

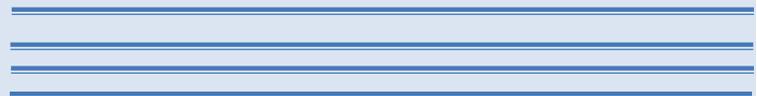
AEROSTAR S.A.



Performance through Professionalism!

Annual Report 2020

2020, a year of inflexion



www.aerostar.ro

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THE REPORT OF THE BOARD OF DIRECTORS AT 31.12.2020

Introduction

The current Annual Report of AEROSTAR S.A. Bacau at 31.12.2020 is prepared in accordance with Law no. 24/2017 and Regulation no. 5/2018 of the Financial Supervisory Authority (ASF) regarding the issuers of financial instruments and market operations.

The Report of the Board of Directors at 31.12.2020 is accompanied by the **Individual Financial Statements of AEROSTAR S.A.** and is aimed at informing the investors regarding the modifications in the company's position and performance for the year 2020, as well as regarding the predictable evolutions in the aviation and defence industry market.

This report also includes the declaration regarding the non-financial reporting aspects. The Statement of compliance with the Corporate Governance Code of the Bucharest Stock Exchange is attached as an annex to the Board of Directors' Report.

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

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

Compliance with the non-financial reporting requirements

Non-financial Reporting Requirements	Section of the Annual Report 2020	Page
The Non-financial Declaration	Corporate Governance Non-Financial Reporting Process	56
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The non-financial reporting process is described in the section bearing the same name, page 56. The contact details regarding the non-financial reporting process are the same as for the current and regular reports of the company.

MESSAGE OF THE PRESIDENT & GENERAL DIRECTOR**2020, a year of inflexion**

The results of the year 2020 outline that AEROSTAR is a robust company, with a high resilience, which coped with the challenges of the crisis generated by the Covid-19 pandemic.

The general activity budget for the year 2020 was based on the economic premises as known in November 2019, when no indication was available about the pandemic.

In 2020, Aerostar made a gross profit of 42,0 million lei at a sales volume in amount of 294,8 million lei.

We focused on identifying solutions to overcome with minimum losses the crisis in the machining industry sector. We made the option to continue the activity, to protect the production capacity and the workforce, and maintaining the qualifications and authorizations held.

In this purpose, both the company's own resources and the support solutions provided by the Romanian Government were used.

We acted for the preservation of the company's resources and capabilities with a view to capitalize on them in the economic restart period.

In 2020 there was a significant decrease of the turnover obtained by Aerostar from the manufacture of parts, subassemblies and equipment for the large global commercial aircraft programmes, but also in the field of MRO services, due to the decline of the market demand following the onset of the Covid-19 pandemic.

The Company maintained unaffected all the existing production capabilities, qualifications and authorizations, as well as all the certifications and authorizations held for the quality, environmental and production systems and maintained the manpower and its qualifications in all areas so as to capitalize on the economic restart periods to follow after the mitigation of the economic crisis.

Grigore FILIP

President & General Director

About AEROSTAR S.A.

AEROSTAR S.A. is a leading Romanian company in the aviation and defence industry; it was established in 1953, in Bacău, Romania.

AEROSTAR was founded by the Romanian state and is part of the national defence industry in accordance with the Law 232/2016.

As a very large enterprise, Aerostar reports under the category of large tax payers, having the unique identification code 950531. Listed on the Bucharest Stock Exchange since 1998, the Company's shares are symbolized on the stock exchange market as ARS.

The Company has the current name since 1991 when it was registered at the Trade Register of Bacău under the no. J04/1137/1991.

Having the registered office at 9, Condorilor Street, Bacău, Romania, Aerostar has a secondary place of business without legal personality – at 25B, Aeroportului Street, Iași, in the area of the International Airport of Iași - that was registered in 2018.

The main object of activity of AEROSTAR is production. The main object of activity of the company is “Manufacture of aircraft and spaceships” - code CAEN 3030.

With more than 67 years of experience in the field of aviation and defense industry, a number of more than 1800 employees and facilities covering an area of over 47 ha, with modern industrial capabilities, Aerostar is dedicated to its mission with three main business and development pillars:

- **Manufacture of aviation products;**
- **Maintenance of commercial aircraft;**
- **Defence systems – aero, ground and navy.**

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

The web address of the company is www.aerostar.ro.

A YEAR IN FIGURES

The economic crisis generated by the Covid-19 pandemic in 2020 had a strong impact on the aviation industry and the global supply chains in this sector.

		31.12.2020	31.12.2019	31.12.2018
Share capital	thousand lei	48.729	48.729	48.729
Turnover	thousand lei	294.839	399.210	353.413
export sales	thousand lei	200.341	314.399	267.382
		68%	79%	76%
Actual number of employees	no.	1.807	1.958	1.969
Gross profit (before tax)	thousand lei	42.059	75.106	87.420
Net profit	thousand lei	38.443	65.979	79.921
Cash - flow	thousand lei	202.660	207.362	167.545
General liquidity	-	14,89	8,24	9,71
Expenses for investments (fully financed from own sources)	thousand lei	46.586	35.285	28.798

Economic-financial indicators

	2020	2019
Current Liquidity	14,89	8,24
Indebtedness Rate	0	0
Rate of customer debits	52	51
Rate of immobilized assets	1,55	2,38
General Solvency Rate	23,24	11,96
Financial Rate of Return	0,10	0,18
Net profit rate	13,04%	16,53%
Net Treasury	29.133 thousand lei	43.462 thousand lei

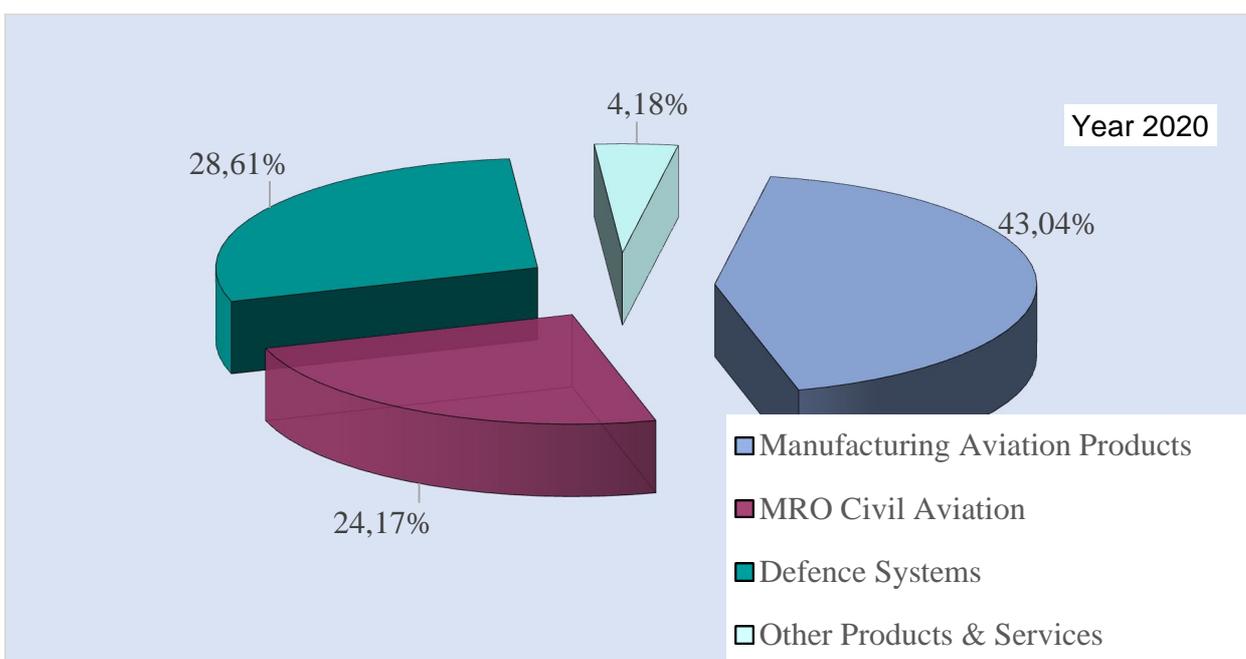
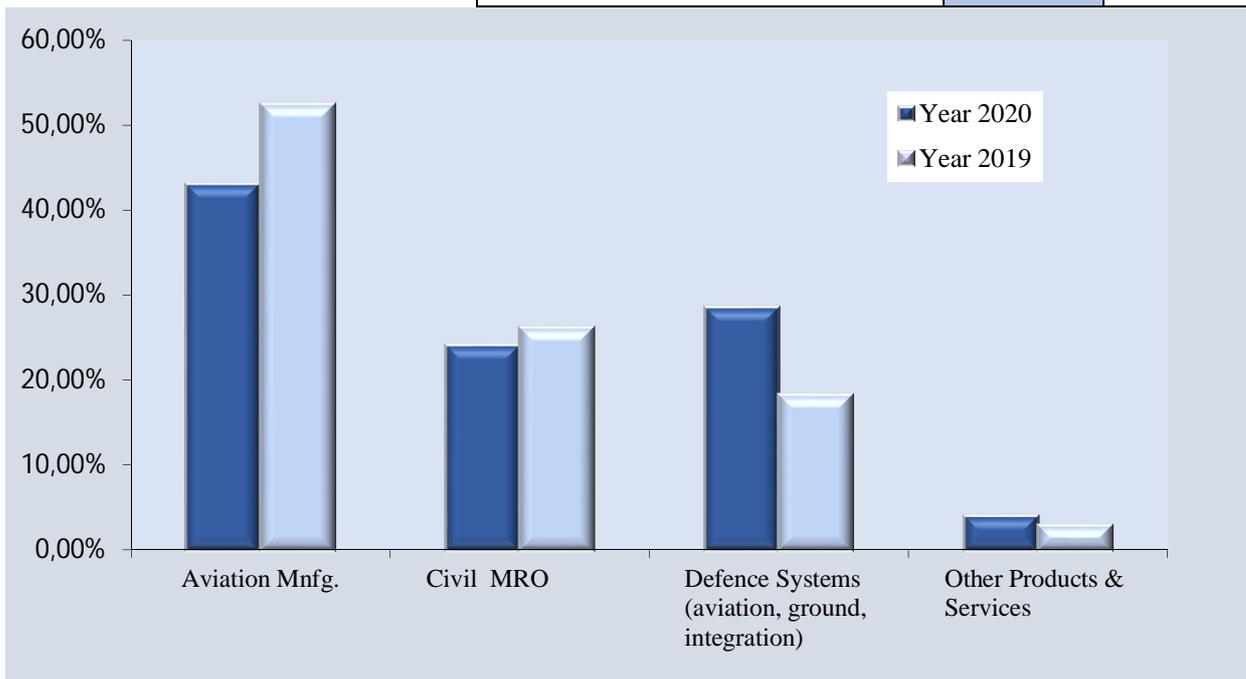
Monetary Context

		2020	2019	2018
Average exchange rate EURO/12 months	lei/Euro	4,8371	4,7447	4,6534
Average exchange rate USD/12 months	lei/USD	4,2440	4,2372	3,9411
Average exchange rate GBP/12 months	lei/GBP	5,4423	5,4096	5,2600

Inflation Rate	%	2,06	4,04	3,27
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Evolution of the sales on the main business lines in 2020 versus 2019

	year 2020	year 2019
Manufacture of aviation products	43,04%	52,47%
MRO civil aviation	24,17%	26,21%
Defense systems	28,61%	18,30%
Other products and services	4,18%	3,02%



AEROSTAR Shares (ARS)

The shares of Aerostar S.A. Bacău have been traded since 1998 on the regular market of the Bucharest Stock Exchange.

The nominal value per share is 0,32 lei.

The main characteristics of the issued shares: 152.277.450 shares are nominative, ordinary, of equal value, fully paid, issued in dematerialized form and recorded by registration in the Shareholders' Register that is administrated by Depozitarul Central S.A. Bucharest.

