

# AEROSTAR S.A.

PERFORMANCE THROUGH PROFESSIONALISM!

**Annual Report 2019**





**AEROSTAR S.A.**

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# REPORT OF THE BOARD OF DIRECTORS



The current Annual Report at 31.12.2019 of AEROSTAR S.A. Bacau is prepared in accordance with Law no. 24/2017 regarding the issuers of financial instruments and market operations and Regulation no. 5 from 2018 of the Financial Supervisory Authority (ASF) regarding the issuers of financial instruments and market operations, entered into force starting with 11 June 2018.

**The Report of the Board of Directors** of AEROSTAR S.A. has the purpose to inform the investors regarding the modification in the company's position and performance, which took place between January-December 2019, as well as regarding the predictable evolutions in the aviation and defence industry market, and regarding the company's growth and development opportunities.

The report is based on the framework established in Annex 15 of the Regulation no. 5/2018 of the Financial Supervisory Authority (FSA) – Sample of annual report and presents the current analysis of the company's economical-financial situation, in comparison with the same period of the previous year; an analysis of the activity, of the events, of the transactions and economical changes that significantly impact the income from the main activity, as well as regarding the possible changes which can affect the company's capital and management, as well as the significant transactions.

It also comprises the Declaration regarding the non-financial reporting aspects, required to understand the company's development, performance and position.

The declaration of compliance with the Corporate Governance Code of the Bucharest Stock Exchange is attached as an annex to the Board of Directors Report.

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



## COMPLIANCE WITH THE NON-FINANCIAL REPORTING REQUIREMENTS

The list of references regarding social responsibility aspects			
Information	Mandatory Requirements	GRI Options	Chapter in the Report
Business Model, Context of the Organization and Interested Parties	x	x	2019, A brief perspective
- Policy regarding quality and environment	x	x	Quality and Environment
- Improving performance in the field of pollution prevention	x	x	Quality and Environment
- Sustainable use of resources	x	x	Quality and Environment
- The mitigation of climate changes	x	x	Quality and Environment
Improving environmental performance	x	x	Quality and Environment
Aerostar's Principles and Values, Code of Business Conduct & Ethics	x		Principles and Values in Business Conduct
Sustainable Development	x	x	Investments
Social and manpower aspects	x	x	Our employees
Promoting diversity	x	x	Our employees
Human Rights, Anticorruption and Bribery Combat	x	x	Our employees Corporate Governance
Corporate Governance	x	x	Corporate Governance
Management of Risks and Opportunities	x	x	Risks and Opportunities Management

Options GRI 102-32, GRI 102-33, GRI 102-34, GRI 102-53

The non-financial reporting process is described in the chapter with the same name. Contact details regarding the non-financial reporting process are the same as for the current and regular reports of the company.



## Letter from the President & General Director

I am addressing on this occasion to AEROSTAR's shareholders and equally, to all the interested parties, in connection with the presentation of AEROSTAR's results for the year 2019 and the future perspective for the company.

It is an important step in the implementation of AEROSTAR'S growth and sustainable development strategy.

During this 2016-2020 mandate, our investments arise to around 33 million euro.

AEROSTAR's footprint on the national and global aeronautical and defence market has increased while the company's recognition as a Centre of Excellence for international programmes and projects is part of our competitive advantage.

In 2019, Aerostar made a gross profit that exceeds 75 million lei at a sales volume in amount of 399 million lei. The investments made, in amount of 35 million lei are higher with 23% compared with 2018.

The roadmap followed by AEROSTAR in 2019 consolidates the construction realized as a pole of economic development and marks significant milestones in successfully fulfilling our Mission as part of the aviation and defence industry in Romania.

The company's strategy provides for a continuous and sustainable growth and development.

In 2019 we were successful to change into opportunities many of the challenges we faced.

Today, AEROSTAR is a transformed company, active in major programmes, we are better prepared for the activities which we are to perform during the years to follow.

**Grigore FILIP**  
**President & General Director**

## 2019, A BRIEF PERSPECTIVE

## General elements

Mandatory requirement & option GRI 102-7

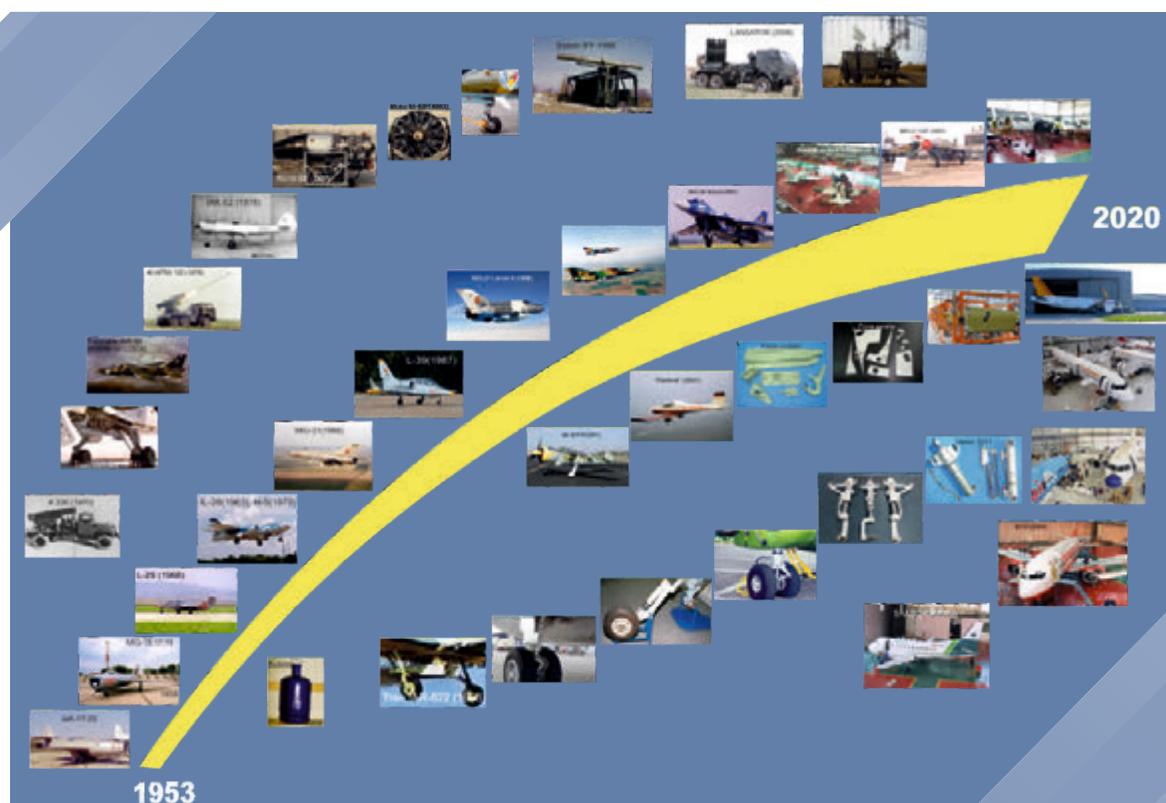
In accordance with the national regulations, AEROSTAR belongs to the category of **very large enterprises**.

In 2019 AEROSTAR won the **first place** at the **NATIONAL TOP of the COMPANIES – edition XXVI**, category *Very large enterprises* in the field of *Manufacturing of Aircraft and Spaceships*. The classification was realised by the Chamber of Commerce and Industry of Romania.

AEROSTAR S.A. was established in 1953 and operates in accordance with the Romanian law. In 1991 it was registered as a shareholding company at Bacau Trade Register under the order number J04/1137/1991 with the current name of "AEROSTAR" S.A., having the unique registration number 950531.

**AEROSTAR operates in conditions of continuity from its establishment until now.**

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



The main field of activity of AEROSTAR is production.

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

**AEROSTAR's main business lines are:**

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

**AEROSTAR shares** are traded at the Bucharest Stock Exchange since 1998, with the ARS indicator and since 2000, it is a fully private company.

The regulations applicable to the issuers of financial instruments were fully and continuously respected.

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

The unique identification code at European level (EUID) is ROONRC.J04/1137/1991 and the LEI identification code as a legal entity is 315700G9KRN3B7XDDB73.

**The activities take place at the registered headquarter**, which is located on 9 Condorilor Street, postal code 600302, and starting with January 2018 AEROSTAR registered a secondary work place in Iasi, near the Iasi International Airport.

The new hangar located in Iasi will begin production from the 4th quarter of 2020.

The preliminary results for 2019 were presented to all the interested parties, on 28 February 2020, in accordance with the applicable legal provisions.

**In 2019, AEROSTAR consolidated its position as a leader in Romania for its object of activity.**

## 2019, A BRIEF PERSPECTIVE

## Key Figures

	um	31.12.2019	31.12.2018	31.12.2017
Share capital	thousand lei	48.729	48.729	48.729
Turnover	thousand lei	399.210	353.413	340.172
Export sales	thousand lei	314.399	267.382	258.390
	%	79%	76%	76%
Number of employees, total	no.	1.958	1.969	2.100
Gross profit (before tax)	thousand lei	75.106	87.420	58.787
Net profit	thousand lei	65.979	79.921	53.170
Cash - flow	thousand lei	207.362	167.545	163.866
General liquidity	-	8,24	9,71	7,03
Expenses for investments (fully financed from own sources)	thousand lei	35.285	28.798	23.447

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

The rate of the added value is 61,2%.

96% from Aerostar production in 2019 is in the aeronautical field.

		2019	2018	2017
Average exchange rate EURO/12 months	Lei/Euro	4,7447	4,6534	4,5677
Average exchange rate USD/12 months	Lei/USD	4,2372	3,9411	4,0542
Average exchange rate GBP/12 months	Lei/GBP	5,4096	5,2600	5,2144
Inflation	%	4,04	3,27	3,32

### AEROSTAR market

Mandatory requirement & option GRI 102-4

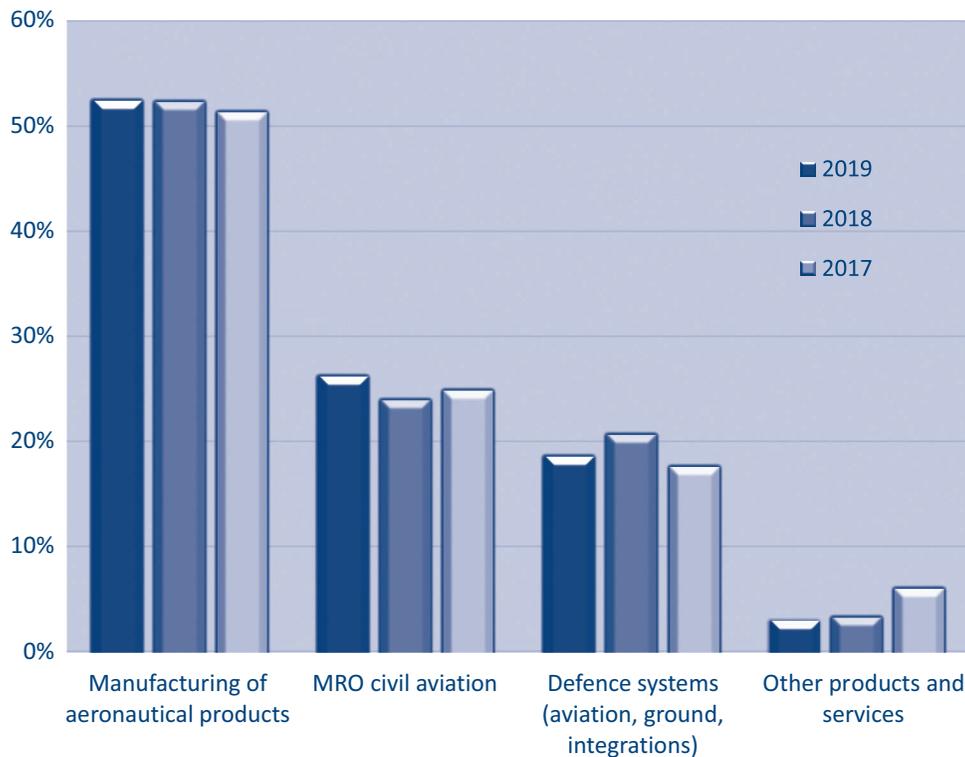
**Aerostar operates on the global market in the aviation and defence industry, being a major supplier for the Romanian Ministry of National Defence.**

**The aviation and defence industry are related and complementary industries.**

### Comparative evolution of the sales on products and services

Mandatory requirement

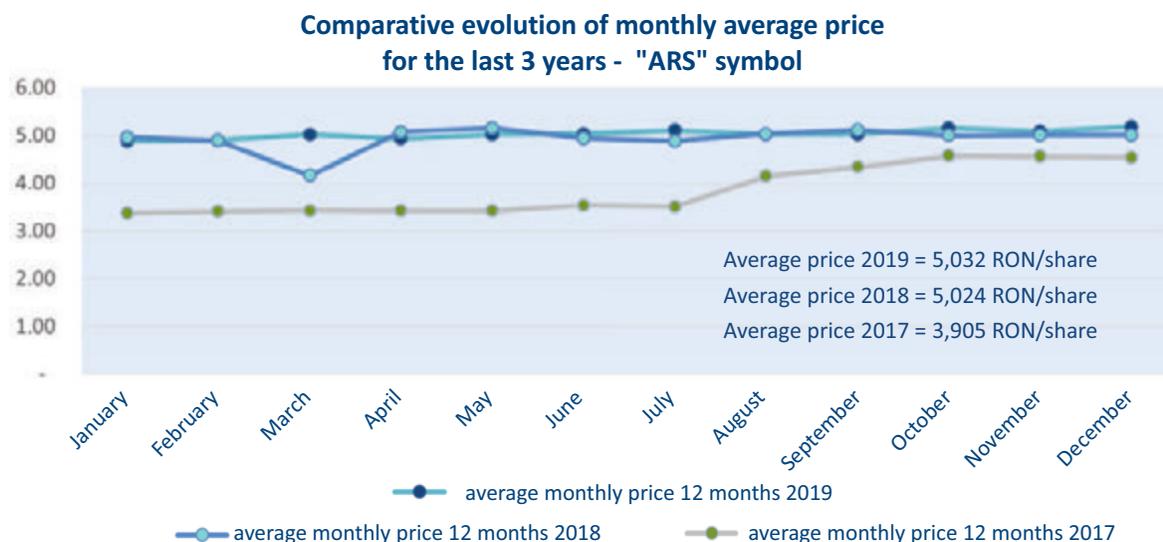
The proportion of the business lines in total sales over the last three years indicate predictable evolutions and the focus on the company's object of activity:



**AEROSTAR business is anchored for growth in the aeronautical and defence industry, in all its three main business lines: aeronautical constructions, MRO civil aviation and in the field of defence systems.**

## 2019, A BRIEF PERSPECTIVE

### Evolution of AEROSTAR shares in 2019



### Aerostar shares in figures

	2019	2018	2017
<b>Number of shares</b>	152.277.450	152.277.450	152.277.450
<b>Nominal value per share (lei)</b>	0,32	0,32	0,32
<b>Price at the end of the year (lei)</b>	5,35	4,85	4,70
<b>Stock exchange capitalization (lei)</b>	814.684.358	738.545.633	715.704.015
<b>Maximum price (lei)</b>	5,35	5,36	4,78
<b>Minimum price (lei)</b>	4,78	4,65	3,25
<b>Result per share (lei)</b>	0,433	0,525	0,349



### Business Model

Mandatory requirement

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

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

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

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

Operating in conditions of continuity and on the basis of the company's mission, during the years, neither in 2019, there were no significant modifications of the business model adopted.

The management policy is focused to maintain a solid capital base, to sustain the non-interrupted development and implicitly to achieve the strategic objectives of the company.

The development vision targets a business model based on selective growth in the generally recognized framework that AEROSTAR's success is determined by the requirements and expectations of the Customers, as well as by the market evolutions in the aviation and defence industry.

The synergies specific of these industries generate value for the customers in competitive conditions.

**The business model adopted is based on work and expertise and on achieving the operational performance through an advanced, highly professional management.**



## AEROSTAR, A CONTEXT BASED ANALYSIS

**Business Environment. Context of the Organization and Interested Parties**

Mandatory requirement & option GRI 102-40, GRI 102-42, GRI 102-43, GRI 102-44

An important supplier of products and services in the aeronautical industry, Aerostar operates in a sensitive, highly connected environment. In this context, the points of view, the decisions and actions of our interested parties have a significant impact on the success of our business.

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



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

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

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



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

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

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

The elements of risk based management thinking, fundamented on understanding Aerostar as an organization and the context in which it operates, as well as on understanding the needs and expectations of the interested parties for the achievement of the organization's planned results, set the general framework for risk treatment.

## AEROSTAR, A CONTEXT BASED ANALYSIS

AEROSTAR follows the interests and expectations of all the interested parties and focuses on the requirements and expectations of the relevant interested parties.

Option GRI102-42

INTERESTED PARTIES	MAIN EXPECTATIONS
Customers	Conforming products Effective communication and flexibility Business Ethics
Employees	Salaries Work conditions Stability
Investors	Dividends Investments
Technical and regulatory authorities	Compliance with regulations
Certification bodies	Effective communication Supply of objective proof
Suppliers	Compliance with contractual conditions
Educational establishments	Commitments to recruit manpower
Trade Unions	Social dialogue
Local community	Local manpower Environment
State	Compliance with legislation Payment of duties and taxes

## Modifications of the external aspects in the organization's context

Regarding the external aspects, the main evolutions in 2019 are:

### *With reference to **the international context:***

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

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

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

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

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

### *With reference to **the legislative context:***

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

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

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

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

## AEROSTAR, A CONTEXT BASED ANALYSIS

With reference to **the economic context:**

In 2019, the minimum wage was increased, the EUR/RON and USD/RON exchange rate increased, the price of utilities as well. This may lead to an increase of the purchasing price from Romania, including the increase of the production costs. Aerostar's action is to secure the prices on a term as long as possible, on a yearly or multiannual basis.

**The direct economic value, generated and distributed, in thousands lei**

Option GRI 201-1

	2019	2018
<b>I. Economic value directly generated</b>	<b>411.406</b>	<b>362.130</b>
Net sales	399.210	353.413
Income from dividend and interest	3.509	3.388
Taxes and duties recovered from State Budget	8.687	5.329
<b>II. Value created and distributed to the interested parties</b>	<b>333.823</b>	<b>295.486</b>
Material expenses	131.571	121.274
Wages and employees benefits (without tax on manpower)	81.367	69.759
Payment to State Budget	67.256	58.126
Capital suppliers	37.711	32.669
Gross dividends paid	15.918	13.658
<b>III. Economic value retained</b>	<b>77.583</b>	<b>66.644</b>

With reference to **the global competitive environment:**

The following evolutions occurred in 2019:

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

With reference to **the technical context:**

### Focus on cybersecurity

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

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

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

## Modifications of internal aspects

Regarding the internal aspects, the main evolutions in 2019 are:

### *From the point of view of **human resources**:*

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

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

Also, actions of integration and development of the organizational culture are required, in order to ensure the inclusion of young employees and the level of competence and qualifications to perform the agreements.

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

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

### *From the point of view of **the infrastructure**:*

## **The sustainable use of the resources and the energy efficiency**

In 2019, actions continued to rehabilitate the waste water transport network resulted from certain technological processes, the rehabilitation degree reached 80%.

In 2019, all the heating agent distribution networks were rehabilitated and all the heating modules were mounted in the entire company.

The industrial water is entirely ensured by exploitation of own wells.

### *From the point of view of **the capabilities and authorizations**:*

All the authorizations, certifications and accreditations issued by RoCAA, ISCIR, CNCAN, NADCAP, Regional Customs Iasi, OMCAS, DQS, AEROQ were maintained.

The certification from EASA was obtained for the Design Organisation, for modifications and minor repairs on large commercial aircraft according to Part 21J and the accreditations were extended for a range of special processes.

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

## AEROSTAR, A CONTEXT BASED ANALYSIS

*From the point of view of governance:*

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

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

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

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

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

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

The economic performance indicators of the company are at a very good level.

**Economic-financial indicators on 31.12.2019**

	Results
Current Liquidity	8,24
Indebtedness Rate	0
General Solvency Rate	11,96
Financial Rate of Return	0,18
Net profit rate	16,53
Net Treasury	43.462 thousands lei

**Indirect impact on the economy**

Option GRI 203-2

In 2019, the proportion of goods and services purchased from the Romanian market was 44.4% of the total purchases, from 417 local suppliers.

At a number of approx. 2000 employees which directly work in Aerostar, we estimate that another 2000 employees work at our suppliers from Romania.

Through our activities, we cover the internal needs and we sustain a high number of small and medium-sized enterprises; we do not have available data about the impact of the company's businesses in the income of other categories of service providers, who supply non-permanent and occasional activities for Aerostar's customers and partners at our site.

Aerostar is a supplier of educational and professional formation services, being a strong contributor to the local community's development.

The action is on the line of continuous improvement at the level of the entire organization, and the improvement of the key performance indicators provided for all programmes.

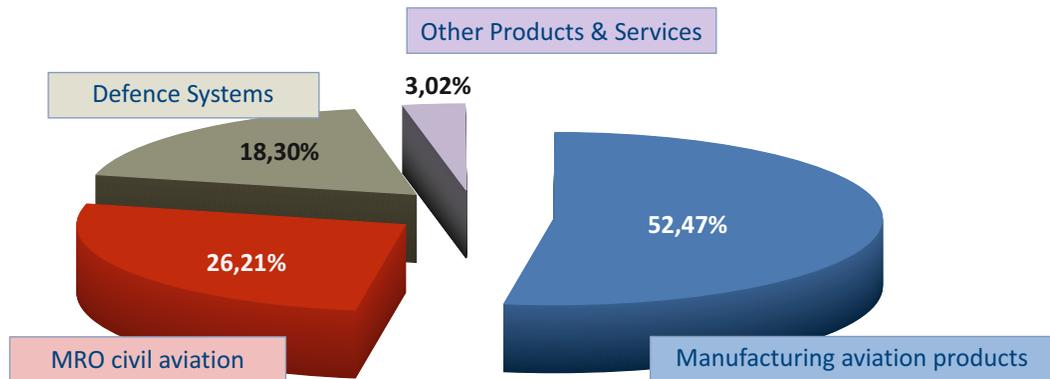
### Business Lines

Mandatory requirement

In 2019, the company's revenues are mainly created from the main business lines.

The main field of activity is production in the field of aviation and defence.

