintaining a solid capital base to sustain uninterrupted development and implicitly to achieve its strategic goals.

The development vision aims to a business model based on selective growth within a generally framework which admits that AEROSTAR success is determined by the Customers requirements and expectations, as well as by the developments in the aviation and defence industry. The specific synergies of these industries generate value for customers in terms of competitiveness.

The company's value in the company's flow of assets relies on a divisional organization, based on production management centres, auxiliary management centres and management centres from the functional activities field. Aerostar achieves its activity field using in an integrated way the common resources of the organization.

The business model followed is based on work and expertise and the achievement of operational performance through an efficient and highly professional management.

Operating continuously and on the basis of the company's mission, over the years, neither in 2017, there haven't been significant changes of the business model.

Policy and Diligence Process in the field of Quality and Environment

In terms of quality and environment, Aerostar has imposed some strategic objectives, endorsed by the Quality and Environmental Policy. These strategic objectives are:

- Meeting with customer requirements and complying with applicable legal and regulatory requirements;
- Full safety for Aerostar products and services users;
- Continuous improvement of the competitiveness of products and services;
- Increasing environmental performance;
- "Zero Defects" on the products and services within the warranty period.

In order to achieve these strategic objectives, Aerostar assumes to maintain a management system in conformity to SR EN ISO 9001, AS/EN 9100, AQAP 2110 and SR EN ISO 14001 standard requirements.

From the social responsibility and sustainable development points of view, Aerostar has established in terms of environment, the improvement of the performance in pollution prevention, in sustainable use of resources and in the field of climate change mitigation, following the guidelines of SR ISO 2600 standard.

Result of the applied policies

In 2017, Aerostar has maintained the management system certifications, thus, ensuring the framework of objectives achievement.

From the customers' requirements satisfaction point of view, Aerostar followed at operational level to achieve with the indicators regarding delivery deadlines and to decrease the percentage of claimed products and services, and, as a result, Aerostar succeeded to obtain positive assessments from the customers, also highlighted through distinctions.

In terms of products and services safety, in 2017 there were no events reported as a result of the Aerostar activity in relevant areas such as civil and military aircraft maintenance, manufacture of parts and subassemblies for civil aviation, manufacture of under pressure receptacles, and manufacture of electronic radio equipment.

In terms of environment, Aerostar has fully complied with the legal requirements. The confirmation of this fact is represented by both the missing penalties and the review of Environment Integrated License with validity until 2027.

In terms of pollution prevention, Aerostar has reduced the waste impact as a result of its own activity, maintaining a high percentage of recoverable waste. Also, in 2017 the volatile organic compounds emissions have decreased, continuing with the actions on the replacement of the solvent based paints with water-based paints.

In terms of using dangerous chemical substances, in Aerostar, the utilization is made according to the Safety Data Sheet. From the point of view of the utilization of substances containing hexavalent chromium, in 2017 the transfer of production from the anodizing line which uses chromic acid, on anodizing line which uses sulfuric and tartaric acid was successfully continued. For the other processes for which doesn't exist yet alternatives of qualified processes, the substances are purchased from the supplier chain of the importing or producing companies which have obtained authorization from the European Commission, following the positive analysis of ECHA.

In terms of Sustainable utilization of resources, in 2017, Aerostar has continued to decrease the quantity of water discharged into the sewer network, both in absolute value, and reported to the turnover level, as a result of the utilization of industrial water treatment and recirculation plant.

The main risks and their management

In terms of quality and environment, in Aerostar there is a unitary way of identifying, assessing and treating the risks of not accomplishing the targets, for all involved processes, from the supply to delivery. The risks and their mitigation actions are followed and reported. The risk checking is also done through internal audits which are performed throughout the organization. From the operational point of view, the environment aspects are verified also through operational inspections performed by the environmental protection inspectors.

At the whole company level, the main risks, both in terms of compliance and performance improvement, are connected to the carbon emissions and to the utilization of dangerous chemical substances. For both issues, there are established actions of mitigating the risks and improving the performance.