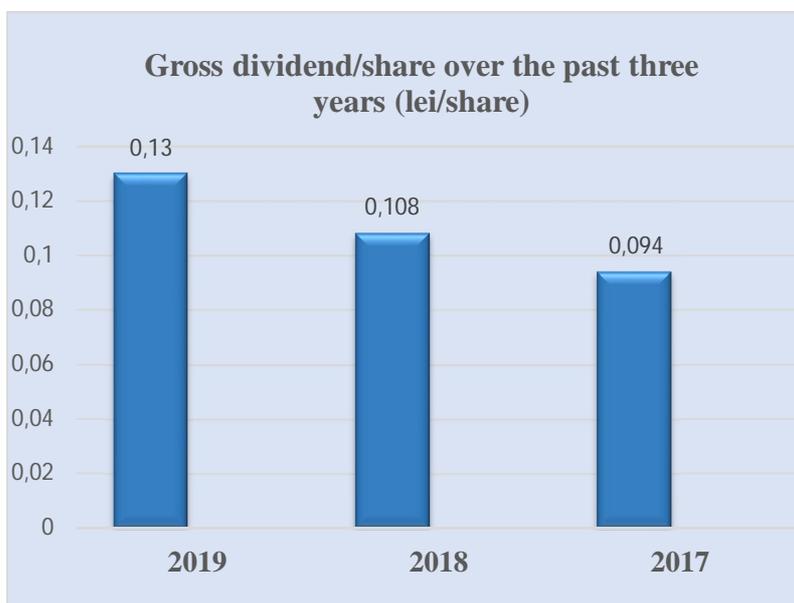
AEROSTAR S.A. Bacău as an issuer is registered with the following data: Unique registration code 950531, code ISIN ROAEROACNOR5, ARS stock exchange symbol, the shares issued belonging to the standard category.

The main shareholders are IAROM S.A. Bucharest holding 71,373% and SIF MOLDOVA S.A. Bacău holding 15,0514% of the Company's share.

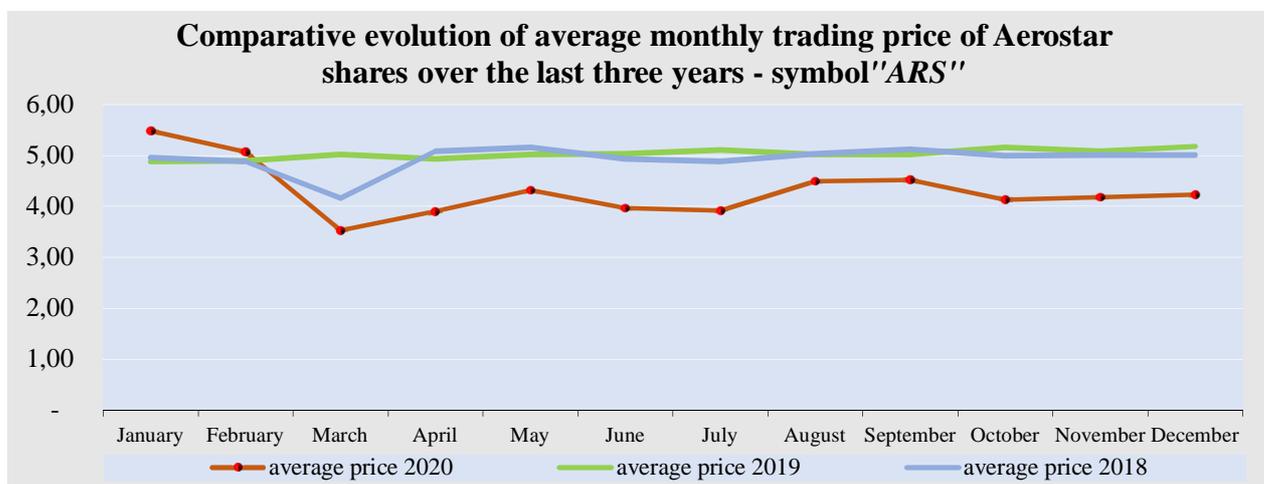
The shareholding structure at the end of 2020 comprised a total number of 6533 shareholders - natural and legal persons, the majority being below the significance threshold as provided in the regulations issued by the Financial Supervisory Authority and the Bucharest Stock Exchange.

The dividend policy is decided by the General Meeting of the Shareholders on a yearly basis, subject to the financial result of the previous year and the investment needs in accordance with the company's development programme.

The gross dividend/share over the previous three years is presented below:



Evolution of Aerostar shares

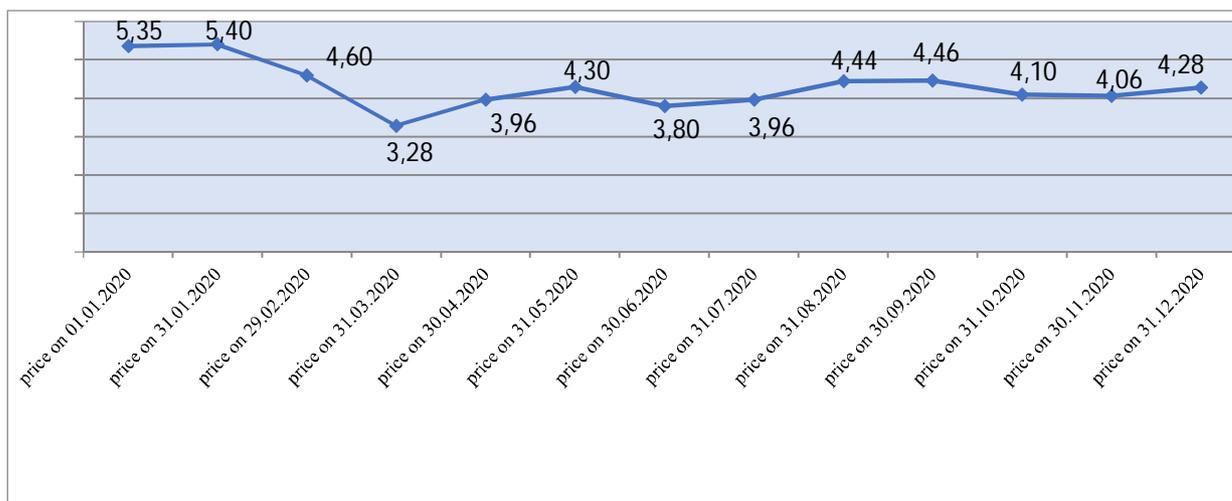


	2020	2019	2018
MBR indicator (market to book ratio) (stock exchange capitalization/equity).	1,7	2,2	2,3

AEROSTAR shares in figures

	2020	2019	2018
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Price at the end of the year (lei)	4,28	5,35	4,85
Stock exchange capitalization (lei)	651.747.486	814.684.358	738.545.633
Maximum price (lei)	5,70	5,35	5,36
Minimum price (lei)	3,00	4,78	4,65
Result per share (lei)	0,252	0,433	0,525

Monthly evolution of the reference price for Aerostar shares
in the time period January-December 2020 (lei/share):



The largest decrease of the ARS share price was recorded in March 2020 (-28,69%).

During 2020 the company did not perform any acquisition programme to buy its own shares. At the same time Aerostar did not issue bonds or other similar securities and there was no subscription of new shares or issue of participation certificates, convertible bonds, options or similar rights.

EVENTS OF THE YEAR 2020

- On 11 March 2020, the World Health Organization declared the pandemic for the novel coronavirus Covid-19 a while the state of emergency was established on the territory of Romania starting from March 16, 2020.
As of 15 May 2020, the state of alert was declared and maintained throughout the year 2020.
 - On 16 March 2020 marked the end of the negotiations of the clauses in the collective labour agreement at the Company level regarding the employees' benefits. The estimated impact of the salary raise on the costs for the year 2020 exceeded the amount of 8 million lei.
 - On 21 April 2020 took place the Extraordinary and the Ordinary General Meetings of the Shareholders in accordance with the applicable legal regulations.
- Aerostar's shareholders approved the dissolution of the company ATF S.A., where Aerostar held 45,75% of the share capital.
- At the same time, Aerostar's shareholders approved a gross dividend per share of 0,13 lei, corresponding to a nominal value per share of 0,32 lei and 23 June 2020 as the date of payment.
- On 5 June 2020 an update of the forecasts on Aerostar's results for 2020 following the pandemic's impact on the aviation industry was made, indicating an estimated drop of the sales in 2020 by approximately 100 million lei, down to a value of 278 million lei.
- The updated estimates sent to BVB and posted on the web page www.aerostar.ro specified a significant downsize of the turnover in the field of manufacture of parts, subassemblies and equipment for the large global programmes for commercial aircraft, but also in the field of MRO services.

- On 9 July 2020, the Ordinary General Meeting of the Shareholders of AEROSTAR decided to renew the mandate of the Board of Directors for a period of 4 years, starting from the date 11.07.2020 until 10.07.2024.
- On 7 August 2020 a protocol of collaboration was signed between The Air Force General Staff and Aerostar S.A., designated as the sole Maintenance Center for the F-16 aircraft.
- On 13 August 2020 the Ordinary General Meeting of the Shareholders took place for the appointment of the Audit Committee, appointed for the period between 13 August 2020 and 12 August 2022.
- On 1st September 2020 AEROSTAR launched out the start of the maintenance activity in the new hangar located in Iași. It also marked the commissioning of the investment and the arrival of the first aircraft for maintenance work at the new location.

The new hangar is part of Aerostar's Maintenance Base, authorized as per the aeronautical regulations Part 145 of the Romanian Civil Aeronautical Authority/EASA and heavy maintenance work can be performed on three narrow body aircraft type B737 or A320 simultaneously.

- On 16 December 2020 the Ordinary General Meeting of the Shareholders approved the Income and Expenditure Budget for the year 2021. It provides for a turnover of 310 million lei, total income of 327,068 million lei, total expenditures of 294,303 million lei and a gross result of 32,765 million lei, and a net result of 27,523 million lei, respectively.

EVENTS AFTER THE REPORTING DATE

AEROSTAR did not identify any events after the reporting date to impact on the financial statements for the financial year ended on 31 December 2020.

- On 3 March 2021 the notification was received at AEROSTAR about the entry in force of the changed name of the company, namely from SIF Modova S.A. into EVERGENT INVESTMENTS S.A., registered in the ASF Register as an administrator of alternative funds, authorized under no. PJR071AFIAA/040002.

The notification from Evergent Investments states that the name change does not result in the setup of a new legal person while preserving all the rights and liabilities undertaken under the former name.

BUSINESS MODEL

The value proposed by Aerostar on the market is created in the core business, in the field of aviation and defence, in production – the machining industry, with a significant degree of digitalization in the management of the enterprise's resources.

The management adopted a competitive business model, integrated through the synergy of the three business lines:

- Manufacture of aviation products
- Maintenance of commercial aircraft
- Systems for defence - aviation, ground and navy.

This model is based on the systemic-process approach and on the RISK-based thinking, as described throughout this report.

In 2020 no significant changes occurred in the business model adopted.

The Notes to the Financial Statements describe the way in which the financial reporting reflects the business model adopted by the company as per the IFRS standards.

The Context of the Organization and Interested Parties for AEROSTAR

The elements of risk-based management thinking are based on understanding AEROSTAR as an organization and the context in which it operates.

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

The aspects identifies as a part of the internal context of AEROSTAR are: human resources, infrastructure, capabilities and authorizations, governance, but also the organizational performance.

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

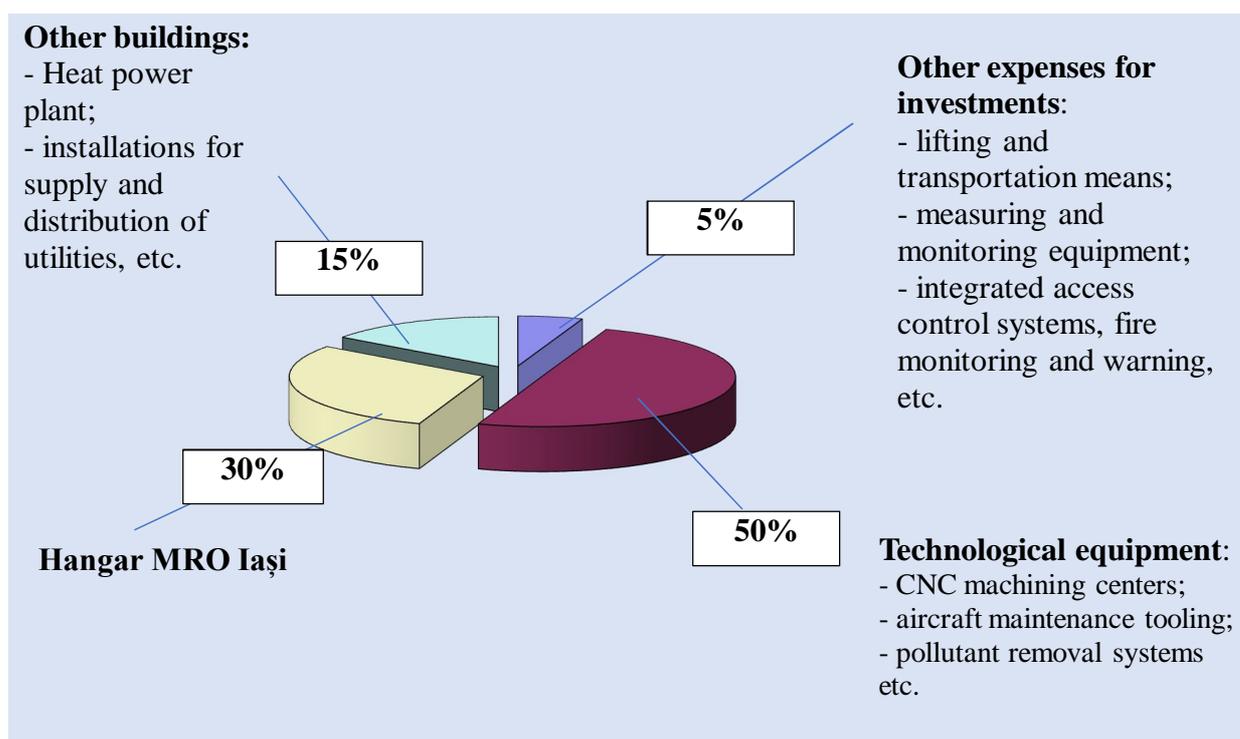
The impact caused by the Covid-19 pandemic, as well as the unparalleled changes generated required a systemic, preventive, proactive management in relation to all the components and functions of the organization.