### Contribution of the main business lines in company sales in 2019:



## AEROSTAR BUSINESS

**Aerostar - No.1** in manufacturing aeronautical products

Mandatory requirement

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

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

**AEROSTAR was recognized by AIRBUS, as to the expertise level, as “champion” at the suppliers' evaluation performed in December 2018 at Toulouse.**

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

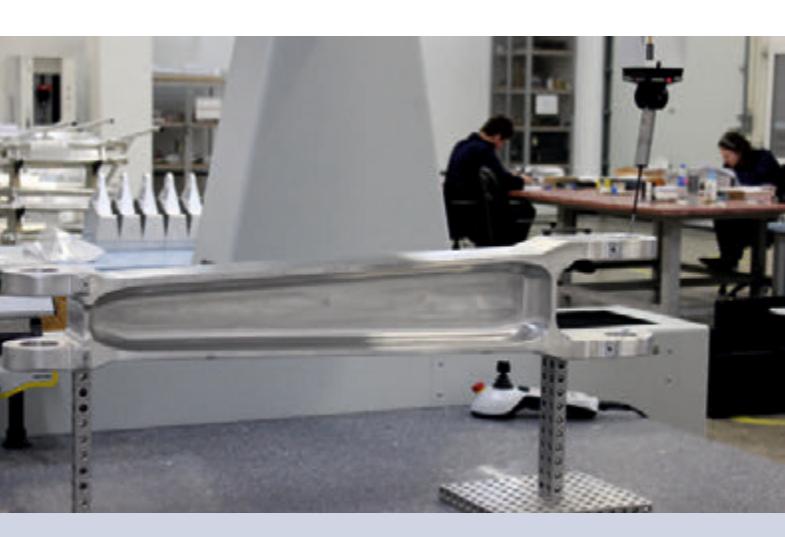
Aerostar is a strategic Tier 1 supplier for SAFRAN Landing Systems for subassemblies, hydraulic systems and actuators, landing gears, for multiple aircraft programmes such as: Airbus, Boeing, Dassault or Gulfstream.

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

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

There is a large diversity of the parts and materials from which they are manufactured and the technologies used, the number of different part numbers being around 10 000.

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



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

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

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

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

As such, in 2019, new manufacturing processes were qualified in order to realise parts and subassemblies from stainless steel and titanium, steel and copper alloys, high-resistance steels, including the local application of such coatings.

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

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

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

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

## AEROSTAR BUSINESS

**Aerostar - No. 1, Centre of Excellence for MRO Civil Aviation for Airbus 320 and Boeing 737 aircraft**

Mandatory requirement

During the 15 years from the first maintenance work on a Boeing 737, an anniversary marked in December 2019, Aerostar has built a significant footprint as business volume in the field of MRO civil aviation, being **the main independent supplier of heavy maintenance in Romania and in this geographical area for the commercial aircraft Airbus 320 and Boeing 737 family**, with a significant impact on the local development.

Aerostar's MRO business for commercial aircraft is anchored in the sector market defined as the growth core, the Airbus 320 and Boeing 737 aircraft; at the same time it is also the most competitive and competition field.

In 2019, Aerostar's MRO civil aviation centre extended its customer base, as well as its range of capabilities.

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



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

Obtaining in 18 July 2019 the EASA certificate of authorisation as a Part 21J Design Organization, to perform minor repair and modifications projects for large civil aircraft, has the purpose to increase the added value for our customers.

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

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

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

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

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



## AEROSTAR BUSINESS

**Aerostar - No. 1 in Romania for defence systems**

Mandatory requirement

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

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

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

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

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



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

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

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

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

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

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

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

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



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

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

## AEROSTAR, A MODEL OF SUCCESS

**AEROSTAR, a successful trade mark**

Mandatory requirement &amp; option GRI 102-15

**Aerostar is a a successful trade mark** which is part of the company's identity and has a wide recognition.

**The trade mark AEROSTAR is recognized and is associated with the company's image as a Centre of Excellence** for the industrial capabilities in the field of civil aviation and defence.

The solutions supplied by the company highlight the synergy of the industrial capabilities of Aerostar and create Value for the Customers in a competitive manner, and the high degree of vertical integration of the processes provides agility and effective actions.

Aerostar's **competitive advantage** is enforced by the company's performance as a centre of excellence in the management of international projects and programmes.

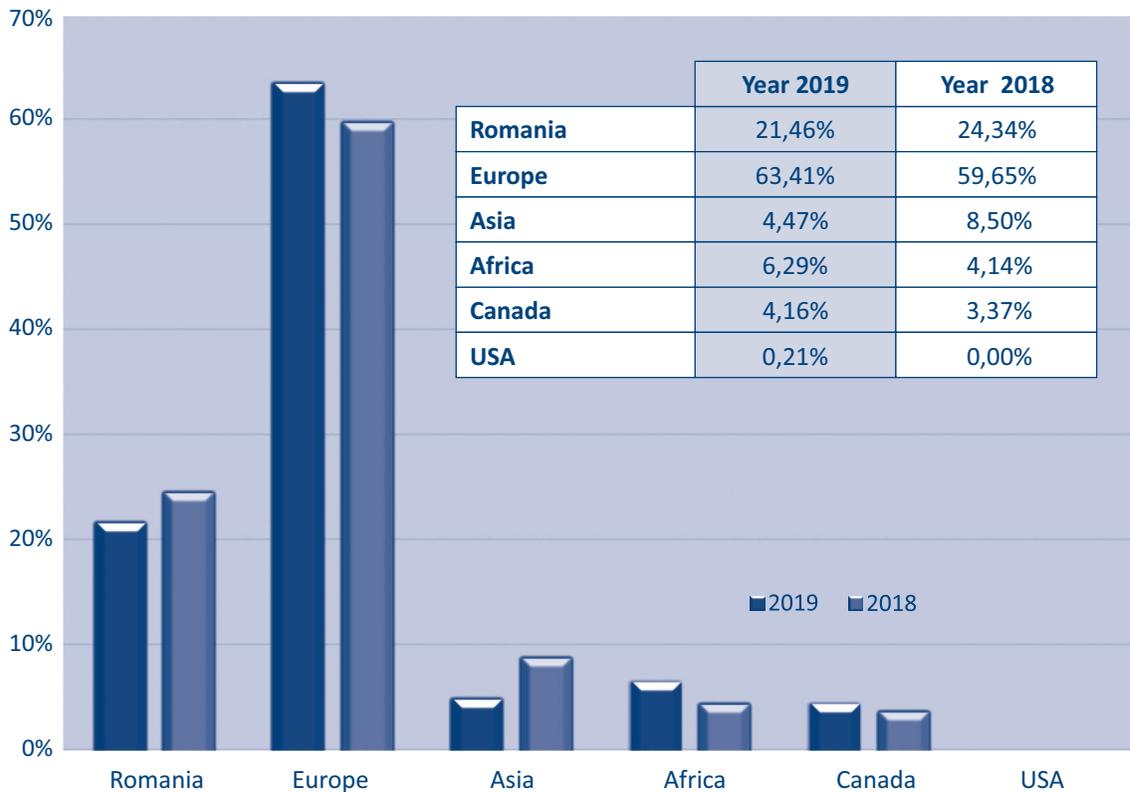


**Sales Footprint on the markets**

Mandatory requirement & option GRI 102-4

In 2019, Aerostar sales amount to 399.210 thousand lei, of higher value compared to the sales made in 2018. Around 79% of the sales is export.

The export customers are spread in a high diversity of locations but the largest export market is represented by the European market.



With a high degree of export sales, a high number of different programmes in progress, the key performance indicators (KPI) specific for each delivery program, are stable at the level of excellence.

The company's business practice is compliant with all applicable regulations for the exports and imports of parts, components and technical data, providing accurate information and obtaining licenses and /or export-import approvals, as applicable.

From the point of view of sales distribution on the business lines, in 2019 the same major business lines were maintained. Aerostar managed to have a diverse portfolio of customers, both along the business lines, their geographical spread or related production programmes.

## AEROSTAR, A MODEL OF SUCCESS

### The Supply Chain

Mandatory requirement & option GRI 414-1, GRI 414-2

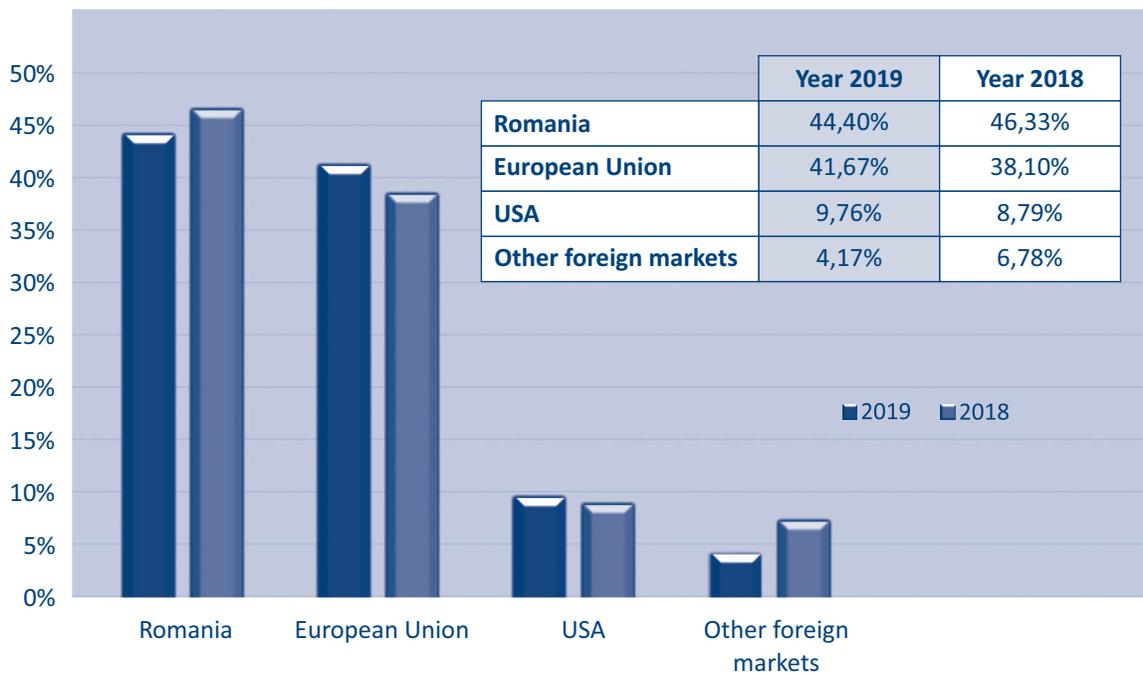
The main supply markets for Aerostar are Romania and the European Union, the distribution of the acquisition volume being stable during time.

In Aerostar, purchases are made mainly from the Romanian market.

In 2019 the proportion of purchases of goods and services from the Romanian market was 44,4% of the total purchases made, while in 2018 it was 46,3%.

### Proportion of expenses with local suppliers

Option GRI 204-1



The suppliers with whom we are in contractual relations are informed regarding the quality standards for which we have certification, and regarding the internal work procedures.

Periodically, the company performs an evaluation of the products and services performed by the suppliers and establishes the continuity of the relationship or the closure of the contract with the suppliers.

## AEROSTAR, A MODEL OF SUCCESS

Mandatory requirement

Measures of monitoring the Brexit process were implemented in 2019, as the volume of the acquisitions from Great Britain amounts to approx. 29% from the purchasing volume from the European Union.

There were no significant modifications of the organization and of the supply chain.

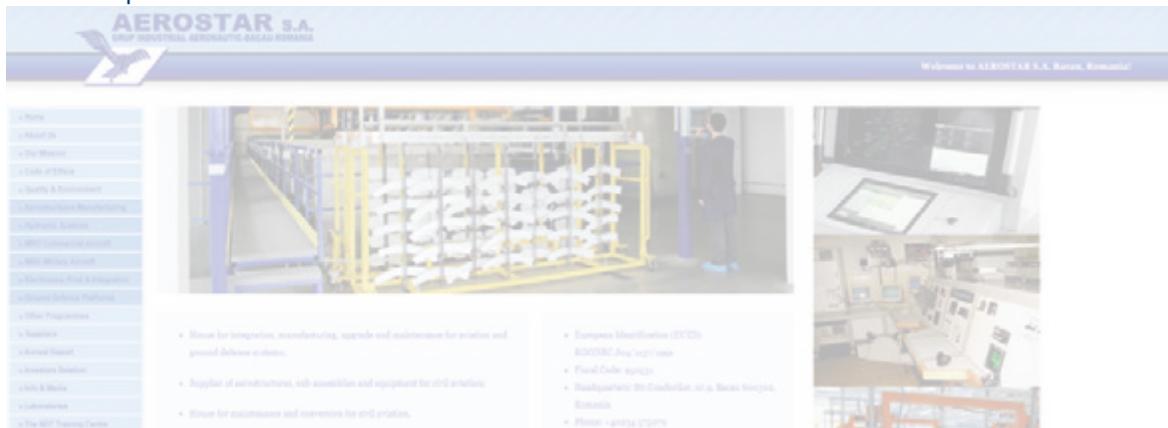
Mandatory requirement & option GRI 102-9, GRI 102-10

AEROSTAR purchases products and services only from evaluated and accepted suppliers in relation to their capabilities to supply products and services in accordance with the requirements which are specific to the aviation field.

Options GRI 301-1, GRI 301-2, GRI 301-3

In production and in the core business activity, for the types of products and services supplied, Aerostar does not apply criteria for the priority use of renewable, recyclable or recovered materials, use based on weight or volume, or recovered products as in aviation specific criteria are in place which relate to the priority to provide aeronautical safety.

The environment requirements identified for the acquisition of products and services are communicated to the suppliers in the general purchasing terms and conditions, in the agreements and in the purchase orders.



In the General Purchasing Conditions Aerostar also defined the requirements applicable to suppliers regarding ethics, as well as compliance regarding environment and labour legislation.

Options GRI 308-1, 308-2, GRI 414-1, 414-2, GRI 407-1, GRI 408-1, GRI 409-1

Aerostar requests from its suppliers by contractual requirements, to respect the labour legislation applicable in their country of origin. Aerostar works with suppliers from member states of the International Labour Organization (ILO), the Organisation of the United Nations, which sets the international labour standards, develops policies in the field and promotes decent labour conditions for all workers.

In 2019, no social criteria was used to select the suppliers and there was no negative social impact created in the supply chain.

At the evaluation and acceptance of the suppliers the criteria regarding the implementation of an environmental management system is taken into consideration.

No negative environmental impacts were identified in the supply chain.

At the end of 2019, Aerostar's approved supplier list contained a number of 416 foreign suppliers and 417 domestic suppliers.

## THE MANAGEMENT AND ORGANIZATION OF THE COMPANY

## The company's executive management on 31 December 2019

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

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

There are no litigations with the persons mentioned above in 2019 or during the last 5 years.

## THE MANAGEMENT AND ORGANIZATION OF THE COMPANY

### The executive management



### Organization structure and the organization of the activities

Mandatory requirement

The value created by the company in the value chain in the economy is supported by a divisional type organization structure, with accounts management centres in the areas of operations, auxiliary and functional activities.

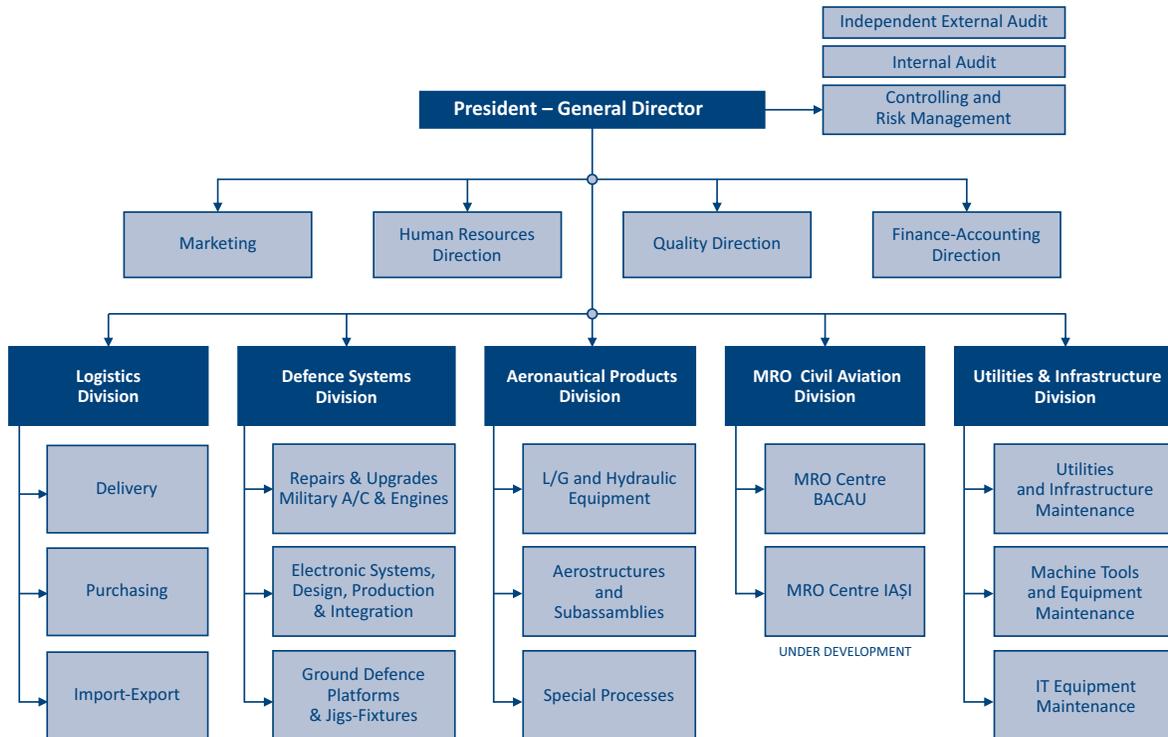
AEROSTAR performs its object of activity using the common resources of the organization in an integrated mode.

**This organizational structure ensured the development of the capacities and capabilities in the field of civil aviation, by providing the resources required to carry out the new programmes in the field of defence, as well as the investments required in this purpose.**

The organisational structure implemented in the company maintains the organisational principles and the use of resources in a unitary, competitive and integrated manner, which means an applied management system, the matrix type management for the programmes, the support of the IT applications system for the management of the resources of ERP type and professionalism.

## THE MANAGEMENT AND ORGANIZATION OF THE COMPANY

The organizational structure of the activities is presented below:



### Affiliations

option GRI 102-13

AEROSTAR is connected through its affiliations to the specific interconnections system in order to ensure the compliance of its activities with the requirements from the context of the global competitive environment, of the business, legal, economic and technical environment.

AEROSTAR is a member of business and professional organisations, among which:

OPIAR (Organizatia Patronala din Industria Aeronautica), National Council of small and medium size enterprises in Romania, National Aerospace Association for Non-Destructive Control RO-NANDTB, as well as the Chamber of Commerce and Industry of Bacau.

Also, Aerostar's affiliations comprise the Technical Committee for Standardization, the Professional Association of the Legal Counsellors College, the Chamber of Financial Auditors from Romania, the National Chamber of the Industrial Property Counsellors.

## Quality and environment policy

Mandatory requirement

**The policy referring to quality and environment adopted by Aerostar has established as strategic objectives: to meet the customers' requests, to comply with the legal and regulatory requirements applicable to the activities performed, improve the environment performance, full safety for the users of Aerostar's 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 Management System in AEROSTAR reconfigured after the latest revisions 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 special focus on risk management.

The recertification obtained after the external audit for each of these certifications and authorization confirms the preoccupation and good practice implemented in AEROSTAR for risk management.

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

On the line of quality and environment, Aerostar has maintained its strategic objectives defined through the *Declaration of the General Director* and has established the required actions through the Quality and Environment Programme 2019.

The authorization from the European Agency for Aviation Safety as a Design Organization was issued for modifications and repairs on large civil aircraft.

**The Centre of Excellence in the field of special processes is part of AEROSTAR's competitive advantage.**

We extended the range of special processes under NADCAP accreditation by the PRI Institute from USA to the NDT inspection processes with penetrant radiations, certain chemical processes; we also extended the accreditation to the specifications of other customers.

## QUALITY AND ENVIRONMENT

### Improvement of the environment performance: pollution prevention, sustainable use of the resources and fulfilment of the conformance obligations as to the environment in order to mitigate the climate changes

Mandatory requirement & options GRI 201-2, GRI 307-1

The implementation of the environment policy and of the acting directions established to implement the general management objectives have led to an improved environment performance of the company.

Regarding the evaluation of the aspects related to the impact of the core activity of the company, AEROSTAR operates responsibly, effectively and constantly to ensure the compliance with the requirements provided by law, by authorizations and certifications and by the contractual requirements in relation to customers.



**Following the analysis, the impacts on the environment are being evaluated: air emissions, noise, soil spills, waste generated, etc. and the significant environmental aspects are determined.**

The review of the activities with impact on the environment is on a yearly basis. The normal and abnormal operating conditions, maintenance and predictable emergency situations, are considered.

There were no sanctions and the Integrated Environment Authorization was reviewed with validity until 2027.

AEROSTAR holds environment approvals as follows: the Integrated Environment Authorization according to the international standard ISO 14001, updated on 21.11.2019, the Authorization for Water Management reviewed on 19.07.2019 and Authorizations regarding the greenhouse gas emissions, reviewed in 16.10.2018.

**In the field of pollution prevention**, AEROSTAR reduced the footprint of the waste following its own activity, maintaining a high percentage of recoverable waste. Also, the emissions of volatile organic compounds decreased, while continuing the actions to replace the solvent based paints with water based paints.

**In the field of sustainable use of the resources**, AEROSTAR continued to lower the amount of water released in the sewage system, both in absolute value and in relation to its turnover, as a result of the use of recirculation and treatment stations for the industrial water.

**As for the mitigation of the climate changes**, Aerostar respected all its obligations arising from the Greenhouse Gas Emissions Authorization.

The investments continued for a better efficiency in the heating agent distribution and energetic envelope of the buildings.

Mandatory requirement & options GRI 416-1, GRI 416-2, GRI 417-1, GRI 417-2, GRI 417-3, GRI 414-1, GRI 414-2

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

As regards **safety of the products and services**, no event was reported following the activity of the company in the relevant fields, such as maintenance of civil and military aircraft, manufacturing of parts and subassemblies for the civil aviation, manufacturing of radio-electronic equipment.

The products and services are supplied by totally respecting the requirements of the users and customers and the legal requirements and regulations – in order to ensure a minimal impact on the health and safety of the users.

According to REACH regulations, if the substances and chemical mixtures have restrictions in use, only authorized substances and chemical mixtures are used.

As for the safety of products and services, in 2019 there were no events as a result of AEROSTAR activity.



## QUALITY AND ENVIRONMENT

### Changing the risks into opportunities

Mandatory requirement

At company level the main risks both as regards conformance and performance improvement are related to carbon emissions and to the use of dangerous chemical products.