RISK MANAGMENT

AEROSTAR is exposed to a variety of risks and uncertainties which may affect its financial performances. The business lines followed by Aerostar, the operational results or the financial situation of the company, could be affected by the materialization of the risks presented as follows.

Internal Control Program's co-ordination

Aerostar entirely respects Romania's laws and regulations.

Aerostar respects all the politics, laws, regulations and procedures in the export control field issued by the competent authorities, respectively Ministerul Afacerilor Externe – Export Control Department.

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

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

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

Still, there may be risks and uncertainties further to the ones presented as follows, which are not currently known, or which are considered insignificant but which may affect in the future the business lines followed by Aerostar.

Operational Risk

It is the risk to register losses or not to achieve the estimated profits, caused by:

- use of inadequate processes, systems or human resources, or which did not conduct their function properly,
- external events and actions: degradation of the global economic conditions, natural catastrophies or other events which may affect Aerostar's assets.

Assimilated to the operational risk is the **Legal Risk**, defined as the risk of loss due to penalties, fines and sanctions for which Aerostar is liable in case of failure to apply or inadequate application of the dispositions, of the legal or contractual regulations, or in case the contractual rights and obligations are not properly set for Aerostar and/or its business partner.

The monitoring and the elimination of the effects of the legal risk is implemented by means of a permanent updating system about the legislative changes, as well as through a system for the review, advise and approval of the terms and conditions included in the commercial agreements.

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

In addition, Aerostar seeks to have available adequate capital, by setting provisions for risks and related expenses, company funds, to cover its risks of exposure.

Also, in order to minimize the operational risk, Aerostar annually renews the liability insurance contract with prime insurance-reinsurance companies in connection with its main business lines (aviation products manufacturing and maintenance of commercial aircraft).

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

The cash and cash equivalents are placed solely in first rank banking institutions and are considered to have a high solvency degree.

The credit risk, including the risk of the country where the customer performs its operations, is administered for each business partner. When considered necessary, specific mitigation tools are required (payments in advance, letters of bank guarantee, confirmed letters of credit).

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

A presentation of the quantitative information regarding AEROSTAR exposure to the credit risk is detailed in Note 9 (Financial Instruments) of the Financial Statements.

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

For the administration of the liquidity risk, the cash flows are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash. Such reviews provide the basis for the financing decisions and for the capital undertakings.

In order to reduce liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line (used as overdraft) granted by banks.

During the reporting period, AEROSTAR did not use the contracted credit line in amount of 2.500.000 USD, all the activities being financed from company's own sources.

The **Market Risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices.

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

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

The management of this risk is made by:

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

AEROSTAR is exposed to currency risk as 72% of the turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency (LEI).

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

An analysis of AEROSTAR's sensitivity to the currency fluctuations is detailed in Note 18 (Financial Instruments) of the Financial Statements.

During the reporting period AEROSTAR S.A. did not incur any financial loss.

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

About Human Rights

Aerostar shows zero tolerance on any kind of human rights violation and is committed to the development and consolidation of this desideratum in order to make sure that human rights are respected, both by its own business line and by its suppliers.

The non-interference on the right to work and freedom of labor, equal treatment, negotiations of working conditions, improvement of professional training, the right on health and safety at work, are just a few from the guarantor principles of respecting the human rights which are in the collective labor agreement of the company and a proof of the social dialogue between the management of the company and social partners.

All the participants on working process are alike involved in permanent vigilance of respecting all the commitments assumed together with the social partners and encouraged to bring to the attention of the management for all nonconformity or proposal of improving the working processes from the company.

To the internal prevention and protection service, joins the Health and safety committee (bipartite body), as well as responsible persons specially trained at the level of each department in the company which constantly watch on the safety and health at work for all the employees in the company.

The major investments from past years led to a significant improvement of the working conditions from the company, the currently standards in Aerostar being comparable with any other top company from the global aerospace industry.