WE CONTINUED THE INVESTMENTS!

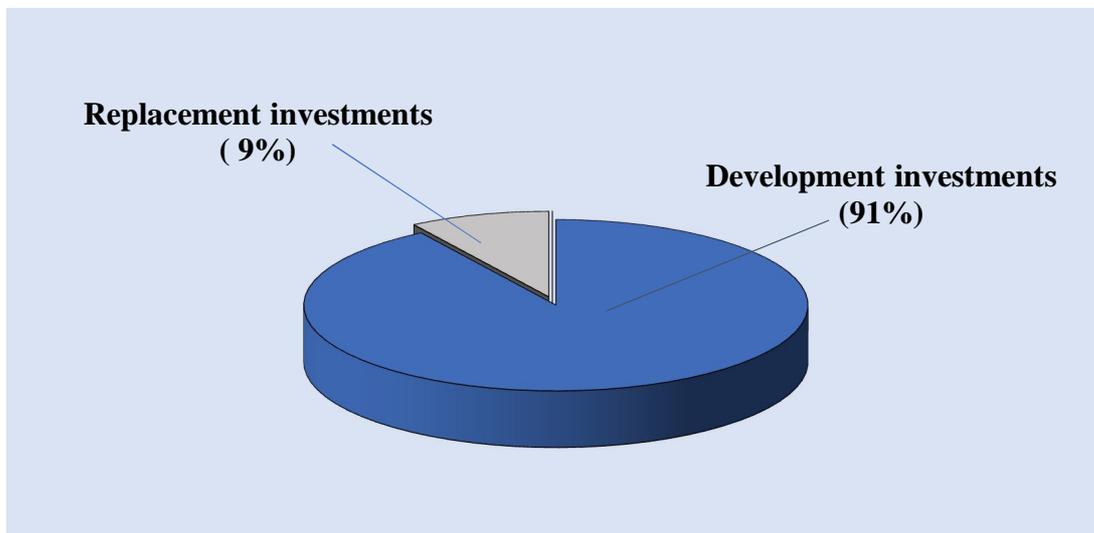
The total value of the investment expenses made in 2020 was 46.586.405 Lei.

At the onset of the economic crisis in the aeronautical sector the option was made to continue the investments already started since giving up the purchase orders launched would have triggered the loss of the advance payments made to suppliers.

The summary of the investment expenditures for various categories of fixed assets has the structure shown below:



The development investments represent **91%** and the replacement investments represent **9%** of the total investment expenses:



In the category of development investments are included the civil aircraft maintenance hangars and the related technical facilities, installations, municipal amenities and land enclosure for the place of business opened in the area of the International Airport of Iași. The finalized investment was announced on 27 August and the actual maintenance work on commercial aircraft started on 1 September 2020.

Details on this investment objective are found in the section **AEROSTAR business**.

The category of infrastructure investments includes the upgrading and automatization of the Thermal Power Plant, i.e. building a complete installation for thermal agent supply and distribution and replacing the severely worn-out equipment with new, eco-performant equipment.

Designed to secure the production and distribution of the heating agent, this objective included the integration in a central control system, as well as integrated remote control in a SCADA system.

Further details can be found in the section **Quality, a competitive advantage, Sustainable use of resources**.

AEROSTAR BUSINESS

In 2020 the company business was carried out in conditions of continuity.

The impact of the crisis on all three business lines in the field of aviation manufacturing, commercial aircraft maintenance and defence systems occurred in a differentiated manner and progressively throughout the year 2020.

After the first quarter of 2020, the major aeronautical manufacturing programmes were severely slowed down, or some of them even halted temporarily, as happened for example with Airbus and Boeing programmes to which Aerostar is exposed, so that in 2020 the exports went down to 68% of the company sales in the context of a turnover decrease of 26,2% compared to 2019.

Significant reductions of the work load occurred, compared to both the year 2019 and the initial planning for 2020.

The investors from the Bucharest Stock Exchange were notified about the significant decrease of the turnover in the field of manufacturing parts, subassemblies and equipment for the large global programmes for commercial aircraft and MRO services (aircraft maintenance), the June estimates showing a reduction of sales of around 100 million lei for the entire year 2020.

Aerostar requested and obtained the „EMERGENCY CERTIFICATE TYPE 1” for total or partial interruption of the activity due to the effects of the decisions issued by the competent public authorities, in accordance with the law, during the decreed state of emergency period.

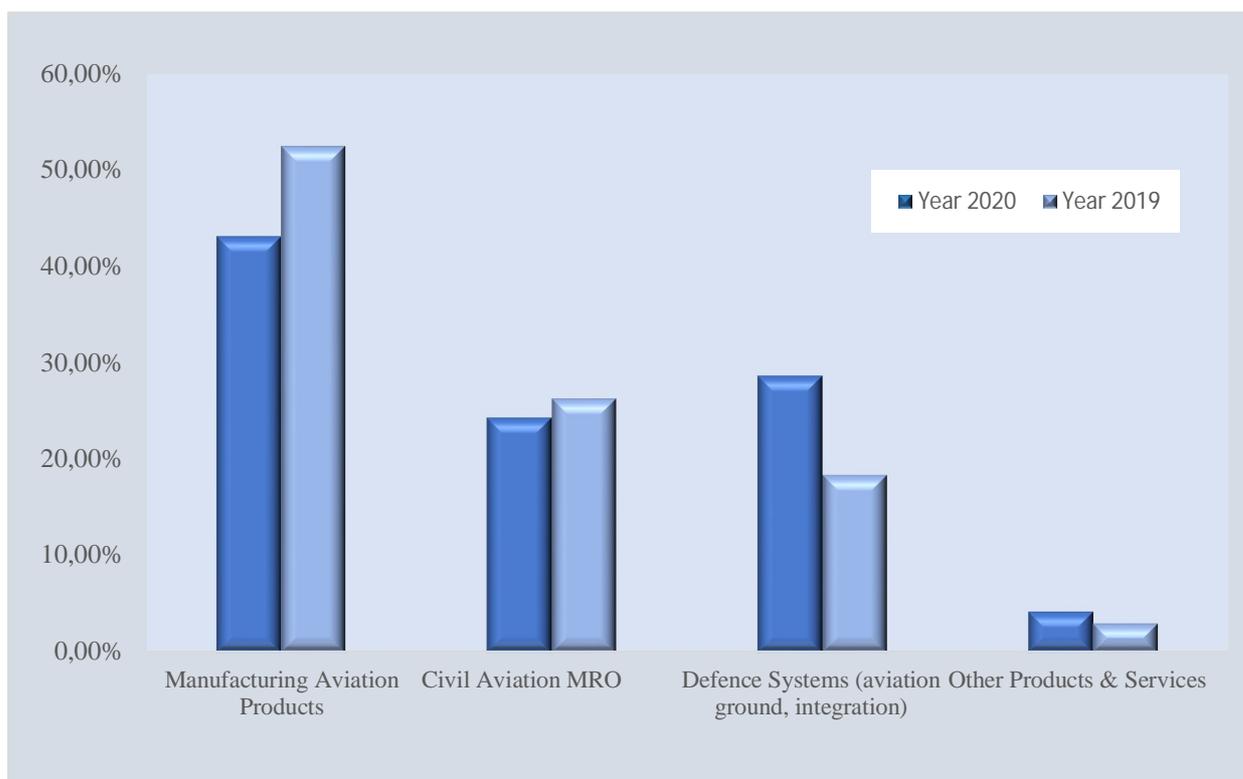
As regards the impact of the Covid-19 pandemic on the health of certain employees, the Force Majeure Commission from the Chamber of Trade and Industry of Bacău was requested and the company obtained the certification concerning the existence of the force majeure situation and its influence on the enforcement of the contractual obligations.

AEROSTAR sales

The turnout at 31.12.2020 was 249.839 thousand lei, of which the sales on the export market amounted to 200.341 thousand lei, representing 68% of the total volume.

The sales on the domestic market amounted to 94.498 thousand lei.

The comparative evolution of the sales of products and services is presented below:

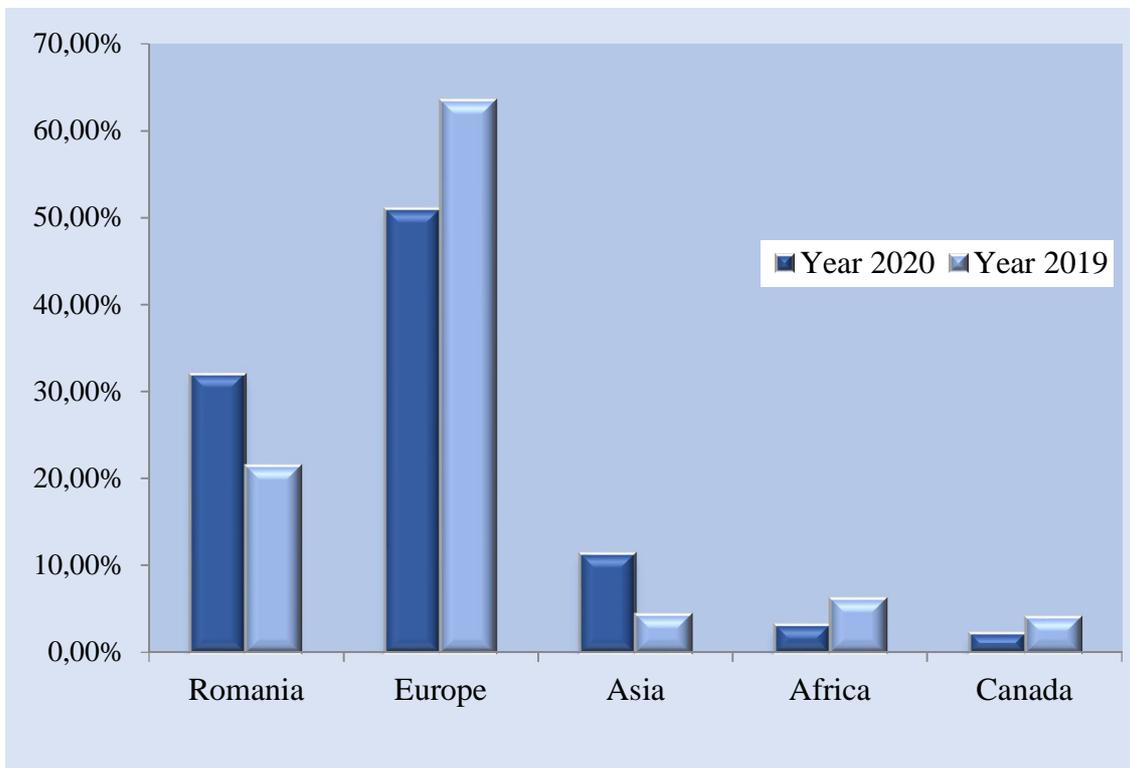


Aerostar sales were carried out on a global market of vast geographical area, both in the civil field and in defence.