For both aspects actions are set to diminish the risks and to improve the performance.

**The system implemented in AEROSTAR provides for opening of opportunities with a view to increase the market footprint by enforcing its competitive advantage, specifically the supply of products and services realised in technologies with minimal impact on the environment and increased competitiveness by reducing the material and energy consumption.**

One of the results obtained is obviously the development of the local contribution in the global industrial and economic value chains.

### Energy consumption

Mandatory requirement & option GRI 302-1, 302-2, 302-3, 302-4, 302-5

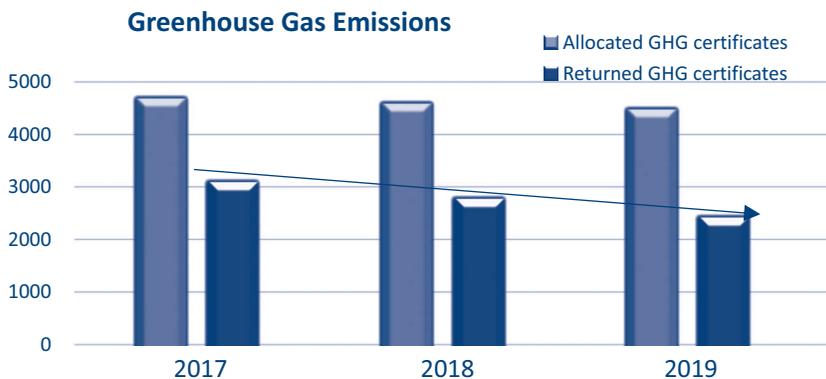
In 2019 the total energy consumption was 14% lower in comparison to 2018. The natural gas was the main source of energy, being 43% from the total.

### Greenhouse gas emissions

Mandatory requirement & option GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4, GRI 305-5, GRI 305-6, GRI 305-7

The value of the emissions in atmosphere measured in 2019 according to the requirements from the Integrated Environmental Authorization, outlined values which are well below the maximum value admitted provided in the applicable legislation in force.

For the period 2017-2019, the number of GHG certificates returned decreased in relation to the number of certificates allocated, which means the decrease of the CO<sub>2</sub> emissions.



In relation to the turnover, the greenhouse gas emissions for the year 2019, decreased with 23% in comparison to 2018, respectively with 34% in comparison to 2017.

**Use and protection of natural resources (water, soil, etc.)**

Mandatory requirement & options GRI 303-1, GRI 303-2, GRI 303-3, GRI 306-1

In 2019, the rehabilitation continued for the networks transporting the wastewater resulted from the technological processes, the rehabilitation rate is 80%.

The technological waste waters generated from the chemical and electrochemical processes performed in AEROSTAR, are collected and treated in the neutralization stations on the company site.

The maximum limit allowed for the quality indicators was complied with for the waste waters discharged in the sewage system of the Bacau town as provided in the Water Management Authorization.

**Waste management**

Mandatory requirement & options GRI 306-2, GRI 306-3, GRI 306-4

The waste management is applicable to all the activities and processes which are performed in the company, from purchasing of raw materials to production, maintenance, repairs, storage and the delivery of products and services.

The management of all the waste categories respects the specific legal requirements. In 2019 there were no incidents with impact on the environment related to waste management.

**In 2019, the waste generated decreased with 6,8% in comparison to 2018, respectively with 42,5% in comparison to 2017, although the turnover increased.**

## INVESTMENTS

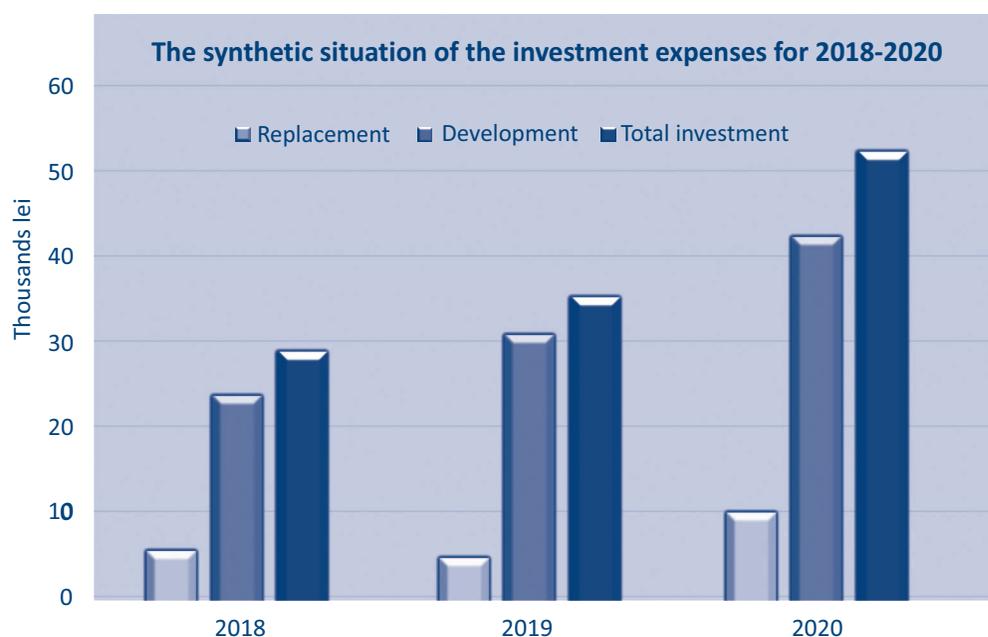
### Investments, the development of new ecological products and services

Mandatory requirement

The total value of the investment expenses made in Aerostar in 2019 was 35,285 million Lei.

The investments consisted in:

- **development investments** in amount of 30,698 millions Lei, representing 87% of the total, intended for the needs in manufacturing and increased production quality; this category comprises the acquisition of new assets, such as advanced machine tools, environmentally friendly and low energy consumption, in state-of-the-art technologies. These expenses also include the investments for environmental and occupational health and safety programmes.
- **replacement investments** in amount of 4,587 millions Lei, representing 13% of the total, required to replace the obsolete or worn-out fixed assets.



81% from the total investment expenses in 2020 is for development while 19% is for replacement.

### Research and Development

In 2019, Aerostar targeted the urgent requirements which occurred in the production process such as the alignment of the special processes with the national or european environmental standards, ensuring the compliance with the requirements imposed by the manufacturing documentation of the external or internal partners. This programme was the main funding source for the qualifications of the new, special processes.

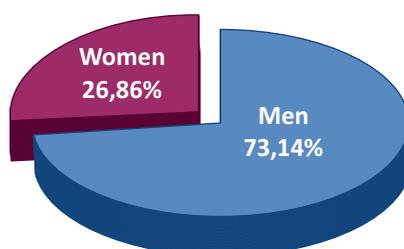
**Social and manpower aspects, information about our employees**

Mandatory requirement, option GRI 102-8, GRI 401-1, GRI 405-1, GRI 405-2, GRI 403-2

On 31.12.2019 AEROSTAR had an effective number of 1.958 employees, 101 of them employed through the temporary labour agent AIRPRO CONSULT S.R.L.

From the total 1.958 employees, 186 occupy management positions, 19,35% of which being held by women.

In terms of gender distribution, according to the company's object of activity, the manpower structure at the end of 2019 is the following:



At the end of 2019, the ratio between the average basic salary negotiated for the men employees and the average basic salary negotiated at company level was 1,02 while the ratio between the average basic salary for the women employees and the average basic salary negotiated at company level was 0,95.

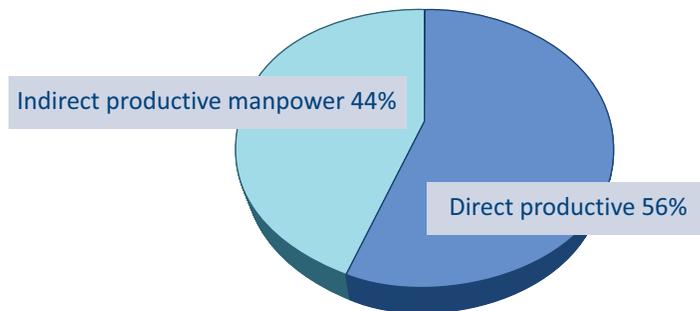
However, given the nature of the production activities performed in the company, traditionally specific to the men employees, a high number of women work in AEROSTAR, and the difference regarding the average level of wage between women and men is not significant and is due to the different professions of men in comparison to women.

With reference to the background, on 31.12.2019 the situation is as follows:

- employees with university background, of which:		593
- doctorate graduates:	11	
- doctoral studies in progress:	6	
- master degree:	210	
- employees with post-high school education:		11
- employees with high school education:		1.253

## OUR EMPLOYEES

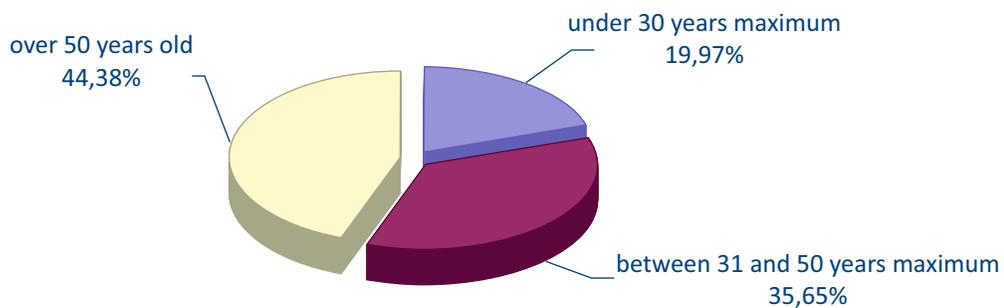
At the end of 2019, the structure on the main professional categories is as follows:



AEROSTAR currently has 82,43% of the individual labour agreements on an indefinite duration, avoiding the use in excess of temporary work performed.

On 31.12.2019, the average seniority in the workplace was 17 years, and the average age of Aerostar's employees was 45 years (Aerostar and Airpro).

Taking into consideration the 9% personnel fluctuation in 2019 and the high level of experience and professional training required in aviation activities from the aeronautical field, the structure by age is as follows:



During 2019, the absence rate, determined from non-paid leaves/ vacations, unmotivated absence, sick leave (except maternity leaves) was 5,01% of the normal work time.

The average union membership in the company in 2019 is 67,36%.

### The labour relations

Mandatory requirement & Options GRI 406-1, 410-1, GRI 411-1, GRI 412-1, GRI 102-35, GRI 102-36, GRI 102-37, GRI 102-38, GRI 102-39, GRI 202-1, GRI 401-1, GRI 401-3, GRI 102-41, GRI 201-3

The work relations are based on the Romanian labour legislation, in accordance with the conventions of the International Labour Organization (ILO).

The work relations are characterized by the principle of equal treatment of all employees, interdiction of any direct or indirect discrimination in the purpose to refuse, restrict or failure to recognize the use or exercise of the rights provided in the labour legislation and the Collective Labour Agreement, as regards gender, sexual orientation, age, race, ethnicity, religion, political option, social origin, disability, family situation or responsibility, union membership or activity.

The social partners negotiate and follow up the execution of the Collective Labour Agreement on its validity period, as well as the legislative modifications and conformance with the legislation in force, including the compliance with the Universal Declaration of Human Rights.

AEROSTAR has never got complaints with reference to infringements of the Universal Declaration of Human Rights.

### Information on labour practice, respecting human rights, abuse prevention

Mandatory requirement

In AEROSTAR the labour practice is part of the policies referring to the work performed within the organization, including the subcontracted work.

The remuneration levels on professional categories and the standard benefits for the employees are set in the negotiation process of the Collective Labour Agreement.

Basically, increasing the salary fund is in relation to increased productivity.

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

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

### The social dialogue

Mandatory requirement

The social dialogue based on mutual trust, promptness, good faith and transparency is provided in the Collective Labour Agreement.

## OUR EMPLOYEES

**Formation, training, professional development**

Mandatory requirement

Given the fact that the Romanian labour market does not provide manpower with qualifications specific to the aviation industry, AEROSTAR searched for solutions and established a range of activities and processes to ensure the workforce required.

AEROSTAR has in place partnerships both with pre-university professional and technical institutions, and universities in order to set up classes and/or groups of specializations of interest for the company.

The activities organized are internships and documentation visits, summer employment, tasks for licencing or dissertation workpapers and meetings with the graduates for recruiting and selection purposes.

As such in 2019, a number of 338 students from the technical and technological high schools in Bacau executed internship programmes in AEROSTAR as well as 72 students from partner universities in Bacau and around the country.

In May 2019, AEROSTAR organized the symposium with the theme „Perspectives for a career in the field of aviation”, attended by over 200 students from senior years of the Technical University “Gh. Asachi” from Iași and “Vasile Alecsandri” University from Bacău.

AEROSTAR has in place a budgeted Annual Professional Training Plan which covers more than half of the employees, trained in specific areas while each employee attends an internal or external training programme every 2 years.

Starting with June 2018, a 2 years apprenticeship programme was initiated for aircraft mechanics which is due to be completed in June 2020.



During 2019, professional training courses were organized for the company's employees, as a matter of priority being to cover the trainings needs in the fields of interest for the production activities.

## OUR EMPLOYEES

Options GRI 404-1, GRI 404-4, GRI 404-3

During 2019, as a result of internal and external training programmes, provided in the Annual Professional Training Plan, a number of 1.908 employees received, an average of 26 hours of training/year/employee.

Mandatory requirement & option GRI 102-30

Not an issue at the moment, the **main risk** on mid term is to provide skilled human resource according to the needs arising from the contracts agreed with AEROSTAR customers.

During 2019, or along the years, there were no conflictual elements in the relations between the management and employees or their representatives from the representative union.



### Health and safety at work, labour conditions

Mandatory requirement & options GRI 403-3, GRI 403-1, GRI 403-4

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

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

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

## OUR EMPLOYEES

### The dialogue with local communities

Mandatory requirement & options GRI 413-1, GRI 203-1, GRI 413-2, GRI 202-2

The majority of the employees and management are members of the local community.

AEROSTAR maintains a permanent dialogue with the local community at institutional level, but also carries out activities which respond to the identified needs, such as the partnerships with the pre-university and university education institutions from Bacau.

Aerostar supports through donations and sponsorships various associations, NGOs, foundations and activities with educational, cultural, religious and sports scope.

Aerostar supports the development of the local community, performing such activities through the AEROSTAR Cultural-Educational Association or through the AEROSTAR Sports Association.

Aerostar promotes the education of the young generation and the sports spirit by fostering the sports activity for a number of over 200 children. Over the years, some of them may become company employees.

In 2019, the total value for sponsorships was 2.495 thousand lei, the majority being for the local community, focused on the following areas of interest: sport, education, medical, culture, social.

### The results of the policies applied

Mandatory requirement

AEROSTAR has in place the occupational health and safety management system certified according to the OHSAS 18001:2008 standard.

As a result of the policies and practices applied, during 2019, there were no professional disease or dangerous incidents among the employees.

However, in 2019 the following indicators related to labour accidents resulted:

- number of accidents per 100.000 work hours = 0,002%;
- time lost due to the work accidents per 100.000 work hours = 0,08%.

## PRINCIPLES AND VALUES IN BUSINESS CONDUCT HUMAN RIGHTS, ANTI-CORRUPTION AND BRIBERY COMBAT

Mandatory requirement & options GRI 102-16, GRI 102-17, GRI 205-1, GRI 205-2, GRI 205-3, 206-1, GRI 415-1

### Values, standards and rules of conduct

The commitment of the Board of Directors, as well as of the entire executive management, is to manage the business of Aerostar with integrity, honesty and transparency, by respecting laws and regulations applicable to the company, **Zero tolerance to any form of violation of human rights, of corruption or bribery.**

At the level of the executive management activities are implemented to provide the conformance with the legal provisions in order to prevent any form of corruption both in the internal relations with and between the employees, as well as in the relations established by the company with other persons and/or entities.

The Collective Labour Agreement 2019 – 2021, agreed between the company management and social partners includes a Code of business conduct & ethics through which the general guidelines are stipulated, regarding the performance of the company business in accordance with the highest business ethics standards.

The Code of Business Conduct & Ethics is published on the company's internet website, is part of the internal regulations and from the collective labour agreement, being also part of the individual labour agreement.

Through **the system regarding counseling on ethical issues**, the company strictly forbids any retaliation on an employee who, in good faith, requests help or reports a known or suspected act of violation of the code.

Regarding the conflicts of interest, the employee shall avoid any private non-transparent interest which influences their capacity to act in the interest of the company or which puts in difficulty their work in an objective and effective manner.

The firm commitment to respect all the legal provisions on matters of anti-corruption was renewed by the company's employees when the new collective labour agreement was signed on 31.03.2019 (the Code of business conduct & ethics being its integrated part).

The review and presentation of the new collective labour agreement was detailed with all the employees of the company.

There is also a preoccupation from the executive management to comply with all the anti-corruption policies and procedures existing at the level of the international supply chains of the aeronautical industry, where Aerostar is a part of, including in the category of the integrity whistle blowers mechanism also stipulated in the Romanian law.

In 2019 there was no corruption incident or any legal action either for anti-competitive, antitrust and monopoly conduct.

Aerostar is not involved in politic contributions activities.

In 2019, the Law. 129/2019 on the prevention of money laundering and financing the terrorism, entered into force. Aerostar and its affiliated parties performed the activities provided for compliance.

## TANGIBLE ASSETS

*Mandatory requirement*

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

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

The company owns in its property the land surface of 45,29 ha, with direct access to the European road E85.

Aerostar has direct access to the "George Enescu" airport's runway in Bacau.

At the registered headquarter there are all types of facilities required for the proper performance of the production activities according to the object of activity.

The production space comprises hangars, industrial buildings, technological testing benches, spaces for administrative and social activities. Also, the company holds spaces for office work such as technical and economical activities.

All these locations and facilities are maintained in good condition.

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

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

At 31 December 2019 the tangible assets held in property by AEROSTAR to perform the activities are in gross value of 263.265 thousand lei, which comprise the land, buildings, special constructions, installations, technological equipment, transport vehicles:

Category of tangible assets	Gross value (thousand lei)	Degree of wear (%)	Estimated useful life (years)
Land	28.401	N/A	N/A
Constructions	58.880	36,4%	30-50 years
Investment property	10.644	27,8%	25-50 years
Technical installations, of which:	163.101	55,1%	
- technological equipment	157.971	54,7%	4-25 years
- transport vehicles	5.130	67,2%	4-18 years
Other tangible assets	2.239	33,8%	2-18 years
<b>TOTAL</b>	<b>263.265</b>	<b>43,7%</b>	<b>N/A</b>

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

The shares of AEROSTAR S.A. Bacău are 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 shares (152.277.450 shares):** the shares issued are nominative, ordinary, of equal value, fully paid, issued in dematerialized form and recorded through registration in the Shareholders's Register. The register of AEROSTAR shares is administrated by Depozitarul Central S.A. Bucharest.

AEROSTAR S.A. Bacău as an issuer is registered with the following data:

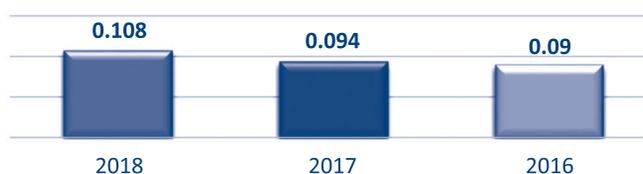
Unique registration code 950531, code ISIN ROAEROACNOR5, ARS stock exchange symbol, the shares issued being in the standard category.

The evolution of the shares in 2019, presented in the chapter **Key Figures**, reflects a high-level capitalization throughout the year.

**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 value of the gross dividends over the previous three years is presented below:

**Value of the gross dividend per share over the last three years  
(lei/share)**



During 2019 the company did not perform any acquisition programme to buy its own shares.

In 2019 Aerostar did not issue bonds or other similar securities. In 2019, there was no subscription of new shares or issue of participation certificates, convertible bonds, options or similar rights.

## AEROSTAR SHARES (ARS)

**Main Shareholders**

Mandatory requirements &amp; Option GRI 102-5

The shareholding structure at the end of 2019 had an approximate number of 6500 shareholders, in a slight decrease compared to the end of 2018, when the number of shareholders was close to 6600.

The majority are natural and legal persons, below the significance threshold as provided in the regulations issued by the Financial Supervisory Authority and the Bucharest Stock Exchange.

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

The synthetic structure of the shareholding structure of Aerostar S.A. Bacau at the date of 31.12.2019, published on the website page of Bucharest Stock Exchange from the source: Depozitarul Central is as follows:

Shareholders	No. of shares held	% of the share capital
IAROM S.A.	108.672.786 shares	71,3650%
SIF Moldova SA	22.919.887 shares	15,0514%
Other shareholders	20.684.777 shares	13,5836%
<b>Total</b>	<b>152.277.450 shares</b>	<b>100,0000%</b>

There is no litigation with the persons mentioned above.

#### Mandatory requirements

**In the relation with the shareholders**, AEROSTAR took into account in 2019 as well, to protect and secure the rights of the shareholders, respectively:

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

In the relation with the capital market, AEROSTAR fulfilled in 2019 as well, all the reporting obligations arising from the legal provisions by publishing the current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the internet page of the company and by press releases.

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

The shareholders can obtain information about AEROSTAR and its main events on the internet page [www.aerostar.ro](http://www.aerostar.ro).

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

In 2019 there were no modifications which affect the capital and administration of the company.

