

**AEROSTAR S.A. BACAU**

**INDIVIDUAL FINANCIAL STATEMENTS  
ON 31 DECEMBER 2017**

PREPARED IN ACCORDANCE WITH

**The Order of the Ministry of Public Finance for the approval of the Accounting Regulations  
with the International Financial Reporting Standards**

**AND THE REPORT OF THE INDEPENDENT AUDITOR**

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**S.C. AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

	Note	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Immobilized assets</b>			
Tangible immobilizations	6	144.613	146.007
Intangible immobilizations	5	1.858	1.689
Real estate immobilizations	6	6.987	6.499
Financial immobilizations	7	228	202
<b>Total Immobilized Assets</b>		<b>153.686</b>	<b>154.397</b>
<b>Circulating assets</b>			
Inventories	10	67.925	50.272
Commercial receivables and other receivables	8;9	46.640	42.749
Cash and cash equivalents	11	163.886	163.153
<b>Total circulating assets</b>		<b>278.451</b>	<b>256.174</b>
<b>Expenses in advance</b>	<b>31</b>	<b>491</b>	<b>521</b>
<b>Total assets</b>		<b>432.628</b>	<b>411.092</b>
<b>COMPANY CAPITALS AND DEBTS</b>			
<b>Capital and reserves</b>			
Share capital	12	48.729	48.729
Current result	12	53.170	56.472
Result carried forward	12	57.524	56.331
Other reserves	12	110.843	67.833
Debts/Receivables regarding tax on deferred profit recognized on the account of company capitals	17	(7.961)	(6.362)
Distribution of profit for legal reserve	12	(9.338)	(9.095)
<b>Total company capitals</b>	<b>12</b>	<b>252.967</b>	<b>213.908</b>
<b>In advance revenues</b>			
Subsidies for investments	14	12.677	15.001
Revenues registered in advance	31	28	33
<b>Total in advance revenues</b>		<b>12.705</b>	<b>15.034</b>
<b>Long-term debts</b>			
Debts regarding deferred income tax	17	2.126	3.804
Other long-term debts	16	51	-
<b>Total long-term debts</b>		<b>2.177</b>	<b>3.804</b>
<b>Long-term provisions</b>	<b>13</b>	<b>75.825</b>	<b>71.448</b>
<b>Current debts</b>			
Commercial debts	15	29.515	37.472
Debt with current income tax	23	1.522	2.215
Other current debts	16	8.553	14.414
<b>Total current debts</b>		<b>39.590</b>	<b>54.101</b>
<b>Short-term provisions</b>	<b>13</b>	<b>49.364</b>	<b>52.797</b>
<b>Total provisions</b>		<b>125.189</b>	<b>124.245</b>
<b>Total debts</b>		<b>41.767</b>	<b>57.905</b>
<b>Total company capitals, income in advance, debts and provisions</b>		<b>432.628</b>	<b>411.092</b>
<b>General Director, Grigore Filip</b>			<b>Financial Director, Doru Damaschin</b>

**S.C. AEROSTAR S.A.**  
**INDIVIDUAL STATEMENT OF PROFIT OR LOSS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBRIE 2017**  
**(all amounts are in thousand lei, if unless specified otherwise)**

	Notes	31 December 2017	31 December 2016
<b>Revenues from sales</b>	19	340.172	356.219
Other revenues	19	3.632	3.654
Revenues related to inventories of products and production in progress	19	10.420	3.817
Revenues from production of immobilizations	19	1.287	1.603
<b>Total revenues from operations</b>		<b>355.511</b>	<b>365.293</b>
<b>Expenses</b>			
Material expenses	20	(128.002)	(126.222)
Expenses with employee benefits	20	(108.629)	(99.488)
Expenses with amortization of immobilizations	20	(24.275)	(16.042)
Influence of adjustments on current assets	20	1.337	(592)
Influence of adjustments on provisions	20	(945)	(13.549)
Expenses related to third party services	20	(30.629)	(40.957)
Other expenses	20	(4.228)	(3.835)
<b>Total Expenses for Operations</b>		<b>(295.371)</b>	<b>(300.685)</b>
<b>Profit from Operations</b>		<b>60.140</b>	<b>64.608</b>
Financial incomes	21	4.413	7.514
Financial expenses	22	(5.766)	(6.257)
<b>Financial loss/profit</b>		<b>(1.353)</b>	<b>1.257</b>
<b>Profit before tax</b>		<b>58.787</b>	<b>65.865</b>
Tax on current and deferred profit	17;23	(5.617)	(9.393)
<b>Net profit of the financial year</b>		<b>53.170</b>	<b>56.472</b>

General Director,  
Grigore Filip

Financial Director,  
Doru Damaschin

**S.C. AEROSTAR S.A. BACAU**  
**OTHER ELEMENTS OF THE GLOBAL RESULT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Net profit of the financial year</b>	<b>53.170</b>	<b>56.472</b>
Deferred income tax recognised on the account of company capitals according to O.M.F.P. 2844/2016	(406)	(10.131)
Result carried forward arising from transition to IFRS	-	(1.161)
<b>Other elements of global result</b>	<b>(406)</b>	<b>(11.292)</b>
<b>Total Global Result of financial year</b>	<b>52.764</b>	<b>45.180</b>

**General Director,  
Grigore Filip**

**Financial Director,  
Doru Damaschin**

**S.C. AEROSTAR S.A. BACAU**  
**INDIVIDUAL FINANCIAL STATEMENTS OF COMPANY CAPITALS MODIFICATIONS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

	Share capital	Reserves	Deferred income tax recognized on account on company capitals	Result carried forward	Result of the year	Total company capitals
<b>Global result</b>						
<b>A. Balance account on 1 January 2017</b>	48.729	67.833	(6.362)	56.331	47.377	213.908
<b>The profit of the year</b>					53.170	53.170
<b>Other elements of the global result</b>						
Deferred income tax recognized on the account of the company capitals			(1.599)	1.193	-	(406)
Distribution of profit for year 2016 to allocations decided by shareholders in AGA from April 2017 (NOTE 13)				47.377	(47.377)	-
Distribution of profit from 2017 for legal reserves in gross amount		9.338		-	(9.338)	-
<b>Total global result of the year</b>		9.338	(1.599)	48.570	(3.545)	52.764
Statutory reserves distributed from the profit of the year 2016		33.672		(33.672)		-
Dividends distributed to the shareholders from the profit of the year 2016				(13.705)		(13.705)
<b>Transactions with shareholders, directly recognized on company capitals</b>		33.672		(47.377)		(13.705)
<b>B. Balance on 31 December 2017</b>	48.729	110.843	(7.961)	57.524	43.832	252.967
<b>C. Modifications of company capitals (NOTE 12)</b>	0	43.010	(1.599)	1.193	(3.545)	39.059
<b>General Director, Grigore Filip</b>						<b>Financial Director, Doru Damaschin</b>

**S.C. AEROSTAR S.A.**  
**STATEMENT OF TREASURY CASH FLOWS (direct method)**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

	Note	December 31, 2017	December 31, 2016
<b>TREASURY CASH FLOWS FROM OPERATIONS</b>			
received from customers		347.140	387.310
taxes and excises recovered from State Budget		5.824	7.166
payments to suppliers and employees		(250.453)	(245.231)
payment of taxes, contributions and dues to State Budget		(52.366)	(48.121)
payment of profit tax		(8.342)	(10.089)
<b>NET CASH FROM OPERATIONS 27</b>		<b>41.803</b>	<b>91.035</b>
<b>TREASURY CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
collected from non-reimbursable funds	14	0	4.671
interest collected from granted loans		6	6
interest collected from bank deposits		530	478
collected dividends from affiliated companies		189	231
collected from sales of tangible immobilizations		90	31
instalments collected from loans granted		4	4
payments for purchase of tangible and intangible immobilizations		(27.597)	(22.651)
<b>NET CASH USED IN INVESTMENT ACTIVITIES 27</b>		<b>(26.778)</b>	<b>(17.230)</b>
<b>TREASURY CASH FLOWS FROM FINANCING ACTIVITIES</b>			
paid dividends but unclaimed, recovered		73	88
gross dividends paid		(13.289)	(12.437)
<b>NET CASH USED IN FINANCING ACTIVITIES 27</b>		<b>(13.216)</b>	<b>(12.349)</b>
<b>Net increase of the cash and of cash equivalents</b>		<b>1.809</b>	<b>61.456</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>163.153</b>	<b>101.299</b>
Effect of the exchange rate variation over the cash and cash equivalents 27		(1.076)	398
<b>Cash and cash equivalents at the end of the period</b>	11	<b>163.886</b>	<b>163.153</b>

**General Director,  
GRIGORE FILIP**

**Financial Director,  
DORU DAMASCHIN**

**S.C. AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2017**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

**NOTE 1- LEGAL PRINCIPLES AND INFORMATION DATABASES**

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

S.C. AEROSTAR S.A. operations take place at its registered headquarters located in Bacau, 9, Condorilor Street, Code 600302. In accordance with the Decision of the Board of Directors no.2/14.12.2017 there has been approved the opening of a second headquarter without legal personality (work point) to Iasi, on Aeroportului Street, no. 25B.

The main field of activity of the company AEROSTAR is production.

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

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

The company is listed at the Bucharest Stock Exchange under ARS code and the evidence of the shares and shareholders is kept, under the law, by the S.C. Depozitarul Central S.A. Bucuresti.

The amount of the dividends proposed to be distributed, as before the authorization of the financial statements (unrecognized as distribution towards the owners during the period) is of 14.314.080 lei, i.e. a gross dividend per share of 0,094 lei.

The financial exercise corresponds to the calendar year.

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

**REPORTING BASES**

The individual financial statements were established by the Company in accordance with the International Financial Reporting Standards adopted by The European Union and with the provisions of Order of the Ministry of Public Finance no.2844/2016, for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards (IFRS) with the later amendments.

The financial statements were authorized for emission by the Board of Directors at the date of 15.03.2018.

**Evaluation bases used**

The financial statements were prepared based on the historic costs.

**Currency for operation and presentation**

The company's accounting records are kept in lei. The company considers the Romanian currency (Leu) as the currency for operations in accordance with the definition in IAS 21 "The Effects of

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Changes in Foreign Exchange Rates". The financial statements are presented in thousand lei, rounded to the closest thousand lei.

### **Aspects related to the presentation of information in the financial statements**

The financial statements are presented in accordance with the requirements of IAS 1 'Presentation of the financial statements'. The company opted for a presentation after nature and liquidity in the financial situation positioning and a presentation of the revenues and expenses according to their nature in the framework of profit or loss, considering that these presentation methods offer information which are relevant for the Company's situation.