Sales evolution on the main sales markets:

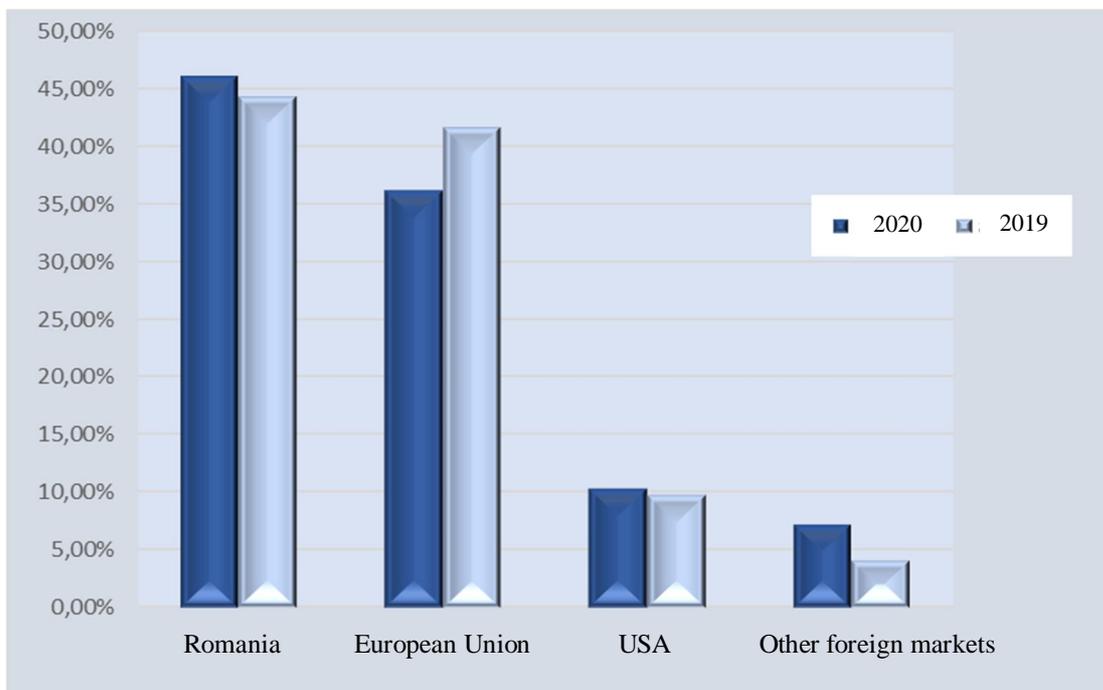
- **On the sales markets (comparison) - as percentage of total sales:**

	year 2020	year 2019
Romania	32,05%	21,46%
Europe	50,93%	63,41%
Asia	11,44%	4,47%
Africa	3,25%	6,29%
Canada	2,33%	4,16%
USA	0,00%	0,21%



The expenditures for purchases of products and services were made mainly on the Romanian market, reaching a percentage of 46,13% of the total purchases, including utilities and energy.

	year 2020	year 2019
Romania	46,13%	44,40%
European Union	36,19%	41,67%
USA	10,41%	9,76%
Other foreign markets	7,28%	4,17%



Business Environment

AEROSTAR operates on the global market of products and services in the aeronautical and defense industry, the business being affected by the evolution of the global geopolitical and economic environment, as well as by the crisis generated by the Covid-19 pandemic.

The Covid-19 pandemic generated a global crisis with a systemic impact on the aviation industry and the global supply chains.

At the same time, the process by which the United Kingdom left the European Union was extended, the Brexit occurring effectively on 31 December 2020.

The period 31 January 2020 – 31 December 2020 was a transition period during which took place the negotiation of the bilateral agreement between the United Kingdom and the European Union.

On 30 December 2020 a Trade and Cooperation Agreement was signed between the European Union and the United Kingdom. Thus, this Agreement is provisionally applicable since 1 January 2021 pending ratification.

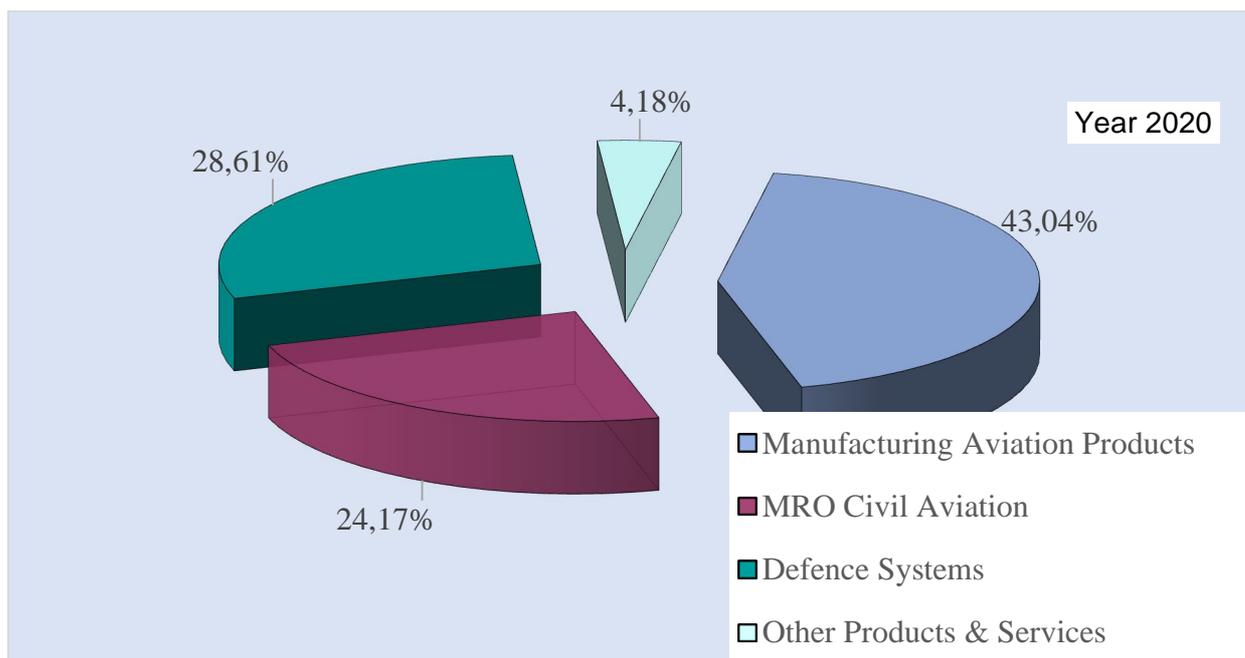
Business Lines

In 2020, Aerostar business was carried out under conditions of continuity, with measures for adaptation to the restrictions imposed by the sanitary crisis and social distancing implemented in Aerostar as of 25 February 2020.

The aviation industry and the defence industry are related and complementary, both of them having a cyclic growth model.

The commercial aircraft manufacture sector is strongly affected by the crisis in the commercial aviation field.

The impact of the crisis situation on the structure of the company's business is differentiated on the business lines.



Manufacture of aeronautical products

The low demand of new aircraft has a strong impact on the worldwide aviation manufacturing chains.

As a result of the diminished rates of production in several commercial aircraft programmes, Aerostar received notifications about the suspended or deferred collecting of parts and subassemblies from several main customers.

Year after year the role played by Aerostar in the supply chains in the worldwide industry has increased progressively, just like the export volume. This positive trend continued in the 1st trimester of 2020. Subsequently, the major manufacturing programs were severely slowed down, some of them even halted, as happened for instance with the programs Airbus and Boeing, Aerostar being significantly exposed in several commercial aircraft programmes.

The equipment, assemblies and parts produced by Aerostar are included on a large number of commercial aircraft: Airbus A320, A321, A330, A350, Boeing B737, B787, B767, Gulfstream G650, Dassault F7X and Bombardier Challenger series 600 and Global series 5000/6000.

At the same time Aerostar provides parts for the aerospace industry via the European company Ariane.

Being anchored as an exporter of parts, subassemblies and equipment for the important global programs affected by the crisis, Aerostar was forced to reduce its production and deliveries and pay a lot of attention to maintaining its capabilities, i.e. machinery, production lines, personnel and qualifications in order to benefit from the economic recovery period.

In 2020, Aerostar obtained the “Champion Challenger” award in the process of suppliers’ evaluation by the Airbus company, as an acknowledgement of its performance concerning the quality of the delivered products as well as the compliance with the delivery deadlines for the Airbus programmes.

MRO Civil Aviation

As a consequence of the reduced air transport activities, notifications were received from several airlines to give up the scheduled maintenance work on their aircraft Boeing 737 and Airbus A320.

The investment in the maintenance center located in Iași which was commissioned in September was an effective countermeasure to reduce the losses which would have been generated due to the temporary stop of the operations at the Bacău airport.

Aerostar has a significant footprint as business volume in the field of MRO civil aviation, being the main independent supplier of base and heavy maintenance services in Romania and in this geographical area for the commercial aircraft in the Airbus 320 and Boeing 737 family.

Starting with the Part 145 authorization from the RoCAA, a full member of the European Aviation Safety Agency (EASA), Aerostar's maintenance base has strengthened and consolidated its market position and received a wide range of approvals from the civil aviation authorities of several countries outside the European Union, including from the American FAA.

The EASA certificate of authorization as a Part 21J Design Organization approved for repair and minor modification projects for large civil aircraft is aimed at increasing the added value for our customers.

The experience gathered in heavy maintenance is the base for the development of the civil aviation maintenance Centre Part 145 in Iași.

At the same time, Aerostar's profile as a regional Center of Excellence in the field of civil aviation maintenance has strengthened, becoming a pole of sustainable development.

Systems for Defence

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

In the defence systems category, AEROSTAR is an active player in the military and defense upgrading, integration and system maintenance, further focusing on those types of platform for which it has proven experience in traditional programmes and also in new upgrading or integration programmes: military aircraft, launcher systems and primary and secondary radar systems.

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

Under the afore-mentioned law, in December 2018, the Romanian Government designated AEROSTAR as the Maintenance Centre for the F-16 aircraft in the inventory of the Romanian army.

AEROSTAR assumed its role and initiated the investments for setting up the necessary capabilities. The F-16 aircraft maintenance center is under progressive development by assigning and training the personnel, manufacture and purchasing test benches and fixtures and by setting up the specific maintenance infrastructure, while the first F-16 aircraft in RoAF inventory is to arrive for work at Aerostar during the year 2021.

Market position in the field of the launching and radar systems

AEROSTAR has steadily developed the capabilities needed to consolidate its supplier status and expertise in the field of launching systems, platforms and components for launching and firing command & control, manufacture of launchers, maintenance and logistic support, upgrades.

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

This year, Aerostar has entered the Preferred Supplier List (PSL) and is authorized to take part in RAYTHEON programmes and deliver parts manufactured by Aerostar.

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

QUALITY, A COMPETITIVE ADVANTAGE

The policy referring to quality and environment adopted by Aerostar has the following strategic objectives: meeting the customers' requirements, complying with the legal and regulatory requirements applicable to the activities performed, enhancing the environmental performance, full safety for the users of Aerostar products and services, continuous improvement of the competitiveness of our products and services, „zero defects” on the products and services in warranty.

The Integrated Quality and Environment System of AEROSTAR reconfigured after the latest revisions of the standards SR EN ISO 9001, AQAP 2110, AS 9100 Rev D, SR EN ISO 14001 focuses particularly on risk management.

The recertification and the continued validity of each of these certificates and authorizations confirm the concern and good practice implemented in AEROSTAR for risk management.

In 2020 AEROSTAR S.A maintained its quality and environmental management system certificates, thus maintaining the necessary framework for accomplishing its goals.

Following the audit carried out by the representatives of the Military Body for Certification, Accreditation and Surveillance (OMCAS), the recertification of the quality management system was obtained.

The NADCAP accreditations for special processes applied within the company were also maintained.

The authorization of the PART 21 Production Organization issued by the Romanian Civil Aeronautical Authority was also maintained while the authorization of the PART 145 Maintenance Organization was extended for the site located in Iași.

Improving the environmental performance

AEROSTAR holds various authorizations related to environment: the Integrated Environmental Authorization, Water Management Authorization and the Authorization for greenhouse gas (GHG) emissions.

By applying the social responsibility principles in terms of environment, the directions established by Aerostar are the pollution prevention, the sustainable use of the resources and climate change mitigation, following the guidelines of the standard SR ISO 26000 regarding social responsibility.