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

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

## RELATION WITH THE SHAREHOLDERS AND THE CAPITAL MARKET

### Relation with the parent company and related parties

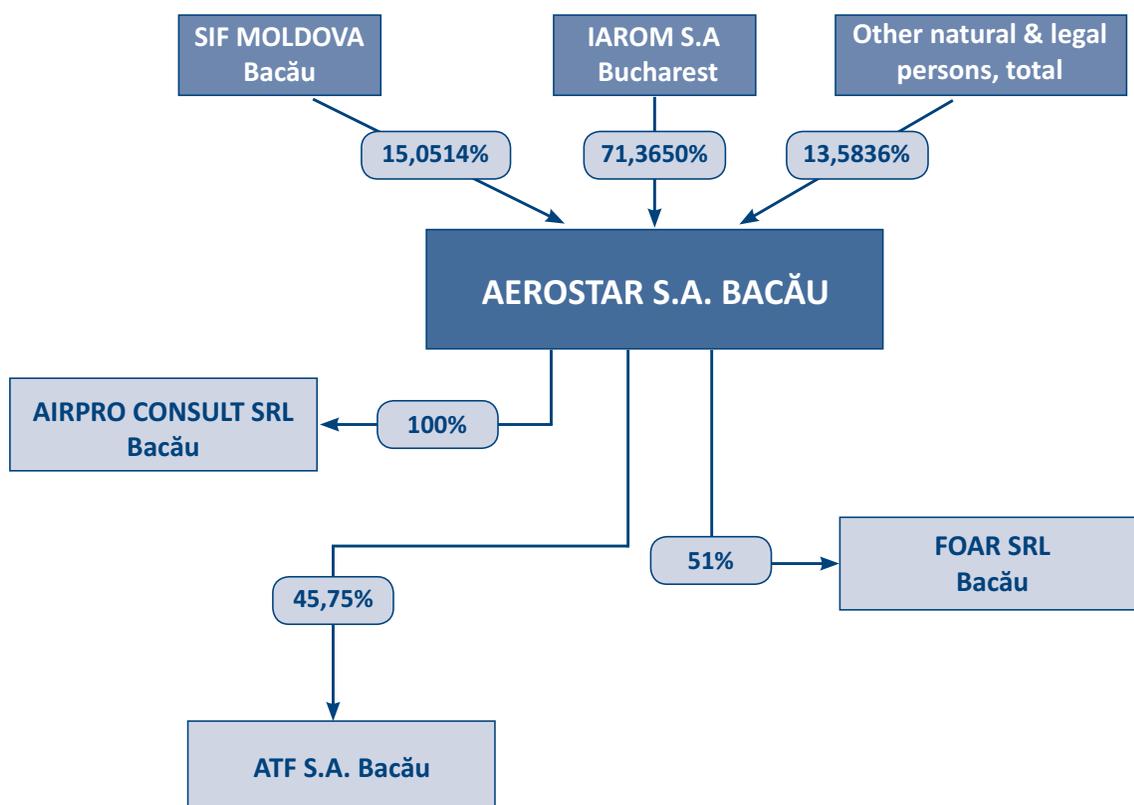
Mandatory requirements & Option GRI 102-45

Aerostar is a subsidiary of IAROM S.A. and so, the parent company which consolidates the group's financial statements is IAROM S.A. IAROM's unique registration code is 1555301 and its registered headquarter is located in Bucharest, 39 Aerogării Boulevard.

The consolidated financial statements for the financial year 2018 were filed at ANAF (National Agency for Fiscal Administration), under the registration number 184767215 dd. 26.08.2019. Copies of the consolidated financial statements can be obtained from the headquarters of the parent company IAROM S.A.

The parent company will prepare and publish the consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended at 31.12.2019.

Aerostar's relation with the parent company and the related companies:



In 2019 there was no merger or significant reorganization, neither of Aerostar S.A. or of the companies under Aerostar control.

## RELATION WITH THE SHAREHOLDERS AND THE CAPITAL MARKET

### Related Parties

Mandatory requirements

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

Name of the subsidiary/ related company	Basic activity	No. of shares held by Aerostar	Voting rights	Value of Aerostar holding (thousand lei)	Financial information for the last financial year (2018) for which the financial statements of the related companies were approved		
					Sales	Company capitals	Net profit
<b>Airpro Consult SRL</b>	code CAEN 7820	100	100%	10	7.840	147	66
<b>Foar SRL</b>	code CAEN 7739	408	51%	4	434	1.919	171
<b>ATF S.A. Bacău</b>	code CAEN 2822	9.150	45,75%	92	-	274	1
<b>Total</b>				<b>106</b>	<b>8.274</b>	<b>2.340</b>	<b>238</b>

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

During 2019, the company did not register modifications such as increase/decrease of its contribution percentage, AEROSTAR maintaining the same influence as in 2018.

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

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

## AEROSTAR MANAGEMENT

## Mandatory requirements

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



FILIP GRIGORE

DAMASCHIN DORU

TONCEA MIHAIL-NICOLAE

DOROȘ LIVIU-CLAUDIU

VÎRNĂ DANIEL

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

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

The direct participation of the administrators to the registered capital of the company is over 1%. There is no litigation with the above-mentioned persons, neither in 2019 nor in the last five years.

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.

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

## **Business Management**

Mandatory requirements & Option GRI 102-19

The administration of the company is in a unitary system.

The President of the Board of Directors is also the General Director of the company.

The executive management is provided by the General Director and the Financial Director.

The management structure at operational-executive level is completed with the other division and direction directors. There were no changes during 2019 regarding this structure.

The management structure which ensures the management of the company's functions, based on the divisional organization structure, is presented in the chapter the **Management and Organization of the Company**.

## CORPORATE GOVERNANCE

Mandatory requirements & Options GRI 102-20, 102-21, 102-22, 102-23, 102-24, 102-25, 102-26, 102-27, 102-28

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

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

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

The declaration of compliance with the code of the Bucharest Stock Exchange, which is the Annex to this report, presents in summary **the corporate governance principles** applied by the company, as well as their degree of adequacy in relation to Aerostar's specific.

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

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

### The corporate governance structure

Mandatory requirements & Option GRI 102-18

The corporate governance structures are:

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

## The General Meeting of the Shareholders

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

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

The procedure for the organization and conduct of the general meeting of the shareholders is published on the internet page [www.aerostar.ro/ Investors Relations /Reference Documents](http://www.aerostar.ro/Investors%20Relations/Reference%20Documents).

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

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

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

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

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

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

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

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

## CORPORATE GOVERNANCE

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

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

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

### The Board of Directors

Mandatory requirements & Options GRI 102-20, 102-21, 102-22, 102-24, 102-26, 102-27, 102-32, 102-40, 102-43, 102-46, 102-47, 102-33, 102-28, 102-34,

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

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

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

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

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

In 2019 there was no case to make nominations for members in the Board of Directors.

In 2019, seven meetings of the Board of Directors were held.

All five BoD members were present in person in 3 meetings.  
At the other four meetings, the situation was as follows:

Date	Presence in person	Present by teleconference	Not present
21.03.2019	3	2	-
06.05.2019	2	3	-
14.08.2019	4	1	-
11.12.2019	4	-	1

The attributions and responsibilities of the Board of Directors are stipulated in the constitutive deed and in the internal regulation of the Board of Directors, published on the company website [www.aerostar.ro/Relația cu investitorii](http://www.aerostar.ro/Relația cu investitorii).

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

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

### The audit committee

Based on the provisions of Corporate Governance Code in conjunction with the provisions of the Law no. 162/2017, an independent **audit committee** was established, formed from two members appointed by the General Meeting of the Shareholders on 19 April 2018.

The attributions of the independent audit committee are provided in the Internal Regulations of the audit committee, approved by the Board of Directors, completed with the provisions of the Law no. 162/2017 and the EU Regulation no. 537/2014, which is also on [www.aerostar.ro/Investors Relation/Reference documents](http://www.aerostar.ro/Investors Relation/Reference documents).

Since 2018, an Audit Committee is acting in Aerostar in accordance with the provisions of the Law no. 162/2017 regarding the statutory audit of the annual financial statements and of the consolidated financial statements.

The audit committee meets regularly, at least four times per year, as well as exceptionally, if necessary.

Mandatory requirements & Option GRI 102-56

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

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

## CORPORATE GOVERNANCE

**Aerostar's Code of Business Conduct & Ethics**

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

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

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

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

The details about the compliance with the principles and recommendations provided in the Corporate Governance Code of the Bucharest Stock Exchange are provided in the Declaration „Comply or explain”, which is integral part of this report, as the Annex.

## Management of the Conflict of Interest

Mandatory requirements & Option GRI 102-25

From the point of view of accounting regulations, Aerostar is a subsidiary of IAROM S.A. Aerostar presented in transparency conditions, according to the applicable regulations, the structure of the company's shareholding and related parties.

Also, Aerostar complies on term with the requirements of law 129/2019 regarding the real beneficiaries.

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

Performance evaluation of the BoD members Option GRI 102-28

Respecting the requirement of the Internal Regulations of the Board of Directors, art. 3.5, all the members of the Board filled in and signed a Declaration regarding the Conflicts of Interest for the year 2019.

Following the assessment made, based on these declarations, the following is found:

- no member of the Board of Directors is independent;
- no member is in conflict of interests regarding the position held in the Board of Directors;
- no measures or changes are required in the Board of Directors.

## Executive Management

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

## The Internal Control System

The internal control system of AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

## Accounts Control

In AEROSTAR there is a dedicated department responsible with accounts control.

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

Throughout 2019, the inventory activity was made in compliance with the legal provisions and company regulations.

The results of the inventory processes were registered in the company's accounting records. No significant deviations were found compared to the scriptic records.

## CORPORATE GOVERNANCE

### Budgetary Control

The budgetary control is performed by the budget managers.  
From the budgeting perspective, the company is organized in:

- profit centers
- cost centers.

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

The budgetary control provides:

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

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

### Controlling

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

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

### Internal Audit

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

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

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

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

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

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

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

## THE NON-FINANCIAL REPORTING PROCESS

Mandatory requirements & Options GRI 102-46, GRI 102-47, GRI 102-48, GRI 102-49, GRI 102-50, GRI 102-51, GRI 102-52, GRI 102-53, GRI 102-56, 102-32, 102-20

In accordance with the Directive 2014/95/EU of the European Parliament regarding the disclosure of non-financial and diversity information, partially transposed into the national law by:

- Order of the Ministry of Public Finance (OMFP) no. 2844/2016 for the approval of accounting regulations in accordance with International Financial Reporting Standards
- Order of the Ministry of Public Finance (OMFP) no. 1938/2019 with reference to the non-financial declaration, and OMFP no. 3456/2018, OMFP no. 1802/2014 and OMFP 3781/2020 respectively.

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

Mandatory requirements & Options GRI 102-46, GRI 102-47, GRI 102-12, GRI 102-53

- AEROSTAR's Development Strategy for the 2018-2022 period, updated annually, as well as the effective way of reporting these aspects provided in company's Internal Organizational and Functioning Regulations: "**The Context of the organization and interested parties for Aerostar**"
- The Management System in Aerostar, the Quality and Environmental Management System, the Occupational Health and Safety Management System respectively, certified in accordance with the requirements of ISO 9001, ISO 14001, AS EN 9100, AQAP 2110 and OHSAS18001 respectively.
  - The requirements of Aerostar's customers
  - The orientations described in the international standard for social responsibility ISO 26000
  - The regulatory framework provided by the Romanian legislation
  - The orientations described in the Communication from the European Commission - "Guidelines on non-financial reporting (methodology for reporting non-financial information) - 2017/C215/01".
  - The orientations described in the Global Reporting Initiative (GRI) standards, without registering and declaring compliance with these standards.

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

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

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

## THE NON-FINANCIAL DECLARATION FOR THE YEAR 2019

**The non-financial declaration for the year 2019**

Mandatory requirements & Options GRI 102-21, 102-49, 102-48, 102-50, 102-51, 102-52, 102-56

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Aerostar undertakes furthermore:

- To communicate its environmental policy and strategy to all interested parties and to raise awareness amongst these parties of their own responsibilities towards environment;
- To comply fully and where possible to exceed the requirements of the applicable regulations and standards;
- To reduce energy consumption and GHG emissions;
- To reduce water consumption;
- To reduce waste resulting from its activities;

## THE NON-FINANCIAL DECLARATION FOR THE YEAR 2019

- To improve and develop the entire company's sites in order to avoid negative environmental impact;
- To avoid the use of environmentally-damaging substances, materials and processes and where this is not possible, to limit such use.

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

Aerostar is fundamentally committed to:

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

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

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

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

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

Mandatory requirements & Options GRI 102-11, GRI 102-29, GRI 102-30

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

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

Risk management aims to ensure that the risks are kept under control, so that the company's risk exposure is maintained at an acceptable level.

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

The choice how to treat the risk involves balancing the costs and the efforts to implement the established measures, in relation to the derived benefits, in compliance with the legal, regulatory or other requirements assumed by AEROSTAR.

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

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

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

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

## RISK AND OPPORTUNITIES MANAGEMENT

### Main Quality and Environment Risks and Their Management

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

In Aerostar there is a unitary way of identifying, evaluating and treating the risks of failure to meet the targets, for all the processes involved, starting from purchasing to delivery. The risks and mitigation actions are monitored and reported.

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

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

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

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

AEROSTAR is exposed to multiple risks and uncertainties which may affect its financial performance. AEROSTAR's business lines, its operational results or the financial situation of the company could be affected by the materialization of the risks presented further on.

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

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

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

## RISK AND OPPORTUNITIES MANAGEMENT

**Operational Risk**

It is the risk of recording losses or not realizing the estimated profits, determined by:

- the use of processes, systems and human resources that are inadequate or that have not fulfilled properly their function;
- external events and actions: deterioration of the global economic conditions, natural disasters or other events that may affect AEROSTAR assets.

Associated to the Operational Risk is the **Legal Risk**, defined as the risk of loss - as a result of both, fines and penalties, of which AEROSTAR is liable in case of non-application or faulty application of the provisions, legal or contractual regulations, as well as the fact that the contractual rights and obligations of AEROSTAR and / or the business partner are not set up properly.

The effects of the legal risk are monitored and eliminated by means of a permanent info updating system in connection with the legislative changes, as well as through a dedicated system for the review, endorsement and approval of the terms and conditions included in the commercial agreements.

AEROSTAR allocates and will continue to allocate funds for investment expenses and other operational expenses in order to prevent and administrate the operational risk.

In addition, AEROSTAR pursues to have in place company funds- by setting provisions for risks and related expenses, to cover its risks of exposure.

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

**The Credit Risk** is Aerostar's risk to have a financial loss as a result of a financial loss because of a partner failing to meet the contractual obligations, being mainly in the area of cash, cash equivalents (bank deposits) and trade receivables.

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

The credit risk, including the country risk in which the customer carries out the activity, is managed on each business partner. When deemed necessary, the company requires specific credit risk mitigation tools (prepaid expenses, letters of credit with bank guarantee, confirmed export letters of credit).

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

**The Liquidity Risk** is Aerostar's risk to encounter difficulties to meet its obligations associated with its liabilities as they become due.

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

## MANAGEMENTUL RISCULUI ȘI OPORTUNITĂȚILOR

For the administration of the liquidity risk, AEROSTAR keeps an annual cash reserve in the form of a Credit Line usable as a bank overdraft in amount of 2.500.000 USD. During the reporting period, AEROSTAR did not use the Credit Line, all the activities being financed from company's own sources.

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

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

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

The management of this risk is made by:

- diversification of the range of suppliers, which provides increased negotiation levers in case the price for materials goes up from certain suppliers.
- long term contracts, with fixed price clauses.

AEROSTAR is exposed to the currency risk as 79% of the turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency in LEI. As such, AEROSTAR is exposed to the risk of the exchange rate fluctuations, affecting both its net revenues and its financial position, as they are both expressed in LEI.

During the reporting period, AEROSTAR recorded no financial losses.

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 income and cash flows are independent from the interest rate variation on the banking market.

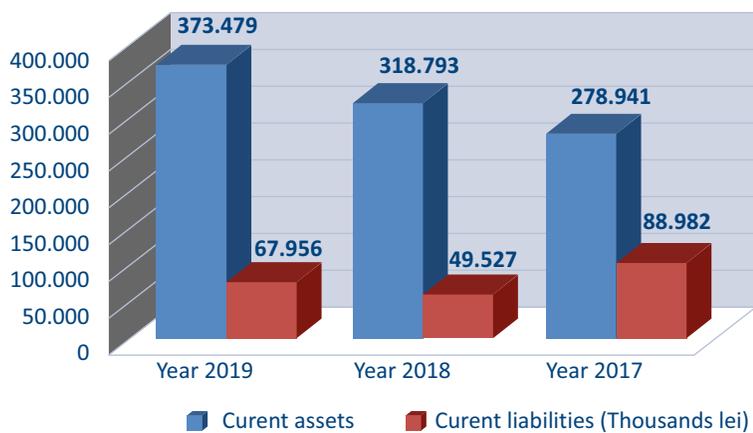
Mandatory requirements

Thousands lei

Summary of Assets, Equity, Liabilities and Provisions	31.12.2019	31.12.2018	31.12.2017
<b>Total non-current assets</b>	168.023	156.876	153.686
Total current assets	372.879	318.289	278.451
Prepaid expenses and receivables related to deferred profit tax	15.413	11.636	11.055
<b>Total assets</b>	<b>556.315</b>	<b>486.801</b>	<b>443.192</b>
Total company equity	363.332	315.139	252.967
Total provisions	119.019	112.551	125.189
Income in advance	9.047	10.239	12.705
Total liabilities	64.917	48.872	52.331
<b>Total Equity, Prepaid income, Liabilities and Provisions</b>	<b>556.315</b>	<b>486.801</b>	<b>443.192</b>



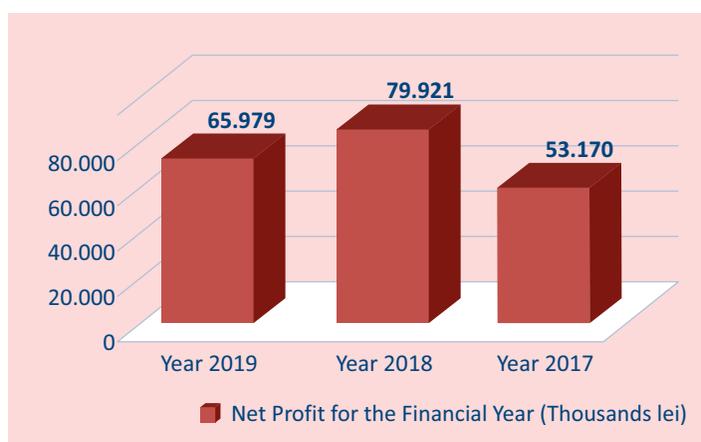
## THE FINANCIAL SITUATION



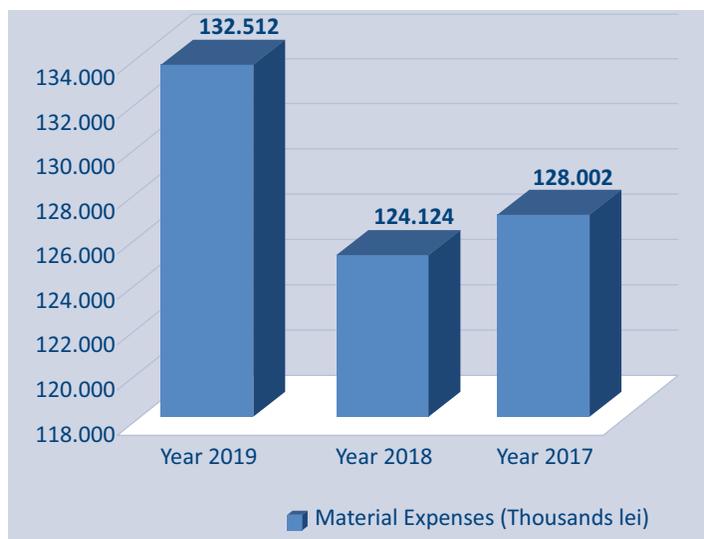
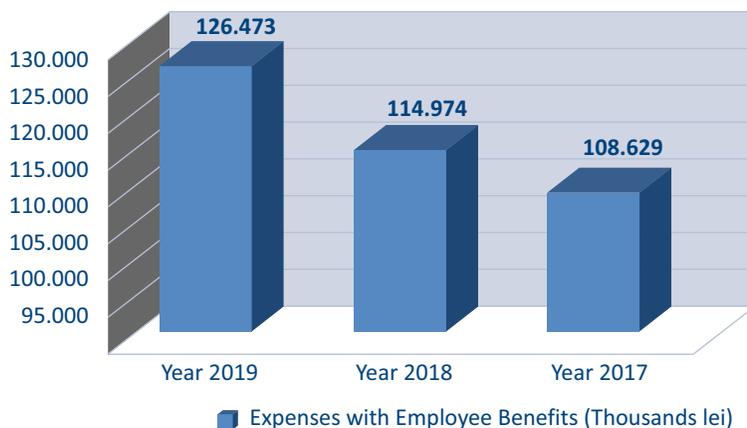
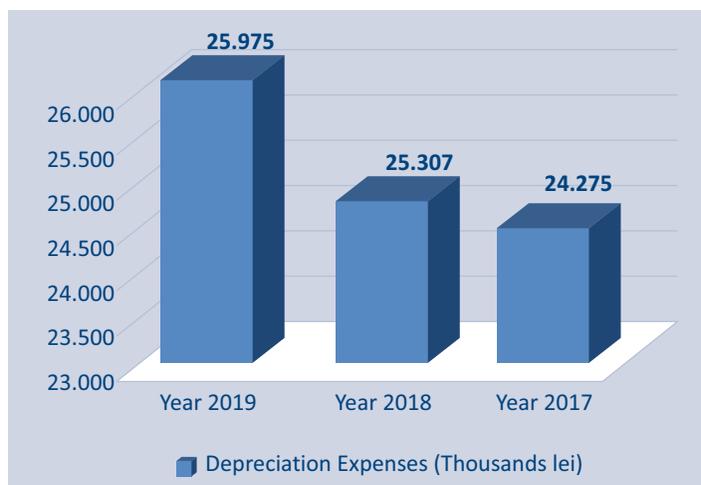
## THE FINANCIAL SITUATION

Thousands lei

Summary of Income, Expenses, Results	31.12.2019	31.12.2018	31.12.2017
Total operating income, of which:	410.400	371.245	355.511
- income from sales	399.210	353.413	340.172
Total operating expenses	(340.460)	(288.168)	(295.371)
<b>Profit from operating activity</b>	<b>69.940</b>	<b>83.077</b>	<b>60.140</b>
Financial income	9.664	7.806	4.413
Financial expenses	(4.498)	(3.463)	(5.766)
<b>Financial Profit/ Loss</b>	<b>5.166</b>	<b>4.343</b>	<b>(1.353)</b>
<b>Profit before tax</b>	<b>75.106</b>	<b>87.420</b>	<b>58.787</b>
Tax on current and deferred profit	(9.127)	(7.499)	(5.617)
<b>Net profit of the financial year</b>	<b>65.979</b>	<b>79.921</b>	<b>53.170</b>



## THE FINANCIAL SITUATION



## THE FINANCIAL SITUATION

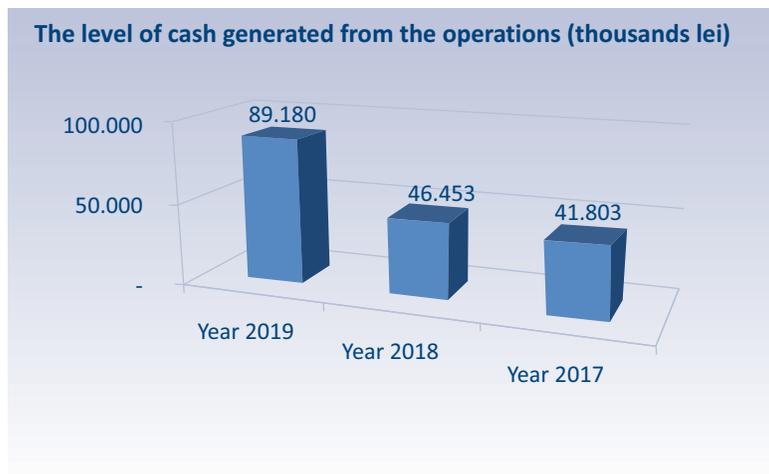
**Cash Flow:** all the changes made in the cash level during the operating activity, investments and financing activity, the cash level at the beginning and at the end of the period.

