

ANNUAL REPORT 2019



AEROSTAR S.A.

THE REPORT OF THE BOARD OF DIRECTORS

FOR THE YEAR 2019

# REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

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## INTRODUCTION

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

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

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

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

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

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

Note: For any clarification needed, please address the Romanian text which is prevailing in all circumstances.

**COMPLIANCE WITH THE NON-FINANCIAL REPORTING REQUIREMENTS**

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

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

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

## **Letter from the President-General Director**

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

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

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

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

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

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

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

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

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

**Grigore FILIP**

**President & General Director**

## Chapter 1

### 2019, A BRIEF PERSPECTIVE

#### 1.1 General elements

Mandatory requirement & option GRI 102-7

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

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

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

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

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

The main field of activity of AEROSTAR is production.

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

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

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

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

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

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

The unique identification code at European level (EUID) is ROONRC.J04/1137/1991 and the LEI identification code as a legal entity is 315700G9KRN3B7XDDBB73.

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

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

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

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

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

### 1.2 Key Figures

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

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

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

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

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

The monetary context for the results of the company realised in 2019 are:

	UM	2019	2018	2017
<b>Average exchange rate EURO/12 months</b>	Lei/Euro	4,7447	4,6534	4,5677
<b>Average exchange rate USD/12 months</b>	Lei/USD	4,2372	3,9411	4,0542
<b>Average exchange rate GBP/12 months</b>	Lei/GBP	5,4096	5,2600	5,2144

<b>Inflation</b>	%	4,04	3,27	3,32
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## 1.3 AEROSTAR market

Mandatory requirement & option GRI 102-4

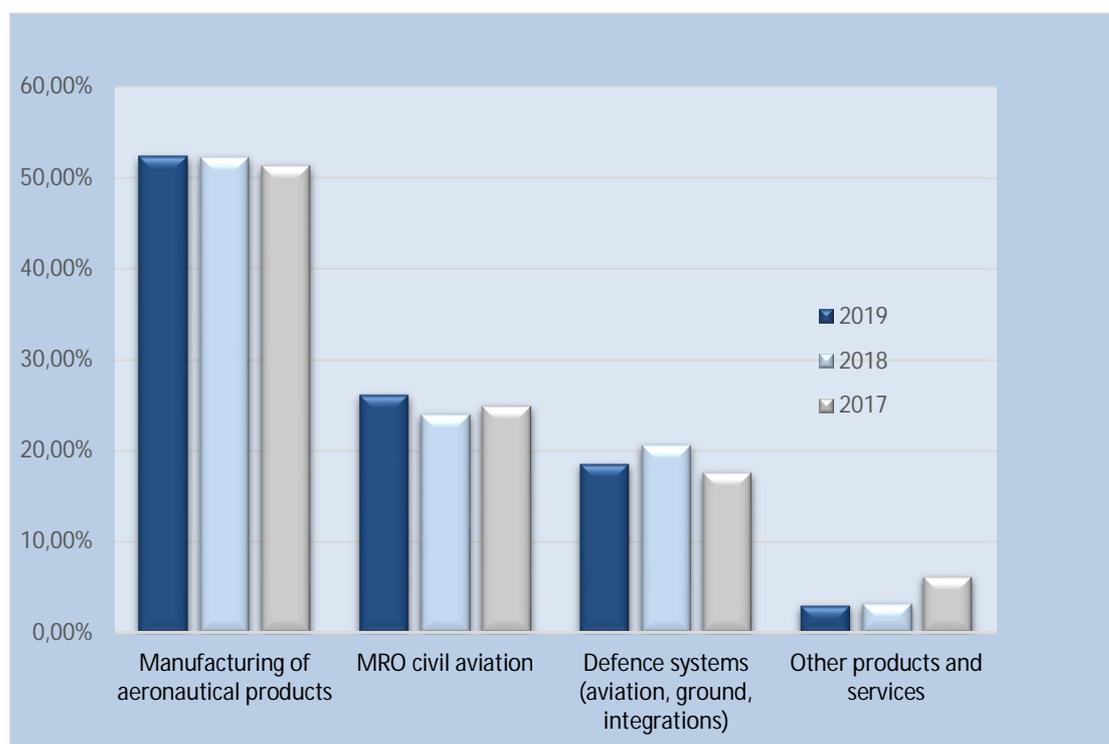
**Aerostar operates on the global market in the aviation and defence industry, being a major supplier for the Romanian Ministry of National Defence.**

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

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

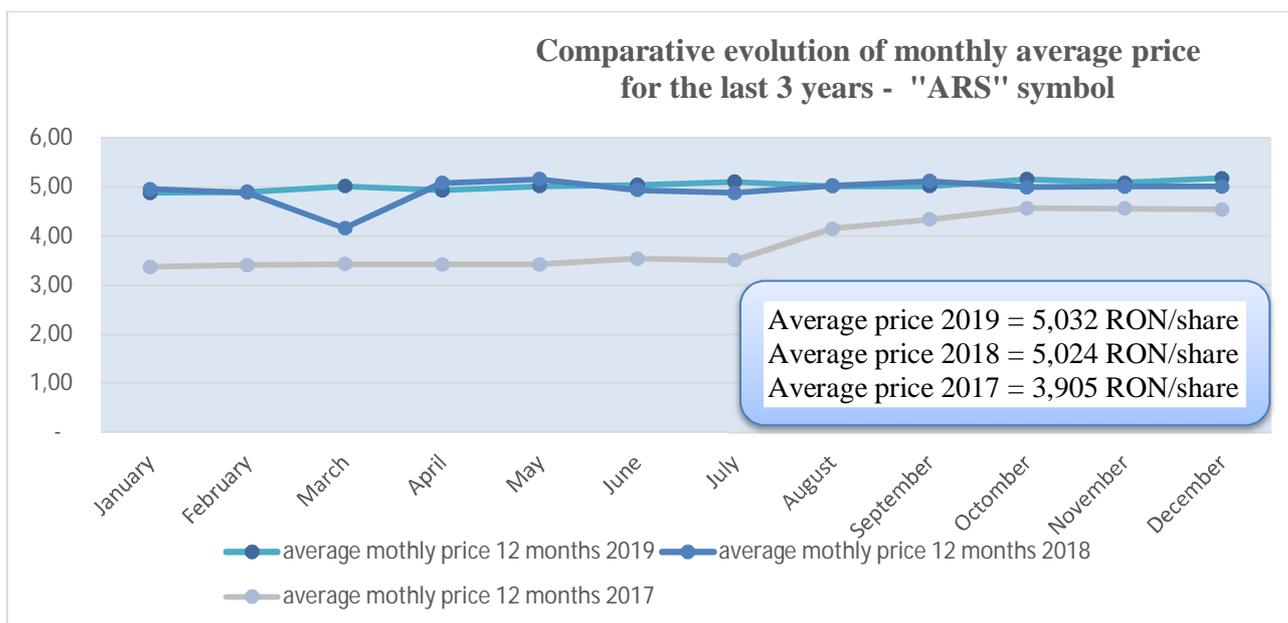
Mandatory requirement

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



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

## 1.4 Evolution of AEROSTAR shares in 2019



## AEROSTAR Shares in figures

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

## 1.5 Business Model

Mandatory requirement

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

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

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

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

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

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

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

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

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

## Chapter 2

### AEROSTAR, A CONTEXT BASED ANALYSIS

#### 2.1 Business Environment

##### Context of the Organization and Interested Parties

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

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

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

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

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

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

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

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

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

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

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

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

Option GRI 102-42

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

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

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

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

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

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

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

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

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

## With reference to the legislative context:

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

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

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

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

## With reference to the economic context:

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

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

Option GRI 201-1

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

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

The following evolutions occurred in 2019:

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

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

### **Focus on cybersecurity**

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

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

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

## 2.3 Modifications of internal aspects

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

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

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

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

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

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

Detailed information can be found in the chapter “Our Employees”.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Economic-financial indicators on 31.12.2019