From an accounting regulations point of view, the Company AEROSTAR S.A. is the subsidiary of the company IAROM S.A., therefore the mother company which straightens the financial statements of the group is S.C. IAROM S.A., having the identification code 1555301 and the headquarter in Bucharest, Aerogarii Boulevard, no.39. The consolidated financial statements of the financial year 2016 were submitted to A.N.A.F. under the registration number 123171305/25.08.2017. Copies of the consolidated financial statements can be obtained from the mother company's headquarter, IAROM S.A. The mother company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulation, for the financial year ended in 31.12.2017.

### **Segment Reporting**

The company has one operating segment according to IFRS 8 and no distinct financial information for different components of the entity are available. Information regarding the sales per lines of business and market are presented in detail in the Report of the Board of Directors.

### **Capital Adequacy**

The management policy is focused on maintaining a solid base of capital, with the purpose of sustaining the continuous improvement of the Company and reaching its strategic objectives. The Company will stand firm furthermore to assure the sustainability of the investments and the business increase.

The strategy adopted develops the main object of AEROSTAR's activity, therefore the percentage of the turnover in the aeronautical field to be in majority. The general objective is the annual increase of the turnover at the same time with the increase of the degree of clients' satisfaction. The specific objectives, which sustain the general objective, contain the on-going organic development of the company: development of the centres of excellence by continuing the modernisations, investments, the programs of continuous improvement and the development of the organizational culture.

The own company capitals entirely cover the necessary finance of production and of realization of the investment volume. Through its dividend policy, the Company develops its own company capitals with the increasing sales and investments volume.

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During the financial exercise of 2017, no borrowed capital was used and no cash infusion from shareholders was produced.

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## **NOTE 2- USE OF ESTIMATES, HYPHOTESSES AND ACCOUNTING JUDGEMENTS**

### **Estimates**

Preparation and presentation of the individual financial statements in accordance with IFRS implies the use of some estimations, judgements and hypotheses which affect the application of the accounting policy as well as the reported value of the assets, debts, revenues and expenses.

The estimations and judgements are realized based on the historical experience as well as one of the factors considered adequate and reasonable. The accounting estimations and judgements are continuously updated and take into consideration reasonable expectation regarding the possible future events. The reported accounting values of the assets, debts which cannot be determined or obtained from other sources are based on these estimations considered adequate by the company management.

The estimations, as well as the judgements and hypotheses which were based on, have been periodically reviewed and the result of these reviews is known in the period in which the estimation was reviewed.

Any modification of the accounting estimates will be prospectively recognized through its inclusion in the result of the:

- period in which the modification takes place, if this affects only the concerned period; or
- period in which the modification takes place and of the future periods, if the modification has effect over them.

The company uses estimates to determine the:

- uncertain clients and the adjustments for the depreciation of the receivables related to;
- value of the provisions for risks and expenses to build at the end of the period (month, quarter, year) for litigations, for depreciation of the tangible assets, for restructuring, for warranties accorded to the clients, for obligations towards the staff and other obligations;
- the adjustments for the depreciation of the tangible and intangible assets;

At the end of each reporting period, the company must estimate if there are any clues of depreciation. If this kind of clues are identified, the recoverable value of the asset is established in order to determine the magnitude of the depreciation (if any). The recoverable value is the maximum between the fair value minus selling expenses and the value in function. To establish the value in function, the company management estimates a future cash flow reduced at the present value using a discount rate which reflects the current market value overtime of the money and the risks specific to the assets for which the estimated cash flows were not adjusted.

- the lifespan of the tangible and intangible immobilized assets;
- The company reviews the lifespan of the tangible and intangible immobilized assets at least at the end of each financial year, to establish the adequacy;
- stocks of the prime materials and materials which need the creation of adjustments for depreciation
  - deferred taxes

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Presentation of information

The company, to the extent possible, will present the nature and the value of a modification of accounting estimation which has an effect in the current/next period.

**Errors**

- The errors can appear regarding to recognition, evaluation, presentation or description of the elements of the financial statements.

The financial statements are not in accordance with the IFRS when they contain significant errors, or insignificant errors made intentionally to obtain a certain presentation of the financial position regarding the financial performance or of the cash flows of one entity.

The company must correct retroactively the significant errors of the previous period in the first set of financial situations of which publication has been approved after their discovery, through:

- retreatment of the comparative values for the previously presented period in which the error appeared, or
- if the error appeared before the first prior period presented, the retreatment of the opening balance of the assets, debts and own capitals for the prior period presented.

In case of an identified error, the Company must present the following information:

- the nature of the prior period's error;
- for each prior period presented, to the extent possible the value of the correction:
  - ~ for each row-item affected from the financial situation;
  - ~ for the base results and diluted per share.
- value of the correction at the beginning of the prior presented period;
- if the retroactive retreatment is impossible for a specific prior period, the circumstances which lead to the existence of that condition and a description of the mode in which and of the moment from which the error has been corrected.

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**NOTE 3- ACCOUNTING AND EVALUATION PRINCIPLES**

**3.1 The adoption for the first time of new or reviewed standards:**

The following standards issued by the Committee of International Accounting Standard and adopted by the European Union came into force in the current period:

- Modifications of the International Accounting Standard IAS 12 *Tax by profit*, which is applied starting with January 1<sup>st</sup> 2017. The essence of these modifications refers to the requests regarding the deferred tax claims related to the unrealised losses as well as the approach of some practical aspects related to future probable taxable incomes.
- Modifications of the IAS 7 *Statement of Cash Flows* – regarding the presentation initiative of the information related to the financial debts, the effect of currency variation, the supply of some reconciliation in case of the debts resulted from the financial activities. Is applied starting with January 1<sup>st</sup> 2017.
- Republishing of IAS 40 Investment propriety with later amendments.

The Company considers that these modifications did not influence its financial situations and their adoption did not lead to any modification of the accounting policies of the Company.

**3.2 Standards (Modifications to Standards) and interpretations adopted by the Committee for the International Accounting Standard and by the European Union through Regulations issued but not in force:**

- Adopting IFRS 9 *Financial instruments* (came into force from January 1<sup>st</sup> 2018) together with the modifications for the International Standard Reports, in accordance with IFRS 9:

The Standard is replacing IAS 39 *Financial Instruments* and is introducing new requests regarding classification, evaluation and presentation of the assets and financial debts.

- Adoption of IFRS 15 *Revenues from Contracts with Customers* which is replacing IAS 11, IAS 18 Standards and IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 Interpretations. IFRS 15 is applied starting with January 1<sup>st</sup> 2018, together with the modifications of International Accounting Standards, in accordance with IFRS 15.
- Amendments to IFRS 15 *Revenues from Contracts with Customers*, came into force starting with 01.01.2018

The standard establishes new model recognition of the incomes from the contracts with the clients in 5 steps. Also, the regulations will be applied for profit and loss recognition and evaluation from the non-financial asset sales. They include new classification requests and a more detailed presentation of the contracts with the clients, including execution obligations, modifications of the assets and debts balance accounts, reasonings used and estimations. The company will adopt the new standard for the accounting reports of the financial year 2018 without being necessary the retreatment of the financial situations of 2017, due to the following considerations:

- The impact of a new standard on the key figures of the Company is limited, because the incomes are already recognized at the moment of the delivery of the goods and/or services.
- Exception: incomes from services performed evaluated according to IAS 18, depending on the stage of completion of the contract, their amount in year 2017 being 477 thousand lei, incomes which were derecognized at the end of the financial year, in order to early apply IFRS 15.
- Adopting IFRS 16 *Lease accounting* (came into force from January 1<sup>st</sup> 2019) together with the modifications of the International Accounting Standards, in accordance with IFRS 16:

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- Amendments to IFRS 4 *Insurance contracts* which are applied starting with 01.01.2018.

The company evaluates the potential effects of the new Standards and amendments to the International Financial Reporting Standards and according to the initial estimations, provides that these will not have a significant impact over its financial situations.

### **3.3 Accounting policies and of evaluation**

The accounting policies represent the specific principles, bases, conventions, rules and practices applied in the preparation and presentation of the financial statements.

The company management has established the accounting policies for the operations performed, as described in the accounting policies manual.

These policies were prepared taking into consideration the specific features of the company's activity and were approved by the Board of Directors of the company.

The accounting policies were prepared in compliance with the requirements of the International Financial Reporting Standards as approved by the European Union.

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

#### **Modifications in the accounting policies**

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

The company modifies an accounting policy only if such modification:

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

How the modifications are applied in the accounting policies:

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The entity takes into account a modification in the accounting policy that results from the initial implementation of an IFRS in accordance with the specific transitory provisions, if any, and when the entity modifies an accounting policy at the first time application of an IFRS that does not include specific transitory provisions.

The presentation of the information:

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

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

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

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

### **General accounting policies**

The general accounting policies which are the basis of accounts of the operations, transactions, the evaluation of the elements presented in the annual financial statements, as well as in the preparation of the financial statements are:

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

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

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

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In the financial statements there are highlighted the predictable debts and the potential losses appeared during the current financial year or of a prior financial year, even if these become apparent only between the balance sheet date and its establishment.

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

All the depreciations are accounted, no matter if the result of the period is profit or loss. The registration of the adjustments for depreciation or loss of value is made on the expenses account, regardless of their impact on the statement of the global result.

- The principle of independence

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

- The principle of accrual accounting

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

- The principle of separate evaluation of assets and liabilities elements, according to which the components of the assets and liabilities must be evaluated separately.
- The principle of non-compensation  
The assets and liabilities, the revenues and expenses, respectively, are not compensated, except for the cases when the compensation is requested or allowed by a standard or by an interpretation thereof.
- The principle of prevalence of economic aspects over legal aspects, according to which when presenting the values in the balance sheet and in the profit and loss account, the economic basis of the reported transaction or operation is considered, not only the legal form thereof.

### **Materiality and Aggregation**

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

The elements of different nature or functions are presented separately, except for the case when these are insignificant.

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

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

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Element which establishes the material threshold	Method of calculation	Value (%)
Non-current assets	Analysed asset/ Total Immobilized assets	0,5%
Current assets	Analysed asset/ Total current assets	0,5%
Debts	Analysed debts/Total debts	0,25%
Operating benefits	Analysed income/ Total operating income	0,25%
Financial income	Analysed income/ Total financial revenues	0,25%
Operating expenses:		
- expenditure on inventories of materials	Analysed expense/ Total inventory expense	0,25%
- Expenditure with manpower	Analysed expense / Total expenditure with manpower	0,1%
- depreciation expense	Analysed expense /Total depreciation expense	0,5%
-other expenses	Analysed expense /Total other expenses	0,25%
Financial expenses	Analysed expense /Total financial expenses	0,25%

***Accounting policy on immobilizations***

**TANGIBLE IMMOBILIZATIONS**

**Recognition**

The company recognizes the intangible immobilizations when:

- It is probable the generation of future economical benefit related to the asset
- The cost of the asset can be assessed in a reliably manner.