	Thousands lei		
	Year 2019	Year 2018	Year 2017
<b>CASH FLOWS FROM OPERATIONS</b>			
collected from customers	415.074	352.279	347.140
taxes and excises recovered from State Budget	8.687	5.329	5.824
payments to suppliers and employees	(267.320)	(253.029)	(250.453)
payment of taxes, contributions and dues to State Budget	(55.294)	(50.851)	(52.366)
payments of profit tax	(11.967)	(7.275)	(8.342)
<b>NET CASH FROM OPERATIONS</b>	<b>89.180</b>	<b>46.453</b>	<b>41.803</b>
<b>CASH FLOWS FROM INVESTMENTS</b>			
interest collected from bank deposits formed	3.358	3.057	530
dividends received from subsidiaries	137	202	189
collected from sales of property, plant and equipment	14	18	90
interest collected from loans granted	0	59	4
instalments collected from loans granted	0	5	6
payments for purchasing property, plant and equipment and intangible assets	(37.727)	(32.669)	(27.597)
<b>NET CASH FROM INVESTMENTS</b>	<b>(34.218)</b>	<b>(29.328)</b>	<b>(26.778)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
dividends paid but unclaimed	99	47	73
gross dividends paid	(15.918)	(13.658)	(13.289)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(15.819)</b>	<b>(13.611)</b>	<b>(13.216)</b>
<b>net increase of cash and cash equivalents</b>	<b>39.143</b>	<b>3.514</b>	<b>1.809</b>
<b>cash and cash equivalents at the beginning of the period</b>	<b>167.545</b>	<b>163.886</b>	<b>163.153</b>
effect of the exchange rate variation over the cash and cash equivalents	674	146	(1.076)
<b>Cash and cash equivalents at the end of the period</b>	<b>207.362</b>	<b>167.545</b>	<b>163.886</b>

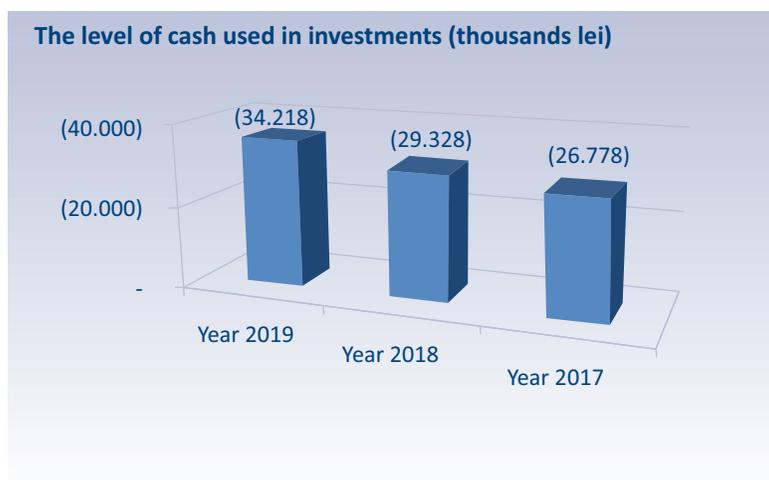
## THE FINANCIAL SITUATION

The operating activity is the main cash generating activity of AEROSTAR.

The evolution of the cash generated from the operating activity over the last 3 years is presented in the following graph:



The evolution of the cash used in the investment activity over the last 3 years is presented in the following graph:



For the payment of the dividends due to the shareholders, the amount of 15.819 thousand lei (18%) was used from the cash generated by the operating activity.

The level of cash and cash equivalents registered at the end of 2019 is 207.362 thousand lei, more by 39.817 thousand lei compared to the beginning of the year.

**Mandatory requirement**

The development of the company will continue in accordance with the adopted growth and development strategy adopted. The competitive advantage will be maintained and improved: quality, capabilities, advanced equipment and technologies, reactivity to opportunities, adherence to improvement programs.

We will take firm actions to capitalize on the opportunities both in aviation and in defence.

We are preoccupied of the challenges we face in connection with the repairs at the airport runway in Bacau and the proper scheduling of the aircraft inputs from our customers for maintenance work.

We are preoccupied in connection with the timely termination of the work at the runway of the Iasi airport in order to be able to turn functional our MRO Centre for the maintenance of A320 and B737 aircraft.

We will focus on our major investment programmes undertaken to become operational and successful. The volume of investments planned for the year 2020 is 52 million lei.

The Income and Expenditure budget for 2020 provides for a turnover of 370.000 thousand lei and a gross result of 51.729 thousand lei.

The entire Board of Directors is firmly committed to provide the needed resources in order to meet our major objectives.

For the next period, AEROSTAR does not see any other significant risks, in addition to those managed during the current period and already herein presented.

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

From this perspective, we cannot assess the impact on the company's business, such as the impact which can be generated in the globalized economy by an undesirable pandemic evolution of COVID-19 coronavirus infection.

This already affects important sectors of the global economy and markets, the global supply chains with activities localized in the Asian area and in China, strong reductions at European level as well as a result of the actions taken to stop the infection spreading but also as a result of the voluntary reactions to stop the business interconnections in the global production chains.

We cannot predict or assess either the impact on the globalized aeronautical industry generated by the suspended Boeing 737 MAX aircraft production.

The company's management system is in a continuous process of adaptation in order to respond in the best way to the requirements, challenges and market opportunities.

**On behalf of the Board of Directors,**

**Grigore FILIP**  
**President & General Director**

## Annex DECLARATION ON THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE OF THE BUCHAREST STOCK EXCHANGE, 2019

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 has no independent member, being voted in this structure by the General Meeting of Shareholders.
A.5	x		
A.6	x		
A.7	x		
A.8	x		
A.9	x		During 2019 a number of 7 meetings took place, of which: - In 3 meetings all the BoD members were present; - In 1 meeting, 3 members were present, the other 2 attended by telecon; - In 1 meeting there were 2 members present, the other 3 attended by telecon; - In 1 meeting, 4 members were present, the fifth attended by telecon; - In 1 meeting, 4 members were present, the fifth being absent.
B.1	x		The company has constituted 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 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 are 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		

# **INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED AT 31 DECEMBER 2019**

Prepared in accordance with the Order of the Minister of Public Finance no. 2844/2016  
for the approval of the Accounting Regulations according to the International Financial Reporting Standards

## **THE INDEPENDENT AUDITOR'S REPORT**

## INDEPENDENT AUDITOR'S REPORT\*

(\*This represents a non-official English translation of the original audit report issued in Romanian language)

To the shareholders of AEROSTAR S.A.

## Report on the Audit of the Financial Statements

## Opinion

1. We have audited the accompanying financial statements of AEROSTAR S.A. ("the Company"), with registered office in 9 Condorilor Street, Bacau, Romania, registered with the Trade Registry under no. J4/1137/1991 and having fiscal identification code RO950531, which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and explanatory notes to the financial statements, including a summary of significant accounting policies, presenting the following:

· Net Assets / Total equity and reserves:	RON	363.332 thousand
· Net result of the year:	RON	65.979 thousand (profit)

2. In our opinion, the accompanying financial statements of the Company present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended, in accordance with the provisions of the Order of the Ministry of Public Finance 2844/2016 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards, as subsequently amended ("OMFP 2844/2016") and as described in the accounting policies presented in the notes to the financial statements.

## Basis for Opinion

3. We conducted our audit in accordance with the International Standards on Auditing ("ISA"), the EU Regulation No. 537/2014 of the European Parliament and of the Council of the European Union ("Regulation (EU) 537/2014") and with the Law 162/2017 ("Law"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") and in accordance with all other ethical requirements relevant for the audit of financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Key Audit Matters

4. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide an opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	Audit procedures performed to address the key audit matter
<b>Provisions</b>	
As disclosed in Note 13 to the financial statements, the Company has in balance at 31 December 2019 total provisions in amount of RON 119.019 thousand, out of which long-term provisions in amount of RON 97.451 thousand. Estimating a provision involves significant professional judgment from the Company's management with regard to the probable outcome of the relevant events and the quantification of the related probable liability. Due to the importance of the amounts reported in the Provisions and the fact that, by their nature, the provisions imply a significant degree of professional judgment, we consider that Provisions represent a key audit matter for the 2019 audit.	In order to obtain reasonable assurance we have performed the following procedures: <ul style="list-style-type: none"> <li>• We have reviewed the Company's current obligations under which provisions were recognized;</li> <li>• We have reviewed the professional judgment used by the management of the Company in order to determine the probable outcome of the relevant events and the quantification of the related probable liability;</li> <li>• We have obtained, where appropriate, the point of view of the legal department of the Company regarding the probability of settling disputes in progress, as well as the best estimate of the consideration necessary to settle the probable liability arising from these disputes;</li> <li>• We have analyzed the maturity of the obligations that have generated the provisions and their classification in the short and long term.</li> </ul>



*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

5. The Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with OMFP 2844/2016 and with the accounting policies presented in the notes to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
6. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
7. Those charged with governance are responsible for overseeing the Company's financial reporting process.

*Auditor's Responsibilities for the Audit of the Financial Statements*

8. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
  - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
  - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
  - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
10. As part of the audit process, we communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
11. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
12. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Conformity of the Administrators' Report with the Financial Statements

The Company's Administrators are responsible for the preparation and presentation, in accordance with the requirements of articles 15-19 from the Accounting Regulations approved by OMFP 2844/2016, of an Administrators' Report which is free from significant misstatements, and for such internal control as the Management considers necessary to enable the preparation of the Administrators' Report which shall be free from material inconsistencies, whether due to fraud or error.

The Administrators' Report is not part of the Company's financial statements.

Our opinion on the accompanying financial statements does not cover the Administrators' Report.

In connection with our audit of the financial statements of the Company as at 31 December 2019, we have read the Administrators' Report attached to the financial statements and we report the following:

- a) we have not identified in the Administrators' Report any information which is not consistent, in all material respects, with the information presented in the accompanying financial statements;
- b) the Administrators' Report identified above includes, in all material respects, the information required by articles 15-19 from the Accounting Regulations approved by OMFP 2844/2016;
- c) the Administrators' Report identified above includes the non-financial declaration requested in art. 39 of the Accounting Regulations approved by OMFP 2844/2016;
- d) based on our knowledge and understanding acquired during the audit of the financial statements for the year ended 31 December 2019 regarding the Company and its environment, we have not identified in the Administrators' Report any information that would be significantly misstated.

### Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

#### *Appointment of the Auditor and the Period of Engagement*

We were appointed as auditors of the Company through the Decision from 19 April 2018 of the General Meeting of Shareholders ("GMS") to audit the financial statements of the Company for the financial years 2018-2020. Our uninterrupted engagement is of 3 years, covering the financial years ended from 31 December 2018 until 31 December 2020.

#### *Consistency with the Additional Report to the Audit Committee*

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 13 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014.

#### *Provision of Non-audit Services*

We declare that no prohibited non-audit services, as referred to in Article 5(1) of Regulation (EU) No. 537/2014, were provided by us to the Company. In addition, except for a low value tax review of the fiscal treatment for a specific transaction (from a compliance point of view), there are no other non-audit services which were provided by us to the Company and its controlled undertakings.

Bucharest, 17 March 2020

Vasile Andrian

Auditor registered in the Public Electronic Register under no. 1554 / 2004

On behalf of **MAZARS ROMANIA S.R.L.**

Audit firm registered in the Public Electronic Register under no. 699 / 2007.

## INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019

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

	Note	31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	157.545	147.763
Intangible assets	5	888	1.043
Investment property	6	7.681	7.930
Rights of use on assets under lease	32	1.765	-
Financiar assets	7	144	140
<b>Total non-current assets</b>		<b>168.023</b>	<b>156.876</b>
<b>Current assets</b>			
Inventories	10	86.866	82.368
Trade receivables and other receivables	8;9	78.651	68.376
Cash and cash equivalents	11	207.362	167.545
<b>Total current assets</b>		<b>372.879</b>	<b>318.289</b>
Receivables regarding deferred profit tax	17	13.984	11.132
<b>Prepaid expenses</b>	<b>31</b>	<b>1.429</b>	<b>504</b>
<b>Total assets</b>		<b>556.315</b>	<b>486.801</b>
<b>COMPANY EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	12	48.729	48.729
Current result	12	65.979	79.921
Result carried-forward	12	58.931	58.324
Other reserves	12	215.507	166.395
Deferred income tax recognized based on own equity	17	(14.140)	(12.195)
Distribution of profit for legal reserve	12	(11.674)	(26.035)
<b>Total company equity</b>	<b>12</b>	<b>363.332</b>	<b>315.139</b>
<b>Prepaid income</b>			
Subsidies for investments	14	7.935	10.239
Deferred income	31	1.112	-
<b>Total prepaid income</b>		<b>9.047</b>	<b>10.239</b>
<b>Long-term liabilities</b>			
Liabilities regarding deferred income tax	17	17.316	16.055
Other long-term liabilities	16	2.375	45
<b>Total long-term liabilities</b>		<b>19.641</b>	<b>16.100</b>
<b>Long-term provisions</b>			
	13	<b>97.451</b>	<b>95.796</b>
<b>Current liabilities</b>			
Trade liabilities	15	26.769	21.197
Liability with current income tax	23	2.446	2.357
Other current liabilities	16	16.061	9.218
<b>Total current liabilities</b>		<b>45.276</b>	<b>32.772</b>
<b>Short-term provisions</b>			
	13	<b>21.568</b>	<b>16.755</b>
<b>Total provisions</b>		<b>119.019</b>	<b>112.551</b>
<b>Total liabilities</b>		<b>64.917</b>	<b>48.872</b>
<b>Total company equity, prepaid income, liabilities and provisions</b>		<b>556.315</b>	<b>486.801</b>

## INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019

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

	Note	31 December 2019	31 December 2018
<b>Operating income</b>			
Income from sales	19	399.210	353.413
Other income	19	3.346	3.473
Income related to the inventories of finished goods and work in progress	19	6.593	12.528
Income from production of assets	19	988	1.645
Income from operating subsidies	19	263	186
<b>Total operating income</b>		<b>410.400</b>	<b>371.245</b>
<b>Operating expenses</b>			
Material expenses	20	(132.512)	(124.124)
Expenses with employees' benefits	20	(126.473)	(114.974)
Expenses regarding amortization of assets	20	(25.975)	(25.307)
Adjustments regarding current assets	20	(13.749)	(5.106)
Adjustments regarding provisions	20	(6.198)	12.638
Expenses regarding external services	20	(30.098)	(26.659)
Other expenses	20	(5.455)	(4.636)
<b>Total operating expenses</b>		<b>(340.460)</b>	<b>(288.168)</b>
<b>Profit/loss from operating activity</b>		<b>69.940</b>	<b>83.077</b>
Financial income	21	9.664	7.806
Financial expenses	22	(4.498)	(3.463)
<b>Financial profit/loss</b>		<b>5.166</b>	<b>4.343</b>
<b>Profit before tax</b>		<b>75.106</b>	<b>87.420</b>
Tax on current and deferred profit	17;23	(9.127)	(7.499)
<b>Net profit of the period</b>		<b>65.979</b>	<b>79.921</b>

## INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019

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

	31 December 2019	31 December 2018
<b>Net profit of the financial year</b>	<b>65.979</b>	<b>79.921</b>
Deferred income tax recognized on company equity according to O.M.F.P. 2844/2016	(1.337)	(3.435)
<b>Other elements on the global result</b>	<b>(1.337)</b>	<b>(3.435)</b>
<b>Total global result of the period</b>	<b>64.642</b>	<b>76.486</b>

## INDIVIDUAL STATEMENT OF THE MODIFICATION OF COMPANY EQUITY FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019

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

	Share capital	Reserves	Deferred income tax recognized on equity	Result carried forward	Result of the period	Total equity
<b>Global result</b>						
<b>A. Balance on 1 January 2019</b>	<b>48.729</b>	<b>166.395</b>	<b>(12.195)</b>	<b>58.324</b>	<b>53.886*</b>	<b>315.139</b>
<b>Profit of the period</b>					65.979	65.979
<b>Other elements of global result</b>						
Deferred income tax recognized on the account of equity			(1.944)	607	-	(1.337)
Distribution of the profit of 2018 on the destinations decided by the shareholders in OGMS from the 19 April 2019 (Note 12)				53.886	(53.886)	-
Distribution of the profit of 2019 for the legal reserves in gross amount		11.674			(11.674)	-
<b>Total global result relating to the period</b>		<b>11.674</b>	<b>(1.944)</b>	<b>54.493</b>	<b>419</b>	<b>64.642</b>
Reserves distributed from the profit of 2018		37.437		(37.437)		-
Dividends related to 2018, paid to the shareholders				(16.449)		(16.449)
<b>Transactions with the shareholders directly recognized in equity</b>		<b>37.437</b>		<b>(53.886)</b>		<b>(16.449)</b>
<b>B. Balance on 31 December 2019</b>	<b>48.729</b>	<b>215.506</b>	<b>(14.139)</b>	<b>58.931</b>	<b>54.305**)</b>	<b>363.332</b>
<b>C. Modifications on own equity (NOTE 12)</b>	<b>0</b>	<b>49.111</b>	<b>(1.944)</b>	<b>607</b>	<b>419</b>	<b>48.193</b>

\*) The result of the prior period is 79.921 thousand lei and is influenced by allocation of the profit on the legal reserves in amount of 26.035 thousand lei.

\*\*\*) The result on 31.12.2019 is 65.979 thousand lei is influenced by the distribution of the profit on legal reserves in the amount of 11.674 thousand lei

**INDIVIDUAL STATEMENT OF THE CASH FLOWS (direct method)  
FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019**

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

	Note	31.12.2019	31.12.2019
<b>CASH FLOWS FROM OPERATIONS</b>			
collected from customers		415.074	352.279
taxes and excises recovered from State Budget		8.687	5.329
payments to suppliers and employees		(267.320)	253.029
payment of taxes, contributions and dues to State Budget		(55.294)	50.851
payment of profit tax		(11.967)	(7.275)
<b>NET CASH FROM OPERATIONS</b>	27	<b>89.180</b>	<b>46.453</b>
<b>CASH FLOWS FROM INVESTMENTS</b>			
interest collected from bank deposits set		3.358	3.057
dividends received from subsidiaries		137	202
collected from sales of property, plant and equipment		14	18
interest collected from loans granted		0	59
instalments collected from loans granted		0	5
payments for purchasing property, plant and equipment and intangible assets		(37.727)	(32.669)
<b>NET CASH FROM INVESTMENTS</b>	27	<b>(34.218)</b>	<b>(29.328)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
dividends paid but unclaimed		99	47
gross dividends paid		(15.918)	(13.658)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	27	<b>(15.819)</b>	<b>(13.658)</b>
<b>Net increase of cash and cash equivalents</b>		<b>39.143</b>	<b>3.514</b>
Cash and cash equivalents at the beginning of the period		167.545	163.886
Effect of the exchange rate variation over the cash and cash equivalents	27	674	146
<b>Cash and cash equivalents at the end of the period</b>	11	<b>207.362</b>	<b>167.545</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019

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

**NOTE 1 - DESCRIPTION OF THE COMPANY**

AEROSTAR S.A. BACAUThe company AEROSTAR was established in 1953 and acts in accordance with the Romanian law.

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

The main field of activity of AEROSTAR is production.

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

The company was registered as a shareholding company at the Bacau Trade Register (under number J04/1137/1991) with the current name "AEROSTAR" S.A. and the individual identification code 950531, the European Unique Identifier (EUID) code ROONRCJ04/1137/1991.

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

During the year 2019, there was no subscription of new shares, nor any participation certificates, convertible bonds, warranties, options or similar rights.

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

financial statements can be obtained from the headquarters of the parent company, IAROM S.A. The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended 31.12.2019.

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

The company's policy is focused on maintaining a solid capital basis in order to support the continuous development of the Company and accomplish its strategic objectives.

The company will continue to act firmly so as to ensure the sustainability of its investments and business growth.

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

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

During 2019, the company did not use loan capital, neither equity contribution from the shareholders.

**NOTE 2 - ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS****2.1. Estimates**

The preparation and presentation of the individual financial statements in accordance with IFRS requires the use of estimates, judgements and assumptions affecting the implementation of the accounting policies as well as the reported value of the assets, liabilities, revenues and expenses.

The estimates and judgements are made based on the historic experience as well as on a series of factors considered adequate and reasonable. The accounting estimates and judgements are continuously updated and are based on reasonable expectations with respect to future probable events. The reported accounting values of the assets, the liabilities that cannot be determined or obtained from other sources are based on these estimates considered adequate by the company's management.

Such estimates, as well as the reasoning and assumptions behind them are reviewed on a regular basis and the result thereof is registered in the time period when the estimate was reviewed.

Any change in accounting estimates will be recognized prospectively by its inclusion in the result:

- of the period in which the change occurs if it affects only the respective time period; or
- of the period in which the change occurs and of the subsequent periods, if the change also affects such periods.

The company uses estimates in order to determine:

- the uncertain customer and the adjustments for impairment of related receivables;
- the value of the provisions for risks and expenses to set up at the end of a time period (month, quarter, year) for litigations, for the dismantling of property, plant and equipment, for

restructuring, for collaterals granted to customers, for obligations towards manpower and other obligations;

- the adjustments for impairment of property, plant and equipment and intangible assets. At the end of each reporting period, the company estimates whether there is any impairment. If such signs are identified, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any).

- the lifetimes of property, plant and equipment and intangible fixed assets. The company reviews the estimated periods of use of the tangible and intangible fixed assets at least at the end of each financial year to determine the adequacy.

- the inventories of raw materials and materials requiring to set up adjustments for impairment.

- deferred taxes.

**Presentation of information**

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

**2.2. Errors**

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

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

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

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

- the nature of the error for the prior period;
- the value of the correction for each of the previously presented period, to the extent possible:
  - for each item - row affected from the financial statement;
  - for the basic result and diluted per share.
- the amount of the correction at the beginning of the first period, previously presented;
- if retrospective restatement is impossible for a specific prior period, the circumstances that lead to the existence of such circumstance and a description of how and since such error was corrected.