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

## Indirect impact on the economy

Option GRI 203-2

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

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

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

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

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

Chapter 3

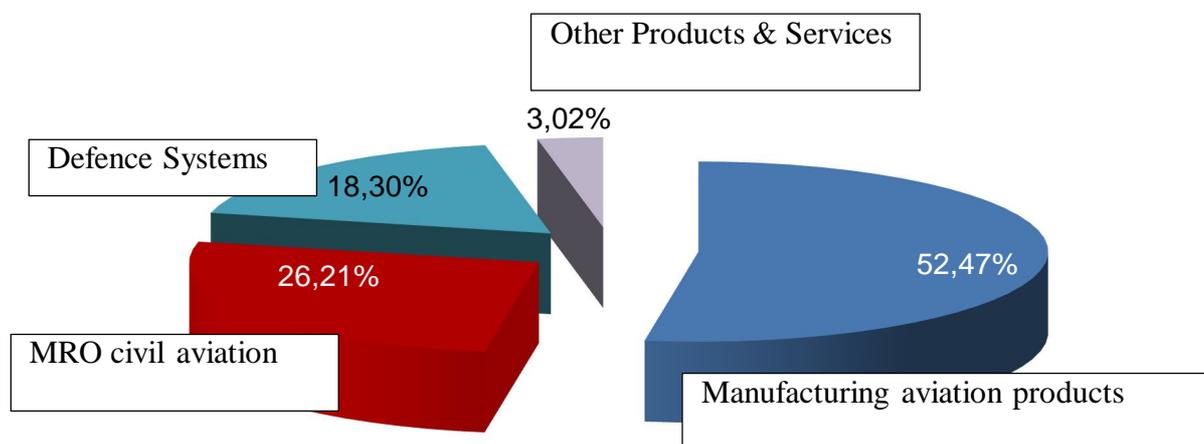
**AEROSTAR BUSINESS**

Mandatory requirement

**3.1 Business Lines**

In 2019, the company's revenues are mainly created from the main business lines. The main field of activity is production in the field of aviation and defence.

**Contribution of the main business lines in company sales in 2019**



## 3.2 AEROSTAR-No.1 IN MANUFACTURING AERONAUTICAL PRODUCTS

### Mandatory requirement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3.3

#### **AEROSTAR- No 1, CENTRE OF EXCELLENCE FOR MRO CIVIL AVIATION for Airbus 320 and Boeing 737 aircraft**

Mandatory requirement

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

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

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

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

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

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

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

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

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

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

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

### 3.4 AEROSTAR- No 1 IN ROMANIA FOR DEFENCE SYSTEMS

Mandatory requirement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Chapter 4

### AEROSTAR, A MODEL OF SUCCESS

Mandatory requirement

#### 4.1 AEROSTAR, a successful trade mark

Mandatory requirement & option GRI 102-15

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

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

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

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

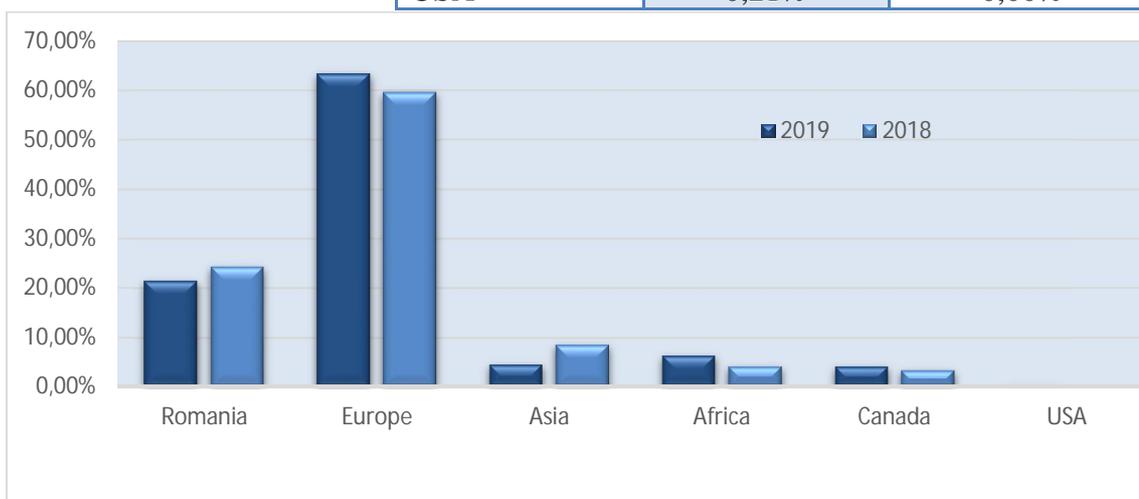
## 4.2 Sales Footprint on the markets

Mandatory requirement & option GRI 102-4

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

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

	2019	2018
Romania	21,46%	24,34%
Europe	63,41%	59,65%
Asia	4,47%	8,50%
Africa	6,29%	4,14%
Canada	4,16%	3,37%
USA	0,21%	0,00%



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

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

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

## 4.3 The Supply Chain

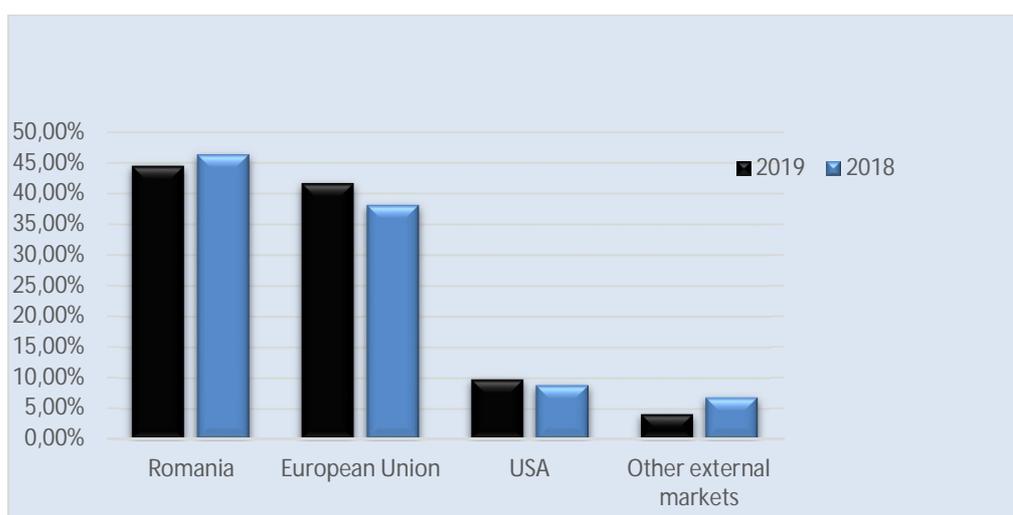
Mandatory requirement & option GRI 414-1, GRI 414-2

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

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

### Proportion of expenses with local suppliers Option GRI 204-1

	2019	2018
Romania	44,40%	46,33%
European Union	41,67%	38,10%
USA	9,76%	8,79%
Other external markets	4,17%	6,78%



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

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

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

There were no significant modifications of the organization and of the supply chain.  
Mandatory requirement & option GRI 102-9, GRI 102-10

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

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

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

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

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

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

Aerostar requests from its suppliers by contractual requirements, to respect the labour legislation applicable in their country of origin. Aerostar works with suppliers from member states of the International Labour Organization (ILO), the Organisation of the

United Nations, which sets the international labour standards, develops policies in the field and promotes decent labour conditions for all workers.

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

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

No negative environmental impacts were identified in the supply chain.