The tangible immobilizations are tangible assets which:

- are held to be used to produce or supply goods and services to be rented to third parties or to be used for administrative purposes;
- are expected to be used over several periods of time.

The following are not capitalized: repairs and maintenance and general administration expenses.

The subsequent expenditures are capitalized only when these are increasing the value of the future economic benefits incorporated in the asset in which they are destined.

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The specific recognition criteria for subsequent expenditures of the nature of the work performed at the property, plant and equipment from the construction area:

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

The spare parts and service equipment are generally accounted for like stocks and recognized on expenses when they are consumed.

If the spare parts and the service equipment can be used only in relation with an item of property, plant and equipment, they are accounted for as property, plant and equipment, where it is possible to establish the initial purchase value (at the placing in service) of the part being replaced.

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

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

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

### **Derecognition**

The accounting value of a tangible immobilization element is derecognized:

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

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

### **Evaluation at recognition**

The costs at which a tangible immobilization is accounted comprise:

- the purchasing price, including customs taxes and non-reimbursable purchasing fees net of any discount and commercial deductions;

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- costs which can be attributed directly to bringing the assets to the location and condition needed to operate as desired by the company management;
- The initial estimate of the costs to dismantle and restore the site where it is located. For such costs to be accounted, the provisions set forth in IAS 37 "Provisions, contingent liabilities and contingent assets" apply.

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

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

#### **Assessment after recognition**

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

#### **Reclassification in investment property and immobilized assets held for sale**

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

#### **Amortization of tangible immobilizations**

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

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

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

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

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

The amortisation does not cease 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 jointly.

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

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

### **Depreciation**

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

At the end of each reporting period the company estimates whether there are any indications of assets depreciation. In the identification process of the depreciation clues, the Company takes into consideration internal and external sources.

External sources: the value of the market capitalization indicator of the Company in comparison with the value of own's capital;

Internal sources: Modifications over the grade of difficulty or of the use of the immobilizations.

## **INTANGIBLE IMMOBILIZATIONS**

### **Recognition**

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

Criteria for recognition of intangible immobilizations:

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

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### **Derecognition**

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

### **Evaluation at recognition**

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

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

In case of purchase, the cost comprises:

- Its purchasing price, including import customs taxes and non-reimbursable purchase taxes, after deducting discounts and commercial deductions.
- Any other costs directly attributable to the preparation of that asset for use.

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

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

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

Items not capitalized by the company:

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

#### **Evaluation after recognition**

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

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

#### **Amortization of intangible immobilizations**

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

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

The amortization of an intangible immobilization starts when such asset is available for use and ends when the asset is reclassified into another category or on the date when the asset is de-recognized. The relevant factors to determine the lifespan are: obsolescence from a technical point of view, the control period over the asset and other similar limits over the use of the asset, if the lifetime of the asset is the dependence of the useful lifetime of other assets of the Company.

The intangible assets with a determined lifetime are amortized by the company using the linear method and the expense with the amortization is recognized in profit or loss, except for the case in which the accountant value of another asset is included.

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

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

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

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

### **Depreciation**

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

## **INVESTMENT PROPERTY**

### **Recognition**

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

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

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

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

### **Derecognition**

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

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

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

### **Classification**

The category of investment property comprises:

- land held with a view to increase the capital value on long term;
- land held for an indefinite future use;
- a building owned by the company and rented based on an operational lease;
- property to be set up or refurbished for future use as an investment property.

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

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

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

In this case the professional reasoning is used for the appropriate decision.

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

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

### **Evaluation upon recognition**

An investment property must be assessed initially on cost, including any other expenses directly attributable. If the payment for an investment property is postponed, then its cost will be its price equivalent in cash. The difference between this amount and the total payments is recognized during the crediting period as expense with an interest.

### **Evaluation after recognition**

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

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

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

### **Amortization**

The investment properties are amortized after the same rules as in the tangible assets.

### **ASSETS PURCHASED BASED ON LEASES**

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

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

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

The other leases are classified as operational leases.

### **FINANCIAL IMMOBILIZATIONS**

The financial immobilizations account:

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

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**Evaluation upon recognition**

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

**Evaluation after recognition**

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

**Accounting policies on inventories**

The inventories are assets:

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

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

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

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

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

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

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

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

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Upon release from the account of the inventories, and such fungible assets, are evaluated and accounted by applying the Average Weighted Cost method.

**Borrowing Cost**

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

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

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

The inventories category comprises:

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

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

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

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

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

### **Evaluation upon recognition**

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

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

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

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

The material goods received for processing, in custody or in consignment are received and registered distinctly as entries in the accounts.

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

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

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

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

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

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- the goods purchased or sold with clauses as to the ownership title are recorded in accordance with the agreements concluded.

#### **Evaluation after recognition**

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

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

#### **Accounting policies on the company liabilities**

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

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

All excises and special funds included in prices or tariffs are recorded in the corresponding debt bookkeeping, without transit through the revenue and expenditure accounts.

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

#### **Debts with settlement in currency**

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

#### **Monthly evaluation**

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

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

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

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

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

### **Short-term debts**

A debt shall be classified as short-term debt, named also as current debt when:

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

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

### **Long-term liabilities**

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

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

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

The long-term liabilities comprise:

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

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**Certificates for greenhouse effect gas emissions**

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

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

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

**Accounting policies on Receivables**

Such receivables include:

- commercial receivables, which are amounts owed by the customers for goods sold and services supplied in the normal course of activity;
- commercial effects to receive, as instruments from third parties;
- amounts owed by the employees or affiliated companies;
- advances given to the suppliers of immobilizations, goods and services;
- receivables related to manpower and state budget

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

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

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

Any debts resulting from treasury advances not settled, from distributions of work outfits, as well as the debts from material damages, fines and penalties established by Court orders and other receivables related to personnel are recorded as other receivables related to manpower.

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

**Receivables cleared in foreign currency or in Lei, depending on the currency exchange rate**

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

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

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

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

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

The doubtful accounts receivables shall be recorded separately in accounting in the account 4118 – Uncertain customers or customers in dispute at law when the deadline provided in the contract is overdue with more than 30 days or a dispute with the client has been registered.

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

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

The evaluation in the financial statements of the receivables expressed in foreign currency and of the receivables to be cleared in lei against the exchange rate of a certain currency notified by the National Bank of Romania, as valid on the date when the financial year ends.

**Accounting policies of the currency, cash equivalents and their presentation in cash-flow statements**

**Cash** comprises cash on hand and at banks;

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**Cash equivalents** shall include:

- Short-term bank deposits, which are known amounts of cash and which are subject to an insignificant risk of changes in value.
- Check book, commercial effects received from clients and filed in bank for cash-in at due date.
- Collateral deposits set up at third parties;

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

Count room and cash equivalents and their movement, as a result of receipts and payments realised, shall be highlighted in lei and foreign currency.

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

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

Cash flows shall be reported by using the direct method through which the major classes of gross class receipts and gross cash payments arising from investing and financing activities.

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

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

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

The effect of changes in foreign exchange rates on cash and cash equivalents is presented in treasury cash flows which is separated from the cash flows arising from the exploitation activities, of investments and financing for cash reconciliation purpose and cash equivalents at the beginning and at the end of the reporting period.

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

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**Accounting policies on the recognition of expenses**

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

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

- Consumptions of inventories;
- work performed and services supplied for the benefit of the company;
- expenses for employee benefits;
- execution of legal or contractual obligations;
- provisions;
- amortizations;
- adjustments for depreciation or loss of value.

The accounts of the expenses are kept by types of expenses, as follows:

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

The operational expenses comprise:

- **expenses with raw materials and consumables**, the purchase costs of materials which are not inventories, the counter value of used utilities, the cost of sold goods;

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

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

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- **expenses with amortization**, expenses with value adjustments regarding the assets and the expenses with provisions

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

### **Employee Benefits**

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

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

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

In AEROSTAR SA the following categories of employee benefits are recognized:

- short-term benefits such as salaries and contributions to social security, paid yearly vacation and paid medical leave and bonuses (if paid within 12 months from the end of the period), meal tickets and other benefits provided in the collective agreement for persons employed.
- post-employment benefit, for example retirement related benefits
- benefits for termination of the labor agreement

### **Benefits for termination of the labour agreement**

Benefits for termination of the labor agreement are negotiated periodically, as provided in the collective labor agreement.

**The financial expenses** are:

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

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

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

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

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

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

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

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

#### **Accounting policies on the recognition of revenues**

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

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

The revenues are classified as follows:

- Revenues from operations;
- Financial revenues;
- Extraordinary revenues.

Revenues are recognized based on accrual accounting.

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

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

Operating income include:

- revenue from sales (of goods, of services, of goods, of waste products);
- revenue related to the cost of stocks of products;
- revenue from the production of fixed assets;
- revenue from the redeployment of adjustments of the assets in question from the reduction or replays of covering
- other operating income.

### **Sales of goods**

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

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

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

### **Supply of services**

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

### **Revenues from rent**

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

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

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

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

#### **Accounting policies regarding trade and financial discounts**

Trade reductions are:

- a) off price reductions - received for quality defects and are practiced over the sale price
- b) discounts –received in case of the agreed volume of superior sales if the buyer has a preferential status, and
- c) rebates –calculated price discount over the effectuated transactions as a whole with the same third party, during the specified period.

The financial discounts are under the form of reductions granted when the payment of the debts is made in advance of the normal chargeability term.

Recognition:

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

Commercial discounts received after invoicing correct the stock cost to which they refer, if these are in management any longer. If the stocks for which the subsequent discounts were received are no longer in management, these shall be highlighted in accounts (account 609 "Trade discounts received"), on account of the third parties accounts.

Commercial discounts granted at a later stage of invoice, no matter the period to which it refers, it is highlighted in accounts (account 709 "Trade discounts granted), on account of the third parties accounts.

#### **Accounting policies on provisions**

##### **Provisions**

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

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

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

### **Warranty Accounting**

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

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

### **Provisions for risks and expenses**

When risks and expenses are identified which the events occurred or in progress make them probable, and whose object is precisely determined, but uncertain as to their occurrence, the company covers such risks by setting up provisions.

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

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

### **Provisions for decommissioning of tangible immobilizations**

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

### **Provisions for the benefits of the employees**

Are recognised in case of bonuses (the financial year-end bonuses, the production year-end, of performance etc.) granted in accordance with the applied Collective Agreement, if and only if:

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

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

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**Accounting politics regarding debts and contingent assets**

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

A contingent asset is a possible asset, is a result of a past event and whose existence will be confirmed only by the apparition or the absence of one or many uncertain next events, which are not totally under the control of the entity.