### 2.3. Changes in the accounting policies

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

The company modifies an accounting policy only if such change:

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

Applying changes in Accounting Policies:

- The entity takes into account a change in the accounting policy that results from the initial implementation of an IFRS in accordance with the specific transitory provisions, if any, of that IFRS; and

- When the entity changes an accounting policy to the initial application of an IFRS that does not include specific transitory provisions.

### Presentation of the information

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

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

When it is impossible to determine the specific effects for one or more accounting prior periods, the Company will apply the new accounting policy of assets and liabilities for the first period for which retrospective application is possible, which may also be the current period.

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

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

## NOTE 3 - ACCOUNTING AND EVALUATION PRINCIPLES

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

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

- the International Financial Reporting Standards (IFRS) adopted by the European Union;

#### ✓ *Adopting for the first time the new and reviewed standards*

- Adoption of IFRS 16 „Leases“ (into effect since 1 January 2019) together with the modifications of the International Accounting Standards, in accordance with the IFRS 16. In 2019, the company reclassified a contract previously treated as operational lease, having the scope of the right to use a certain land, in correspondance with the lease duty and the decommissioning provision. All the remaining on-going contracts entered under different derogations, therefore no reclassifications were required, the expenses with the lease payments being accounted as rent expenses.

- Adoption of IFRIC 23 „Uncertainty over Income Tax Treatments“, which entered into effect since 1 January 2019;

- Adoption of the amendments to IAS 12 „Income Taxes“, IAS 23 „Borrowing Costs“, IFRS 3 „Business Combinations“, IFRS 11 „Joint Arrangements“ (into effect since 1 January 2019);

- Adoption of the amendments to IAS 19 “Employee benefits”, in force after 01.04.2019;

These modifications did not have a significant impact on AEROSTAR's financial statements.

#### ✓ *Standards (Modifications to Standards) and interpretations adopted by the Committee for the International Accounting Standards and by the European Union through the Regulations issued but not yet in effect:*

- Modifications of the International Accounting Standards 1, 8, 34, 37 and 38 of the International Financial Reporting Standards 2, 3 and 6 and of the Interpretations 12, 19, 20, 22 and 32 which shall enter into effect starting with the financial year 2020;

- Modifications of the Standards IAS 1 and IAS 8 which shall enter into effect in 01.01.2020.

The company evaluates the potential effects of the new Standards

and amendments to the International Financial Accounting Standards and according to the initial estimates, the company provides that these will not significantly impact on its financial statements.

- Accounting Law no. 82/1991, republished, as subsequently amended and supplemented;

- O.M.F.P. no. 881/2012 on the application of International Financial Reporting Standards by companies whose securities are admitted for trade on a regular market;

- O.M.F.P. no. 2.844/2016 on the approval of the Accounting Regulations conforming to the International Financial Reporting Standards;

- O.M.F.P. no. 2.861/2009 for the approval of the Norms regarding the organization and execution of the inventories of elements such as assets, debts and company capitals;

- O.M.F.P. no. 1.826/2003 on the approval of the explanatory notes regarding some measures for the accounts management and control;

- O.M.F.P. no. 2.634/2015 regarding the financial accounting documents, including subsequent amendments and additions.

Accounting is kept in Romanian and in the national currency.

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

The financial year is the calendar year.

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

The financial statements are prepared based on historical cost.

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

### 3.2. Applied Accounting Policies

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

The most significant accounting policies are presented below:

#### • Accounting Policies regarding property, plant and equipment

The Company decided to use the cost-based model as accounting policy. After recognition as an asset, the **property, plant and equipment** are accounted at their cost less aggregate impairment and any aggregate impairment losses.

The depreciated cost is allocated systematically over the useful life of the asset and represents the cost of the asset less the residual value.

Taking into account the specific activity and the types of property, plant and equipment in the patrimony of the company, it was considered that the residual values of the property, plant and equipment are insignificant. Practically, the residual value was calculated at the level of metal waste that may be capitalized after deduction of dismantling, disassembly and sales expenses.

The impairment methods and useful life, are reviewed at least at the end of each financial year and are appropriately adjusted. The useful lifetimes are determined by the commission made up of company's specialists. Any changes are accounted prospectively.

Subsequent expenditures related to property, plant and equipment are added to the net value of the good, when:

- their effect is the improvement of the initial technical parameters;
- they are the sources of future economic benefits materialized into cash-flows supplementary to the initial estimates; and
- can be reliably assessed.

The benefits are realized directly through the increase of revenues and indirectly through reducing maintenance and operating expenses.

All other repair and maintenance expenses performed to ensure the continued use of the property, plant and equipment are recognized in the profit or loss when such expenses are made. These are performed in order to keep the initial technical parameters.

The spare parts are generally accounted for as inventories and recognized as expense when consumed. If the spare parts and service equipment, with significant values, may only be used in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment if the initial acquisition cost (upon commissioning) of the replaced part can be determined.

To decide whether the recognition is done separately, on separate components, each case is reviewed using professional reasoning.

The tangible immobilizations in progress which are to be used in production or in administrative activities are presented in the statement of the financial position on a cost basis, less any loss accumulated from impairment. Such assets are classified in the respective asset classes when they are completed and ready for use in the manner desired by the management, for the intended purpose.

The management of the company has set the level for the capitalization of assets at 2.500 lei. All purchases below this amount will be considered as expenses of the period.

**Exceptions:** Computers are considered to be impaired property, plant and equipment, irrespective of their input value and will depreciate over the expected useful life set by the reception committee. Also, work tools and devices are also accounted for as inventories and recognized as expenses of the period when consumed, irrespective of their initial value, taking into account that they have a useful lifetime less than a year, as well as their degree of specialization (intended to be used for a particular type of product/ service).

In case of internally generated **intangible assets**, the phases of

the production are clearly separated, namely:

• *The research phase.* The search costs are treated as expenses of the period;

• *The development phase.* The development costs are registered as an intangible asset, if the following conditions are demonstrated:

- the technical feasibility of completing the asset, so that it is available for use or sale;
- the availability of adequate resources-technical, financial, manpower - to complete the development;
- the intention to complete and use or sell the intangible asset;
- the ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the ability to assess costs.

If the company cannot distinguish between the research phase and the development phase of an internal project to create an intangible asset, the company treats the costs of the project as being exclusively incurred during the research phase.

The company decided on the accounting policy of the cost model which requires that the intangible assets to be valued at their net asset value, equal to their cost, except the accumulated impairment and any impairment losses, for such assets.

An **investment property** is initially valued according to its cost, including any other directly attributable expenses. After the initial recognition, the company has opted for the cost model for all its investments property in accordance with the provisions of IAS 16 for that model.

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

The transfers between categories do not change the accounting value of transferred property and do not change the cost of that property for the purpose of evaluation or presenting the information.

The investment property is amortized according to the same rules as for the property, plant and equipment.

The category of **financial assets** comprises:

- Shares held in affiliated companies.
  - Other property, plant and equipment.
  - Long-term loans as well as interest on them. In this category are included the amounts granted to third parties based on interest-rate contracts, according to the law.
  - Other fixed receivables as well as the interest related to them.
- This category includes collaterals, deposits and bills placed with third parties, receivables related to financial lease contracts.
- The long-term financial assets recognized as an asset are measured at the cost of acquisition or at the amount set in their acquisition contract.

The long-term financial assets are presented in the statement of the financial position at the incoming value, less any recognized impairment losses.

#### • Accounting policies on inventories items

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

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

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

Periodically, the management of the company approves the level of normal technological losses.

The inventory is kept according to quantity and value, by applying the permanent inventory method.

The value adjustments are made for the current assets such as the inventories, upon each reporting period, based on the duration of inventories, the findings of the inventories commissions and/ or of the business modules management, for the presentation of assets at the lowest value between cost and net achievable value.

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

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

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

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

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

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

A liability is classified as a short-term liability, also called current liability when:

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

All other liabilities are classified as long-term liabilities.

Liabilities that are payable over a term longer than 12 months are long-term liabilities.

Liabilities due within 12 months of the date of the financial statements are also considered long-term, interest-bearing liabilities if:

- a) the initial term was for a period longer than 12 months; and
- b) there is a refinancing or rescheduling agreement that is concluded before the date of the financial statements.

• **Accounting policies on company's receivables**

Receivables include:

- trade receivables, which are amounts owed by customers for goods sold or services supplied in the normal course of the activity;
- commercial revenue (effects) to be collected, third party instruments;
- amounts owed by the employees or affiliated companies
- advance payments to the suppliers of property, plant and equipment, of goods and services;
- receivables related to manpower and state budget.

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

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

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

Receivables in foreign currencies, which are the result of the company's transaction, are recorded both in RON, as well as in foreign currency.

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

Impairment of receivables with prescribed collection deadlines is performed only after all legal steps have been taken, for their settlement.

The uncertain receivables are recorded separately in the account 4118 Uncertain customers when the payment term stipulated in the contract has exceeded by more than 30 days or there is a dispute with the customer.

In the annual financial statements, receivables are valued and presented in the value which is likely to receive.

When a receivable from a customer was not collected in full at the payment term stipulated in the contract, there are recorded impairment adjustments to the terms and percentages approved by the Board of Directors in the Accounting Policy Manual.

• **Accounting Policies for Revenue Recognition**

In the revenue-related category are included both the revenues received or to be received in own name, as well as gains from any source.

Revenues are classified as follows:

- ✓ revenues from operations;
- ✓ financial revenues.

The revenue is recognized on the accrual accounting basis.

The revenue is evaluated at the fair value of the countervalue received or which can be received. The sales revenue is diminished for returns, commercial reductions and other similar discounts.

Revenues from operations include:

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

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

- the company transferred to the buyer the control on the goods in question;
- the company does not retain the continuous managerial involvement to the level usually associated with the ownership or the actual control over the sold goods;
- the amount of revenue can be accurately assessed;
- the economic benefits associated with the transaction are likely to be directed to the entity;
- the costs incurred or to be incurred in connection with the transaction can be precisely measured.

Specifically, the income from the sale of goods are recognized when the company transferred to the buyer the control on the goods in question.

**Revenues from rendering of services**

The contracts for the supply of services in the company's portfolio are usually contracts with execution at a specific time, which coincides with the delivery of goods subject to the rendering of services.

As a result, the revenues from the rendering of services are registered when the following conditions are met:

- the company transferred to the customer the control over the services rendered;
- the amount of the revenue can be accurately measured;
- it is probable that the economic benefits associated with the transaction will be directed to the entity;

If the result cannot be estimated, the revenue is recognized up to the recoverable amount.

The **rental revenues** from property investments are recognized in the profit or loss account on a straight-line basis over the period of the lease.

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

The **interest revenues** are recognized in the profit or loss statement on an accrual basis using the effective interest method. The interest revenues generated by a financial asset are recognized when it is probable that the company will obtain an economic benefit and when that revenue can be measured accurately.

The **dividend revenues** generated by investments are recognized when the shareholder's right to receive payment is determined. The company records dividend revenues at the gross amount that includes dividend tax (when it is the case), which is recognized as income tax expense.

• **Accounting policies for provisions**

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

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

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019 (unless specified otherwise, all amounts are stated in thousand lei)

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

### Provisions for collaterals

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

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

### Provisions for risk and expenses

When identifying risks and expenses that the events that occur or are occurring make them probable and whose object is determined with certainty but whose realization is uncertain, the company hedges these risks by making provisions.

The provisions for risks and expense are constituted for items such as litigations, fines, penalties, compensations, damages and other uncertainties.

### Provisions for the decommissioning of property, plant and equipment

When the initial recognition of a property, plant and equipment is estimated, the cost of dismantling, removing the item and restoring the site where it is located, as a consequential cost of using the item over a certain period of time.

These consequential costs are reflected by the constitution of a provision that is recorded in the income statement during the lifetime of the property, plant and equipment, by including it in the impairment expense.

The revision of the estimates for the decommissioning and restoration provision is determined by the annual review of the dismantling costs. The Committee of specialists from the company, appointed by decision, establishes, on a regular basis, whether the initial estimates of dismantling costs are appropriate.

### Provisions for the employees' benefits

Are recognised for the benefits of the employees granted in accordance with the applicable Collective Labour Agreement, only if:

- the entity has the legal and constructive obligation to make such payments as an outcome of past events; and
- can be achieved a reliable estimate of the obligation.

The provisions are reanalysed at the end of each reporting period, in order to present the most appropriate current estimation.

### Accounting Policies on grants and other non-reimbursable funds

The subsidies are distinctly reflected:

- government grants;
- non-refundable subsidies in the form of grants;
- other amounts received in the form of grants.

Grants are recognized at their approved value. Grants received as non-monetary assets are recognized at fair value.

Government grants are initially recorded as deferred revenue at fair value when there is reasonable assurance that it will be received and the Company will respect the conditions associated with the grant.

Grants that compensate the Company for the expenditures incurred are systematically recorded in the income statement, in the same periods in which expenses are recorded. Grants that compensate the company for the cost of an asset are recorded on a systematic basis in the income statement over the entire lifetime of the asset.

Grants related to income are recorded on a systematic basis as revenues from the periods corresponding to the related expenditures that these grants are to compensate.

In case that, during a specific period, a grant is received for expenses that have not yet been incurred, the subsidies received do not represent income for that current period. They are recognized in the accrual accounting as advance income and are resumed in the income account as the incurred expenses compensate the surplus.

### Accounting policies for the production of goods and services

The accounts management in Aerostar is based on the applicable legal provisions and the manual of procedures and work instructions specific to the management accounting, adapted to the specific activity of the Company.

The management accounting consists of:

- collecting direct, indirect and ancillary costs by their nature;
- indirect cost allocation;
- direct and indirect costs deduction.

The purpose of the management accounting is principally to determine the result on production orders or services and on each organizational structure.

According to the accounts regulations, the following items are recognized in the cost of goods, works and services that are recognized as expenses of the period in which they occurred:

- a) material losses, labour or other production costs related to scrap and undercapacity load work costs;
- b) general administration expenses.

The calculation method used in Aerostar is the method based on orders.

This method is suitable for individual and serial production. The object of record and calculate the cost within this method is the order launched for a certain quantity (batch) of products.

The production costs are collected directly on each order (those that are direct) or by distribution (the indirect ones).

The actual cost per unitary product are calculated upon completion of the order by dividing the production costs collected from the respective order to the quantity of products produced on the order.

The orders are launched at a planned price, as applicable.

In case of orders related to export sales the price is expressed in RON by converting the currency to the budgeted foreign exchange rate.

In applying the accounting policies, the Company issues procedures, instructions and work dispositions approved by the executive management.

## NOTE 4 – TRANSACTIONS IN FOREIGN CURRENCIES

AEROSTAR considers the Romanian LEU as the functional currency and the financial statements are presented in thousand LEI.

The currency transactions are recorded at the exchange rate of the functional currency at the date of the transaction.

At the end of the Financial Position Statement, the assets and financial liabilities denominated in foreign currency are evaluated in the functional currency using the exchange rate, communicated by the Romanian National Bank, valid on that date:

Currency	31.12.2019
EUR (Euro)	4.7793
USD (American Dollar)	4.2608
GBP (British pound)	5.6088

The favourable and unfavourable exchange rates differences which result from the settlement of the assets and financial liabilities denominated in foreign currency are recognized in the Profit or Loss Statement for the financial year in which they occur.

Considering that 79% from the turnover registered in the reporting period is denominated in USD and EUR, while a significant part of the operating costs is denominated in LEI, the foreign exchange rates variations will affect both its net incomes as well as the financial position as expressed in the functional currency.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

In the reporting period the net currency exposure resulted as a difference between the amounts collected from the financial assets and the payment of the financial liabilities denominated in that currency are presented as follows:

Year 2019	thousand EUR	thousand USD	thousand GBP
Collected from financial assets	22.003	50.563	0
Payments of financial liabilities	(11.637)	(16.880)	(595)
<b>Net foreign currency exposure</b>	<b>10.366</b>	<b>33.683</b>	<b>(595)</b>

In the reporting period, the quarterly variation of the foreign exchange rate USD/LEU with:

+2,25% in 1st quarter 2019 in comparison with 31.12.2018  
(0,40%) in 2nd quarter 2019 in comparison with 31.03.2019  
+2,27% in 3rd quarter 2019 in comparison with 30.06.2019  
(1,00%) in quarter IV 2019 in comparison with 30.09.2019  
and  
EUR/LEU:

+1.50% in 1st quarter 2019 in comparison with 31.12.2018  
(0,30%) in 2nd quarter 2019 in comparison with 31.03.2019  
(0,10%) in 3rd quarter 2019 in comparison with 30.06.2019  
+0,30% in quarter IV 2019 in comparison with 30.09.2019  
has determined the registration of a financial profit from favourable exchange rate differences of 1.534 thousand LEI.

## NOTE 5 - INTANGIBLE ASSETS

	31 December 2019			01 January 2019		
	Gross values	Depreciation/ Impairment	Net accounting value	Gross value	Depreciation/ Impairment	Net accounting value
Capitalized development costs	41	(41)	0	152	(152)	0
Licences/Trade marks	5.308	(4.597)	711	4.902	(3.926)	976
Other intangible assets	1.808	(1.631)	177	1.413	(1.346)	67
<b>Total</b>	<b>7.157</b>	<b>(6.269)</b>	<b>888</b>	<b>6.467</b>	<b>(5.424)</b>	<b>1.043</b>

### Net accounting value

	Balance on 1 January 2019	Increase	Reclassification	Disposals	Depreciation/ Impairment during the period	Balance on 30 December 2019
Capitalized development costs	0	41	0	0	(41)	0
Licences	976	405	0	0	(670)	711
Other intangible assets	67	395	0	0	(285)	177
<b>Total</b>	<b>1.043</b>	<b>841</b>	<b>0</b>	<b>0</b>	<b>(996)</b>	<b>888</b>

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

- Development expenses
- Licences
- Other intangible assets

The software programmes are registered in other intangible assets.

The estimated useful lifetimes of intangible assets are established in years.

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

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

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

The intangible assets in the balance sheet account as on 31.12.2019 are not depreciated and no adjustments were made for the depreciation thereof.

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

The value of the completely amortized software licenses on 31 December 2019 and which are still in use is 2.252 thousand lei.

All the intangible assets recorded in the balance sheet as on 31 December 2019 are property of AEROSTAR.

Increases in gross values of intangible assets were 841 thousand lei, from which:

- development of the IT management system of production: 395 thousand lei
- purchasing of software licences 405 thousand lei.

In the reporting period there were no entering of licences generated internally or acquired through business combinations.

In the reporting period there were no assets classified as held for sale in accordance with IFRS 5.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

## NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

The Property, plant and equipment on 31 December 2019 and 01 January 2019 comprise the following:

	31 Decembrie 2019			01 Ianuarie 2019		
	Gross values	Depreciation	Net accounting value	Gross values	Depreciation	Net accounting value
Land	28.401	0	28.401	28.401	0	28.401
Constructions	58.880	(21.429)	37.451	55.736	(16.922)	38.814
Technological equipment and transport	163.101	(89.875)	73.226	149.601	(70.623)	78.978
Other equipment and office equipment	2.239	(758)	1.481	1.348	(466)	882
Investment property	10.644	(2.963)	7.681	10.260	(2.330)	7.930
Property, plant and eqpt under construction	16.986	0	16.986	687	-	687
<b>Total</b>	<b>280.251</b>	<b>(115.025)</b>	<b>165.226</b>	<b>246.033</b>	<b>(90.341)</b>	<b>155.692</b>

### Net accounting value

	Balance on 1 January 2019	Increase	Reclassification	Disposal/ Transfer	Depreciation	Balance on 31 December 2019
Land	28.401	0	0	0	0	28.401
Constructions	38.814	3.253	(108)	0	(4.508)	37.451
Technological equipment and transport	78.978	13.746	0	(10)	(19.488)	73.226
Other equipment and office equipment	882	910	0	0	(311)	1.481
Investment property	7.930	277	108	0	(634)	7.681
Property, plant and eqpt under construction	687	34.485	0	(18.186)	0	16.986
<b>Total</b>	<b>155.692</b>	<b>52.671</b>	<b>0</b>	<b>(18.196)</b>	<b>(24.941)</b>	<b>165.226</b>

The Property, Plant and Equipment are evaluated at their acquisition or production costs minus cumulative depreciation and the impairment losses.

These items are amortized by the Company using the linear method.

Depreciation expenses are recognised in the profit and loss statement.

The following useful lives are assumed:

- constructions	30-50 years
- technological equipment	4-25 years
- vehicles	4-18 years
- other property, plant and equipment	2-18 years
- investment property	25-50 years

The useful lives are established by committees formed by Company's specialists. The useful lifetimes of the Property, Plant and Equipment were reviewed at September 2019.

The fiscal useful lives of the Property, Plant and Equipment are stipulated by the fiscal legislation on assets.

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

The investment property contains a number of 12 units – buildings which are rented to third parties based on renting contracts.

The value of renting income for this category of immobilizations in 2019 was of 2.301 thousand lei (2018: 1.991 thousand lei).

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

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

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

to operate as wanted by the management) and ends on the day when the asset is reclassified in another category or when it is derecognized.

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

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

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

In accordance with the provisions of IAS 36 - Impairment of assets, the company proceeded to the identification of any signs of impairment of Property, Plant and Equipment, taking into consideration external and internal sources of information.

External source of information

The market value of the company (market capitalization) registered a 10% increase at 31 December 2019 (814.684 thousand lei) in comparison with 31 December 2018 (738.546 thousand lei).

The indicator which offers information regarding the interest from the investors in the company listed on the capital market is the market capitalization reported to company equity (MBR).

AEROSTAR continues in 2019 also, to register a very good value of the indicator, obtained by the well-rated companies on the capital market which present interest from the investors.

indicator	MBR-Market to book ratio	31.12.2019	31.12.2018
Stock exchange capitalization/ company equity		2,2	2,3

Internal source of information:

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

- in the reporting period no changes occurred with adverse effects on the extent and manner in which the assets are used. The rotation of immobilizations (Turnover/Property, Plant and Equipment – indicator monthly monitored) was 2,38 rotations, slightly over the level in 2018 (2,25 rotations).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

In conclusion, the Property, Plant and Equipment in the balance sheet on 31.12.2019 are not depreciated and no significant depreciation indicators were identified.

The gross accounting value of the fully depreciated Property, Plant and Equipment which were still in operation on 31 December 2019 is of 10.806 thousand lei.

On 31.12.2019 no mortgages were set on property assets in AEROSTAR ownership.