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

**Chapter 5**

**THE MANAGEMENT AND ORGANIZATION OF THE COMPANY**

**5.1 The company's executive management on 31 December 2019**

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

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

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

## 5.2 Organization structure and the organization of the activities

### Mandatory requirements

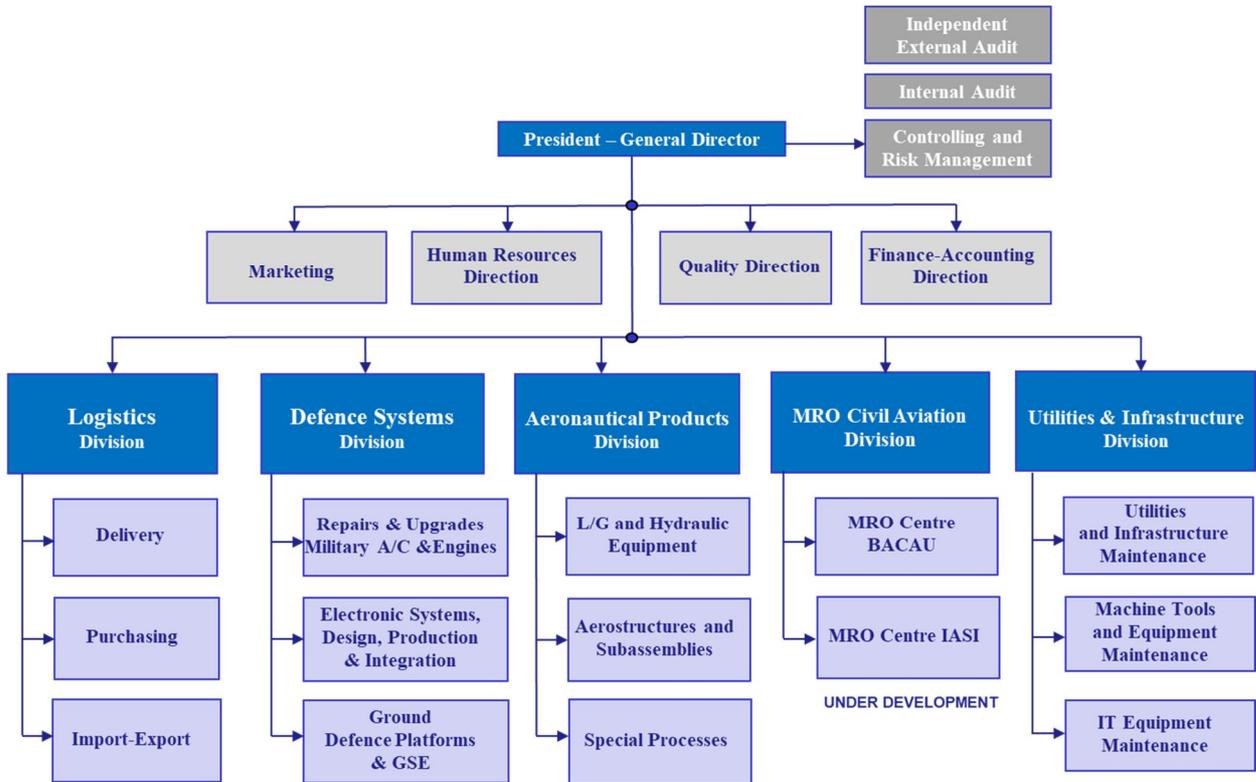
The value created by the company in the value chain in the economy is supported by a divisional type organization structure, with accounts management centres in the areas of operations, auxiliary and functional activities.

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

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

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

5.3 The organizational structure of the activities is presented below:



5.4 Affiliations

Option GRI 102-13

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

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

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

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

## Chapter 6

### QUALITY AND ENVIRONMENT

#### 6.1 Quality and environment policy

##### Mandatory requirement

The policy referring to quality and environment adopted by Aerostar has established as strategic objectives: to meet the customers' requests, to comply with the legal and regulatory requirements applicable to the activities performed, improve the environment performance, full safety for the users of Aerostar's products and services, continuous improvement of the competitiveness of our products and services, „zero defects” on the products and services in warranty.

The Integrated Quality and Environment Management System in AEROSTAR reconfigured after the latest revisions of the standards SR EN ISO 9001 of 2015, AQAP 2110 of 2016, AS 9100 Rev D of 2016, SR EN ISO 14001 of 2016, places a special focus on risk management.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**As for the mitigation of the climate changes**, Aerostar respected all its obligations arising from the Greenhouse Gas Emissions Authorization. The investments continued for a better efficiency in the heating agent distribution and energetic envelope of the buildings.

**Mandatory requirement & options GRI 416-1, GRI 416-2, GRI 417-1, GRI 417-2, GRI 417-3, GRI 414-1, GRI 414-2**  
Full safety for the users of our products and services is one of AEROSTAR's strategic objectives.

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

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

According to REACH regulations, if the substances and chemical mixtures have restrictions in use, only authorized substances and chemical mixtures are used. As for the safety of products and services, in 2019 there were no events as a result of AEROSTAR activity.

## 6.3 Changing the risks into opportunities

Mandatory requirement

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

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

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

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

## 6.4 Energy consumption

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

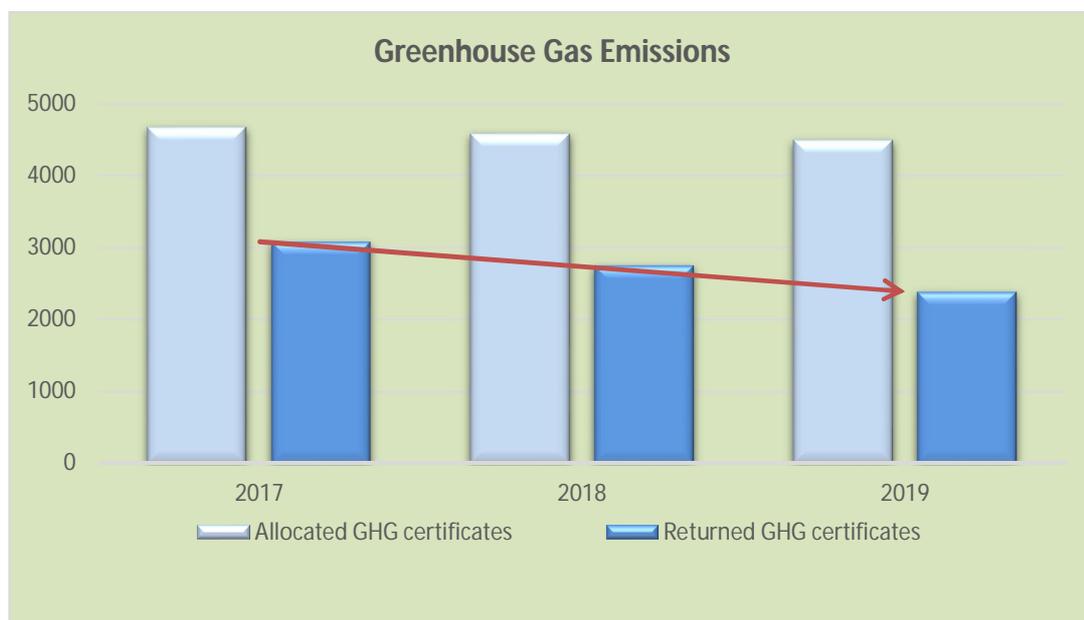
In 2019 the total energy consumption was 14% lower in comparison to 2018. The natural gas was the main source of energy, being 43% from the total.