Assuming its role as a promoter of human rights compliance, Aerostar, nowadays requires also to its suppliers to comply with the same standards.

Social and labor aspects

AEROSTAR has implemented the fundamental conventions of the international labor organization.

By the provisions of Collective Labor Agreement in force, within the company, the contracting parties comply with the “Constitution of Romania”, “Universal Declaration of Human Rights”, “Charter from Paris, for a new Europe”, as well as all the conventions and recommendations of the “International Labor Organization” acknowledged by the Romanian Government.

About equal treatment in terms of employment (related to age, sex, sexual orientation, religion, disability, ethnic origin and other aspects).

On the employment, Aerostar complies with the equal treatment concerning the age, sex, sexual orientation, religion, level of disability, ethnic origin and so on.

Thus, according to Collective Labor Agreement in force provisions:

- Hiring is done with complying with the fundamental rights of the citizen only on the skills and professional competence criteria, without any kind of direct or indirect discrimination;
- Within the working relationship from the company, it applies the equality of treatment principle towards all employees, being forbidden any form of direct or indirect discrimination toward an employee, which purpose is not granting, restraining or removing of the recognition of the use or exercise of the rights provided by labor regulations and Collective Labor Agreement, based on the following criteria: sex, sexual orientation, age, race, ethnicity, religion, politics, social origin, disability, family situation or responsibility, membership or union activity.
- On determining and giving the salary it is forbidden any form of discrimination based on sex, sexual orientation, genetic characteristics, age, national membership, race, color, ethnicity, politics, social origin, disability, family situation or responsibility, membership or union activity;
- Any employee which performs work within the interest of the company, benefits by the respect of his dignity and conscience, without any discrimination.

On the relationship with trade unions, respecting the trade union rights

As a voluntary process which includes negotiation, consultation and information among social partners in order to establish agreements of common interest, social dialogue based on trust, promptness, good faith and transparency is regulated in the Collective Labor Agreement. Thus, AEROSTAR admits the importance of the social dialogue institutions always respecting the right of the employees to join the trade unions organizations and to take advantage of the collective negotiations. To mention, in this regard, the level of trade unions organizations is 76%.

Employee consultation processes include trainings in all forms defined by law, Occupational Health and Safety Committee sessions, direct discussions with employees on specific subjects through: Internal Prevention and Protection Service, Occupational health and safety officials, Occupational health and safety committee members, work place managers as well as in occupational risk assessment processes.

About the Occupational Health and Safety

Health and safety at workplace is an important constituent of work practices consisting of promoting and maintaining high levels the psychical and mental shape, and social well-being of employees, preventing the health-related harm caused by conditions of labor, workers protection against health risks and adapting working conditions, to the extent of availability, to their physiological and psychological needs.

Starting with December 2014, AEROSTAR has certified the Occupational Health and Safety Management with the SR OHSAS 18001/2008 by the certification body AEROQ Bucharest.

Community relations, social and economic development of local communities

AEROSTAR S.A. constantly outlines an important position and role within the local community regarding the responsible professional training, in full compliance with the precise needs of the Bacau labor market.

Aerostar promotes the education of the young generation and the cultivation of the sporting spirit by financing the activities of the Aerostar Sports Club for a number of over 200 children. Over the years, some will become employees of company.

Aerostar supports through donations and sponsorships various associations, non-governmental organizations, foundations and activities for educational, cultural or religious purposes.

Educational Cultural association AEROSTAR Bacau

The Educational and Cultural Association AEROSTAR Bacau operates on the basis of Government Order no 26/2000.

Successor of the former AEROSTAR-PAS association, after closing the privatization process at AEROSTAR S.A., the association aims, among other things, to support and promote the interests and image of AEROSTAR S.A., to support social, cultural, artistic and sporting activities - carried out by the members of the association, their families as well as AEROSTAR employees or members of their families.