**Increases in gross values of the Property, Plant and Equipment, achieved by:** **52.671**

- acquisition of technical equipment, hardware equipment, measuring and control equipment, modernization of buildings, etc 18.186
- investments performed in 2019 34.485

**Reclassifications, by:**

- the transfer of the immobilizations in progress under Property, Plant and Equipment 108

**Decreases in gross values of Property, Plant and Equipment, achieved by:** **18.196**

- the transfer of the immobilizations in progress into Property, Plant and Equipment following their commissioning; 18.186
- derecognition of certain Property, Plant and Equipment, due to the fact that the company no longer expects future economic benefits from their use; 10

## NOTE 7- FINANCIAL ASSETS

	Shares held in affiliated entities	Other immobilized securities	Other immobilized receivables - supplier bonds	Total
<b>La 1 ianuarie 2019</b>	<b>14</b>	<b>92</b>	<b>34</b>	<b>140</b>
<b>Creșteri/ Reduceri</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>4</b>
<b>La 31 decembrie 2019</b>	<b>14</b>	<b>92</b>	<b>38</b>	<b>144</b>

Details of the entity's investments at 31.12.2019 in other companies are the following:

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

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

In 2019, the company contributions did not change, i.e. no increases/decreases as to the shareholding percentage, maintaining the same influence as in 2018.

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

## NOTE 8 - TRADE RECEIVABLES

	31 December 2019	31 December 2018
<b>TRADE RECEIVABLES OF WHICH:</b>		
<b>Customers, of which:</b>	<b>61.938</b>	<b>54.909</b>
Domestic customers	15.880	9.735
Foreign customers	44.734	45.174
Customers - invoices to compile	1.324	-
<b>Uncertain customers</b>	<b>1.343</b>	<b>32</b>
<b>Adjustments for impairment of receivables - customers</b>	<b>(807)</b>	<b>(16)</b>
<b>Suppliers – debtors</b>	<b>10.895</b>	<b>10.559</b>
<b>Adjustments for the impairment of receivables -advances granted to customers</b>	<b>(57)</b>	<b>-</b>
<b>Effects to receive from customers</b>	<b>0</b>	<b>161</b>
<b>TOTAL TRADE RECEIVABLES</b>	<b>73.312</b>	<b>65.645</b>

In accordance with the provisions from the accounting policies manual, to cover the non-recovery risk of the amounts that represent the uncertain trade receivables, the company registers adjustments for the depreciation of the uncertain customers as

follows:

- in percentage of 50% from the value of the receivables not collected on time if the due date is between 30 days and 180 days. At 31 December 2019, the company registered adjustments for depreciation of this nature in the amount of 536 thousand lei;

- in percentage of 50% from the value of the receivables not collected, having no receivables with due date exceeding 180 days. At 31 December 2019, the company registered adjustments for depreciation of this nature in the amount of 271 thousand lei.

Also, the company registered adjustments for depreciation of the advances granted to the suppliers in amount of 57 thousand lei. When determining the recoverability of a trade receivable, the changes considered were those occurred in the customer's credit rating from the credit date when granted till the reporting date. Debtors-suppliers have a discount limit in the year 2020.

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania to close the month of December 2019.

The favourable and unfavourable exchange rates differences between the exchange market rate, to which are accounted the receivables in currency, and the market exchange rate communicated by the National Bank of Romania available for the end of 30 December 2019, were recorded in the related income or expense account.

## NOTE 9 - OTHER RECEIVABLES

	31 December 2019	31 December 2018
<b>Receivables related to manpower and similar accounts</b>	<b>21</b>	<b>8</b>
<b>Receivables related to the budget of social insurance and the state budget, of which:</b>	<b>4.937</b>	<b>2.416</b>
-VAT to be recovered	3.908	958
-Non-chargeable VAT	48	49
- Amounts to recover from the National Health System (allowances on medical leaves)	467	488
- Excise duty to recover related to the fuel used	427	826
- Operating subsidies to collect	61	72
- Other taxes	14	19
- Other receivables related to social insurance budget and the State budget	12	4
<b>Interest to receive from bank deposits</b>	<b>324</b>	<b>156</b>
<b>Diverse debtors</b>	<b>170</b>	<b>252</b>
<b>Adjustments for the depreciation of the receivables – diverse debtors</b>	<b>(113)</b>	<b>(102)</b>
<b>Other receivables</b>	<b>-</b>	<b>1</b>
<b>TOTAL OTHER RECEIVABLES</b>	<b>5.339</b>	<b>2.731</b>

To cover the risk of non-recovery of the amounts representing certain categories of receivables– diverse debtors, the company registered adjustments for impairment of diverse debtors in amount of 113 thousand lei.

## NOTE 10 - INVENTORIES

	31 December 2019	31 December 2018
<b>of which:</b>		
Raw materials *	27.088	18.446
Consumables **	35.847	32.621
Other materials	147	78
Semi-finished/ Forgings	1.907	1.907
Packaging	26	19
Finished products	19.993	25.624
Products and services in progress	34.392	23.446
<b>Gross value of the inventories (unadjusted)</b>	<b>119.400</b>	<b>102.141</b>

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

### Adjustments for impairment of inventories and production in progress

	31 December 2018	Increases/ Set-up	Decreases/ Resumed	31 December 2019
<b>Total adjustments</b>	<b>19.774</b>	<b>17.844</b>	<b>5.084</b>	<b>32.534</b>
Adjustments for impairment of raw materials	6.307	5.436	823	10.920
Adjustments for impairment of consumables	10.087	4.262	1.424	12.925
Adjustments for impairment of other consumables	4	4	1	7
Adjustments for impairment of production in progress	1.119	7.747	2.670	6.196
Adjustments for impairment of semi- finished	1.907	0	0	1.907
Adjustments for impairment of finished products	350	384	166	568
Adjustments for impairment of packaging	0	11	0	11

**Note:**

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

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

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

The net achievable value is the estimated sale price for inventories minus all estimated costs for completion and the estimated costs required for the sale.

The cost of inventories includes: acquisition costs, conversion costs

as well as other costs incurred to bring inventories to the state and in the place where they are currently found.

Adjustments of their value are made regularly based on the findings of the inventory commissions and/ or the managers of the production modules in order to present them at the lowest value between the cost and the net achievable value.

Within the Company, the goods which are considered to be depreciated are those that are older than the storage period established by internal decision of the Board of Directors.

The total value of inventories recognized as an expense during the period is of 121.017 thousand lei.

AEROSTAR holds inventories of finished products (buffer) at the levels contractually agreed with the customers.

AEROSTAR has no pledged inventories.

### NOTE 11 - CASH AND CASH EQUIVALENTS

At the end of the reporting period the cash and cash equivalents consisted in:

	31.12.2019	31.12.2018
Cash	31.646	9.931
Bank deposits	175.716	157.614
Exchange bills and trade effects to collect	0	0
<b>Cash and cash equivalents in the cash-flow statement</b>	<b>207.362</b>	<b>167.545</b>

The cash contains the current cash available at cashier's desk and in banks;

The cash equivalents comprise:

- short-terms bank deposits
- exchange bills and trade effects (promissory notes) submitted to banks for collection.

The treasury balance is influenced by the prepaid amounts received from the customers.

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

The value of bank Credit facilities, usable as an overdraft, available for future operations, is of 2.500 thousand USD (10.652 thousand lei).

### NOTE 12 – COMPANY EQUITY

The company equity at 31 December 2019 is 363.332 thousand lei.

The net increase of the equity in 2019 in comparison with 2018 was 48.193 thousand lei.

**The modifications of the main elements of the company equity incurred in 2019 in comparison with 2018 are the following:**

- **The share capital remained unchanged**

On 31 December 2019, the share capital of AEROSTAR SA is 48.728.784 lei, divided in 152.277.450 shares having each a nominal value of 0,32 lei.

The structure of the company's shareholding at 31.12.2019 is the following:

	Number of shares held *)	Participation held (% from share capital)
<b>Shareholder</b>		
IAROM S.A. Bucharest	108.672.786	71,3650 %
SIF MOLDOVA Bacau	22.919.887	15,0514 %
Other shareholders	20.684.777	13,5836 %
<b>Total</b>	<b>152.277.450</b>	<b>100,00 %</b>

\*) Source of information: Depozitarul Central dd 31.12.2019 (Bucharest Stock Exchange website)

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019 (unless specified otherwise, all amounts are stated in thousand lei)

• **The reserves increased with 49.111 thousand lei on account of:**

- the distribution to reserves of the reinvested profit related to 2019 in gross amount of 11.674 thousand lei;
- the distribution to reserves of the amount of 37.437 thousand lei related to the financial year 2018.

• **Other capital elements have increased with the amount of 1.944 thousand lei** on account of the deferred income tax recognized in company equity.

• **The result carried-forward increased with 607 thousand lei** on the account of the equity.

The balance of the result carried-forward account at 31 December 2019, is of 58.931 thousand lei, comprising:

- the result carried forward coming from the use, on the date of the transition to IFRS, of the fair value as presumed cost = 32.223 thousand lei;
- the result carried-forward representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets were amortized = 26.708 thousand lei;

• **The result of the period was of 65.979 thousand lei.**

### NOTA 13 - PROVISIONS

	31 December 2018	Increases/ Set-up/ Reclassification of provisions	Reductions/ Resumed/ Reclassification of provisions	Differences from revaluation	31 December 2019
<b>Total provisions</b>	<b>112.551</b>	<b>22.149</b>	<b>(17.792)</b>	<b>2.111</b>	<b>119.019</b>
Provisions for bonds granted to customers	39.584	16.725	(12.889)	969	44.389
Provisions for decommissioning property, plant and equipment	16.115	270	(1)	0	16.384
Provisions for the employee benefits	4.438	5.154	(4.415)	0	5.177
Provisions for litigations	5.123	0	(9)	115	5.229
Other provisions	47.291	0	(478)	1.027	47.840
<b>- of which:</b>					
<b>Long-term provisions</b>	<b>95.796</b>	<b>6.733</b>	<b>(7.184)</b>	<b>2.106</b>	<b>97.451</b>
Provisions for bonds granted to customers	27.267	6.463	(6.696)	964	27.998
Provisions for decommissioning property, plant and equipment	16.115	270	(1)	0	16.384
Provisions for litigations	5.123	0	(9)	115	5.229
Other provisions	47.291	0	(478)	1.027	47.840
<b>Short-term provisions</b>	<b>16.755</b>	<b>15.416</b>	<b>(10.608)</b>	<b>5</b>	<b>21.568</b>
Provisions for bonds granted to customers	12.317	10.262	(6.193)	5	16.391
Provisions for employee benefits	4.438	5.154	(4.415)	0	5.177

#### Provisions set up for guarantees granted to customers

Provisions set up for bonds granted to customers are made to cover the non-conformance risks of the products sold and the services performed, in accordance with the contractual provisions.

#### Provisions for decommissioning the Property, Plant and Equipment

Provision for decommissioning of property, especially buildings, are formed to cover the decommissioning costs, of removal of the elements and restoration of the locations in which are placed and included in their cost. The value was estimated using an update annual rate of 4,5%.

#### Provisions for benefits granted to employees

The provisions for benefits granted to employees are set for the bonus granted according to the clauses of the applicable Collective Labour Agreement (bonus for the end of the financial year, for the end of the production year, for performance) and for the annual holidays leave not taken by the employees in the previous year. The provisions related to the bonus for the end of the financial year 2019, for performance in 2019 and the annual holidays leave not taken by the employees during 2018 and 2019 are found in the balance.

#### Provisions for litigations

Provisions for litigations on 31.12.2019 are set for probable indemnities payable by the company to a former employee.

The provisions are reanalysed at the end of each reporting period and are adjusted in order to reflect the best estimation of the probable payments.

#### Other provisions

In *Other provisions* category are found the provisions set for:

– covering of risks specific to the aviation industry, such as: risk of hidden defects, risk of discovering quality incidents which can cause damage.

– coverage of some expenses regarding the Company's obligations towards A.J.O.F.M., based on O.U.G. 95/2002.

## NOTE 14 - SUBSIDIES

### Subsidies related to assets

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

	31.12.2019	31.12.2018
Balance on 1 January, from which:	10.239	12.677
<b>Subsidies related to the assets received</b>	<b>10.214</b>	<b>12.649</b>
Surplus in inventories in the category of immobilizations	25	28
<b>Subsidies registered in income corresponding to the calculated amortization</b>	<b>(2.304)</b>	<b>(2.438)</b>
Balance on 31 December, from which:	7.935	10.239
<b>Subsidies related to the assets received</b>	<b>7.914</b>	<b>10.214</b>
Surplus in inventories in the category of immobilizations	21	25

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

- Contract no. 210304/22.04.2010: 'Extension of the manufacturing and assembly capacities for aerostructures for civil aviation', performed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 5.468 thousand lei;
- Contract no. 229226/14.06.2012: 'Set-up of a new manufacturing capacity for diversifying production and export growth', performed between June 2012 and May 2014, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 6.011 thousand lei;
- Contract no. 5IM/013/24.03.2015: 'Consolidation and sustainable development of the mechanical processing and

painting sectors by high performance investments', carried out between March to December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being of 8.299 thousand lei;

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

The balance of 7.914 thousand lei registered on 31 December 2019 represents the subsidies related to investments in immobilized assets which are to be recorded as income while the calculated amortization is registered as a cost, structured on the 3 contracts as follows:

- contract no. 210304/22.04.2010: 1.525 thousand lei
- contract no. 229226/14.06.2012: 1.684 thousand lei
- contract no. 5IM/013/24.03.2015: 4.705 thousand lei

## NOTE 15 - COMMERCIAL DEBTS

	31 December 2019	31 December 2018
<b>Prepaid amounts collected on customers' account, of which:</b>	<b>6.709</b>	<b>2.264</b>
Domestic customers-creditors	69	69
Foreign customers-creditors	6.640	2.195
<b>Suppliers, of which:</b>	<b>19.805</b>	<b>18.933</b>
Domestic suppliers	6.792	5.545
Foreign suppliers	10.874	10.023
Suppliers-invoices not arrived	1.436	1.956
Suppliers of non-current assets	703	1.409
<b>Commercial effects to pay</b>	<b>255</b>	<b>-</b>
<b>Total commercial debts</b>	<b>26.769</b>	<b>21.197</b>

The payments in advance collected from the customers are for maintenance and aircraft work (85%) and for manufacturing of aviation parts (15%), with settlement date in 2020.

For the debts registered no mortgages were established.

The favourable or unfavourable exchange rate differences between the market exchange rate to which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for closing the month of December 2019, were registered in the corresponding accounts of revenues or expenses.

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## NOTE 16 – OTHER LIABILITIES

	31 December 2019	31 December 2018
<b>Other current liabilities, of which:</b>	<b>16.061</b>	<b>9.218</b>
• <b>Liabilities related to manpower and similar accounts</b>	<b>3.174</b>	<b>2.566</b>
• <b>Liabilities related to social security budget and state budget, of which:</b>	<b>9.687</b>	<b>4.709</b>
- VAT payable	5.506	1.165
- social insurance	3.064	2.604
- Labour safety contribution	194	166
- tax on salary type revenues	582	488
- contribution for disabled people, unemployed	142	128
- other taxes	157	124
- other social liabilities	42	34
• <b>Other liabilities, of which:</b>	<b>3.200</b>	<b>1.943</b>
- dividends	1.848	1.711
- diverse creditors	554	147
- warranties received	748	85
- liabilities and tax related to the right of use leasing assets	50	-
<b>Other long-term liabilities</b>	<b>2.325</b>	<b>45</b>

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

- the liability regarding the right of use of the land leased for the Maintenance Hangar from Iasi (1.493 thousand lei) and the tax related to the right of use (799 thousand lei) registered after the reclassification of the lease agreement of the property from Iasi, 34, Moara de Vant Street, in leasing agreement, according to IFRS 16, *Leases*; and

- warranties received (33 thousand lei).

Dividends in balance at 31 December 2019, in amount of 1.848 thousand lei represent:

- 748 thousand lei, amount to be paid by AEROSTAR for the

dividends related to 2018 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);

- 563 thousand lei, amount to be paid by AEROSTAR for the dividends from 2017 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);

- 537 thousand lei, amount to be paid by AEROSTAR for the dividends from 2016 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR).

## NOTE 17 - THE DEFERRED PROFIT TAX

The **deferred tax** is determined for the temporary differences which occur between the tax base of the assets and liabilities and their accounting basis. The deferred tax is calculated at a tax rate of 16% applicable to the temporary differences when resumed.

The Company estimated and registered liabilities regarding the deferred tax related to non-current assets (which results from

**The structure of deferred income tax registered on 31.12.2019 is:**

### Liabilities from deferred tax

1. Liabilities related to deferred tax generated by the differences between accounting bases (bigger) and the fiscal ones (smaller) of the non-current assets	2.267
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities on deferred tax related to reserves from the fiscal facility	13.429
4. Liabilities on deferred tax related to the reported result representing a surplus from revaluation reserves	61

**Total liabilities from deferred tax** **17.316**

### Receivables on deferred tax

1. Receivables on deferred tax related to other provisions set in 2010	849
2. Receivables on deferred tax related to provisions for bonds granted to customers set between 2014-2019	7.102
3. Receivables on deferred tax related to provisions for manpower benefits	828
4. Receivables on deferred tax related to the adjustments for depreciation of the inventories	5.205

**Total receivables on deferred tax** **13.984**

The Company did not recognize receivables on deferred tax related to other provisions for the aviation industry risks due to an uncertainty regarding the fiscal deductibility of the expenses which may occur from the settlement of the obligations arising in the future periods.

differences between accounting and fiscal values, the different useful life, s.o.) and of the reserves and recognized receivables regarding the deferred tax related to the inventories, which were adjusted for depreciation, provisions for customer bonds, provisions for benefits granted to the employees and other provisions.

Therefore, the differences between the tax base and the accounting base would be null.

In 2019, the company has registered income from tax on deferred profit in the amount of 6.026 thousand lei and expenses with tax on deferred profit in amount of 3.098 thousand lei.

## NOTE 18 - FINANCIAL INSTRUMENTS

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

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

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

- financial instruments kept for making transactions (including derived instruments)

- financial instruments kept till due date

- financial instruments available for sale

The financial assets of AEROSTAR S.A. include:

- cash and cash equivalents

- trade receivables

- trade effects received

- immobilized receivables (bonds for third parties)

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities

- trade effects payable

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

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

a) credit risk

b) liquidity risk,

c) currency risk,

d) interest rate risk.

### a) Credit risk

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

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

In some cases, specific instruments of commercial credit risk decrease (receipts in advance, letters of payment bank security, confirmed export credentials).

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

### Exposure to credit risk

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

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

	31.12.2019	31.12.2018
Cash and cash equivalents	207.362	167.545
Trade receivables, net of adjustments for depreciation	58.792	54.176
Trade effects received	0	161
Immobilized receivables	54	34
<b>Total</b>	<b>266.208</b>	<b>221.916</b>

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

	31.12.2019	31.12.2018
Domestic market	15.863	9.735
Euro zone countries	17.691	18.785
Great Britain	16.226	14.667
Other European countries	1.223	3.991
Other regions	7.789	6.998
<b>Total</b>	<b>58.792</b>	<b>54.176</b>

### Depreciation adjustments

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

	Gross value 31.12.2019	Adjustments for depreciation 31.12.2019	Gross value 31.12.2018	Adjustments for depreciation 31.12.2018
In due time	58.255		53.458	
Past due, total of which:	1.344	807	734	16
1-30 days	0	0	0	0
31-60 days	388	202	222	16
61-90 days	702	351	4	0
91-120 days	0	0	0	0
Over 120 days	254	254	508	0
Over 1 year	0	0	0	0
<b>Total</b>	<b>59.599</b>	<b>807</b>	<b>54.192</b>	<b>16</b>

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

	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Balance on 1 January</b>	<b>16</b>	<b>1.162</b>
Adjustments set for depreciation	3.450	2.193
Adjustments for depreciations resumed as revenues	(2.659)	(3.339)
<b>Balance on 31 December</b>	<b>807</b>	<b>16</b>

At 31.12.2019, 98,65 % from the balance of trade receivables are related to customers which have a good payment record.

**b) Liquidity risk**

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

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

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

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

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

The time intervals used to review the contractual due dates of the financial liabilities, with a view to show the timeframe for the cash flows in due time, are shown in the table below:

	<b>Financial debts</b>	<b>Accounting value</b>	<b>Contractual cash flows</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>over 60 days</b>
31.12.2019	Trade liabilities payable	18.369	(18.369)	(13.284)	(4.462)	(623)
	Trade effects	255	(255)	(255)	0	0
31.12.2018	Trade liabilities	16.977	(16.977)	(12.719)	(3.078)	(1.180)
	Trade effects	0	0	0	0	0

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

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

At 31.12.2019 AEROSTAR has no records of overdue financial liabilities.

**c) Foreign currency risk**

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

Exposure to the foreign currency risk

AEROSTAR is exposed to the foreign currency risks, as 79% from the turnover recorded in the reporting period is denominated in USD and EUR, while a significant part of the operating expenses is denominated in lei.

So, Aerostar is exposed to the risk that the currency exchange rate variations will affect both its net income and its financial position as expressed in lei.

<b>31.12.2019</b>	<b>Thousand EUR</b>	<b>Thousand USD</b>	<b>Thousand GBP</b>
Cash and cash equivalents	1.962	1.660	20
Trade receivables	1.576	8.307	0
Trade liabilities	(1.241)	(1.364)	(47)
<b>Net exposure in original currency</b>	<b>2.297</b>	<b>8.603</b>	<b>(27)</b>

Sensitivity analysis

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

Taking into consideration the evolution of USD/LEU exchange rate from the last 3 years (2016-2018), a relatively high volatility of (+/-

10%) can be observed.

Thus, a reasonably possible variation of the foreign exchange rate of +/- 10% may be envisaged to calculate at the end of the reporting period.

The effect of the reasonably possible variation of +/- 10% of the exchange rate USD/LEU over the financial result of AEROSTAR is calculated in the following table:

<b>31.12.2019</b>	
Net exposure in the currency of origin (thousand USD)	8.603
USD/LEU exchange rates	4,26
Net exposure in functional currency (thousand LEI)	36.649
Possible reasonable variation of exchange rate	+/- 10%
<b>Effect of the variation on the financial result</b>	<b>+/- 3.665 thousand LEI</b>

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019

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### d) Interest rate risk

For the reporting period AEROSTAR contracted a multi-product Credit Facility of 7.000 thousand USD, intended for financing the Company's operations, which includes:

Product A: in amount of 2.500 thousand USD, usable as an overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);

Product B: in amount of 7.000 thousand USD (subject to the aggregate amount used from Product A and product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility of issuing bonds as instruments to ensure collateral for the commercial contractual obligations by issuing

bank bond letters and import Letters of Credit.