## 6.5 Greenhouse gas emissions

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

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

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



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

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

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

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

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

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

## 6.7 Waste management

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

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

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

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

## Chapter 7

### INVESTMENTS

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

##### Mandatory requirements

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

The investments consisted in:

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

**The synthetic situation of the investment expenses for 2018-2020**



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

**7.2 Research and Development**

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

Chapter 8

OUR EMPLOYEES

Mandatory requirement

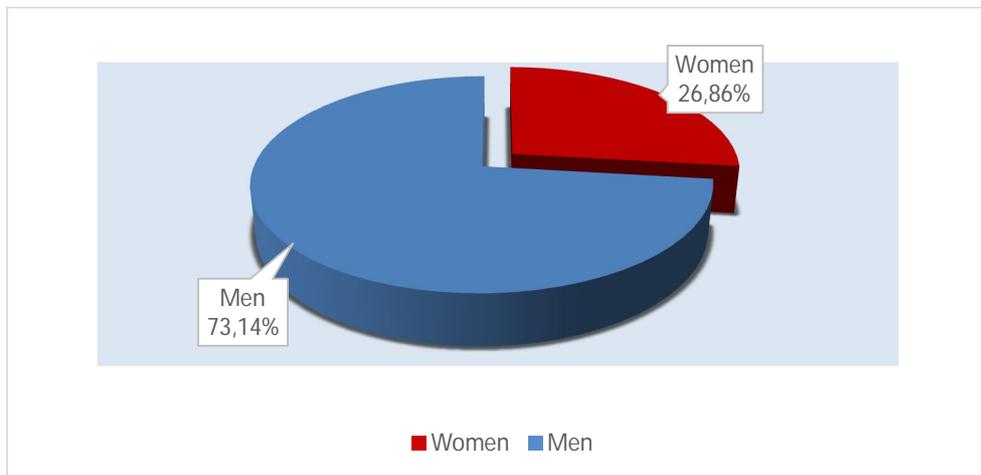
8.1 Social and manpower aspects, information about our employees

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

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

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

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



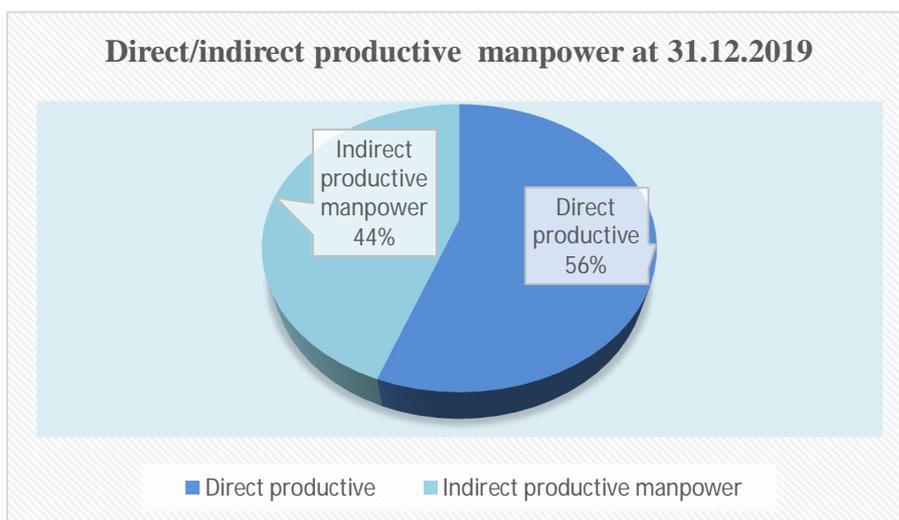
At the end of 2019, the ratio between the average basic salary negotiated for the men employees and the average basic salary negotiated at company level was 1,02 while the ratio between the average basic salary for the women employees and the average basic salary negotiated at company level was 0,95.

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

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

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

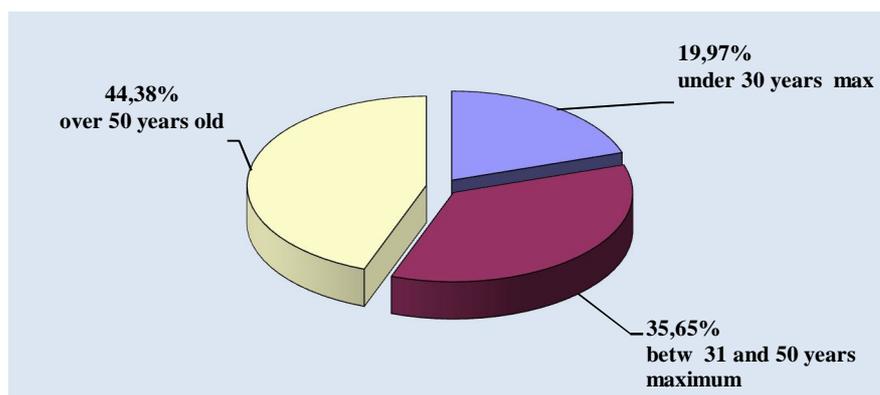
At the end of 2019, the structure on the main professional categories is as follows:



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

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

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



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

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

### 8.2 The labour relations

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

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

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

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

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

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

**Mandatory requirement**

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

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

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

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

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

### **8.3 The social dialogue**

**Mandatory requirement**

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

## 8.4 Formation, training, professional development

### Mandatory requirement

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

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

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

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

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

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

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

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

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

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

Mandatory requirement & option GRI 102-30

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

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

### 8.5 Health and safety at work, labour conditions

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

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

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

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

### 8.6 The dialogue with local communities

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

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

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

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

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

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

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

### 8.7 The results of the policies applied

#### Mandatory requirements

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

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

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

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

## Chapter 9

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

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

#### 9.1 Values, standards and rules of conduct

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

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

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

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

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

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

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

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

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

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

Aerostar is not involved in politic contributions activities.

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

## Chapter 10

### TANGIBLE ASSETS

#### Mandatory requirements

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

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

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

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

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

The production space comprises hangars, industrial buildings, technological testing benches, spaces for administrative and social activities. Also, the company holds spaces for office work such as technical and economical activities. All these locations and facilities are maintained in good condition.

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

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

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

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

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

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

## Chapter 11

### AEROSTAR SHARES (ARS)

**11.1 The shares of AEROSTAR S.A.** Bacău, are traded since 1998 on the regular market of the Bucharest Stock Exchange.

**The nominal value per share is 0,32 lei.**

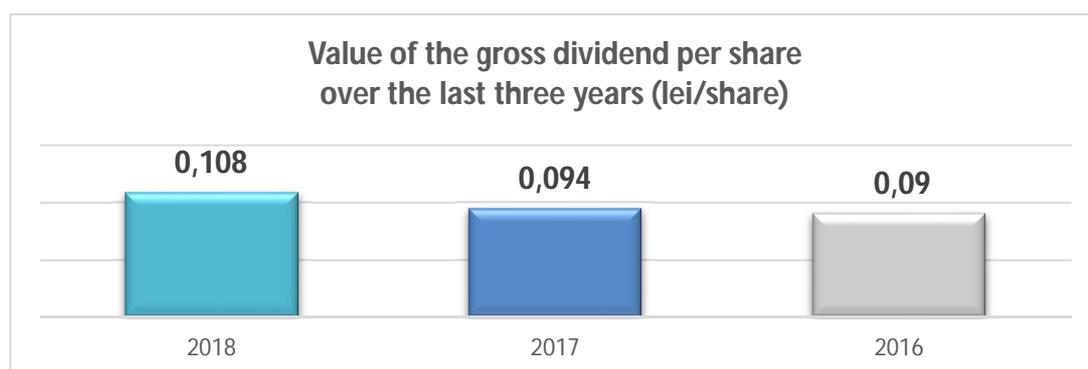
**The main characteristics of the shares (152.277.450 shares):** the shares issued are nominative, ordinary, of equal value, fully paid, issued in dematerialized form and recorded through registration in the Shareholders's Register. The register of AEROSTAR shares is administrated by Depozitarul Central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

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

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

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

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



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

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

## MAIN SHAREHOLDERS

Mandatory requirements & Option GRI 102-5

The shareholding structure at the end of 2019 had an approximate number of 6500 shareholders, in a slight decrease compared to the end of 2018, when the number of shareholders was close to 6600. The majority are natural and legal persons, below the significance threshold as provided in the regulations issued by the Financial Supervisory Authority and the Bucharest Stock Exchange.