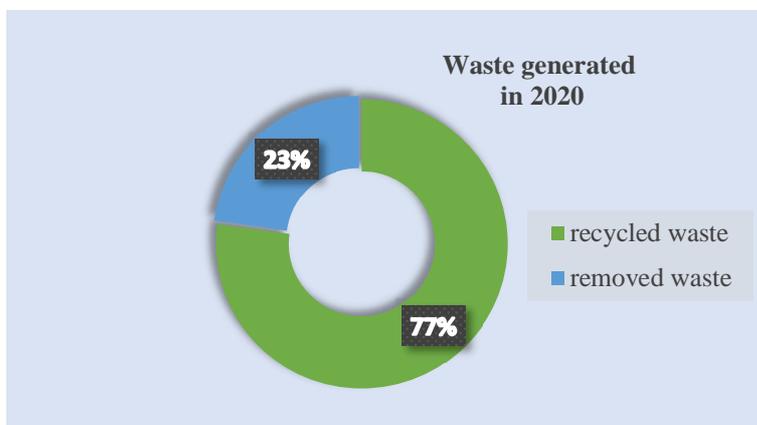
The implementation of the environmental policy and the directions of action established for the implementation of the general management goals led to the improved environmental performance of the Company.

As regards the **evaluation of the aspects related to the impact of the company's activity**, AEROSTAR acts responsibly, effectively and continuously to provide compliance with the legal and regulatory requirements applicable and with the contractual requirements in relation to the customers.

The activities with environmental impact are controlled by internal inspections – internal evaluations related to the compliance with the applicable legal or regulatory environmental requirements, and by analyzing the results of the monitoring actions and measurements made as per the provisions of the environmental authorizations. Thus, in 2020 the compliance with the maximum admissible values of the environmental indicators was ensured.

The results of the inspections carried out by the inspectors of the Environmental Guard in Bacău confirm that AEROSTAR complies with the applicable legal and regulatory requirements.

In the field of the pollution prevention, AEROSTAR has diminished the waste footprint resulting from its own activity, maintaining a high percentage, 77%, of recoverable waste out of the total quantity of waste generated.

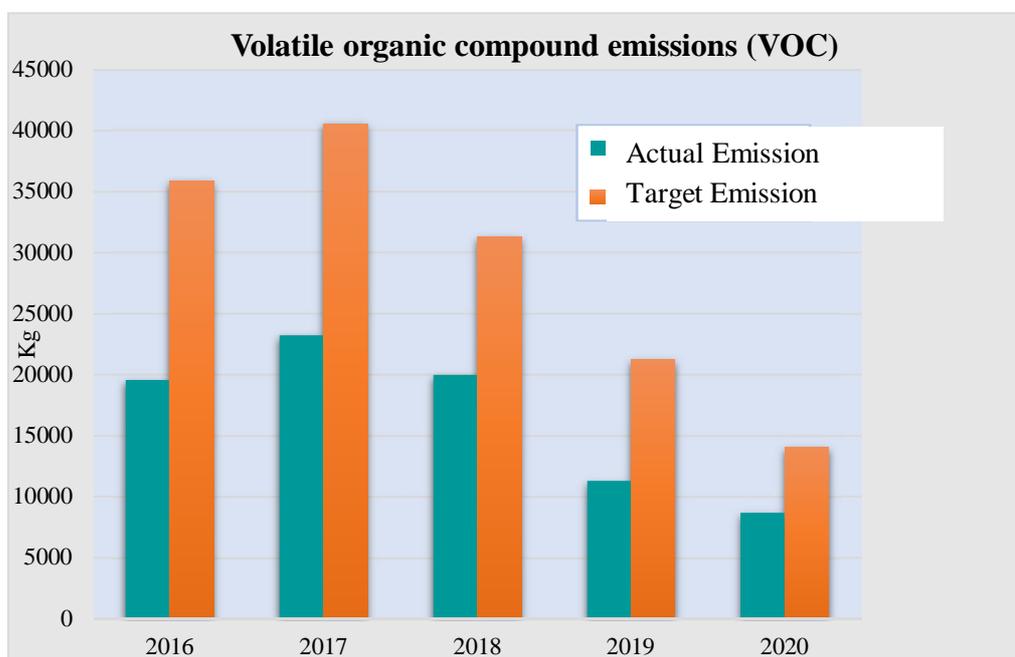


In 2020, AEROSTAR reduced the quantity of waste produced as a result of its activity. Thus, the quantity of waste generated in 2020 decreased by 43,93% compared to 2019, and by 57,15% compared to 2018, respectively.

With regard to the hazardous waste, the quantity of waste has dropped significantly over the past few years, so that in 2020 the quantity of hazardous waste generated was 18,26% lower than in 2019, and 49,27% lower than in 2018, respectively.



The volatile organic compound emissions decreased too, with further actions taken for the replacement of the solvent-based paints with water-based paints.



Aerostar complies with the REACh requirements

All hazardous substances and chemical mixtures used in AEROSTAR are handled as per the applicable regulations in force.

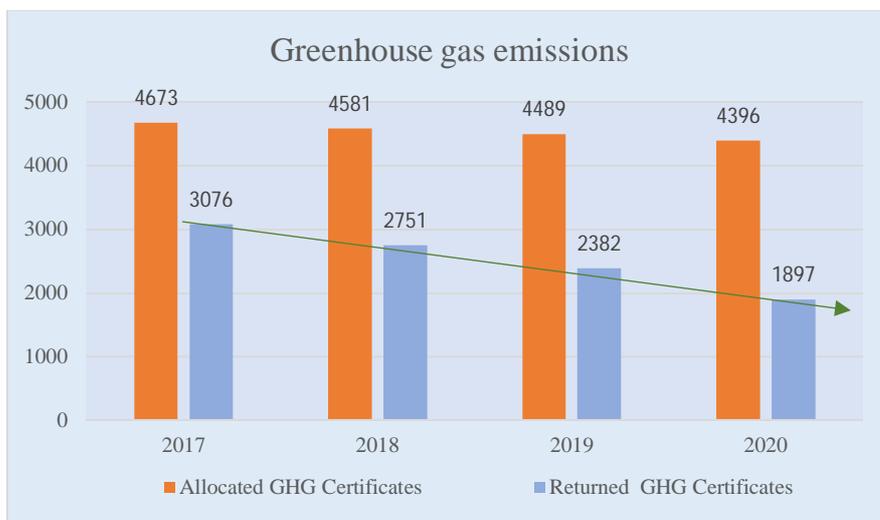
All hazardous substances and chemical mixtures under the provisions of the REACh regulation are used as per the requirements provided in the authorizations issued by the European Commission.

In the field of climatic change mitigation, AEROSTAR fulfilled all its obligations derived from the **greenhouse gas emissions authorization**:

- A monitoring report for the greenhouse gas emissions generated in 2019 was prepared and validated via an audit performed by an accredited surveyor;
- Conformation in the Unique European Register for Greenhouse Gas Emissions – completed in April -when 2382 certificates were returned.

Following the survey audit on the greenhouse gas emission management, no nonconformities were documented, the emissions corresponding to the year 2019 being therefore validated.

Evolution of the greenhouse gas emissions for the period 2017 - 2020

**In the field of sustainable use of resources**

Aerostar continued to invest and secure the water supply for the company by compensating the need of technological/industrial water from new sources.

The technological waste waters resulted from the chemical and electrochemical processes are collected and treated in the waste water neutralizing stations located on the company's premises.

Compliance was ensured with the maximum limits admitted for the quality indicators of the waste waters drained in the public sewage system, as provided in the water management authorization.

The investments were continued to provide a higher efficiency in the distribution of the heating agent as well as for increasing the energetic efficiency of the buildings.

Full safety for the users of our products and services is one of AEROSTAR's strategic objectives.

In terms of **safe products and services**, no events were reported as a result of AEROSTAR's activity in the relevant fields such as the maintenance of civil and military aircraft, manufacture of parts and subassemblies for civil aviation, manufacture of radio-electronic equipment.

Our products and services are manufactured in full compliance with the users' and customers' requirements and the legal and regulatory provisions so as to minimize the impact on the users' health and safety.

OUR EMPLOYEES

▪ Social and manpower aspects, data about employees

On 31.12.2020 AEROSTAR had an effective number of 1.807 employees, 3 of which employed through the temporary labour agent Airpro Consult S.R.L.

Compared to the end of the year 2019, the effective workforce on 31.12.2020 was less by 151 employees.

The overall fluctuation of personnel in 2021 was 6,22%, a decrease compared to 9% in 2019.

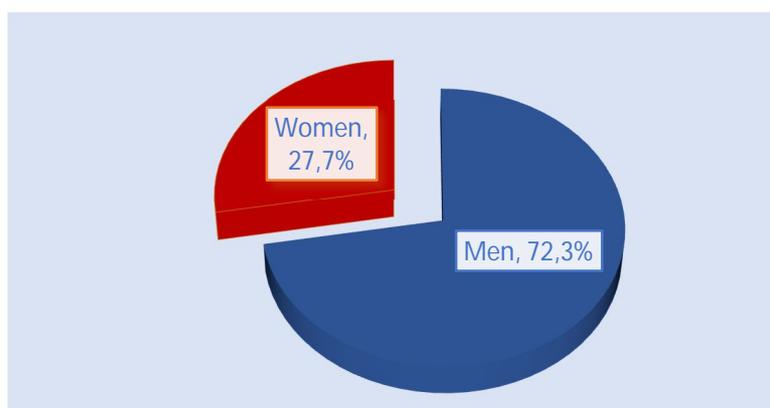
Out of the total 1.807 employees, 184 hold management positions.

The average union membership in the company at 12 months of 2020 was 64,51%.

Currently AEROSTAR has 84,4% of the individual labour agreements concluded on an indefinite period, thus avoiding the excessive use of temporary manpower.

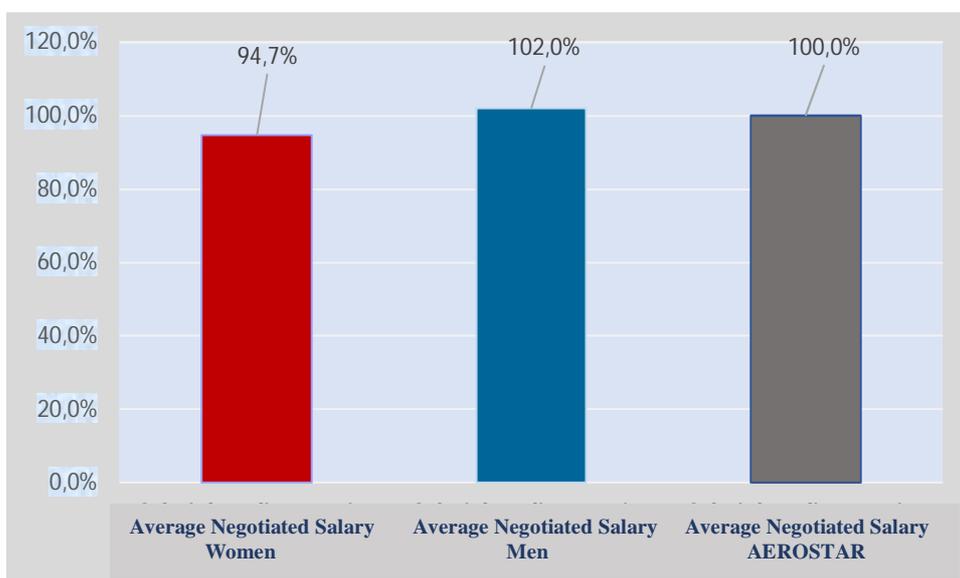
On 31.12.2020, the average age of the Aerostar's employees was 46 years (Aerostar and Airpro), and the average seniority of the employees lastly hired in AEROSTAR was 9 years.

In terms of gender distribution, on account of the company's object of activity, the manpower structure at the end of 2020 is as follows:



From a total of 184 management positions, 35 are held by women, that is 19%.

At the end of 2020, the ratio between the average base salary negotiated for the male employees and the average base salary at company level was 1,02, and the ratio between the average base salary for the female employees and the average base salary negotiated at company level was 0,947:



Although the nature of the production activities performed in the company is traditionally specific to the male employees, a significant number of women work in AEROSTAR, the differences between the average salary level for women-men being insignificant, this being due to the difference between the professions of the male employees and those of the female employees.

To ensure the continuity of the activity within Aerostar, and to prevent any contamination at the workplace during the pandemic, the management has implemented adequate and correct measures to protect the health of the employees.

On account of the rapid evolution of the disease worldwide and nationally, and despite all the measures taken to protect the employees against the infection with the new SARS-CoV-2 coronavirus, Aerostar recorded a total number of 3344 days of medical leave.