A contingent debt represents:

a possible obligation resulted from past events and whose existence will be confirmed only by the apparition or the absence of one or several uncertain next events, which are not totally under the control of the entity; or

a present obligation which appeared as a result of some past events, but which is not recognised as it is unlikely for settling of such obligation to have outflows of resources necessary, incorporating economic benefits, or the obligation value cannot be assessed in a sufficiently reliable manner.

**Accounting policies on profit taxation**

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

**Current tax**

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

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

**Deferred tax**

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

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

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

The assets and the debts related to the deferred taxes are measured at the level of the taxes proposed to be applied during the period of time established for recovery of the debt or to make the asset, based on the level of taxes (and fiscal laws) already in force or about to enter in force by the end of the reporting period. The measurement of the deferred tax debts and assets mirrors the tax-related consequences likely to result from the way in which the company anticipates, at the end of the reporting period, to recover or settle up the accounting value of its assets and debts.

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

#### **Accounting politics on the profit distribution**

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

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

Profit distribution on the destinations shall be accounted for, after the approval of the annual financial statements.

#### **Reserve**

At the end of the reporting period, shall constitute legal reserves on behalf of the profit of the period, only on the basis of the applicable legal provisions.

The accounting profit which remained undistributed shall be taken over at the beginning of the following financial year that for which shall be drawn up the annual financial statements in the retained earnings, where they are to be assigned on the other destinations determined by the General Meeting of Shareholders, in compliance with the legal provisions.

The closing of the accounts "Profit or Loss" and "Reserve" shall be performed in the following financial year that for which shall be made out the annual financial statements.

#### **Profit distribution on the other destinations**

The highlighting in accounting of the distribution on destinations of the accounting profit, with the exception of the legal reserve, shall be performed in the following financial year, according to the General Meeting of Shareholders.

The profit can be assigned for:

- cover the accounting loss carried over;

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- dividends distribution;
- other statutory reserves.

The covering of the accounting loss

The carried over accounting loss shall be covered from the financial year profit and the one carried over, from reserves, capital bonus and share capital, according to the resolution of the general meeting of the shareholders.

In case of correcting the errors, which generate the carried over accounting loss, this shall be covered before carrying out any of the profit distributions.

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

**Accounting policies on establishing the result per share**

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

**Accounting policies on subsidies and other non-reimbursable funds**

The category of subsidies distinctly comprises:

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

**Recognition**

The subsidies are recognized at their approved value.

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

**Government subsidies**

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

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The subsidies compensating the company for the expenses made are recognized in the profit and loss account in a systematic manner, during the same time period when the expenses are recognized.

The subsidies compensating the company for the cost of an asset are recognized in the profit and loss account in a systematic manner throughout the lifetime of the asset.

#### **Subsidies for investments**

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

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

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

#### **Subsidies related to revenues**

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

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

The return of a subsidy related to revenues is made by reducing the deferred revenues.

If the reimbursed amount exceeds the deferred revenue or if there is no such revenue, the surplus, i.e. the reimbursed integral value, is recognized immediately as an expense.

#### **Accounting policies for Related Parties**

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

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

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#### Disclosure of information

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

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

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

The presentation of the information will at least include:

- the value of the transactions
- the value of the due balances, including the commitments;
- provisions on questionable receivables on due balances;
- the recognized expense in due period regarding the non-recoverable or questionable receivables owed to related parties.

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

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

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

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

#### Plan of accounts

AEROSTAR uses, for accounts management, accounts from class 9 of the general Accounts Plan contained in the accounting regulations consistent of the OMFP 2844/12.12.2016 and other accounts developed by the Company together with the analytical accounts related.

The object of accounts management consists of:

- collecting of direct charges, indirect and auxiliary after their nature,
- the distribution of indirect cost,
- the settlement of direct and indirect costs

The purpose of the accounts management is mainly the establishment of the result on production orders or other services and on each organizational structure.

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

- a) material losses, manufacture or other production costs which are registered over the normal limits admitted
- b) general administration expenses

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

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

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

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

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

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

#### STAGES OF ESTABLISHING THE COSTS ON ORDERS

Establishment of the provisional calculation of costs on orders;

Collection of direct expenses on orders;

Collection of indirect expenses;

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

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

Allocation of the indirect expenses related to the main activity;

Settlement of the production cost and getting the production goods and sub unitary one.

Determine the production in progress.

#### **Accounting policies for events following after the reporting date**

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

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

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#### Presentation of the information

The Company presents the date to which the financial statements have been approved with a view to issuing, as well as who gave this approval.

If the Company receives beyond the reporting period information about the conditions which existed at the end of the reporting period, the Company updates the presented information which refers to this condition, in the context of the new information.

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

#### **Accounting policies on financial instruments**

A financial instrument is a contract generating simultaneously:

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

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

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

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

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

- it has the legal right to proceed as such

and

- it intends to settle it on a net basis

or

- to make the asset and to pay off the debt simultaneously.

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

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

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

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

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

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**NOTE 4 – TRANSACTIONS IN FOREIGN CURRENCIES**

AEROSTAR considers as a functional currency the Romanian LEU and in the financial statements they 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 Situation, the assets and financial debts denominated in currency are evaluated in the functional currency using the exchange rate, communicated by the Romanian National Bank, valid that day.

<b>Currency</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
EUR (Euro)	4,6597	4,5411
USD (American Dollar)	3,8915	4,3033
GBP (British Pound)	5,2530	5,2961

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

Considering that 76% 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 it is expressed in the functional currency.

In the reporting period the currency net exposure resulted as difference between the financial assets receipts denominated in currency are presented as follows:

<b>31.12.2017</b>	<b>MII EUR</b>	<b>MII USD</b>	<b>MII GBP</b>
Proceeds from financial assets	10.226	44.989	0
Payments of financial liabilities	10.138	14.904	656
<b>Currency net exposure</b>	<b>88</b>	<b>30.085</b>	<b>(656)</b>

In year 2017 the medium appreciation of 10% of the USD/LEU currency exchange rate compared to the beginning of the year has determined the reporting of the financial loss from unfavourable differences of exchange rate the amount of 2.433 thousand LEI.

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**NOTE 5 - INTANGIBLE IMMOBILIZATIONS**

<u>Gross values</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other intangible immobilizations</u>	<u>Total</u>
<b>On 1 ianuarie 2017</b>	-	<b>3.766</b>	<b>607</b>	<b>4.373</b>
Inputs	89	892	589	1.570
Outputs	(89)	(56)	-	(145)
<b>On 31 December 2017</b>	-	<b>4.602</b>	<b>1.196</b>	<b>5.798</b>

<u>Amortization</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other Intangible immobilizations</u>	<u>Total</u>
<b>La 1 ianuarie 2017</b>	-	<b>2.432</b>	<b>252</b>	<b>2.684</b>
Inputs	89	746	566	1.401
Outputs	(89)	(56)	-	(145)
<b>La 31 decembrie 2017</b>	-	<b>3.122</b>	<b>818</b>	<b>3.940</b>

**NET ACCOUNTING VALUE OF INTANGIBLE IMMOBILIZATIONS ON 31 DECEMBER 2017**

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Development expenses	89	89	-	0
2. Licenses	4.602	3.122	-	1.480
3. Other intangible immobilizations	1.196	818	-	378
<b>Total (1+2+3)</b>	<b>5.887</b>	<b>4.029</b>	-	<b>1.858</b>

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

- Development expenses
- Licenses
- Other intangible immobilizations

The IT programmes are registered in other intangible immobilizations.

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

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

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

The intangible immobilizations in the balance sheet account as on 31.12.2017 are not depreciated and no adjustments were made for the depreciation thereof.

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

The value of the completely amortized software licenses on 31 decembrie 2017 and which are still in use is 919 thousand LEI.

All the intangible immobilizations recorded in the balance sheet account as on 31 December 2017 are property of AEROSTAR.

<b>Increases in gross values of intangible immobilizations were obtained by:</b>	<b><u>1.570</u></b>
• capitalization of the development expenses fully financed by AEROSTAR	
• development of the IT management system of AEROPROD production	589
• purchasing of software licenses	892

In 2017 no internally general licenses enterings neither acquired through business combination.

In anul 2017 no assets were classified as held for sale in accordance with IFRS 5.

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**NOTE 6 - TANGIBLE IMMOBILIZATIONS**

<u>Gross values</u>	<u>Lands</u>	<u>Constructions</u>	<u>Technical Equipment and transport vehicles</u>	<u>Other Tangible immobilizations</u>	<u>Tangible immobilizations in progress</u>	<u>Real estate investments</u>	<u>Total</u>
<u>On 1 January 2017</u>	<u>28.346</u>	<u>51.372</u>	<u>107.125</u>	<u>805</u>	<u>1.282</u>	<u>7.946</u>	<u>196.876</u>
entries	-	2.676	12.572	132	21.967	1.063	<b>38.410</b>
transfer	87	112	-	-	(16.443)	(199)	<b>(16.443)</b>
recorded immobilizations plus inventory			19				<b>19</b>
exits		-	(280)	-	-	-	<b>(280)</b>
<u>At 31 December 2017</u>	<u>28.433</u>	<u>54.160</u>	<u>119.436</u>	<u>937</u>	<u>6.806</u>	<u>8.810</u>	<u>218.582</u>

<u>Amortization</u>	<u>Lands</u>	<u>Constructions</u>	<u>Technical Equipment and transport vehicles</u>	<u>Other Tangible immobilizations</u>	<u>Tangible immobilizations in progress</u>	<u>Real estate investments</u>	<u>Total</u>
<u>On 1 January 2017</u>	<u>-</u>	<u>7.092</u>	<u>35.619</u>	<u>211</u>	<u>-</u>	<u>1.447</u>	<u>44.369</u>

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entries	-	5.164	17.192	142	-	376	<b>22.874</b>
		-					
exits			(261)				<b>(261)</b>
<b>On 31 December 2017</b>	-	<b>12.256</b>	<b>52.550</b>	<b>353</b>	-	<b>1.823</b>	<b>66.982</b>

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**NET ACCOUNTING VALUE OF TANGIBLE IMMOBILIZATIONS on 31 December 2017**

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Lands	28.433	-	-	<b>28.433</b>
2. Constructions	54.160	12.256	-	<b>51.906</b>
3. Technical equipment and transport vehicles	119.436	52.550	-	<b>68.886</b>
4. Other tangible immobilizations	937	353	-	<b>584</b>
5. Real estate investments	8.810	1.823	-	<b>6.987</b>
6. Tangible immobilizations in progress	6.806	-	-	<b>6.806</b>
<b>Total (1+2+3+4+5+6)</b>	<b>218.582</b>	<b>66.982</b>	-	<b>151.600</b>

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

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

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

Tangible immobilizations are amortized by the Company using the linear method, as it follows:

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

The useful lifetimes are established by committees formed by Company's specialists. The useful lifetimes of the tangible immobilizations were reviewed in September 2017.