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

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

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

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

There is no litigation with the persons mentioned above.

## Chapter 12

### RELATION WITH THE SHAREHOLDERS AND THE CAPITAL MARKET

#### Mandatory Requirements

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

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

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

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

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

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

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

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

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

## 12.2 Relation with the parent company and related parties

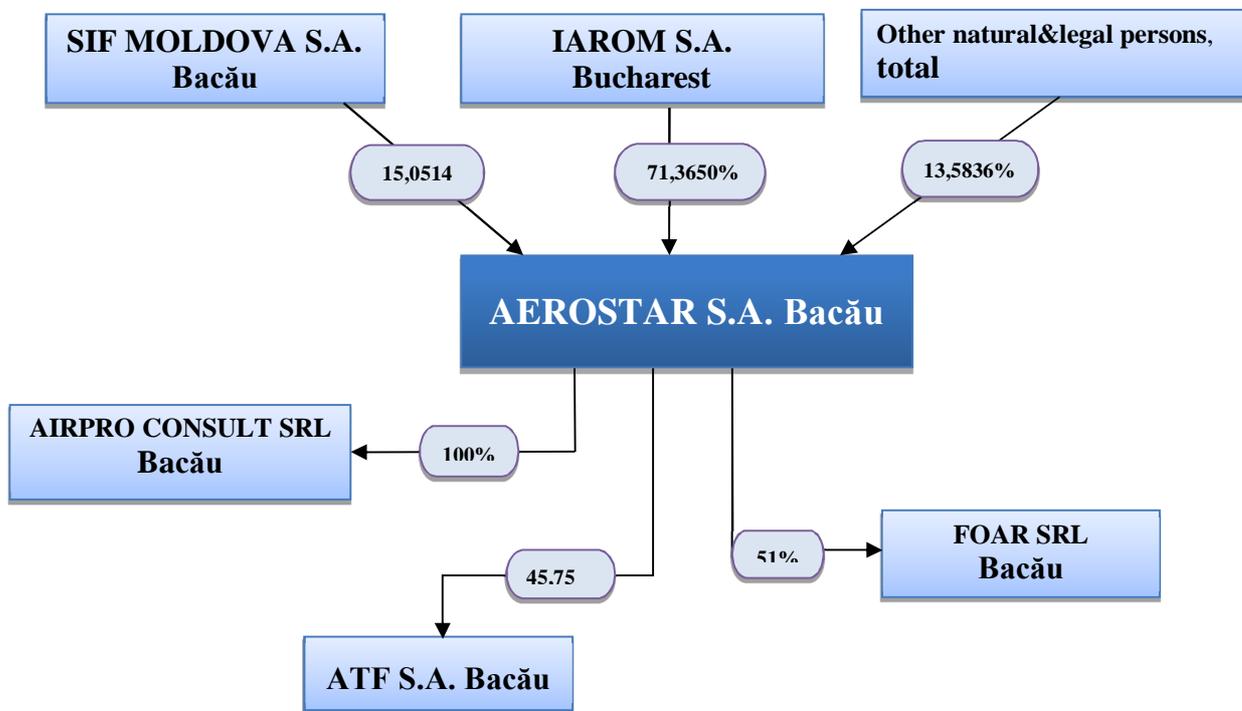
Mandatory requirements & Option GRI 102-45

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

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

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

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



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

**RELATED PARTIES**

**Mandatory Requirements**

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

Name of the subsidiary/related company	Basic activity	No. of shares held by Aerostar	Voting rights	Value of Aerostar holding (thousand lei)	Financial information for the last financial year (2018) for which the financial statements of the related companies were approved		
					Sales	Company capitals	Net profit
<b>Airpro Consult SRL Bacău</b>	CAEN code 7820	100	100%	10	7.840	147	66
<b>Foar SRL Bacău</b>	CAEN code 7739	408	51%	4	434	1.919	171
<b>ATF S.A. Bacău</b>	CAEN code 2822	9150	45,75%	92	-	274	1
<b>TOTAL</b>				<b>106</b>	<b>8.274</b>	<b>2.340</b>	<b>238</b>

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

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

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

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

## Chapter 13

### AEROSTAR MANAGEMENT

#### Mandatory requirements

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

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

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

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

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

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

## 13.2 Business Management

Mandatory requirements & options GRI 102-19

The administration of the company is in a unitary system.

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

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

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

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

## Chapter 14

### CORPORATE GOVERNANCE

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

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

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

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

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

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

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

## 14.2 The corporate governance structure

Mandatory requirements & Option GRI 102-18

The corporate governance structures are:

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

## 14.3 The General Meeting of the Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 14.4 The Board of Directors

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

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

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

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

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

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

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

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

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

All five BoD members were present in person in 3 meetings.

At the other four meetings, the situation was as follows:

Date	Presence in person	Present by teleconference	Missing
21.03.2019	3	2	-
06.05.2019	2	3	-
14.08.2019	4	1	-
11.12.2019	4	-	1

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

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

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

### 14.5 The audit committee

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

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

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

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

**Mandatory requirements & Options GRI 102-56**

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

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

### 14.7 AEROSTAR'S Code of Business Conduct & Ethics

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

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

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

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

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

## MANAGEMENT OF THE CONFLICT OF INTEREST

Mandatory requirements & Option GRI 102-25

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

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

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

Performance evaluation of the BoD members Option GRI 102-28

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

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

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

## EXECUTIVE MANAGEMENT

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

## THE INTERNAL CONTROL SYSTEM

The internal control system of AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

## ACCOUNTS CONTROL

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

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

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

No significant deviations were found compared to the scriptic records.

## BUDGETARY CONTROL

The budgetary control is performed by the budget managers.

From the budgeting perspective, the company is organized in:

- profit centers
- cost centers.

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

The budgetary control provides:

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

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

### **CONTROLLING**

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

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

### **INTERNAL AUDIT**

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

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

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

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

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

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

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

## Chapter 15

### NON-FINANCIAL REPORTING PROCESS

Mandatory requirement and options GRI 102-46, GRI 102-47, GRI 102-48, GRI 102-49, GRI 102-50, GRI 102-51, GRI 102-52, GRI 102-53, GRI 102-56, 102-32, 102-20

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

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

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

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

Mandatory requirements and options GRI 102-46, GRI 102-47, GRI 102-12, GRI 102-53

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

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

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

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

## Chapter 16

### THE NON-FINANCIAL DECLARATION FOR THE YEAR 2019

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

#### Non-financial Declaration for the year 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Aerostar undertakes furthermore:

- To communicate its environmental policy and strategy to all interested parties and to raise awareness amongst these parties of their own responsibilities towards environment;
- To comply fully and where possible to exceed the requirements of the applicable regulations and standards;
- To reduce energy consumption and GHG emissions;
- To reduce water consumption;
- To reduce waste resulting from its activities;
- To improve and develop the entire company's sites in order to avoid negative environmental impact;
- To avoid the use of environmentally-damaging substances, materials and processes and where this is not possible, to limit such use.

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

Aerostar is fundamentally committed to:

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

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

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

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

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

## Chapter 17

### **RISK AND OPPORTUNITIES MANAGEMENT**

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

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

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

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

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

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

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

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

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

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

## MAIN QUALITY AND ENVIRONMENT RISKS AND THEIR MANAGEMENT

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

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

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

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

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

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

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

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

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

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

### **Operational Risk**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The management of this risk is made by:

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

AEROSTAR is exposed to the currency risk as 79% of the turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency in LEI.

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

During the reporting period, AEROSTAR recorded no financial losses.