▪ Labour relations and social dialogue

In AEROSTAR, a collective labour agreement is in effect for the period 2019-2021, which was concluded with the employees in accordance with the provisions of the social dialogue law no. 62/2011.

The package of economic benefits offered to the employees does not include a pension plan.

In March 2020, the annual negotiation of the collective labour agreement provisions regarding salaries, working conditions, holiday vouchers was completed and new pay scales were established as of 01.04.2020.

The wise resource allocation policy over the last few years had the outcome that the economic recession storm could find us as a robust company, strongly anchored in the global economic and production system. For the year 2020, the decision was made to protect our production capacity, while maintaining the manpower and the qualifications held by the company and its employees.

Practically, as a result of the lower volume of contracts and orders and, implicitly, the reduced volume of work, both redeployments of personnel were applied, which permitted to fill in the initial deficit of skills, and a significant number of furlow employees during the year 2020.

▪ Training and professional development

As far as manpower is concerned, the main risk consists in providing the skills and qualifications according to the needs resulting from the execution of the contracts signed with the customers.

AEROSTAR is authorized as a provider of professional training by the Ministry of Education and Ministry of Labour for specific jobs in aviation: airframe worker, aviation mechanic, electro-mechanic and aircraft engine mechanic.

In June 2020, a 2-year apprenticeship programme for aircraft mechanics was completed.

In 2020, 179 students from technical colleges and vocational high schools and 7 students from partner universities attended internship programmes in the company.

During 2020, training courses were organized for the company's employees, the main focus being to cover the training needs in the areas of interest for the production activities.

Training the employees to raise their awareness of the environmental requirements is a constant concern.

As a result of the completed internal and external training programmes provided in the annual professional training plan, a total number of 1.837 employees received in average 31 hours of training/ year/ per employee, throughout the year.

The competences of these employees are highlighted in the skills matrix at the level of the organizational unit (department).

In 2020, an average of **3** hours of professional training/employee was recorded, for the improvement of the employees' professional skills.

▪ Health and labour safety, working conditions

In 2020, AEROSTAR held the health and safety certification according to the standard OHSAS 18001:2008 and in December 2020 it was certified by the certification body AEROQ Bucharest based on the standard SR ISO 45001:2018 for a period of 3 years.

The strategic objective of the organization in the field of health and labour safety is 'ZERO accidents' and this did not change.

During the year 2020, no work accidents and implicitly no fatal work accident occurred in AEROSTAR.

In order to protect its employees from getting infected with the new coronavirus COVID-19, AEROSTAR implemented a general plan of measures concerning the specific regulations, which is an integral part of the prevention and protection plan aimed at improving the health and labour safety conditions in Aerostar for the year 2020.

- rate of accidents at 100.000 hours of work	0.000%
- rate of wasted time from work accidents at 100.000 hours of work	0.0%

Principles and values in the business conduct, human rights, fighting corruption and anti-bribery

Both the Board of Directors and the entire executive management are committed to managing the business of Aerostar with integrity, honesty and transparency, by observing the laws and regulations applicable to the company, **zero tolerance for any form of violation of human rights, corruption or bribery.**

The Collective Labour Agreement 2019-2021 between the company's administration and its social partners includes a code of conduct and ethics stipulating the general guidelines on the business conduct of the company, in accordance with the highest ethical standards in business.

The Code of Business Conduct and Ethics is published on the website of the company and is an integral part of the individual labour agreement.

In terms of the conflict of interests, the employees must avoid any non-transparent private interest likely to influence their ability to act in the company's interest or which encumbers the objective and efficient performance of their work.

The executive management is also concerned with the conformance to all the existing anti-corruption policies and procedures at the level of the international supply chains in the aeronautical industry Aerostar is part of, including in the category of integrity warning mechanism also stipulated by the Romanian law.

In 2020 there was no incident of corruption or legal action for anti-competitive, anti-trust and monopolistic behaviour.

Aerostar is not involved in activities of political contributions.

Aerostar and its related parties carried out the compliance activities provided after the entry into force of the law 129/2019 on the prevention of money laundering and terrorism funding.

TANGIBLE ASSETS

The production facilities and capacities of Aerostar S.A. are located in Bacau, where is also located the registered headoffice of the company, at No. 9 Condorilor Street, Bacau 600302, Romania.

Aerostar S.A. has a secondary place of business without legal personality at Iasi, no. 25B, Aeroportului Street.

The company owns a land area of 47,24 hectares, with access to the European road E85.

Aerostar has direct access to the runway of the airport “George Enescu” in Bacău and direct access to the Iași airport runway in case of the maintenance base in Iași, respectively.

All types of facilities necessary for the proper performance of the production activity are built at the registered office according to the intended object of activity.

The production sites include hangars, industrial halls, test benches and rigs, administrative and social facilities. The company also holds office premises for technical and economic activities.

All these spaces are maintained in good conditions.

The built area of the buildings is approximately 13,47 hectares.

The assets of Aerostar SA comply with the provisions established in the health, safety and environmental management system, in line with the applicable occupational safety legislation and regulations, as well as the norms on property safety and security.

On December 31, 2020 Aerostar S.A. Bacau owns tangible assets for carrying out its activity in a gross value of 326.017 thousand lei, consisting in land, buildings, special constructions, installations, technological equipment, means of transport:

Category of tangible assets	Gross value (thousand lei)	Rate of wear (%)	Estimated useful life (years)
Land	29.266	N/A	N/A
Constructions	94.206	28,4%	30-50 years
Investment property	10.537	33,6%	25-50 years
Technical installations, of which:	188.533	57,0%	
• technological equipment	182.403	56,7%	4-25 years
• transport vehicles	6.130	68,2%	4-18 years
Other tangible assets	3.475	33,7%	2-18 years
TOTAL	326.017	42,7%	N/A

During 2020 no risks were identified related to the ownership over the tangible assets.

About AEROSTAR's shareholders

MAIN SHAREHOLDERS

At the end of 2020, the shareholding structure comprised a number of 6533 natural and legal shareholders.

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

The other shareholders are natural and legal persons below the significance threshold as specified in the regulations issued by the Financial Supervisory Authority and the Bucharest Stock Exchange.

The synthetic shareholding structure of the company Aerostar S.A. Bacău as published on the website of the Bucharest Stock Exchange on 31.12.2020, as per the data provided by Depozitarul Central is shown below:

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

There are no litigations with the above-mentioned persons.

RELATION WITH THE SHAREHOLDERS AND THE CAPITAL MARKET

In its relation with the shareholders, in 2020 too AEROSTAR aimed at securing the shareholders' rights, namely:

- the right to participate in the General Meetings directly or by representation—by providing them special proxy forms, voting bulletins by correspondence, other useful information;
- the right to have a fair treatment, regardless of shareholdings;
- the right to receive dividends proportionally to the holdings of each shareholder.

In relation to the capital market, in 2020 AEROSTAR also fulfilled all its reporting obligations arising from the legal provisions by publishing the mandatory current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the company website and by means of press releases.

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

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

Annual and half-year reports for the last 10 years, quarterly reports for the last 5 years, current reports and other useful information for the shareholders can also be downloaded.

Aspects regarding the company capital and administration

In 2020 there were no modifications that affect the capital and administration of AEROSTAR S.A.

The company was not unable to fulfill its financial obligations during the reported period.

There are no modifications regarding the shareholders' rights. There were no major transactions concluded by the company with its concertedly acting persons or in which such persons were involved in the relevant period of time.

AEROSTAR's relation

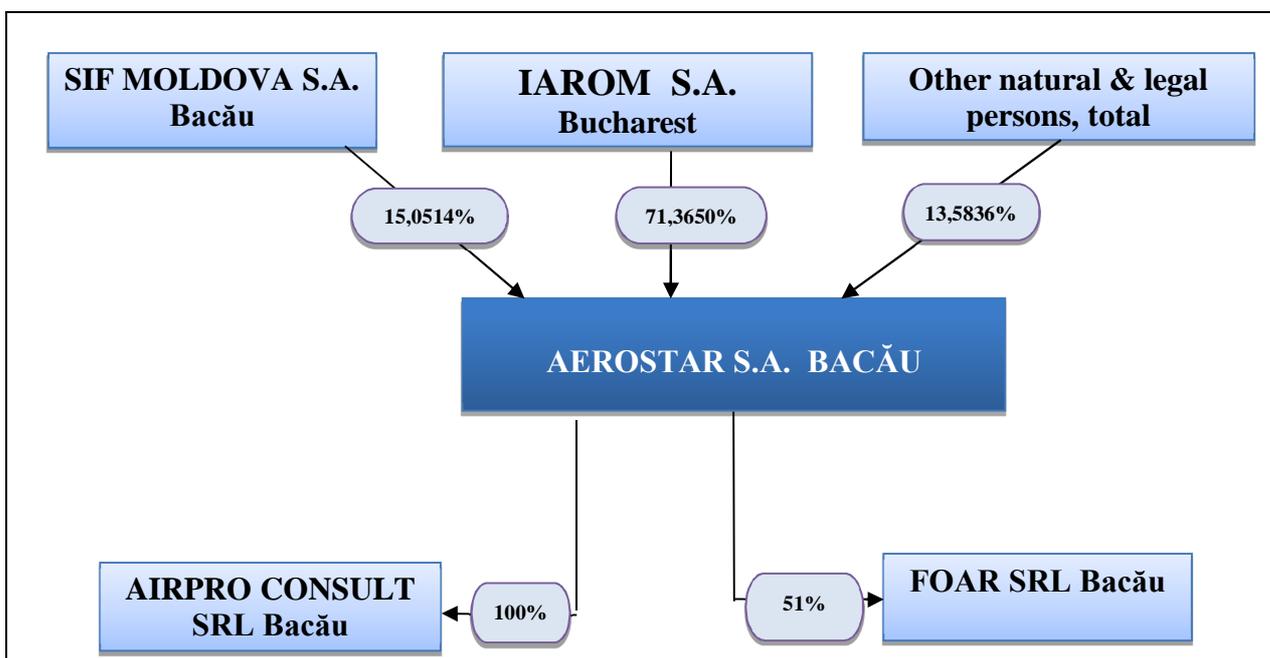
with the parent company and the companies where AEROSTAR holds capital:

Aerostar is a subsidiary of IAROM S.A. and therefore, the parent company that consolidates the group's financial statements is IAROM S.A. with the unique registration code 1555301 and the registered office in Bucharest, at no. 39, Aerogării Blvd.

The consolidated financial statements for the financial year 2019 were filed at ANAF (The National Agency for Fiscal Administration) under the registration number 221497794 dated 27.08.2020. Copies of the consolidated financial statements can be obtained at the registered office of the parent company IAROM S.A.

The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations for the financial year ended on 31.12.2020.

Aerostar's relation with the parent company and the companies where it holds shares:



The Extraordinary General Meeting of the AEROSTAR S.A.'s shareholders held on 21 April 2020, adopted the decision to dissolve ATF S.A. Bacau, where AEROSTAR held 45,75% of the registered capital.

In August 2020, Aerostar removed from its accounts the shares held at ATF S.A. after the liquidation of this company.

RELATED PARTIES

On 31.12.2020, AEROSTAR's participations in other companies are as follows:

Name of the subsidiary/affiliated company	Basic activity	No. of shares held by Aerostar	Voting rights	Value of Aerostar holding (k lei)	Financial information for the last financial year (year 2019) for which the financial statements of the affiliated companies were approved		
					Sales (k lei)	Own capitals (k lei)	Net profit (k lei)
Airpro Consult S.R.L. Bacău	CAEN code 7820	100	100%	10	8.051	162	65
Foar S.R.L. Bacău	CAEN code 7739	408	51%	4	435	1.957	210
TOTAL				14	8.486	2.119	275

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

Both companies in which AEROSTAR still holds shares are registered in Romania.

The transactions with the related parties are specified in the financial statements at Note 26.

AEROSTAR MANAGEMENT

AEROSTAR's **Board of Directors** was elected for a period of 4 years (11.07.2020 – 10.07.2024) during the General Meeting of the AEROSTAR shareholders of 9 July 2020 and consists of:

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

The attributions and responsibilities of the Board of Directors are provided in the Constitutive Deed. The resumés of the Board of Directors' members can be found on the company website.