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

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

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The immobilized investments contain a number of 11 real estate – buildings and related lands which are rented to third parties based on lease contracts.

The values from lease incomes in 2017 was 1.884 thousand LEI (1.790 thousand LEI in year 2016).

In year 2017, AEROSTAR invested in updating the living spaces (classified in the immobilized investments) the amount of 1.063 thousand LEI.

At the date of transition to IFRS, the Company has estimated and included in the cost of the tangible immobilizations the costs estimated with their decommissioning at the end of a useful lifetime.

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

The revision of the estimates for the decommissioning and restoration provision is determined by the annual revision of the dismantling costs. The company's board of specialists designated to review yearly any changes to the estimates analyzed at the end of the financial year 2017 if the initial estimates of the dismantling costs were adequate.

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

The amortization of an asset begins when the asset is available for use (i.e. when the asset is in the location and condition necessary to operate as wanted by the management) and ends on the day when the asset is reclassified in another category or when it is derecognized.

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

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

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

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

#### Information source

Market value (market capitalization) has registered a growth of 44% in 2017 in comparison with 2016.

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 own's capital (MBR).

For AEROSTAR the evolution of this indicator is presented as follows:

<u>MBR-Market indicator to book ratio</u>	<u>31.12.2017</u>	<u>31.12.2016</u>
capitalizare bursiera / capitaluri proprii	2,8	2,3

#### Surse interne de informatii: Internal information sources

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

- in year 2017 no changes occurred with adverse effects on the extent and manner in which the assets are used, nor such modifications are expected in the near future.

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The utilisation of the tangible immobilizations in 2017 was with 12 percents over the utilisation of intangible immobilizations, realised in 2016.

In concluzie, imobilizarile corporale aflate in sold la 31.12.2017 nu sunt depreciate si nu s-au constatat indici de depreciere. In conclusion, the tangible immobilizations in the balance sheet on 31.12.2017 are not depreciated and no adjustments were made for the depreciation thereof.

The gross accounting value of the fully amortized tangible immobilizations which were still in operation on 31 December 2017 este de 3.849 mii lei.

On 31.12.2017 no mortgages were set on tangible real estate assets in the property of AEROSTAR S.A.

In 2017, a building with the value of 112 thousand LEI and a land with a surface e of 1.227 mp with the value of 87 thpusand lei, were transferred from the *Investment property* cathegory to *Tangible immobilizations* cathegory.

**Increases in gross values of the tangible immobilizations, achieved by:** **38.429**

- acquisition on technical equipment, hardware equipment, equipment of measuring and control, modernization of buildings 21.967
- transfer during the year of the investments in progress 16.443
- immobilization found after inventory 19

**Decreases in gross values of tangible immobilizations, achieved by:** **16.723**

- the transfer of the investments in progress in tangible immobilizations 16.443
- derecognition of certain tangible immobilizations, due to the fact that the company no longer expects future economic benefits from their use 280

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**NOTE 7 - FINANCIAL IMMOBILIZATIONS**

	Shares held by affiliated entities	Other immobilized securities	Long-term loans	Other immobilized receivables- supplier warranties	Total
<b>On 1 January 2017</b>	<b>14</b>	<b>92</b>	<b>96</b>	-	<b>202</b>
<b>Increases/Decreases</b>	-	-	(9)	35	26
<b>On 31 December 2017</b>	<b>14</b>	<b>92</b>	<b>87*)</b>	<b>35</b>	<b>228</b>

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

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The details on the entity's investments in other companies as on 31.12.2017 are the following:

Subsidiary name/ Registered headquarter	CAEN code	No. of shares/ shares issued	Voting rights (%)	Value of shares held by AEROST AR (thousan d LEI)	Financial information				
					Registered capital of the company	Reser ve	Net profit	Nominal value/share	Net asset/share
SC Airpro Consult SRL Bacau Str. Condorilor nr.9	- main activity according to CAEN 7820	100	100%	10	10	55	97	0,1	1,6
SC Foar SRL Bacau Str. Condorilor nr.9	- main activity according to code CAEN 7739	800	51%	4	8	1.739	180	0,01	2,4
SC Aerostar Transporturi Feroviare S.A Bacau Str. Condorilor nr.9	- main activity according to cod CAEN 2822	20.000	45,75%	92	200	38	1	0,013	0,010
<b>TOTAL</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>106</b>	<b>218</b>	<b>1.832</b>	<b>278</b>	<b>x</b>	<b>x</b>

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

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

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

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**NOTE 8 - COMMERCIAL RECEIVABLES**

	<b>31 December 2017</b>	<b>01 January 2017</b>
<b>COMMERCIAL RECEIVABLES FROM WHICH:</b>		
<b>Customers</b>	<b>38.050</b>	<b>38.789</b>
Domestic customers	4.470	2.115
Foreign customers	33.580	36.674
<b>Uncertain customers</b>	<b>1.162</b>	<b>1.024</b>
<b>Adjustments for depreciation of customer receivables</b>	<b>(1.162)</b>	<b>(1.024)</b>
<b>Suppliers – debtors</b>	<b>6.371</b>	<b>1.486</b>
<b>Customers – invoices to draw up</b>	<b>-</b>	<b>477</b>
<b>Effects to receive from the customers</b>	<b>-</b>	<b>71</b>
<b>Other immobilized receivables with due date less than 12 months</b>	<b>132</b>	<b>-</b>
<b>Total of commercial receivables</b>	<b>44.553</b>	<b>40.823</b>

To cover the risk of non-recovery of the amounts representing uncertain receivables, the company recorded adjustments for depreciation of uncertain customers at the integral value thereof.

When determining the recoverability of a commercial receivable, we took into account the changes occurred in the customer's credit rating from the time when the credit was granted till the time of reporting.

Debtors-suppliers have a discount limit in year 2018.

In the category of Other immobilized receivables, with a due date less than 12 months, are to be found the warranties of proper performance of some agreements signed with commercial partners.

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 2017.

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

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**NOTE 9 - OTHER RECEIVABLES**

	<b>31 December 2017</b>	<b>01 January 2017</b>
<b>Receivables related to manpower and assimilated accounts</b>	<b>30</b>	<b>16</b>
<b>Receivables related to the budget of social insurance, from which:</b>	<b>1.573</b>	<b>1.317</b>
– TVA to be recovered	768	-
– non-exigible TVA	154	339
– excises to recover related to fuel consumption	504	792
<b>Interest to receive from bank deposits</b>	<b>346</b>	<b>17</b>
<b>Diverse debtors</b>	<b>233</b>	<b>259</b>
<b>Adjustments for the depreciation of the receivables – diverse debtors</b>	<b>(113)</b>	<b>-</b>
<b>Other receivables</b>	<b>18</b>	<b>317</b>
<b>Total other receivables</b>	<b>2.087</b>	<b>1.926</b>

To cover the risk of non-recovery of the amounts representing uncertain receivables – diverse debtors, the company recorded adjustments for depreciation of uncertain debtors in the amount of 113 thousand LEI.

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**NOTE 10 - INVENTORIES**

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>From which:</b>		
Raw materials	14.789	11.139
Consumables	25.444	23.270
Other materials	146	14
Semifinished products	-	48
Packings	34	2
Finished Products	17.796	11.918
Products in process	23.271	20.063
Goods	0.6	3
Adjustments for depreciation of inventories	(13.556)	(16.185)
<b>TOTAL</b>	<b>67.925</b>	<b>50.272</b>
The value of the inventories with no adjustments	<b>81.481</b>	<b>66.457</b>

The inventories are evaluated at cost value or net achievable value, whichever is lower.

The net achievable value is the estimated sale price of inventories minus all estimated costs of completion and the necessary costs for sale.

The cost of the inventories includes: purchase costs, conversion costs as well as other costs incurred to bring the inventories in their current condition and in the present location.

At the release from accounts, the inventories are evaluated and recorded in the accounting system by applying the Average Weighted Cost method.

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

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

The total value of the inventories recognized as expense during the reported time period is 117.559 thousand LEI.

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S.C AEROSTAR S.A. holds inventories of Finished Products (for safety) at the levels agreed to by contracts with customers.

S.C. AEROSTAR S.A. has no pledge set on inventories.

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**NOTE 11 - CASH AND CASH FLOW EQUIVALENTS**

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

	<b>31.12.2017</b>	<b>31.12.2016</b>
Cash	6.546	38.137
Bank deposits	157.336	125.013
CECs and trade effects receivable	4	3
<b>Cash and cash equivalents in treasury cash flow statements</b>	<b>163.886</b>	<b>163.153</b>

The cash comprises the available current amount in the cash account and at banks;

The cash equivalents comprise:

- short-terms bank deposits
- cheques and trade effects (promissory notes) submitted at banks for collection.

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

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

The value of the credit facilities, used under the form of an overdrawn, available for the future operating activity, is of 9.729 thousand LEI (2.500 thousand USD).

The value of treasury flows allocated for increasing the operating capacity is 8% of the aggregate value of the treasury cash flows.

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**NOTE 12 - COMPANY CAPITALS**

The company capitals at the date of 31 December 2017 are of 252.967 thousand LEI.

The net increase of the company capitals in 2017 compared to 2016 was of 39.059 thousand LEI.

**The modifications of the main elements of the company capitals incurred in year 2017 compared to 201 are as follows:**

- **The share capital remained unchanged:**

On 31 December 2017, the share capital of SC AEROSTAR SA Bacau is 48.728.784 LEI, divided in 152.277.450 shares with a nominal value of 0,32 LEI.

The structure of the shareholding at the date of 31.12.2017 is as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Holding percentage (% from the share capital)</b>
S.C. IAROM S.A. Bucuresti	108.568.180	71,2963
SIF MOLDOVA Bacau	22.919.887	15,0514
Natural persons	14.162.600	9,3005
Legal persons	6.626.783	4,3518
<b>total</b>	<b>152.277.450</b>	<b>100,0</b>

- **The reserves increased with 43.010 thousand lei on the account of:**

- the reinvested profit of the year 2017 in the amount of 9.3338 thousand LEI.
- the distribution of the amount of 33.673 thousand LEI from the profit relating to the financial year 2016.