Fighting against Corruption and Bribery

Being part of the supply chain for global aerospace industry leaders, Aerostar has adopted business conduct standards and integrity principles that meet with the most demanding requirements coming from business partners, respective legal regulations applicable to the markets on which Aerostar currently operates.

The commitment of the Board of Directors, as well as of the entire executive management, is to lead the Aerostar business with integrity, honesty and transparency, complying with the laws and regulations applicable to the company, with zero tolerance for any form of corruption or bribery.

Conduct standards and integrity principles are found in the Aerostar Code of Conduct and Ethics. By including this code in the company's collective labor agreement, we have ensured that it is precisely known and respected not just by the company's management but by all our employees.

No employee of Aerostar has the right to engage in any corruption activity. No neither public nor private, neither active nor passive. No employee of Aerostar must never offer, try to offer, authorize or promise any kind of bribe, payment or other facilities to a civil servant or to any other person for the purpose of obtaining or retaining a business or other inappropriate advantage. Furthermore, no employee of Aerostar shall never demand or accept bribe or other benefits from a public official or any other person. It is also not allowed to hire someone else to do anything that is not ethical or legal to himself.

We are convinced that the commitment we undertake today in supporting these fundamental values will ensure the success of the company tomorrow.

AEROSTAR's PRINCIPLES & VALUES

We perform our business in accordance with the Romanian law, the European Union legislation and the most advanced international practice.

We are honest and correct in our actions and comply with high ethical and business conduct standards.

By our efficiency we contribute to the wealth and development of the society: shareholders, customers, of our employees and of our business partners, of the community we are part of.

The satisfaction of our customers is the cornerstone of our set of values.

Tangible Assets

AEROSTAR's production facilities and capacities are located at the site in Bacau, where is the registered head office of the company, 9 Condorilor St, Bacau 600302, Romania.

The company owns a total land area of 45,33 hectares, with access to the European Highway E85. AEROSTAR has direct access to the runway of the "George Enescu" airport of Bacau.

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

The production facilities include hangars, industrial hangars, test benches, facilities for administrative and social activities. The company also holds office areas allocated for technical and economical activities.

All these facilities are properly maintained.

The effective built area is approximately 13,47 hectares.

On 31st of December 2017 Aerostar has in property tangible assets for the activity deployment in gross value of 211,776,000 lei, materialized in land areas, buildings, special constructions, installations, technological equipments, transport vehicles.

Tangible assets category	Gross accounting value (thousand lei)	Degree of wear (%)	Estimated useful life (years)
Land	28.433	N/A	N/A
Constructions	54.159	23%	30-50 ani
Real estate investments	8.810	21%	25-50 ani
Technical instalations, from which:	119.436	44%	
• Technological equipment	110.436	45%	4-25 ani
• Transport vehicles	4.500	45%	4-18 ani
Other tangible assets	938	38%	2-18 ani
TOTAL	211.776	X	X

During 2017 there were no problems concerning the right of property on tangible assets

Chapter 9

CORPORATE GOVERNANCE

As a company listed at Bucharest Stock Exchange, AEROSTAR S.A. pursues the compliance with the Code of Corporate Governance of Bucharest Stock Exchange adopted on 11 September 2015.

At the same time, the corporate governance system is compliant with the provisions of the Constitutive Deed of the company and observes the provisions of the laws 31/1990 and 297/2004 with the subsequent modifications and updates, the Regulation no 6/2009 of the Financial Supervisory Authority.

The Board of Directors provides special attention to observing the corporate governance principles with a view to ensure:

- obtain performance in conditions of sustainable development of the company
- accuracy and transparency in the decision-making process of the company
- respect of the rights and fair treatment of the shareholders by protecting and practical implementation of their prerogatives
- transparency and access to information by periodic release of the relevant financial and operational information.

Details on the conformance with the principles and recommendations of the Corporate Governance Code of Bucharest Stock Exchange are presented in the declaration “Comply or Explain”, which is integral part of this report.