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

## Chapter 18

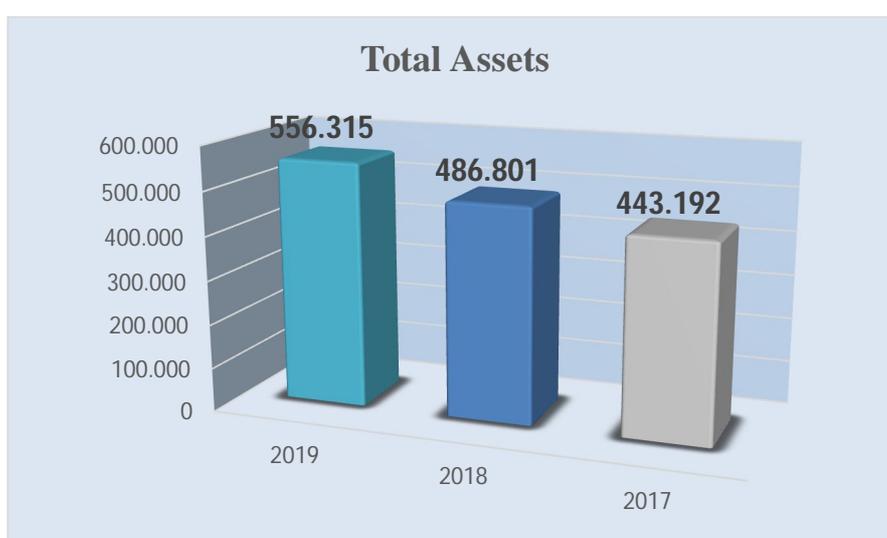
### THE FINANCIAL SITUATION

Mandatory requirements

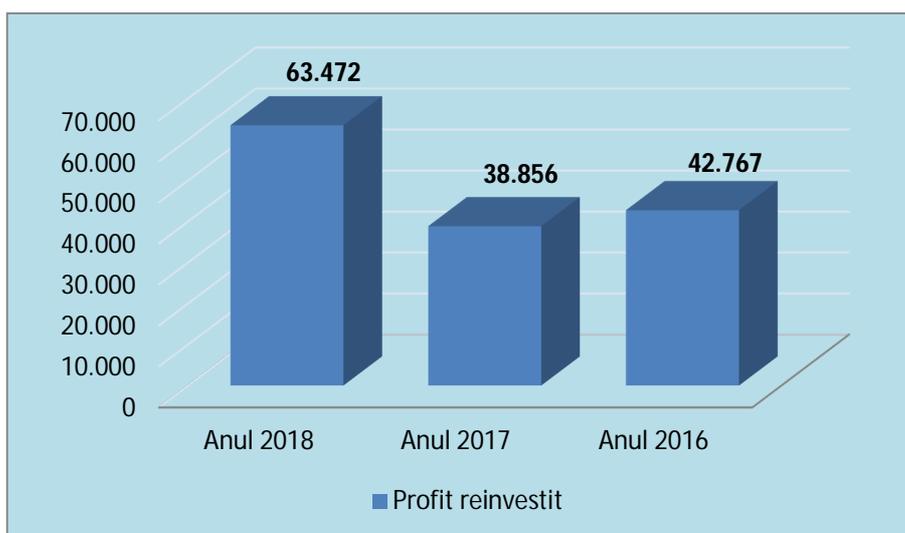
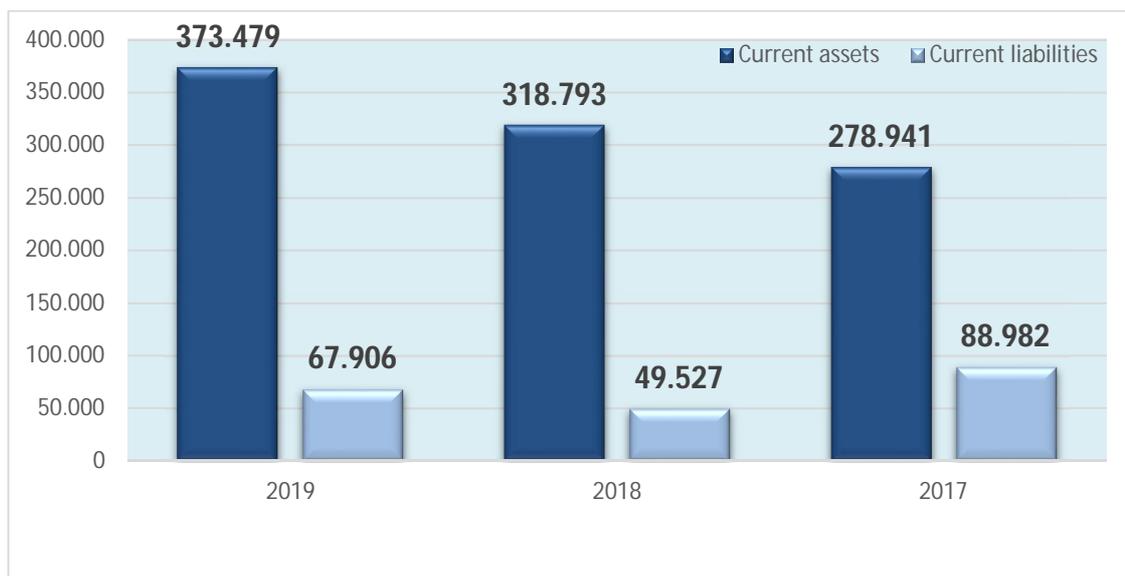
#### 18.1