- **Other capital elements have increased with the amount of 1.599 thousand LEI on the account of the deferred income tax recognized in company capitals.**

- **The result carried forward:**

- **increased with:**

- 1.193 thousand LEI on the account of the deferred profit tax recognised on the account of the company capitals
- 47.377 thousand LEI representing the profit to be distributed relating to the financial year of 2016

- **and diminished** with the profit of the financial year 2016, distributed as:

- at reserves in the amount of 33.672 thousand LEI
- for dividends in the amount of 13.705 thousand LEI

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The result of the balance account carried forward on 31 December is of 57.524 thousand LEI, compound from:

- the result carried forward obtained from the use, on the date of transition to IFRS, of the fair value as presumed cost = 40.886 thousand LEI

- result carried forward, representing a surplus obtained from re-evaluation reserves, capitalized as the tangible and intangible immobilizations are amortized = 20.313 thousand LEI

- **The result of the period was of 53.170 thousand LEI.**

During the period the amount of 56.715 thousand LEI was distributed, representing the reinvested profit of 2016.

The amount of 3.545 thousand LEI which influenced the company capitals at the date of 31.12.2017 represents the arithmetical difference from which the result of the period (53.170 thousand lei) and the repartitions of the period (56.715 thousand LEI).

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**NOTE 13- PROVISIONS**

	<b>31 December 2016</b>	<b>Increases/ Set provisions</b>	<b>Reductions/ Provisions resumed</b>	<b>31 December 2017</b>
<b>Total provisions</b>	<b>124.245</b>	<b>27.406</b>	<b>26.462</b>	<b>125.189</b>
Provisions for warranties granted to customers	41.418	14.478	15.392	40.504
Provisions for decommissioning tangible immobilizations	16.122	0	6	16.116
Provisions for the employee benefits	5.370	6.234	5.850	5.754
Provisions for litigations	700	5.110	0	5.810
Other provisions	60.635	1.584	5.214	57.005
<b>- from which:</b>				
<b>Long-term provisions</b>	<b>71.448</b>	<b>10.423</b>	<b>6.046</b>	<b>75.825</b>
Provisions for guarantees granted to customers	7.929	4.257	5.273	6.913
Provisions for decommissioning tangible immobilizations	16.122	0	6	16.116
Provisions for litigations	0	5.110	0	5.110
Other provisions	47.397	1.056	767	47.686
<b>Short-term provisions</b>	<b>52.797</b>	<b>16.983</b>	<b>20.416</b>	<b>49.364</b>
Provisions for guarantees granted to customers	33.489	10.221	10.119	33.591
Provisions for employee benefits	5.370	6.234	5.850	5.754
Provisions for litigations	700	0	0	700
Other provisions	13.238	528	4.447	9.319

**Provisions set up for guarantees granted to customers**

Provisions set up for guarantees granted to customers are made to cover the non-compliances of the products sold and the services performed, in accordance with the contractual provisions.

**Provisions for decommissioning the tangible immobilizations**

Provision for decommissioning of tangible immobilizations 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 5%;

**Provisions for benefits granted to employees**

The provisions for benefits granted to employees are formed for the clauses granted according to the clauses of the applicable Collective Labor Agreement (clauses for the end of the financial year, the end of the year of production, performance).

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**Provisions for litigations**

Provisions for litigations are set up for any indemnities owed to the company's ex-employees. The provisions are reanalyzed at the end of each reporting period and are updated in order to reflect the best estimation of the probable payments.

**Other provisions**

In other provisions category are to be found the provisions made for:

- the coverage of the risks specific to aviation industry;
- the coverage of the potential customers of the Company, according to the specific clauses from the contracts concluded with them;
- coverage of the potential obligations towards third parties and for obligations derived from contracts for valuable consideration;
- coverage of some expenses regarding the Company's obligations towards A.J.O.F.M., in O.U.G. 95/2002 base.

The provisions set up in foreign currency were reevaluated in accordance with the applicable regulations, resulting in a net decrease from exchange rate differences in amount of 834 thousand LEI.

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**NOTE 14 – SUBSIDIES**

**Subsidies related to assets**

AEROSTAR recognizes as deferred revenue the assets-related subsidiaries.

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>Balance on January, 1</b>	<b>14.972</b>	<b>16.828</b>
Subsidies related to assets	0	0
Subsidies registered as revenues related to calculated amortization	(2.323)	(1.856)
<b>Balance on December, 31</b>	<b>12.649</b>	<b>14.972</b>

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

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

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

The balance of 12.649 thousand LEI represents the subsidies related to investments in immobilized assets which are to be recorded at the incomes while the costs of the calculated amortization are registered, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 2.824 mii lei
2. contract no. 229226/14.06.2012: 3.349 mii lei
3. contract no. 5IM/013/24.03.2015: 6.476 mii lei

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**NOTE 15 – COMMERCIAL DEBTS**

	<b>31 December 2017</b>	<b>01 January 2017</b>
<b>Advance payments received on customers account</b>	<b>4.896</b>	<b>10.327</b>
Domestic customers-creditors	3.985	8.096
Foreign customers-creditors	911	2.231
<b>Suppliers</b>	<b>24.580</b>	<b>27.140</b>
Domestic suppliers	9.269	11.143
Foreign suppliers	11.540	12.735
Suppliers-invoices not arrived	1.803	1.892
Suppliers of immobilizations	1.968	1.370
<b>Commercial effects to pay</b>	<b>39</b>	<b>5</b>
<b>Debt with current profit tax</b>	<b>29.515</b>	<b>37.472</b>

The advance payments received from the foreign customers are for works of airplane maintenance and reparation, with settlement in year 2018.

For the highlighted debts no mortgages were established.

At the end of December 2017 the Company has made commitments under letters of bank guarantee for the amount of 4.608.000 USD issued in favor to the business partners according to the contractual requirements.

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

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**NOTE 16 – OTHER DEBTS**

	<b>31 December 2017</b>	<b>01 January 2017</b>
<b>Other current debts, of which:</b>	<b>8.553</b>	<b>14.414</b>
• <i>Debts related to manpower and assimilated accounts</i>	2.242	1.892
• <i>Debts related to social security budget and state budget, of which:</i>	4.503	10.951
– VAT payable	1.451	6.543
– social insurance	2.016	2.960
• <i>Other debts, of which:</i>	1.808	1.571
– dividends, of which:	1.492	1.309
- from 2016	557	-
- from 2015	508	591
- from 2014	427	488
 <b>Other long-term debts</b>	 <b>51</b>	 <b>-</b>

The dividends in balance account on 31 December 2017, with the amount of 1.492 thousand LEI, represent amounts remained to be distributed to the shareholders from the dividends of the years:

- 2014, the amount of 427 thousand LEI;
- 2015, the amount of 508 thousand LEI;
- 2016, the amount of 557 thousand LEI;

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**NOTE 17 – THE DEFERRED TAX**

The **deferred tax** is determined for the temporary differences which occur between tax base of the assets and debts and their accounting basis. The deferred income is calculated by the income tax of 16% applicable to the temporary differences at their resumption.

The Company has estimated and registered debts regarding the deferred income related to immobilized assets (which results from differences between carrying amount and fiscal values, the different useful lifespan, and so on) and of the reserves and recognised receivables regarding the deferred income related to the stocks which have supported adjustments for depreciation, provisions for warranties accorded to the customers, provisions for benefits granted to the employees and other provisions.

**The structure of deferred income tax registered at 31.12.2017 is:**

**Debts on deferred tax**

1. Debts related to deferred tax generated by the differences between accounting bases (greater than) and the fiscal ones (lower than) of the immobilized assets	3.674
2. Debts related to the deferred tax concerning legal reserves	1.559
3. Debts on deferred tax related to reserves from the fiscal facility	7.396
4. Debts on deferred tax related to the reported result representing a surplus realised from revaluation reserves	61
<b>Total debts on deferred tax</b>	<b>12.690</b>

**Deferred tax asset**

1. Deferred tax asset related to adjustment for clients' depreciation in 2010.	994
2. Receivables on deferred tax related to the provisions for warranties granted to customers, established between 2014-2017	6.480
3. Receivables on deferred tax related to the provisions for the benefits of the employees	921
4. Receivables on deferred tax related to stocks	2.169
<b>Total receivables on deferred tax</b>	<b>10.564</b>

The Company has not recognised receivables regarding deferred tax related to other provisions for the risks specific to the aviation industry due to the fact that in the case of these provisions there is an uncertainty regarding the fiscal deductibility of the expenses which may occur from the settlement of the future periods. Therefore, the differences between the tax base and the accounting base would be null.

The Company has registered on 31 December 2017 a debt regarding the deferred income tax in the amount of 2.126 thousand LEI (12.690 thousand LEI – 10.564 thousand LEI).

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## **NOTE 18 - FINANCIAL INSTRUMENTS**

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

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

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

- financial instruments kept for making transactions (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
- commercial receivables
- commercial effects received
- immobilized receivables (customer-guaranties)
- loans granted with interest

The financial debts of AEROSTAR S.A. include:

- commercial debts
- commercial effects to pay

On the reporting date AEROSTAR does not have financial debts concerning financial 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 deposit) and commercial 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**

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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:

	<b>31.12.2017</b>	<b>31.12.2016</b>
Cash and cash equivalents	163.886	163.153
Commercial receivables net of depreciation adjustments	37.602	38.789
Commercial effects received	0	71
Creante imobilizate Immobilized receivables (warranties submitted to third parties)	168	0
Loans granted with interest	87	97
<b>Total</b>	<b>201.743</b>	<b>202.110</b>

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

	<b>31.12.2017</b>	<b>31.12.2016</b>
Domestic market	4.470	2.115
Euro zone countries	19.029	15.164
Great Britain	9.308	13.769
Other European countries	1.147	1.695
Other regions	3.648	6.046
<b>Total</b>	<b>37.602</b>	<b>38.789</b>

### Depreciation adjustments

The timeframe structure of gross commercial receivables on the reporting date:

	<b>Gross value</b>	<b>Adjustments</b>	<b>Gross value</b>	<b>Adjustments</b>
	<b>31.12.2017</b>	<b>for</b>	<b>31.12.2016</b>	<b>for</b>
		<b>depreciation</b>		<b>depreciation</b>
		<b>31.12.2017</b>		<b>31.12.2016</b>
In due time	37.547		37.854	
Past due, total of which:	1.217	1.162	1.959	1.024
1-30 days	13	13	727	0
31-60 days	817	772	106	0
61-90 days	99	89	15	0
91-120 days	98	98	87	0
Over 120 days	189	189	786	786
Over 1 year	1	1	238	238
<b>Total</b>	<b>38.764</b>	<b>1.162</b>	<b>39.813</b>	<b>1.024</b>

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The table below shows the motion in the adjustments for depreciation of the commercial receivables throughout the year:

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>Balance on January, 1</b>	<b>1.024</b>	<b>254</b>
Adjustments set for depreciation	6.040	4.264
Adjustments for depreciations resumed as revenues	(5.902)	(3.494)
<b>Balance on December, 31</b>	<b>1.162</b>	<b>1.024</b>

On 31.12.2017, 97% of the commercial receivable in balance are related to customers with good payment records.