Business Management

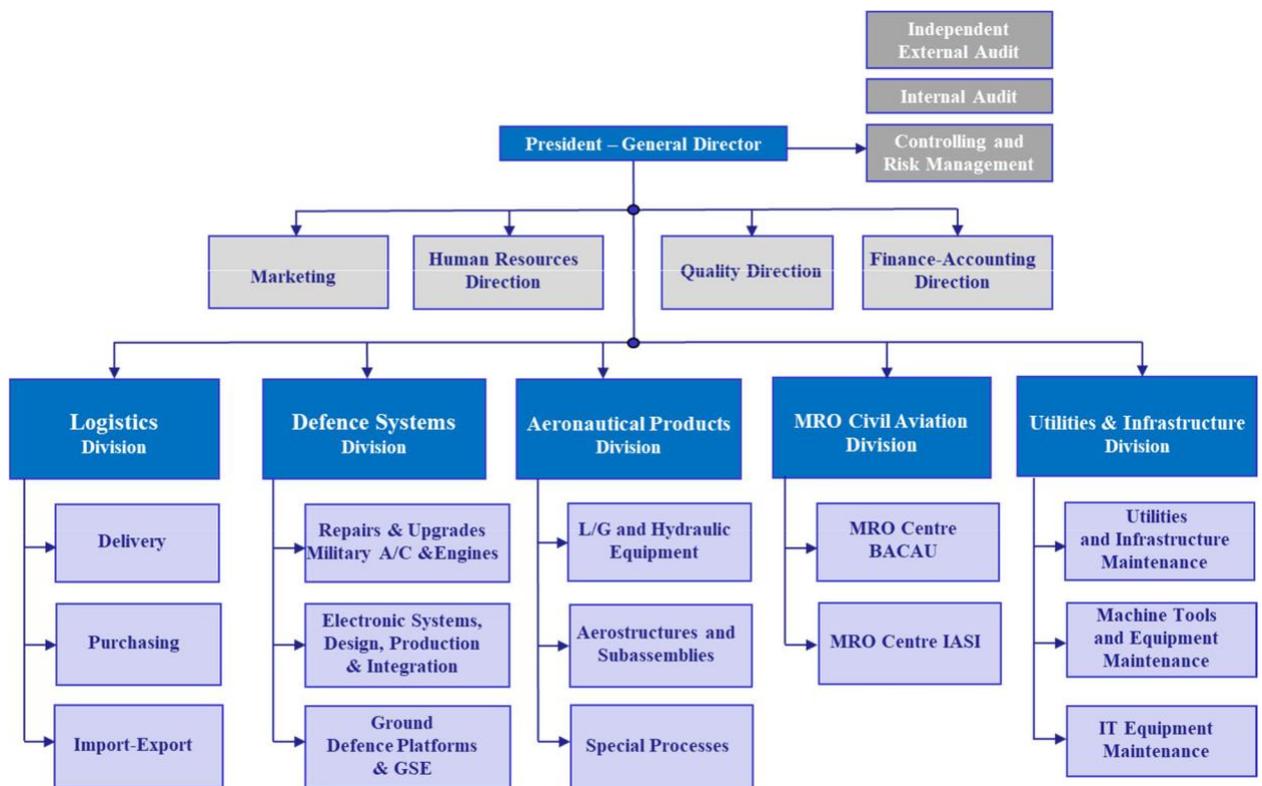
The administration of the company is carried out in a unitary system. The President of the Board of Directors is also the General Director of the company. The executive management is provided by the General Director and the Financial Director.

With reference to the organization and management system in Aerostar, the management structure at operational level provides the management of the activities based on a divisional type organization that relies on administrative centers outside the production area, the auxiliary and functional activities.

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

AEROSTAR carries out its object of activity by using the common resources of the organization in an integrated manner and maintains the organizing principles and the use of resources in a unitary, competitive and integrated manner.

The organizing structure implemented in AEROSTAR is represented below:



On 31.12.2020 the management structure which provides the management of the company's functions based on the divisional organizational structure is:

Name and surname	Position
FILIP GRIGORE	General Director
DAMASCHIN DORU	Finance-Accounting Director
ROGOZ VASILE-LAURENȚIU	Quality Director
POPA DAN PAUL MĂLIN	HR Director
FILIP ALEXANDRU	Director, Logistics Division
BUHAI OVIDIU	Director, Defence Systems Division
IOSIPESCU ȘERBAN	Director, Aeronautical Products Division
VELEȘCU IOAN-DAN	Director, MRO Civil Aviation Division
BRANCHE CĂTĂLIN- BOGDAN	Director, Utilities & Infrastructure Div.

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

There are no litigations with the above-mentioned persons.

CORPORATE GOVERNANCE

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

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

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

The declaration of compliance to the Bucharest Stock Exchange, annexed to this report, summarizes the principles of Corporate Governance applied by the company, as well as their degree of adequacy to the specific features of Aerostar.

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

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

CORPORATE GOVERNANCE STRUCTURES

The corporate governance structures are:

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

▪ The General Meeting of the Shareholders

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

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

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

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

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

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

Five (5) general meetings of the Aerostar shareholders were held in 2020.

In order to ensure an equal treatment and a full and fair exercise of the rights of the shareholders, the company provides them all relevant information with reference to the GMS and the resolutions adopted both in the regulated communication system (national newspaper, reports to the Financial Supervisory Authority and BSE), as well as in the special section „Investor Relations” on the company’s website that is easily identifiable and accessible.

AEROSTAR exercises all due diligence, in compliance with the requirements of the relevant legislation, to facilitate the participation of shareholders in the proceedings of the general meetings and the full exercise of their rights. Shareholders may participate and vote personally in the General Meeting, but they also have the possibility to vote by proxy or by correspondence.

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

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

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

The General Meetings of the Shareholders took place in full compliance with the Law 31/1990 regarding the companies, the Law 24/2018 regarding the capital market and the applicable regulations issued by FSA, as well as any other incidental legal norm.

Over the last years, the company has distributed dividends to the shareholders and consolidated a dividend policy that guarantees shareholders’ satisfaction while also providing resources for the development of the company.

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

In 2020 the company did not purchase its own shares, nor did it issue bonds or promissory notes.

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

▪ The Board of Directors

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

The Board of Directors of AEROSTAR was elected for a four-year period from 11.07.2020 until 10.07.2024 at the General meeting of shareholders on 9 July 2020. Detailed information can be found in the **AEROSTAR management** section.

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

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

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

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

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

A number of 9 (nine) BoD meetings took place during 2020.

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

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

▪ The audit committee

Based on the provisions of the Corporate Governance Code in conjunction with the provisions of Law no. 162/2017, an **independent audit committee** was established, consisting of three members appointed by the Ordinary General Meeting of 13 August 2020 for the period of time between 13 August 2020 and 12 August 2022.

The Audit Committee consists of the following members:

- **Grigore HOROI**
- **Mihai DEJU**
- **Daniel BOTEZ**

The attributions of the independent audit committee are provided in its rules of procedure, approved by the Board of Directors, completed with the provisions of Law no. 162/2017 and of UE Regulation no. 537/2014, that can also be found on www.aerostar.ro/ Investors Relation/ Reference documents.

The Audit Committee meets regularly, at least 4 times a year, as well as exceptionally if applicable.

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

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

▪ AEROSTAR's Code of Business Conduct & Ethics

AEROSTAR supports the company principles and values in an honest and fair way, with integrity, while consistently acting to comply with the highest ethical standards in business, by adopting voluntarily for several years AEROSTAR's Code of business conduct and ethics. This code is posted on the company's website www.aerostar.ro and is part of the provisions of the collective labor agreement.

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

The Board of Directors pays special attention to the observance of the corporate governance principles in order to guarantee:

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

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

▪ Management of the conflict of interests

In terms of accounting regulations, AEROSTAR is a subsidiary of the company IAROM S.A.

Aerostar presented in transparency conditions, according to the applicable regulations, the structure of the company's shareholding and related parties.

At the same time, Aerostar fully complies with the requirements of law 129/2019 regarding the real beneficiaries.

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

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

▪ Executive Management

AEROSTAR is managed in a unitary system, with the executive management of the company delegated to the General Director and to the Financial Director.

▪ Internal control system

The internal control system of AEROSTAR comprises the following components:

- Financial management control
- Budgetary control
- Controlling
- Internal audit

▪ Financial management control

In AEROSTAR there is a dedicated department responsible with financial management control.

This department provides the inventory of all the elements related to assets, debts and own capitals in the company records.

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

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

No significant deviations were found compared to the records on paper.

▪ Budgetary control

The budgetary control is carried out by budget managers.

From a budgeting perspective, the company is organized in:

- profit centers
- cost centers.

Various budgets are defined in the company based on activity programs corresponding to the functions of the company.

The budgetary control provides:

- compliance with the forecasted values for each budgeted indicator
- the groundwork for any corrective actions

On a quarterly basis, both the profit centers and the cost centers report to the executive management the methods of achieving the budgetary forecasts and the necessary, timely, efficient, effective and legal nature of the expenses incurred by the company.

▪ **Controlling**

In AEROSTAR, the concept of controlling has been implemented and continuously developed as a higher step of the budgetary control. Controlling also ensures that the company's mission and strategic goals are met.

▪ **Internal audit**

The company has in place an Internal Audit team with members registered in the Romanian Chamber of Financial Auditors.

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

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

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

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

The internal audit missions confirmed the positive impact of the internal audit activity on the overall activity performed in the AEROSTAR.

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

THE NON-FINANCIAL REPORTING PROCESS

The non-financial declaration

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

The global sanitary and economic crisis following the Covid-19 pandemic did not change AEROSTAR's commitment or determined any impact on the company's compliance in terms of social responsibility, environment, social and manpower aspects, human rights, fighting corruption and bribery, promoting diversity.

The regulatory framework established by Aerostar for compliance relies on:

- The Management System in Aerostar, the Quality and Environmental Management System, the Occupational Health and Safety Management System respectively, certified in accordance with the requirements of ISO 9001, ISO 14001, AS EN 9100, AQAP 2110 and OHSAS 18001/ ISO 45001.
- The requirements of Aerostar's customers
- The guidelines described in the international standard on social responsibility ISO 26000.
- The guidelines described in the international standard on social responsibility ISO 26000
- The regulatory framework provided by the Romanian legislation
- The guidelines described in the Communication from the European Commission - "Guidelines on non-financial reporting (methodology for reporting non-financial information) - 2017/C215/01".

Guided by business responsibility and the business spirit in the aviation and defense industry, Aerostar is loyal to the best practices in this field, and, in line with the best practice of our business partners, Aerostar has provided information, explanations and data in these categories of non-financial information for many years.

The contact person for the non-financial reporting process is the same as for the regulatory reports that must be submitted by the company.

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

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

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

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

- The responsibilities for the quality and environmental aspects, as well as the Risk Management, are allocated/delegated to the Quality & Environment Director.
- The responsibilities for social and manpower aspects, occupational health and safety, the fight against discrimination and the promotion of diversity are allocated/delegated to the Human Resources Director; in terms of scope of interference, these responsibilities correlate with:
 - The responsibilities regarding compliance with the legislation on human rights, anticorruption and bribery combat, which are allocated/delegated to the Legal Department.
 - The responsibilities regarding the sustainable use of resources and the reduction of energy consumption are allocated/delegated to the Utilities & Infrastructure Division Director.
 - The responsibilities regarding the conformance measures in connection with money laundering prevention are allocated/delegated to the Finance-Accounting Director.
 - The responsibilities regarding the corporate governance are allocated/delegated to the general secretariat of the company.

For each aforementioned aspect, various control functions are allocated, and reports are presented during the quarterly management reviews.

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

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

Furthermore, Aerostar commits itself to:

- Communicate its environmental policy and strategy to all interested parties and to raise their awareness on their own responsibilities towards the environment;
- Comply fully and where possible to exceed the requirements of the applicable regulations and standards;
- Reduce energy consumption and GHG emissions;
- Reduce water consumption;
- Reduce the waste resulting from its activities;
- Improve and develop all company sites in order to avoid negative environmental impact;
- Avoid the use of environmentally-damaging substances, materials and processes and where this is not possible, to limit such use.

Our guiding principles are to meet the requirements of our customers, the total safety for the users of our products and services, the continuous improvement and increasing the environmental performance.

Our commitment towards the local community

AEROSTAR is a pole of industrial development and our employees and managers are members to a large extent of the local community.

AEROSTAR maintains a permanent dialogue with the local community at the institutional level, but also through activities that respond to the identified needs, such as partnerships with high schools and university institutions from Bacau.

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

Aerostar supports the development of the local community by conducting activities performed through the Cultural-Educational Association AEROSTAR or through the Sports Association AEROSTAR.