Thousand lei

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



# REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

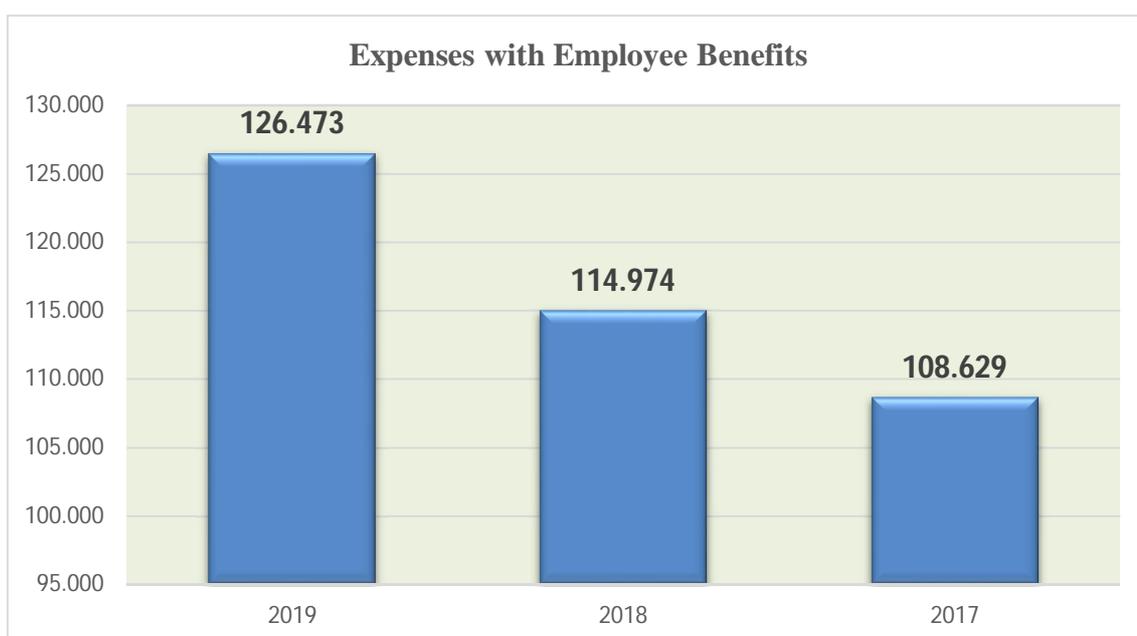


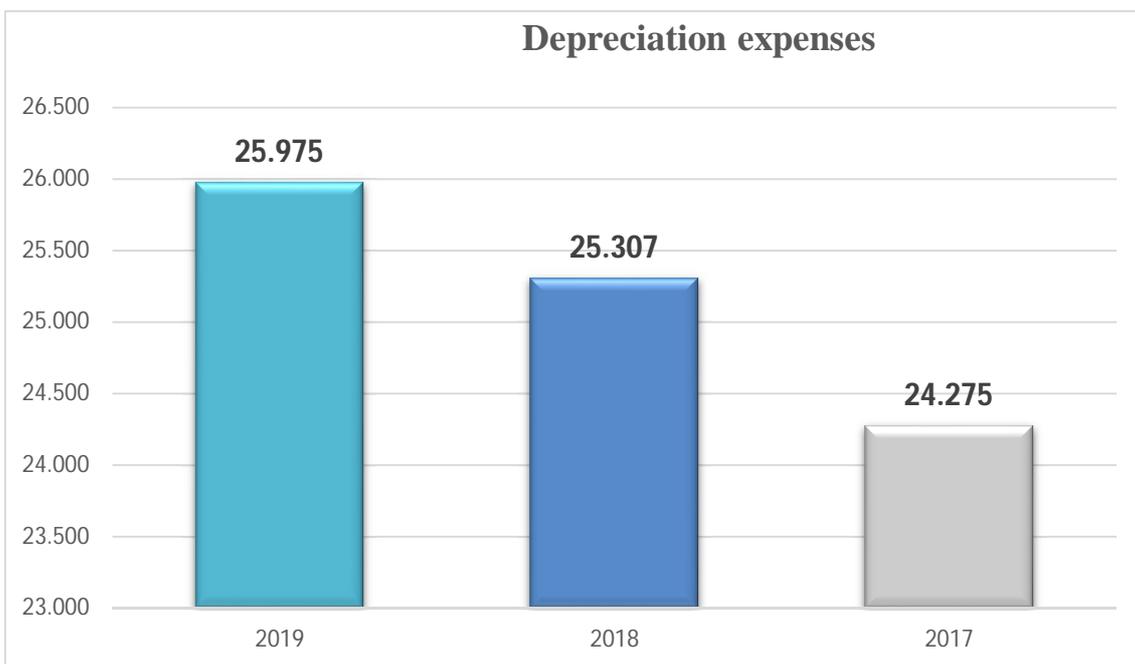
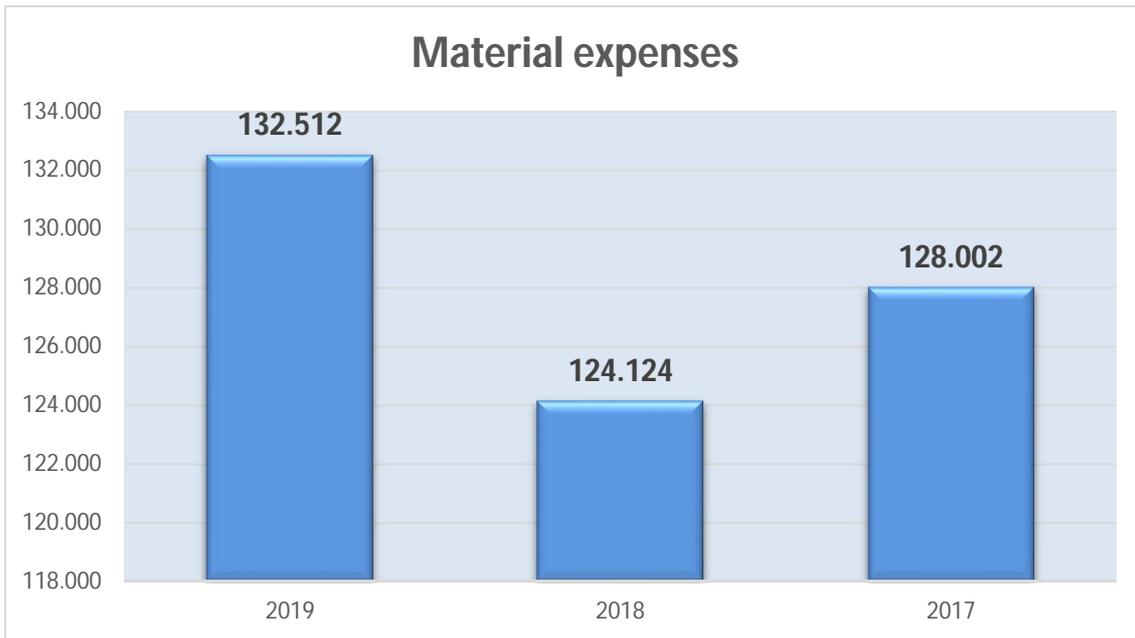
# REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

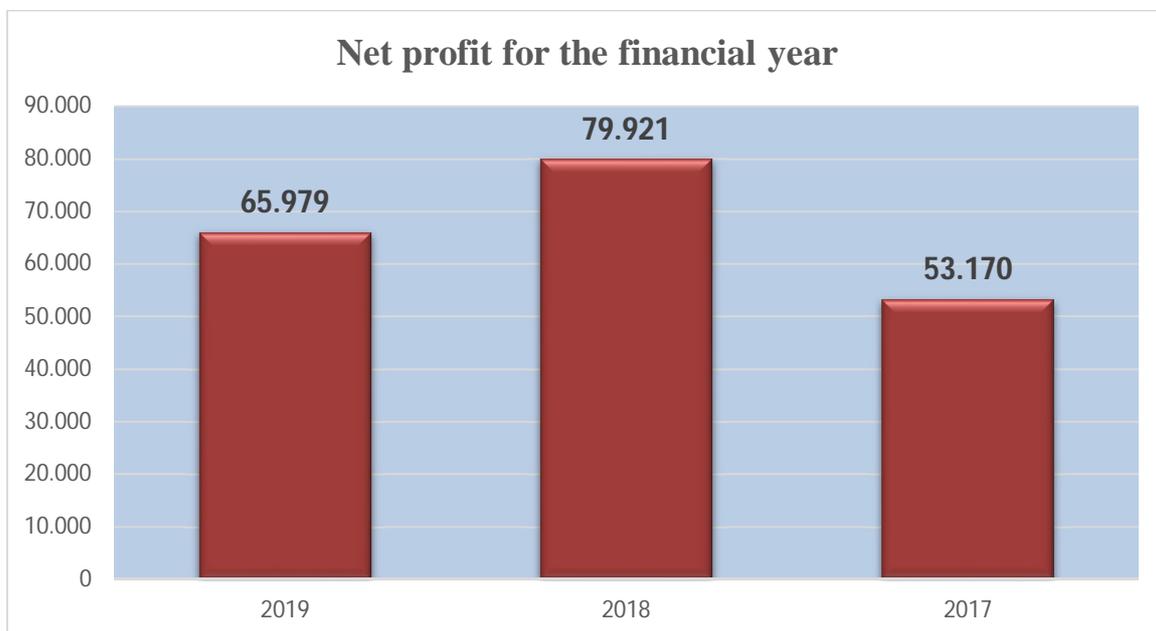
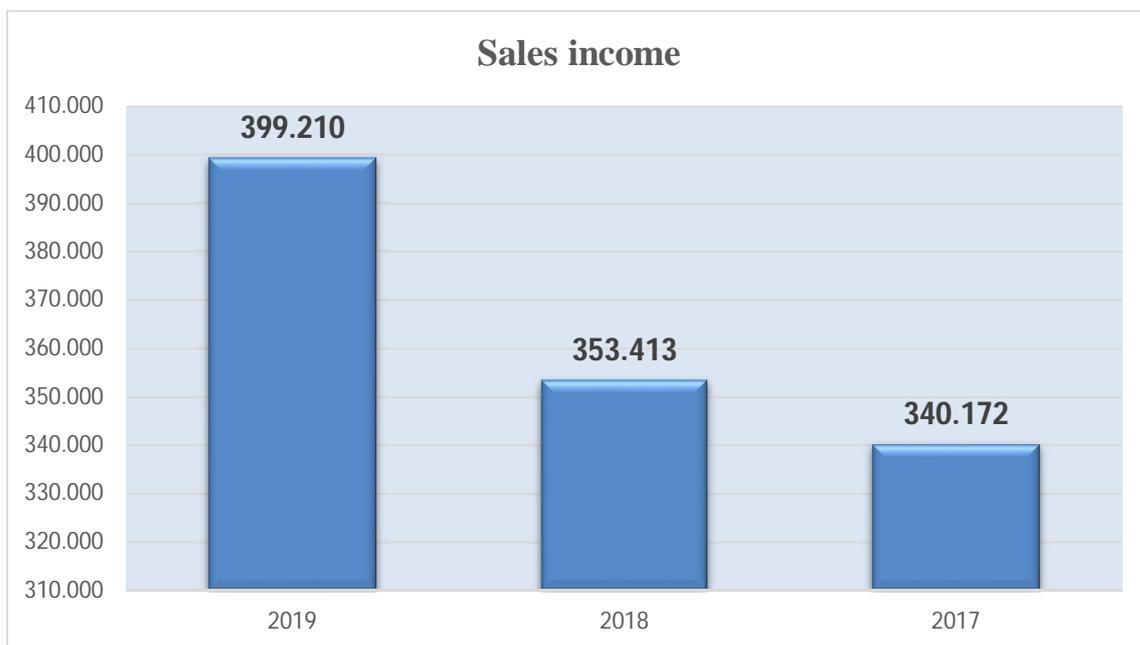
## 18.2