The corporate governance structures

- Shareholders – General Meetings of Shareholders
- Board of Directors
- Executive Management

The shareholders exercise their rights in the General Meeting of Shareholders ("GMS" or "General Meeting"), which is the highest decision-making body of AEROSTAR S.A.

The company's shares are indivisible and provide equal rights to the holders, each share giving the right to one vote in the General Meeting of Shareholders.

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

The General Meetings may be ordinary and extraordinary. The Ordinary General Meeting is held at least once a year, in maximum 4 months after financial year's end while the Extraordinary General Meeting is held whenever necessary.

In order to provide equal treatment and full and fair exercise of the rights of the shareholders, the company makes available all the relevant information with reference to the GMS and the resolutions adopted both in the regular media (national newspaper, reports by FSA and BSE) and in the special section "Investors Relations" opened on company's website, easily identifiable and accessible.

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

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

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

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

The General Meetings of Shareholders took place with full compliance of Law Legii 31/1990 regrading companies, law 297/2004 regarding the capital market and applicable regulations issued by ASF, as well as any applicable provision.

The general meetings of shareholders took place on 8 February, 21 April, 5 July and 15 December. They were convened and were performed in accordance with the legal and statutory provisions.

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

In accordance with the legal provisions applicable, the right to claim the dividends approved and unclaimed by the Ordinary General Meeting of the Shareholders are prescribed after the expiration of a period of three years calculated from the dividend's 'payment date' for each financial year individually.

During the year 2017 the company did not purchase own actions and has not issued obligations or other debt securities.

INTERNAL CONTROL SYSTEM

The internal control system in AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

ACCOUNTS CONTROL

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

Throughout 2016, the inventory activity was made in compliance with the legal provisions and company regulations.

The results of the inventory processes were submitted for the approval of the Board of Directors and registered in the company's accounting records.

No significant deviations were found compared to the records.

BUDGETARY CONTROL

The budgetary control is performed by the persons in charge with the budget.

From the budgets perspective, the company is organised as follows:

- profit centers
- cost centers

There are 19 budgets set in the company which are based on activity programmes, corresponding to the functions of the company.

The budgetary control provides:

- Compliance with the values provided for each budgetary indicator;
- Basis for possible corrective actions.

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

CONTROLLING

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

Controlling provides compliance with the mission statement and the strategic objectives of the company. Also, it provides compliance with the planned treasury cash flows, while making the periodic review of the necessity, opportunity and legality of the amounts received and paid by the company.

INTERNAL AUDIT

AEROSTAR has its internal auditing activity organized according to law, as distinct compartment in the organisational structure, in accordance with the organizational chart.

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

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

The internal audit activity is structured in:

- effectiveness audit
- management audit
- operational audit
- compliance audit
- financial audit

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

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

AEROSTAR TARGETS FOR A SOLID FUTURE

AEROSTAR businesses fit into the global defence and aviation specific trends, a synergic correlation of business lines which enhances the capacity of action on market and the support of integrating power of some complex businesses.

AEROSTAR has acted consistently, intensively and transparently to follow growth opportunities and to provide access to new aviation and defence programs.

The growth potential targeted is in the business field, that have a technological tradition founded in AEROSTAR expertise fields, according to the **Company's**

Mission, and which have a medium and long-term continuity and development perspective.

AEROSTAR has launched several projects which take into consideration the replacement of some products and services from defence field with products and services from the nowadays generation of technologies in defence field.

These projects are very important for completing the transformation and retrofitting cycle started within the company after year 2000.

The recognition gained on the market is based on competitiveness criteria and the trend of economic efficiency indicators in terms of sales volume, operating profit, efficiency of using the human resources and the efficiency of engaged capital etc.

TRANSFORMATION CONTINUES!

The economic, social, geo-politic and capital factors and trends which operates globally, influence Aerostar's business.

Specific to the industry in which operates, Aerostar will use competitively the civil aviation technologies to develop solutions in the technologies required today in the defence area market.