MANAGEMENT OF RISKS AND OPPORTUNITIES

The risk management system

AEROSTAR applies the risk-based thinking in order to:

- Provide the continuity of the activity;
- Provide the continuous development;
- Avoid losses;
- Improve governance;
- Create a proactive culture for improvement;
- Provide consistently quality products and services.

Risk management requires risk assessment and treatment.

The management of the opportunities consists in determining the effect of their exploitation and identifying any potential associated risks.

Taking into account the external context regarding the operation of the company under alert conditions, in order to mitigate the potential effects of the pandemic, business continuity plans have been established at all levels.

The actions established are regularly updated with the latest information on this matter.

In AEROSTAR, risk assessment is a permanent activity, carried out with a view to:

- identifying new risks which have not manifested previously;
- reassessing the remaining risks.

The selected manner of handling risks and opportunities took into account the need to offset the costs and the efforts to implement the established measures – against the benefits derived – while complying with the legal, regulatory or other requirements assumed by the company. It was also considered that the actions to address risks and opportunities should be proportionate to the potential impact on the compliance of products and services.

All risk treatment plans are monitored regularly and the effectiveness of the actions is determined on the basis of the results expected from their implementation.

AEROSTAR is exposed to multiple risks and uncertainties that may affect its financial performance.

Within AEROSTAR, the risk and opportunity management process is an integral part of the management and decision-making processes and is integrated in the core and support processes of the company.

The organizational framework of risk management is adequate for the internal and external context of the company.

Risk management aims at ensuring that risk is kept under control so that the company's risk exposure is maintained at an acceptable level.

The actual risk management process ensures the identification, analysis, assessment and management of risks to minimize their effects to an agreed level.

The risk management process at Aerostar involves the systematic implementation of the procedures and practice in the communication and consulting activities, the assessment, treatment, monitoring, reviewing, recording and reporting of the risks.

The mode selected to treat the risks involves offsetting the costs and the efforts needed to implement the established measures against the benefits derived, subject to the compliance with the legal, regulatory or other requirements undertaken by AEROSTAR.

The effectiveness of the risk treating actions is reflected in obtaining the expected results following the implementation of such measures.

The executive management has set the necessary authorities and responsibilities at the appropriate levels within the company, and that the allocation of the resources required for the risk management.

The adequate involvement of the stakeholders in risk management makes it possible to take into account their knowledge and views.

The effectiveness of the AEROSTAR risk and opportunity management process is addressed in the annual management reviews.

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

By adopting an integrated approach to risk management, a robust risk management system is in place in AEROSTAR.

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

These certifications confirm the preoccupation and good practice established in AEROSTAR for the risk management.

Main environmental risks and their management

In the context of the global evolutions we appreciate that at Aerostar's level the aspects related to the environmental risk management have become of special importance.

Throughout the company, the main environmental risks, both in terms of compliance and in terms of performance improvements are related to the carbon emissions and the use of hazardous chemical products.

For both matters actions are established to mitigate the associated risks and to improve the overall performance.

Aerostar's environmental management system is certified according to the standard ISO 14001 and the environmental aspects dealt with cover the whole life cycle from raw materials acquisition, design, production, transport/delivery, use, end-of-life treatment and reintegration in nature.

A unified method of identifying, assessing and dealing with the risks of failure to achieve the targets is in place at Aerostar for all processes involved, from purchasing to delivery. All risks and the corresponding mitigation actions are monitored and reported.

The risks are also assessed by internal audits carried out throughout the organization. From an operational point of view, environmental aspects are also verified through operational controls performed by our own environmental analysts.

The determination of the significant environmental aspects is a continuous process in which the life cycle perspective is applied in order to reduce the use of resources, pollution or waste in those stages of the product life cycle that Aerostar controls or influences the most.

Main risks and risk management related to Human Resources in the context of the Covid-19 pandemic

Ensuring our employees' safety at the workplace is a priority.

AEROSTAR has a risk assessment and prevention and protection plan for the new coronavirus. Work reorganization measures and alternative protective measures were taken.

The persons in charge were designated for implementing, follow-up, proposing new measures and the execution of the measures against spreading infections with the new coronavirus.

They coordinate the implementation of the additional precautions and preventive measures against Covid-19 transmission and they verify their effectiveness.

Checkup lists were prepared for all company sites regarding the measures implemented to prevent contamination risks and to ensure continuity in the context of Covid-19.

The programme on the actions taken for employees' protection against Covid-19 is updated and supplemented whenever changes occur, followed by the implementation of the supplementary measures and control measures.

Associated to the operational risk is the **legal risk**.

The wide range of suppliers and customers with which AEROSTAR works across multiple countries and continents makes **legal risk** extremely important, as detailed and emphasized by:

- **the risks regarding geopolitical changes/uncertainties** as a result of the actions of the major global players (changes in the position of the US Administration in the field of economic trade and related trade duties, the implementation and finalization of the Brexit Agreement between the UK and the European Union with a potential impact on the sales volumes to UK companies, a.o.);
- **the risks associated with the fierce commercial competitiveness** in the competitive contractual landscape in aviation, including the concentration of customers, and
- **the risks regarding the changes to the laws/regulations of the legislation in force** (including anti-trust, anti-corruption, the onset of embargo/sanctions etc.)

The effects of the **legal risk** are monitored and removed via a permanent system of information on legislative changes, as well as by organizing a system for the review, endorsement and approval of the terms and conditions included in the commercial contracts.

Furthermore, AEROSTAR aims to provide, by setting up provisions for risks and related expenses, its own funds to cover the risks to which it is exposed, also taking into account any **risks arising from associations/partnerships**.

In this context, the emphasis is placed on the possible synopes in the development and execution of certain programmes, to which partners may give up as a result of exceptional events or collaborations, to which may add delayed, postponed, non-sustainable programmes (the **risk of the life cycle discontinuity for the Programmes**).

Also, adequate resources are allocated to monitor and reduce the **risks specific to possible cyber attacks**, including to minimize the resilience of the **risk of failure of the IT system to operate in safe and secure conditions**.

With a strong and proactive organizational culture in the field of human resources, through the implementation of properly budgeted programmes, AEROSTAR mitigates the **risk of growing mobility of the workforce**, which generates additional costs for the identification of the competences and professional adaptation.

At the same time, the activity of the personnel is monitored in order to respond quickly and in a focused manner to potential events related to **psycho-social risks** (both stress and claims of harassment and/or violence at the workplace) and to **the risks of possible hazards or incidents concerning health and safety at work**, such risks considerably reduced as the company holds an integrated management system (Quality-Environment- Health and Occupational Safety), certified according to the applicable standards.

Following the observance of the labor and social protection legislation, there is no record in AEROSTAR of potential **risks to pension funds**.

In order to reduce the **operational risk**, AEROSTAR renews annually, with first-rank insurance and reinsurance companies, a civil liability insurance contract for the main business lines (manufacture of aviation products and maintenance of commercial airplanes), being aware and fully compliant with the specific provisions of the **insurance risk** while closely monitoring and mitigating any possible indications as to the influence on the organization's reputation- the reputational risk for the company.

The mitigation of the **reputational risk** is made by a continuous set of substantiated and conjugated actions, communicated in accordance with the legal regulations in force, taking into account the requirements of the interested parties and based on the AEROSTAR's results.

The Credit Risk

The financial flows and the situation of the payments received and collected for each partner are continuously monitored and controlled by keeping an actual connection with them consequently, our appreciation is that such risk is very low.

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

The **credit risk**, including the **country risk** in which the client operates, is managed on each business partner.

Whenever deemed necessary, specific **credit risk** mitigation instruments are requested (advance payments, letters of bank guarantee for payments, confirmed letters of credit).

AEROSTAR has no significant exposure to a single partner and does not have a significant concentration of its turnover in a single geographical area.

However, there is a remarkable exposure to the global market of the Airbus programmes, with a large share of the company products being embedded in Airbus aircraft.

The crisis generated by the Covid-19 pandemic impacts hard on the global aviation industry. AEROSTAR acts through integrated management system measures to manage all impacts and mitigate the effects of the aviation crisis on the company's performance on short and mid term.

The Liquidity Risk

Currently this risk is practically non-existent.

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

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

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

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

The Market Risk

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

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

This risk is evident in the context of the economic recession in the aviation industry caused by the COVID-19 pandemic.

AEROSTAR is exposed to foreign **exchange risk** because **68% of the turnover at 31.12.2020** is related to USD and EUR, while a significant part of the operating costs is denominated in LEI.

AEROSTAR is thus exposed to the risk of being affected by the changes in the exchange rates both in its net income and its financial position, as expressed in LEI.

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

The trend of the main risks and uncertainties for the following time period

Throughout the year 2020 it got more and more obvious that the post-crisis recovery of the aviation industry occurs with delay and the economy restart forecasts indicate to begin with the year 2023 when the production rates are expected to return for certain manufacturing programmes, such as some of the Airbus and Boeing programmes.

As an exporter of parts, sub-assemblies and equipment for major global programmes, AEROSTAR is under strong impact.

The main focus is to maintain the existing capabilities, which means machinery and equipment, production lines, manpower and qualifications.

Equally important, it is necessary to restore the economic and financial balance at low production rates.

A detailed description of these trends can be found in the chapter **AEROSTAR Business**.

For the following time period, risks and uncertainties are identified related to ensuring the organizational resilience and performance against the current market in the field of civil aviation.

However, there may be risks and uncertainties additional to those outlined above, which are currently unknown or considered insignificant, but which may affect AEROSTAR's business lines in the future, but we are convinced that the implemented management system will lead to their early identification in order to implement the adequate measures.

The summary financial situation for the year 2020, compared to 2019

Thousands lei

Summary of Assets, Company Equity, Debts and Provisions	31.12.2020	31.12.2019
NON-CURRENT ASSETS	190.422	168.023
Circulating Assets	339.689	372.879
Prepaid expenses and receivables related to deferred profit tax	16.941	15.413
Total Assets	547.052	556.315
Company Equity	380.370	363.332
Provisions	115.641	119.019
Prepaid Income	7.048	9.047
Debts	43.993	64.917
Total company equity, prepaid income, debts & provisions	547.052	556.315

Thousands lei

Summary of Income, Expenses, Results	31.12.2020	31.12.2019
Operating Income, of which:	316.408	410.400
– sales income	294.839	399.210
Operating Expenses	(278.059)	(340.460)
Profit/ Loss from Operations	38.349	69.940
FINANCIAL INCOME	9.868	9.664
Financial Expenses	(6.158)	(4.498)
Financial Profit/Loss	3.710	5.166
Profit before tax	42.059	75.106
TAX ON CURRENT AND DEFERRED PROFIT	(3.616)	(9.127)
Net Profit of the financial period	38.443	65.979

WE ARE PREPARING FOR THE ECONOMIC RESTART!

The competitive advantage will be maintained and improved: quality, capabilities, advanced equipment and technologies, reactivity to opportunities, adherence to improvement programmes.

We will take firm actions to capitalize the opportunities both in the field of aviation, as well as in the field of defence.

We will focus on commissioning successfully our major investment programmes undertaken since the previous year.

The entire Board of Directors is firmly committed to provide the resources required to meet our major objectives and to preserve our development potential for the economic restart period.

However, there may be risks and uncertainties additional to those presented, which are currently unknown or considered insignificant, but which may affect AEROSTAR's business lines in the future.

On behalf of the Board of Directors,

Grigore FILIP
President – General Director

Annex- COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE 2020

Code provisions	Comply	Not comply or partially comply	Reason of non-compliance
A.1	x		
A.2	x		
A.3	x		
A.4		x	Three of the five BoD members are non-executive. The Board of Directors does not comprise an independent member, this structure being voted by the General Meeting of the Shareholders.
A.5	x		
A.6	x		
A.7	x		
A.8	x		
A.9	x		During 2020 a number of 9 meetings took place, of which: - In 1 meeting all the BoD members were present; - In 6 meetings, 3 members were present, and the other 2 attended by telecon; - In 2 meetings 4 members were present, and the fifth one attended by telecon;
B.1	x		The company has set up an independent committee audit according to article 65 from Law no. 162/2017
B.2	x		The members of the audit committee are independent persons elected by the GMS and hold competences in the accounting and statutory audit.
B.3	x		
B.4	x		
B.5	x		
B.6	x		
B.7	x		
B.8	x		
B.9	x		
B.10	x		
B.11	x		
B.12	x		
C.1	x		All the GMS resolutions regarding the remuneration of the BoD members were published. Currently there is a distinct section in the BoD Regulation.
D.1	x		
D.1.1	x		
D.1.2		x	The information in this section is available, on request, but it is not published on the company's 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		