**b) Liquidity risk**

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

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

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

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

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

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

	<b>Accounting value</b>	<b>Contractual cash flows</b>	<b>0-30 zile</b>	<b>31-60 zile</b>	<b>peste 60 zile</b>
31.12.2017					
Commercial debts	22.776	(22.776)	(14.836)	(5.793)	(2.147)
Commercial effects to be paid	39	(39)	(39)	0	0
31.12.2016					
Commercial debts	25.133	(25.133)	(19.014)	(4.429)	(1.690)
Commercial effects to be paid	5	(5)	(5)	-	-

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

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

On 31.12.2017 AEROSTAR has in its records no overdue financial debts.

**c) Foreign currency risk**

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

Exposure to the foreign exchange currency risk

AEROSTAR is exposed to the foreign currency risks, as 76% of its turnover recorded in 2015 related to USD and EUR, while a significant part of the operating expenses relates to LEI.

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

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

<b>31.12.2017</b>	<b>MII EUR</b>	<b>MII USD</b>	<b>MII GBP</b>
Cash and cash equivalent	1.257	1.800	20
Commercial receivables	1.592	6.607	0
Commercial debts	(1.129)	(1.591)	(109)
<b>Net exposure in original currency</b>	<b>1.720</b>	<b>6.816</b>	<b>(89)</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/RON and EUR/RON.

Taking into consideration the evolution of USD/LEU exchange rate from 2015, 2016, and 2017, a highly volatility of 10% can be observed. Thus, a possible reasonable variation of 10% can be observed at the end of the financial year.

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

<b>31.12.2017</b>	
Total net exposure in the currency of origin (thousand USD)	6.816
USD/LEU exchange rates	3.89
Net exposure in functional currency	26.514
Possible reasonable variation of exchange rate	+/- 10%
<b>Effect of variation in profit and loss account</b>	<b>+/- 2.651 thousand LEI</b>

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**d) Interest rate risk**

For the reporting period AEROSTAR has contracted a multi-product Credit Facility of 7.000 thousand USD, destined to financing the Company's operations, which includes:

- 1) Product A: in the amount of 2.500 thousand USD, usable as overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) Product B: in the amount of 7.000 thousand USD (with the condition that the sum of the use from Product A and Product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility by issuing warranties instruments to ensure the commercial contractual obligations by issuing bank warranties letters and import credentials.

The interest is applicable only for the overdraft utilized, within the sub-limit of 2,500 thousand USD of Product A.

As during the reporting period AEROSTAR did not use Product A, the company revenues and cash flows are independent from the interest rate variations on the banking market.

On 31.12.2017, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 4.608 MII USD (equivalent to 17.932 thousand LEI).

On 31.12.2017 no mortgages are set on the property assets owned by AEROSTAR.

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**NOTE 19 - REVENUES**

	<b>31 decembrie 2017</b>	<b>31 decembrie 2016</b>
<b>Revenues from sales, of which:</b>	<b>340.172</b>	<b>356.219</b>
Revenues from sale of products	187.880	182.597
Revenues from services supplied	145.632	167.188
Revenues from selling goods	4.086	3.765
Revenues from renting	2.024	1.921
Commercial discounts granted	(2)	-
Revenues from other activities	552	749
<b>Revenues related to investors of finished products and production in progress</b>	<b>10.420</b>	<b>3.817</b>
<b>Other revenues from operations</b>	<b>3.632</b>	<b>3.654</b>
<b>Revenues from the production of immobilizations</b>	<b>1.287</b>	<b>1.603</b>
<hr/> <b>Total revenues from Operations</b>	<hr/> <b>355.511</b>	<hr/> <b>365.293</b>

To early apply the IFRS 15 *Revenue from contracts with Customers*, the Company has derecognized at the end of the financial year, the revenues from evaluated services rendered according to IAS 18, depending on the execution stage of the contract, their amount in 2017 being of 477 thousand LEI.

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**NOTE 20 - EXPENSES**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Expenses with employee benefits, from which:</b>	<b>108.629</b>	<b>99.488</b>
Wages and salaries	83.419	78.261
Expenses with benefits in kind and expenses with ticket meals granted to employees	6.254	3.995
Expenses with social security	18.956	17.232
<b>Expenses with raw materials and materials</b>	<b>106.717</b>	<b>103.651</b>
<b>Power supply, water and gas</b>	<b>8.314</b>	<b>8.349</b>
<b>Other material expenses, of which:</b>	<b>12.971</b>	<b>14.221</b>
Expenses with non-stored materials	2.130	3.571
Expenses with goods	3.878	2.972
Expenses with packages	245	-
Expenses with other materials	6.718	7.678
<b>Expenses with external services, from which:</b>	<b>30.629</b>	<b>40.957</b>
Repairs	12.227	19.416
Transport costs	3.290	3.545
Commission and honors	3.272	6.391
Movements, deployments	1.069	1.466
Renting expenses	770	766
Other expenses with services supplied by third parties	7.810	7.250
<b>Amortizations</b>	<b>24.275</b>	<b>16.042</b>
<b>Increase/decrease of adjustments referring provisions</b>	<b>945</b>	<b>13.549</b>
<b>Increase/decrease of adjustments for depreciation of inventories</b>	<b>(1.337)</b>	<b>592</b>
<b>Other operational expenses</b>	<b>4.228</b>	<b>3.835</b>
<b>Total Expenses with Operations</b>	<b>295.371</b>	<b>300.685</b>

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**NOTE 21- FINANCIAL REVENUES**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Revenues from exchange differences	<b>3.334</b>	<b>6.891</b>
Interest incomes	<b>890</b>	<b>392</b>
Revenues from shares detained to related parties	<b>189</b>	<b>231</b>
<b>Total financial revenues</b>	<b>4.413</b>	<b>7.514</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*.

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**NOTE 22- FINANCIAL EXPENSES**

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Expenses from exchange rate differences</b>	<b>5.766</b>	<b>6.257</b>
<b>Total financial expenses</b>	<b>5.766</b>	<b>6.257</b>

The company registers in the financial expenses category only expenses from unfavorable exchange rates differences, unregistering expenses regarding financial investments disposed, with the interests or other financial expenses.

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**NOTE 23 - TAX ON PROFIT**

**Tax on profit**

The profit tax is recognized in the statement of the profit or loss, or directly in the company capitals if the tax relates to the capital items.

The profit tax corresponding to the reported time period comprises the current tax and the deferred tax.

The profit tax rate applicable on 31.12.2017 was 16% (the same rate that applied for the financial year 2016).

**31 December 2017**

<b>Gross accounting profit</b>	<b>58.787</b>
<b>Expenses with current tax on profit</b>	<b>7.650</b>

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	357.667	Fiscal revenues	304.612	-53.055
Accounting expenses*	299.275	Fiscal expenses	236.855	-62.420
Restated Gross accounting profit*	58.392	Fiscal profit	67.757	+9.365
Accounting tax (16%)	9.343	Fiscal tax (16%)	10.841	+1.498
Tax reductions	-	Tax reductions	3.191	+3.191
Tax on final profit	9.343	Tax on final profit	7.650	-1.693
The applicable legal rate	16,00%	The legal rate applicable	16,00%	
The effective medium rate, calculated on restated accounting gross profit		13,10%		

\* The revenues and expenses are the ones obtained after the deduction from the total revenues and the total expenses of the revenues and expenses related to activities subject to the specific tax.

The main factors which have affected the effective tax rate:

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

The company has registered on 31 December 2017 a debt regarding the current income tax in the amount of 1.522 thousand LEI related to fourth quarter of 2017.

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**The specific tax of activities**

Starting with 01.01.2017 Aerostar S.A. became taxable for restaurant and public alimentation activities. The specific tax related to 2017 was in the amount of 52 thousand LEI.

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**NOTE 24 - PROFIT PER SHARE**

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

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

<b>IN LEI</b>	<b><u>31.12.2017</u></b>	<b><u>31.12.2016</u></b>
Profit distributable to ordinary shareholders	53.169.633	56.471.595
Number of ordinary shares	152.277.450	152.277.450
	<hr/>	<hr/>
<b>Profit per share</b>	<b><u>0,349</u></b>	<b><u>0,371</u></b>

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**NOTE 25- THE AVERAGE NUMBER OF EMPLOYEES**

The average number of employees is of 1.834 for year 2017 and 1.719 for year 2016. To these is added a medium number of personnel attracted through temporary employment business and used in the production process of AEROSTAR.

The total personnel employed in the activity of company AEROSTAR was:

	<u>year 2017</u>	<u>year 2016</u>
total personnel	2.031	1.958

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**NOTE - 26 TRANSACTIONS WITH AFFILIATED PARTIES**

<b>Acquisitions of goods and services</b>	<b>year 2017</b>	<b>year 2016</b>
S.C Airpro Consult SRL Bacau	9.252	9.182
S.C Foar SRL Bacau	571	566
<b>TOTAL</b>	<b>9.823</b>	<b>9.748</b>

<b>Sales of goods and services</b>	<b>year 2017</b>	<b>year 2016</b>
S.C Airpro Consult SRL Bacau	16	24
S.C Foar SRL Bacau	4	4
<b>TOTAL</b>	<b>20</b>	<b>28</b>

<b>Debts</b>	<b>Balance at 31.12.2017</b>	<b>Balance at 01.01.2017</b>
S.C Airpro Consult SRL Bacau	765	979
S.C Foar SRL Bacau	33	34
<b>TOTAL</b>	<b>798</b>	<b>1.013</b>

<b>Dividends collected by Aerostar</b>	<b>year 2017</b>	<b>year 2016</b>
S.C. Airpro Consult SRL Bacau	97	50
S.C Foar SRL Bacau	92	181
<b>TOTAL</b>	<b>189</b>	<b>231</b>

The transactions with the affiliated parties in 2017 consisted in:

- Services provided by SC AIRPRO CONSULT SRL Bacau to SC AEROSTAR SA Bacau for temporary manpower
- Machinery rental services provided by SC FOAR SRL Bacau to SC AEROSTAR SA Bacau
- Services provided by SC AEROSTAR SA Bacau to SC AIRPRO CONSULT SRL Bacau and SC FOAR SRL Bacau for space rental and supply of utilities
- Dividends collected by SC AEROSTAR Bacau from SC AIRPRO CONSULT SRL Bacau and from SC FOAR SRL Bacau (NOTE 7).