Thousand lei

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







## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

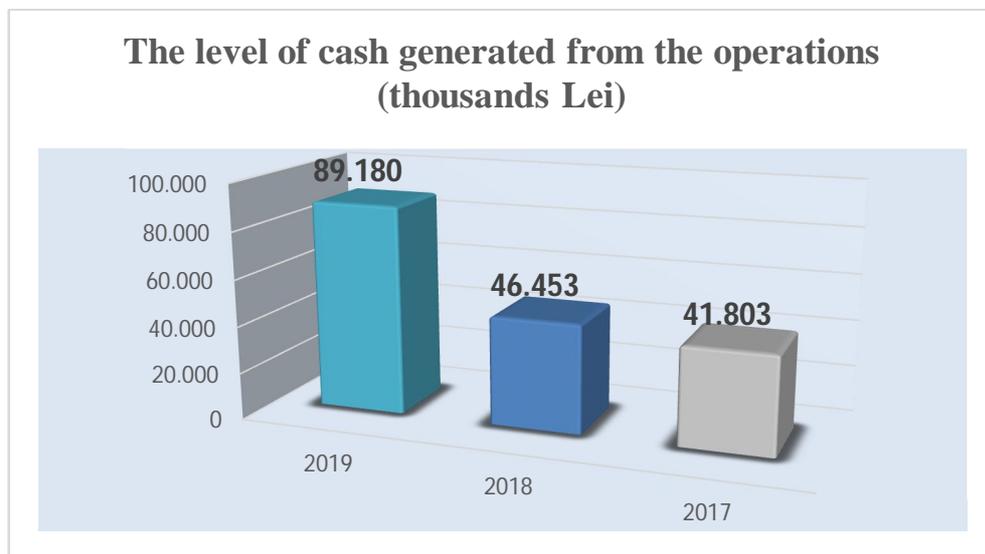
### 18.3

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

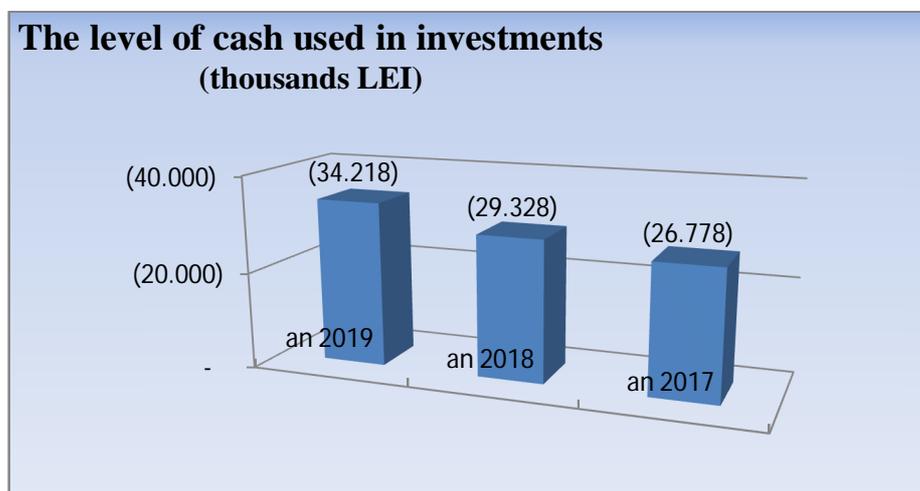
	Year 2019	Year 2018	Year 2017
<b>CASH FLOWS FROM OPERATIONS</b>			
collected from customers	415.074	352.279	347.140
taxes and excises recovered from State Budget	8.687	5.329	5.824
payments to suppliers and employees	(267.320)	(253.029)	(250.453)
payment of taxes, contributions and dues to State Budget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

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

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



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



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

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

## Chapter 19

### **WE ARE BUILDING A SOLID FUTURE!**

#### Mandatory requirement

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

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

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

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

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

The Income and Expenditure budget for 2020 provides for a turnover of 370,000 thousand lei and a gross result of 51,729 thousand lei.

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

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

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

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

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

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

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

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

**Grigore FILIP**

**President & General Director**

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

### Annex

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

Code provisions	Comply	Not comply or partially comply	Reason of non-compliance
<b>A.1</b>	x		
<b>A.2</b>	x		
<b>A.3</b>	x		
<b>A.4</b>		x	Three of the five BoD members are non-executive. The Board of Directors has no independent member, being voted in this structure by the General Meeting of Shareholders.
<b>A.5</b>	x		
<b>A.6</b>	x		
<b>A.7</b>	x		
<b>A.8</b>	x		
<b>A.9</b>	x		During 2019 a number of 7 meetings took place, of which: - In 3 meetings all the BoD members were present; - In 1 meeting, 3 members were present, the other 2 attended by telecon; - In 1 meeting there were 2 members present, the other 3 attended by telecon; - In 1 meeting, 4 members were present, the fifth attended by telecon; - In 1 meeting, 4 members were present, the fifth being absent.
<b>B.1</b>	x		The company has constituted an independent committee audit according to article 65 from Law no. 162/2017
<b>B.2</b>	x		The members of the audit committee are independent persons elected by the GMS and hold competences in the accounting and statutory audit.
<b>B.3</b>	x		
<b>B.4</b>	x		
<b>B.5</b>	x		
<b>B.6</b>	x		
<b>B.7</b>	x		
<b>B.8</b>	x		

## REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR 2019

<b>B.9</b>	x		
<b>B.10</b>	x		
<b>B.11</b>	x		
<b>B.12</b>	x		
<b>C.1</b>	x		All the GMS resolutions regarding the remuneration of BoD members were published. Currently there is a distinct section in the BoD Regulation.
<b>D.1</b>	x		
<b>D.1.1</b>	x		
<b>D.1.2</b>		x	The information in this section is available, on request, but are not published on the company's website.
<b>D.1.3</b>	x		
<b>D.1.4</b>	x		
<b>D.1.5</b>	x		
<b>D.1.6</b>	x		
<b>D.1.7</b>	x		
<b>D.2</b>	x		
<b>D.3</b>	x		
<b>D.4</b>	x		
<b>D.5</b>	x		
<b>D.6</b>	x		
<b>D.7</b>	x		
<b>D.8</b>	x		
<b>D.9</b>	x		
<b>D.10</b>	x		

Note: For any clarification needed, please address the Romanian text which is prevailing in all circumstances.