Aerostar's capability offers, organized in a balanced way in relation to market's needs and demand, ensures the growth of company strength in the competitive environment; at the same time, the adhesion to the improvement programs and the reactivity to the opportunities will continue to ensure Aerostar positioning with an important competitive advantage and an agility degree significant to the company's success.

Aerostar implements a selective growth strategy which has as an objective the assurance of sustainable development of the company.

Confirmed every year, the growth strategy put in practice has transformed Aerostar into a sustainable development pole in aeronautics, which brings satisfaction to all involved parties: Clients, Employees, Investors.

<p>Solid operational performance, optimization and improvement programs provide a strong foundation for growth also in the future.</p>

We will continue to increase our competitiveness, based on a productivity growth and on a growing profitability of the production flows with modern technologies and an improved maturity regarding opportunities capitalization from the market.

We will intensify the modernization actions, we will continue the transformations.

Also, the strategic objectives foresee the increase of market impact, especially on the foreign market, thus the export to represent over 80% from the turnover.

Development of the company agility in global market context is a permanent challenge, and it can be based on the talent influx and the experience gained in the extensive restructuration and rearticulation of the business model.

The competitive advantage will be maintained and improved: quality, high level capabilities equipments and technologies, reactivity to opportunities, adhesion to improvement programs.

The competitiveness growth will continue through investments implemented in an integrated manner to modernize and to expand the production capacities and through establishing a trustworthy partnership with the customers in order to improve the agility at production reduced time, and minimal risks at production growth.

Among the challenges, we must not ignore the profound changes generated by the new stage of industrial revolution. The digital transformation of the company is an ongoing project.

On behalf of the Board of Directors,

Grigore Filip
President and General Director

ANNEX

A commitment for good corporate governance practices

Compliance with the Corporate Governance Code of Bucharest Stock Exchange 2017

Code Provision	Comply	Not comply or partially comply	Reason for non- compliance
A.1	x		
A.2	x		
A.3	x		
A.4		x	Three of the BoD members are non-executive. The Board of Directors does not comprise an independent member, being voted in this structure by the General Meeting of Shareholders.
A.5	x		
A.6	x		
A.7	x		
A.8	x		
A.9	x		During 2017 a number of 9 meetings took place, of which: <ul style="list-style-type: none"> - In 4 meetings all the BoD members were present; - In 3 meetings, 4 members were present, the fifth one has attended by teleconference; - In a meeting there were 2 members present, the other three attended by telecon; - In a meeting, 3 members were present, the other 2 have attended by teleconference; - In a meeting, 4 members were present, the fifth being absent.
B.1		x	Currently, the auditing is provided by an internal auditor who is a chartered financial auditor, reporting directly to the BoD.
B.2		x	There is no independent Director.
B.3		x	This activity is performed currently by the President of the Board of Directors.
B.4		x	This activity is performed currently by the President of the Board of Directors.
B.5		x	This evaluation is currently performed by the external auditor and by the internal auditing dept.

B.6		x	This function is performed currently by the President and vicepresident of the Board of Directors.
B.7		x	This function is provided by the Board of Directors. The internal auditing reports are presented in the BoD meetings, being submitted for review and approval thereof.
B.8		x	This function is provided by the Board of Directors.
B.9	x		
B.10	x		
B.11	x		
B.12		x	The internal auditing reporting is made directly to the BoD.
C.1	x		All the GMS resolutions related to the remuneration of the BoD members were released. Currently there is a distinct section in the BoD Regulations.
D.1	x		
D.1.1	x		
D.1.2		x	Such information in this section are available on request but are not published on company website.
D.1.3	x		
D.1.4	x		
D.1.5	x		
D.1.6	x		
D.1.7	x		
D.2	x		
D.3	x		
D.4	x		
D.5	x		
D.6	x		
D.7	x		
D.8	x		
D.9	x		
D.10	x		