In the period January – December 2017 there were no transactions made with the company Aerostar Transporturi Feroviare SA Bacau, its activity being suspended from year 2016.

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## **NOTE 27 – INFORMATION ON CASH FLOW**

The method used in the Cash Flow Situation is the direct method.

The cash flows situation represents the cash flows and cash equivalents classified on operating activities, of investment and financing, thus highlighting the mode in which AEROSTAR generates and uses the cash and cash equivalents.

In the context of Cash Flows Situation:

- the cash flows are the receipts and cash payments and cash equivalents;
- the cash contains the money availability from banks and register.
- the cash flows contain the deposits formed in banks and CEC-s and order tickets deposited on banks to be collected.

The cash flows provided from the transactions performed in currency are registered in the functional currency by applying over the value in the exchange currency between the functional currency (LEU) and the currency from the date of the cash flow (date of making payments and receipts).

The gains and losses which come from the exchange rate variation are not cash flows. Nevertheless, the effect of the exchange rate variation over the cash and equivalent flows detained or due in foreign currency is reported in the cash flows situation, but separately from the cash flows provided from operations, investments and financings, with the purpose to reconcile the cash and cash equivalents at the beginning and at the end of the reporting period.

The operations activities are the main cash-generating activities of AEROSTAR. Thus, in year 2017 the receipts from customers were 347.140 thousand LEI, from which 29.940 thousand LEI represent the receipts in advance from the customers, and the payment to the suppliers and employees were the amount of 250.453 thousand LEI.

The activity of operating has generated a net cash of 41.803 thousand LEI used for:

- the increase of the operating activity by purchasing tangible and intangible assets in the amount of 27.597 thousand LEI;
- the payment of the dividends rightful to the shareholders in the amount of 13.289 thousand LEI.

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**NOTE 28 – LIABILITIES AND OTHER OFF-BALANCE ITEMS**

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
• <b>Liabilities:</b>		
○ guaranties granted to customers as letters of bank guarantee	11.809	10.192
○ guarantees received from suppliers – as letters of bank guarantee	43.311	433
• <b>Goods</b>		
○ Inventories such as materials released for use (tooling & jigs, personal protective equipment, measuring and control instruments, technical library, etc.)	25.026	22.348
○ material values received in custody	1.799	1.796
○ tangible and intangible immobilizations – result of research & development, purchased through projects in cofinancing	4.151	1.151
○ material values received for processing/repairs	1.016	616
○ other goods off-balance sheet	178	169
• <b>Other values off-balance sheet</b>		
○ commitments on the covering of some future obligations to A.JO.F.M. under O.U.G. 95/2002		
○ debtors cleared from assets, yet still monitored	6.215	6.635
○ material guarantees	579	349
• <b>Greenhouse Gas Emission Certificate</b>	185	186
	498.322	262.595

At the date of 31 December 2017, AEROSTAR owned 13099 greenhouse gas emission certificates (in 2016: 11363 certificates).

From the 13099 certificates which the Company owns in 2017, 3076 greenhouse gas emission certificates from 2017 will be reimbursed until the end of April 2018.

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The market value from the last day of transaction in year 2017 of a GES certificate was of 8,18 Euro (in 2016: 5,09 Euro).

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**NOTE 29 – REMUNERATION OF THE DIRECTORS**

The Board of Directors of AEROSTAR was formed on a period of four years (from the date of 11.07.2016 to 10.07.2020) in the General Meeting of the Shareholders from 5 July 2016 and shall be composed of:

	Surname and first name	Position	Profession
▪	FILIP GRIGORE	President of the Board of Directors	Aviation engineer
▪	DAMASCHIN DORU	Vice-president of the Board of Directors	Economist
▪	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors	Aviation engineer
▪	LIVIU-CLAUDIU DOROȘ	Member of the Board of Directors	Economist
▪	VÎRNĂ DANIEL	Member of the Board of Directors	Lawyer

In 2017, the Company AEROSTAR did not grant advance payments or credits to the members of the Board of Directors, neither did it undertake any liabilities on their account as a guarantee of any type.

The pay of the Directors is approved by the General Meeting of the Shareholders.

The shareholders of the company have decided in the Ordinary General Assembly from 14 December 2017, the following remunerations for the members of the Board of Directors:

- a net remuneration of the members for the financial year 2018 of 4.500 LEI;
- at a maximum level, additional remunerations for the executive members of the Board of Directors, of not more than 10 (ten) or (including) the net remuneration;
- the empowering of the Board of Directors for their negotiation on additional remuneration, with the executive members, within the limit of the ceiling approved by the Ordinary General Assembly.

The amount of the gross remunerations accorded to the members of the Board of Directors in the financial year 2017, by virtue of their responsibilities, was 270 thousand lei.

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## **NOTE 30 - RISK MANAGEMENT**

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

AEROSTAR pursues to secure the mid and long term sustainability and also to reduce the uncertainty associated to its strategic and financial objectives. The risk management processes provide the identification, analysis, evaluation and administration of the risks in order to minimize their effects down to an agreed level. Still, there may be risks and uncertainties further to the ones presented as follows, which are not currently known, or which are considered insignificant but which may affect in the future the business lines followed by Aerostar.

### **Operational risk**

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

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

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

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

AEROSTAR allocates and will continue to allocate investment expenses and other operational expenses in order to prevent and manage the operational risk. In addition, Aerostar seeks to have available adequate capital, by setting provisions for risks and related expenses, company funds, to cover its risks of exposure.

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

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

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

The credit risk, including the risk of the country where the customer performs its operations, is administered for each business partner. When considered necessary, specific mitigation tools are required (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 geographic area.

A presentation of the quantitative information regarding AEROSTAR exposure to the credit risk is detailed in Note 18 (Financial Instruments) of the Financial Statements.

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

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

In order to reduce liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line (used as overdraft) granted by banks. During the reporting period, AEROSTAR did not use the contracted credit line in amount of 2.500.000 USD, all the activities being financed from company's own sources.

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

The market risk includes the price risk, currency risk and interest rate risk. AEROSTAR is mainly exposed to the price risk determined by the fluctuations of the price of raw materials and materials used in the production processes.

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:

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

AEROSTAR is exposed to currency risk as 76% of the turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency (LEI).

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

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

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

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**NOTE 31- EXPENSES AND INCOMES IN ADVANCE**

	<b>31 December 2017</b>	<b>01 January 2017</b>
<b>Expenses registered in advance</b>	<b>491</b>	<b>521</b>
<b>Incomes registered in advance</b>	<b>28</b>	<b>33</b>

The expenses effectuated and incomes realized in the current period, but which concern the periods or the next financial exercises, are recorded distinctively in accountability, at expenses registered in advance or incomes registered in advance, where appropriate.

In **advance expenses** category, the Company has registered the amounts related to the periods or to the next financial years, representing: subscriptions, assurance policies, commissions, trade fairs and conferences participations, taxes and duties, on-line services, IT maintenance, etc., which shall be allocated on expenses, according to the due.

In the **advance incomes** category, the Company has registered incomes related to the periods or of the future financial years for the following elements of financial immobilizations.

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**NOTE 32- EVENTS AFTER THE REPORTING PERIOD**

On 16 January 2018, AEROSTAR S.A. has acknowledged the shareholders through a release, the fact that, in accordance with The Agreement of the Administration Council no. 2 from 14.12.2017, a second headquarter has been approved, without legal personality (work point) in Iasi, on Aeroportului Street, no. 25B, having into consideration the lease agreement no. 25074/07.09.2017, regarding the concession of a surface of 16.000 mp land at the premises of the Iasi International Airport and the additional act no. 1 from 08.01.2018 to this.

The price of the concession is of 515 thousand euro. The annual fee is of 10.500 euro monthly payable at the BNR course from the payable day.

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

The authorization procedures and the building of a hangar for maintenance civil aircraft will begin in the following period.

In the date of 15 February 2018, AEROSTAR S.A. has made public the preliminary proposal of the Board of Directors of distributing the profit realized in year 2017 on the following destinations:

	<b>31 December 2017</b>
	<b>(LEI)</b>
<b>Net profit preliminary realized</b>	<b>53.169.633</b>
○ Distribution to the legal reserve of the profit	9.337.716
○ Distribution to statutory reserve	29.517.837
○ Distribution as dividends (gross dividend per share: 0,094 LEI)	14.314.080

The preliminary proposal of the Board of Directors of the distribution of the profit realized in year 2017 will be forwarded to approval to the Ordinary General Meeting from the date of 19 April 2018.

Significant modifications were made to the tax legislation.

AEROSTAR S.A. has not identified events after the reporting date which may have an impact over the financial situations related to the financial year ended at 31 December 2017.

These individual financial situations which contain: the situation of the financial position, the situation of the profit or loss, other elements of the global result, the situation of the company capitals' modifications, the situation of the cash flows and the explicative notes of the financial situations were approved by the Board of Directors at the date of 15 March 2018 and signed in its name by:

**General Director,**  
**Grigore Filip**

**Financial Director,**  
**Doru Damaschin**

## DECLARATION

The undersigned, GRIGORE FILIP, as President of the Board of Directors and General Director of SC AEROSTAR S.A. and DORU DAMASCHIN, as Vice-president of the Board of Directors and Financial Director of S.C AEROSTAR S.A., hereby undertake responsibility for the preparation of the individual financial statements as on 31.12.2017, and we confirm hereby that:

- a) All the accounting policies used to draw up the individual financial statements as on 31.12.2017 are in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.
- b) The individual financial statements as on 31.12.2017 provide a fair image and compliant with the reality of the related assets, liabilities, financial position, of the global result and the other information related to the activity carried out.
- c) The Report of the Board of Directors for the financial year 2017 comprises an accurate review of the development and performance of S.C. AEROSTAR S.A., as well as a description of the main risks and uncertainties specific for the activity performed.
- d) S.C. AEROSTAR S.A. BACAU performs its activity in conditions of continuity.

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

Vice-president of Board of Directors and Financial Director,  
DORU DAMASCHIN

**S.C. AEROSTAR S.A. BACAU**  
**Condorilor Street no. 9**

**DISTRIBUTION PROPOSAL OF THE PROFIT  
REALISED IN 2017**

<b>The net profit of the financial year 2017:</b>	<b>53.169.632,90 lei</b>
• Distributions to the legal reserve of the reinvested profit	9.337.715,64 lei
• Distributions to reserves	29.517.837,26 lei
• Distributions as dividends (gross dividend per share: 0,094 LEI)	14.314.080,00 lei

**CA PRESIDENT & GENERAL DIRECTOR**  
GRIGORE FILIP

**CA VICEPRESIDENT & FINANCIAL DIRECTOR**  
DORU DAMASCHIN