The bank interest is applicable only for the overdraft utilized from Product A in amount of 2,500 thousand USD.

As during the reporting period AEROSTAR did not use the Product A, the company revenues and cash flows are independent from the interest rate variations on the banking market.

At 31.12.2019, the level of bonds granted by AEROSTAR under commercial agreements, by issue of bank bond letters amounts to 2.527 thousand USD (equivalent 10.767 thousand LEI).

At 31.12.2019 no mortgages are set on the property assets in AEROSTAR ownership.

## NOTE 19 - OPERATING INCOME

	31.12.2019	31.12.2018
<b>Revenues from sales, from which:</b>	<b>399.210</b>	<b>353.413</b>
Revenues from product sales	210.082	189.964
Revenues from services supplied	185.243	157.560
Revenues from selling goods	1.057	3.298
Revenues from renting	2.417	2.156
Trade discounts granted	(41)	(18)
Revenues from other activities	452	453
<b>Revenues related to inventories of products finished and in progress</b>	<b>6.593</b>	<b>12.528</b>
<b>Revenues from the production of fixed assets</b>	<b>988</b>	<b>1.645</b>
<b>Revenues from operating subsidies</b>	<b>263</b>	<b>186</b>
<b>Other revenues from operations</b>	<b>3.346</b>	<b>3.473</b>
<b>Total operating income</b>	<b>410.400</b>	<b>371.245</b>

The company obtained in 2019 incomes from subsidies received for:

- set up apprenticeship agreements in amount of 209 thousand lei;  
 - employment of a non- employed person in the NEET category (Not in Education, Employment or Training) in amount of 17 thousand lei;

- employment of graduates who failed to get a job in accordance with their educational background in 60 days after graduation, in amount of 33 thousand lei;  
 - expenses for international fairs and exhibitions financed by the state budget, in amount of 4 thousand lei.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

## NOTE 20 – OPERATING EXPENSES

	31.12.2019	31.12.2018
<b>Expenses with employee benefits</b> , from which:	<b>126.473</b>	<b>114.974</b>
Salaries and allowances	114.126	103.827
Expenses with benefits in kind and expenses with ticket meals granted to employees	6.696	6.152
Expenses with social security	5.651	4.995
<b>Expenses with raw materials and materials</b>	<b>111.767</b>	<b>103.587</b>
<b>Energy, water and gas</b>	<b>9.601</b>	<b>8.563</b>
<b>Other material expenses</b> , of which:	<b>11.144</b>	<b>11.974</b>
Expenses with non-inventory materials	1.892	1.619
Expenses with goods	940	2.850
Expenses with packing	430	683
Expenses with other materials	7.882	6.822
<b>Expenses with external services</b> , from which:	<b>30.098</b>	<b>26.659</b>
Repairs	12.128	8.602
Transport costs	3.348	2.981
Commissions and fees	3.333	3.377
Travels, deployments	1.122	998
Renting expenses	776	769
Other expenses with services supplied by third parties	7.582	7.930
<b>Trade discounts received</b>	<b>(53)</b>	<b>(28)</b>
<b>Amortizations</b>	<b>25.975</b>	<b>25.307</b>
<b>Increase/decrease of adjustments regarding provisions</b>	<b>6.198</b>	<b>(12.638)</b>
<b>Increase/decrease of adjustments regarding depreciation of current assets</b>	<b>13.749</b>	<b>5.106</b>
<b>Other operational expenses</b>	<b>5.508</b>	<b>4.664</b>
<b>Total operating expenses</b>	<b>340.460</b>	<b>288.168</b>

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

In 2019, AEROSTAR registered increases/set-ups and decreases/resumed adjustments, as follows:

	31.12.2019	31.12.2018
<b>Adjustments regarding provisions</b>		
<i>Increases / establishments</i>	25.125	18.940
<i>Decreases / reruns</i>	18.927	31.578
<b>Increase/Decrease of adjustments regarding provisions</b>	<b>6.198</b>	<b>(12.638)</b>

In 2019, the impact of increases (set up) / decreases (resumed) of adjustments regarding provisions was an increase of the operating expenses with the amount of 6.198 thousand lei.

	31.12.2019	31.12.2018
<b>Adjustments regarding impairment of current assets</b>		
<i>Adjustments Increases / set up</i>		
Adjustments for the impairment of investments	17.844	13.564
Adjustments for impairment of receivables	3.587	1.099
Loss of receivables from diverse debtors	130	45
<b>Total Adjustments Increases / set up</b>	<b>21.561</b>	<b>14.708</b>
<i>Adjustments decreases / resumed</i>		
Adjustments for the impairment of inventories	5.084	7.346
Adjustments for impairment of receivables	2.728	2.256
<b>Total Adjustments Decreases / resumed</b>	<b>7.812</b>	<b>9.602</b>
<b>Increase/ decrease of adjustments regarding the impairment of current assets</b>	<b>13.749</b>	<b>5.106</b>

In 2019, the impact of increase (set up) / decrease (resumed) of adjustments regarding the impairment of current assets was an increase of the operating expenses with the amount of 13.749 thousand lei.

## NOTE 21 - FINANCIAL INCOME

	31.12.2019	31.12.2018
Income from foreign currency exchange differences	6.002	4.732
Income from interest	3.525	2.873
Income from shares held in subsidiaries	137	201
<b>Total financial income</b>	<b>9.664</b>	<b>7.806</b>

The company is exposed to the currency risk generated mainly by the exchange differences USD/RON, with significant influences over the financial result.

Aspects regarding the Company's exposure to the risks generated by the financial instruments held are presented in *Note 18 Financial Instruments*.

## NOTE 22- FINANCIAL EXPENSES

	31.12.2019	31.12.2018
Expenses from exchange rate differences	4.467	3.463
Expenses with interests related to leases contract	31	-
<b>Total financial expenses</b>	<b>4.498</b>	<b>3.463</b>

The company registered in 2019 in the financial expenses category:

- expenses from unfavourable exchange rate differences;
- expenses with interests related to the right to use the land leased for the Maintenance Hangar Iasi, registered following the reclassification of the lease agreement of the building in Iasi, at 34, Moara de Vânt Street, according to IFRS 16 „Leases”.

## NOTE 23 - TAX ON PROFIT

### Tax on profit

The tax on profit is recognized in the statement of the profit or loss.

The tax on profit is the tax payable relating to the profit made in the current period, determined in accordance with the fiscal regulations applicable at the reporting date.

The profit tax rate applicable for 31.12.2019 was of 16% (the same rate was applied also for the financial year 2018)

	<u>31 December 2019</u>
<b>Gross accounting profit</b>	<b>75.106</b>
<b>Expenses with current tax on profit</b>	<b>12.004</b>

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	415.248	Fiscal income	388.801	-26.447
Accounting expenses*	340.444	Fiscal expenses	286.581	-53.863
Gross accounting profit, restated*	74.804	Fiscal profit	102.220	+27.416
Accounting tax (16%)	11.969	Fiscal tax (16%)	16.355	+4.386
Tax reductions	-	<i>Tax reductions, from which:</i>	4.351	+4.351
		·related to investments made acc.to Art. 22 Fiscal Code	1.868	+1.868
		·sponsoring	2.483	+2.483
Tax on final profit	11.969	Tax on final profit	12.004	+35
Applicable legal rate	16,00%	Legal rate applicable	16,00%	
Actual average tax rate, calculated on gross accounting profit, restated		16,05%		

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

Principalii factori care au afectat rata efectivă de impozitare:

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

At 31.12.2019 the company registered a debt related to the tax on current profit in amount of 2.446 thousand lei corresponding to quarter IV 2019.

### The tax specific to some activities

Starting with 01.01.2017 Aerostar S.A. is a payer of taxes specific for restaurant and public food activities. The specific tax related to the year 2019 was in the amount of 52 thousand lei.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

## NOTE 24 – RESULT PER SHARE

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

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

IN LEI	31.12.2019	31.12.2018
Profit distributable to ordinary shareholders	65.979.465	79.920.849
Number of ordinary shares	152.277.450	152.277.450
<b>Profit per share</b>	<b>0,433</b>	<b>0,525</b>

## NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is 1.735 for the year 2019 and 1.804 for the year 2018.

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

The total personnel employed in AEROSTAR's activity was:

	Year 2019	Year 2018
Total employees	1.850	1.936

## NOTE 26 - TRANSACTIONS WITH RELATED PARTIES

Acquisitions of goods and services	Year 2019	Year 2018
Airpro Consult SRL Bacau	6.944	7.593
Foar SRL Bacau	573	516
<b>TOTAL</b>	<b>7.517</b>	<b>8.109</b>
Sales of goods and services	Year 2019	Year 2018
Airpro Consult SRL Bacau		
Foar SRL Bacău	14	2
<b>TOTAL</b>	<b>14</b>	<b>2</b>
Liabilities	Balance at 31.12.2019	Balance at 31.12.2018
Airpro Consult SRL Bacau	525	592
Foar SRL Bacau	24	30
<b>TOTAL</b>	<b>549</b>	<b>622</b>
Dividends collected by Aerostar	Year 2019	Year 2018
Airpro Consult SRL Bacau	50	90
Foar SRL Bacau	87	112
<b>TOTAL</b>	<b>137</b>	<b>202</b>

The transactions with the affiliated parties in 2019 consisted in:

- Services provided by AIRPRO CONSULT SRL Bacau to AEROSTAR SA Bacau for temporary manpower;
- Machinery rental services provided by FOAR SRL Bacau to AEROSTAR SA Bacau;
- Services provided by AEROSTAR SA Bacau to AIRPRO CONSULT SRL Bacau and FOAR SRL Bacau for space rental and other service.
- Dividends collected by AEROSTAR SA from Airpro Consult SRL Bacău and from Foar SRL Bacău (NOTE 7).

There were no transactions with the company ATF SA in 2019.

## NOTE 27 – INFORMATION REGARDING THE CASH FLOW

The method used in the Cash Flow Statement is the direct method. The cash flows Statement presents the cash flows and cash equivalents classified on operating activities, investments and financing, thus indicating how AEROSTAR generates and uses the cash and cash equivalents.

In the context of the Cash Flows Statement:

- the cash flows are the amounts collected and paid in cash and cash equivalents;
- the cash means the amounts available in banks and cashier's desk.

- the cash equivalents comprise the deposits formed in banks, bills and promissory notes deposited with banks in order to be collected.

The treasury cash flows from the transactions performed in foreign currency are registered in the functional currency by applying over this value the exchange rate between the functional currency (LEU) and the foreign currency as on the date when the treasury cash flow was generated (date of making payments and collections).

The earnings and losses coming from the exchange rate variation are not treasury cash flows. Nevertheless, the effect of the exchange rate variation over the cash and equivalent held or due in foreign currency is reported in the treasury cash flows statement, but separately from the treasury cash flows coming from operations, investments and financing, with the purpose to reconcile the cash and cash equivalents at the beginning and at the end of the reporting period.

The operating activities are AEROSTAR's main cash-generating activities.

Therefore, in 2019:

- the amounts collected from the customers were 415.074 thousand LEI,

– the payments to the suppliers and employees were in the amount of 267.320 thousand LEI, from which 191.507 thousand LEI payments to the suppliers and 75.813 thousand LEI payments to employees;

– tax payments to the State Budget were in amount of 67.261 thousand LEI, from which 11.967 thousand LEI tax on profit.

The operating activity generated in 2019 a net cash of 89.180 thousand LEI, increasing with 42.727 thousand LEI in comparison with the previous year.

The payments to purchase tangible and intangible assets were in the amount of 37.727 thousand LEI.

The value of the treasury cash flows allocated to increase the operating capacity represents 10% from the aggregate value of the cash used in the framework of operating, investment and financing activities.

Within the financing activity, an amount of 15.918 thousand LEI was paid, representing the dividends due to the shareholders.

The level of cash and cash equivalents registered at the end of 2019 is in the amount of 207.362 thousand LEI, increasing with 39.817 thousand LEI in comparison with the beginning of the year.

## NOTE 28 – LIABILITIES AND OTHER OFF-BALANCE ITEMS

Aerostar registers as off-balance items, the rights, liabilities and goods which are not recognized in the company assets and liabilities, i.e.:

	<u>31 December 2019</u>	<u>31 December 2018</u>
• <b>Liabilities:</b>		
○ Guarantees granted to customers as letters of bank guarantee	3.465	1.520
○ Guarantees received from suppliers – as letters of bank guarantees	35.664	11.636
• <b>Goods, from which:</b>		
○ inventories of other materials released for use (tooling, jigs, fixtures, protection equipment, measuring and control eqpt, technical library etc.)	30.947	26.552
○ material values received in consignment	1.826	1.826
○ tangible and intangible assets –obtained or purchased as a result of co-financed activity	4.151	4.151
○ material values received for processing/repairs	2.463	2.116
• <b>Other values off-balance</b>		
○ Liabilities for covering certain future obligations to A.J.O.F.M. based on OUG 95/2002 regarding the defence industry	5.304	5.782
○ Royalties, tenant activities, rents and other similar liabilities	-	2.335
○ debtors removed from accounts, monitored further on	139	586
• <b>Greenhouse Gas Emission Certificates</b>	2.038	1.678

As a result of the reclassification starting with year 2019 of the lease agreement of the land for the Maintenance Hangar Iasi, with a surface of 16.000 m<sup>2</sup>, with access to Aeroportului Street, completed with the Iasi County Council in 2017, according to IFRS 16 „Leases”, the land was removed from the category *Fees, location management, rents and other liabilities assimilated* and moved in the category of *Assets related to the rights to use assets taken under lease* (NOTE 32).

At 31 December 2019, AEROSTAR S.A. had a number of 16.342 greenhouse gas emission certificates.

The market value from the last transaction day of a GES certificate was of 26,10 Euro, according to the TDR Energy market journal (in December 2018: 24,63 Euro).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

## NOTE 29 – REMUNERATION OF THE DIRECTORS

At the date of 31 December 2019, the structure of AEROSTAR's Board of Directors remained unchanged in comparison with 31 December 2018.

The Board of Directors of AEROSTAR S.A.:

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

In 2019 AEROSTAR did not grant advance payments or credits to the members of the Board of Directors and did not make any undertaking on their account as a collateral of any kind.

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

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

The amount of the gross compensations for the members of the Board of Directors in 2019, by virtue of their responsibilities, was of 1.634 thousand lei.

## NOTE 30 - RISK MANAGEMENT

AEROSTAR is exposed to multiple risks and uncertainties which can affect its financial performance. The business lines performed by AEROSTAR, the operational results or the financial statements, may be affected by the materialization of the risk presented further.

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

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

However, there may be risks and uncertainties additional to what is presented further on, which are currently unknown or considered insignificant, but which may affect in the future the business lines performed by AEROSTAR.

### Operational Risk

It is the risk to incur losses or of failure to make the estimated profits determined by:

- Utilization of inadequate processes, systems and manpower or which failed to execute their function properly
- external events and actions: deterioration of the global economic conditions, natural catastrophes or other events which can affect AEROSTAR's assets.

To the **Operational Risk** the **Legal Risk** is associated, defined as the risk of loss, resulting from the fines, penalties and sanctions which can be charged to AEROSTAR in case of non-application or misapplication of dispositions, legal or contractual regulations, as well as the fact that the rights and contractual obligations of AEROSTAR and/or of the business partner are not properly determined.

Monitoring and disposal of the legal risk's effects is realised through a permanent information system regarding the legislative modifications, as well as by setting up a review, endorsement and approval system for the terms and conditions included in the commercial agreements.

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

In addition, AEROSTAR aims, by setting provisions for risks and related expenses, to have its own funding to cover its risks of exposure.

Also, in order to minimize the operational risk, AEROSTAR annually renews, with 1<sup>st</sup> tier insurance-reinsurance companies, a civil liability insurance contract related to the main business lines (manufacturing of aircraft products and maintenance for commercial aircraft).

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

Cash and cash equivalents are placed only in 1<sup>st</sup> tier bank institutions, considered as having a high solvency rating.

The credit risk, including the country risk in which the customer operates its activity, is managed on each business partner. When necessary, specific instruments of credit risk mitigation are requested (advance payments, letters of bank guarantee, confirmed letters of credit).

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

A presentation of the quantitative information regarding AEROSTAR's exposure to the credit risk is detailed in Note 18 (Financial Instruments) to the Financial Statements.

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

To manage the liquidity risk, the cash flows are monitored and analysed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash. Such reviews provide the basis for the financing decisions and for the capital expenditures.

## NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019

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

In order to reduce the liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line usable under the form of an overdraft granted by banks of 2.500 thousand USD. During the reporting period, AEROSTAR did not use the Credit Line, all the activities of the Company being financed from its own sources.

The **Market Risk** is the risk that the fair value or future cash flows of a financial statement will fluctuate due to the modifications of the market price.

The market risk comprises the price risk, exchange rate risk and the risk of the interest's rate.

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

The management of this risk is realised through:

- diversification of the portfolio of suppliers, which offers a larger leverage in negotiations in case the price of raw materials is increased by certain suppliers.
- long-term contract agreements, with provisions on fixed prices.

AEROSTAR is exposed to the exchange rate risk because 79% from the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in lei.

Thus, AEROSTAR is exposed to the risk that the exchange rate variations shall affect both its net income, as well as its financial position, as they are expressed in lei.

A sensitivity analysis of AEROSTAR to the foreign exchange rate's variations is detailed in Note 18 (Financial Instruments) in the Financial Statements.

In the reporting period Aerostar did not register financial losses.

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

### NOTE 31- PREPAID EXPENSES AND INCOME

	31 December 2019	31 December 2018
<b>Expenses registered in advance, from which:</b>	<b>1.429</b>	<b>504</b>
Amounts to resume in a period within a year	600	504
Amounts to resume in a period over a year	829	
<b>Income registered in advance</b>	<b>1.112</b>	<b>0</b>

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

In the category **Prepaid Income** in records at 31.12.2019 represent the following:

- amounts to resume within a year representing subscriptions, insurance policy, fees, participation at trade fairs and conferences, taxes and dues, on-line services, maintenance of IT systems, etc.
- amounts to resume in over a year, representing the interest related to the right to use the land leased for the Maintenance Hangar in Iasi, registered following the reclassification of the leasing contract of the building in Iasi, according to IFRS 16 'Leases'.

The balance at 31.12.2019 for prepaid income, presented by the company, consists of services supplied and goods delivered for which control was not transferred to the customers and which do not meet the recognition criteria as per IFRS 15 'Revenue from Contracts with Customers'. These shall be fully recognized as income of the financial year 2020.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2019  
(unless specified otherwise, all amounts are stated in thousand lei)

## NOTE 32 – ASSETS REGARDING THE RIGHTS TO USE THE LEASED ASSETS

Account 251	31 December 2019			01 January 2019		
	Gross amount	Depreciation	Net accounting value	Gross amount	Depreciation	Net accounting value
	1.803	(38)	1.765	0	0	0
<b>Total</b>	<b>1.803</b>	<b>(38)</b>	<b>1.765</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Valoarea contabilă netă

	Balance at 1 January 2019	Increases, total (a+b+c)	Value of right to use land (a)	Reevaluation at 31.12.2019 (b)	Costs estimated for dismantling/removal/Restoration of support asset (c)	Depreciation	Balance at 31 December 2019
	0	1.803	1.532	1	270	(38)	1.765
<b>Total</b>	<b>0</b>	<b>1.803</b>	<b>1.532</b>	<b>1</b>	<b>270</b>	<b>(38)</b>	<b>1.765</b>

Starting with 1 January 2019, the standards IAS 17 "Leases" and interpretations (SIC/IFRIC) issued for its implementation were replaced by a new standard, IFRS 16 "Leases".

In 2019, according to IFRS 16, Aerostar reclassified the concession contract agreed with the Iasi County Council in 2017 for the land related to the Maintenance Hangar Iasi, having an area of 16.000 sm with access from Aeroportului Street.

The lease provides that:

- the lease period is 49 years;
- the contract can be extended for a time period equal to maximum half of its initial duration;
- the fee is 10.500 euro/year, payable in lei at the BNR's exchange rate at the payment date.

As such, in 2019 Aerostar registered:

- the right to use the land for the Maintenance Hangar Iasi leased under the contract no. 25074/2017: 320.732,68 euro;
- the decommissioning/dismantling provision of the Maintenance Hangar Iasi, estimated at 269.815 lei, both calculated for the remaining duration of the lease contract, that is for the period 01.01.2019–30.09.2066 (572 months).

In December 2019, the right to use the land for the Maintenance Hangar Iasi was re-evaluated at the foreign market exchange rate communicated by the National Bank of Romania at the last banking day of the year 2019.

## NOTE 33- EVENTS AFTER THE REPORTING PERIOD

AEROSTAR S.A did not identify events after the reporting period which may impact on the financial statements related to the financial year ended at 31 December 2019.

These individual financial statements which comprise: the statement of the financial position, the statement of the profit or loss, other elements of the global result, the individual statement of the company equity's modifications, the individual statement of the cash flows and the explicative notes of the financial statements were approved by the Board of Directors at 17 March 2020 and signed on behalf of the Board of Directors by:

**Grigore FILIP**  
President & General Director

**Doru DAMASCHIN**  
Vicepresident & Financial Director

## **Declaration**

The undersigned GRIGORE FILIP, as President of the Board of Directors and General Director of AEROSTAR S.A. and DORU DAMASCHIN, as Vicepresident of the Board of Directors and Financial Director of AEROSTAR S.A., hereby undertake the responsibility for the preparation of the individual financial statements as on 31.12.2019, and we confirm hereby that:

a) The accounting-financial statements for the year 2019, prepared in accordance with the applicable accounting standards, provide a fair image conforming with the reality of the assets, obligations, financial position, of the profit and loss account of Aerostar S.A. Bacău;

b) The report of the Board of Directors on the financial year 2019, prepared in accordance with the provisions of the Regulation no. 5/2018 issued by the Financial Supervisory Authority – Annex no 15, provides a correct review of the company's development and performance as well as a description of the main risks and uncertainties related to the activity of Aerostar S.A. Bacău.

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

**Vicepresident of Board of Directors and Financial Director,  
DORU DAMASCHIN**

**DISTRIBUTION OF THE PROFIT  
OF THE YEAR 2019**

<b>The net profit of the financial year 2019</b>	<b>65.979.464,74 lei</b>
- Distributions to the legal reserve of the reinvested profit	11.674.595,35 lei
- Distributions to statutory reserves	34.500.000,00 lei
- Distributions as dividends (gross dividend per share: 0,13 lei)	19.796.068,50 lei

**Approved in the General Meeting of Shareholders on April 21, 2020.**

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

**Vicepresident of Board of Directors and Financial Director,  
DORU DAMASCHIN**



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