

ANNUAL REPORT 2013



AEROSTAR S.A.



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REPORT OF THE BOARD OF DIRECTORS



THE YEAR 2013

60 YEARS OF AVIATION AND DEFENCE INDUSTRY AT AEROSTAR BACAU

AEROSTAR manufactures aviation products, repairs and upgrades aircraft, manufactures and integrates air and ground systems with civil applications, or in the field of defence and security.

Today AEROSTAR is a strong industrial base with over 60 years of experience, over 1850 employees, and modern production facilities lying on a total area of more than 45 hectares.

The Aircraft Repair Plant (UM 03767), the predecessor of S.C.AEROSTAR S.A. Bacau, was established in 1953.

The company had previous successive names URA-1953, IRAv (Aircraft Repair Enterprise) - 1970, IAv (Aircraft Enterprise) - 1978, and since 1991 it was registered as a shareholding company with entirely state-owned capital under its current name S.C.AEROSTAR S.A.

The company is fully private owned capital since the year 2000, with its shares traded at Bucharest Stock Exchange.

AEROSTAR S.A. Bacau is a Romanian legal person, operating as an open shareholding company in accordance with its Constitutive Deed and the applicable regulations.

Throughout its development, AEROSTAR history encountered several stages in its beginnings, followed by diversification stages, but also times for development of new programmes and new facilities, encountered years of challenges and new beginnings.

AEROSTAR of the year 2013 holds a significant footprint on the international market, a success case in Romania.

AEROSTAR has operated in conditions of continuity in the aviation and defence industry.

Its main field of activity is production.

In accordance with the classification of activities in the Romanian economy, the main object of activity is the manufacture of aircraft and spaceships - code CAEN 3030.

The investment programme for technological restructuring initiated several years ago, the growing number of employees, the development of new business directions, its increasing turnover and last but not least, the stable dividend payment policy were strong arguments for growing values of AEROSTAR shares at Bucharest Stock Exchange.

When presenting the results for the year 2013, AEROSTAR consolidates the range of projections launched several years ago: the positioning of the company on highly competitive markets, satisfaction for its customers and shareholders, investments in advanced technologies and jobs.

The financial statements of SC AEROSTAR SA for the year 2013 were prepared and published in accordance with the international financial reporting standards (IFRS).

	MU	31.12.2012	31.12.2013
Registered Capital	K lei	37,484	37,484
Turnover	K lei	196,913	212,023
- export sales	K lei	139,788	182,941
- export in turnover	%	71.0%	86.3%
Expenses for investments	K lei	18,336	18,952
Employees, of which:	No.	1,767	1,862
- own employees	No.	1,376	1,695
- employees from temporary labour agent	No.	391	167
Total gross profit (before taxes)	K lei	18,566	18,223
Net profit	K lei	15,068	14,864

AEROSTAR SHARES (ARS)

		year 2012	year 2013
number of shares	No.	117,136,530	117,136,530
nominal value per share	lei	0.32	0.32
book value per share	lei	1.09	1.13
average price per share	lei	1.16	1.60
net profit per share (EPS report)	lei	0.1286	0.1268
market value per share at the year end	lei	1.437	1.599
stock market capitalisation	lei	168,325,194	187,301,311

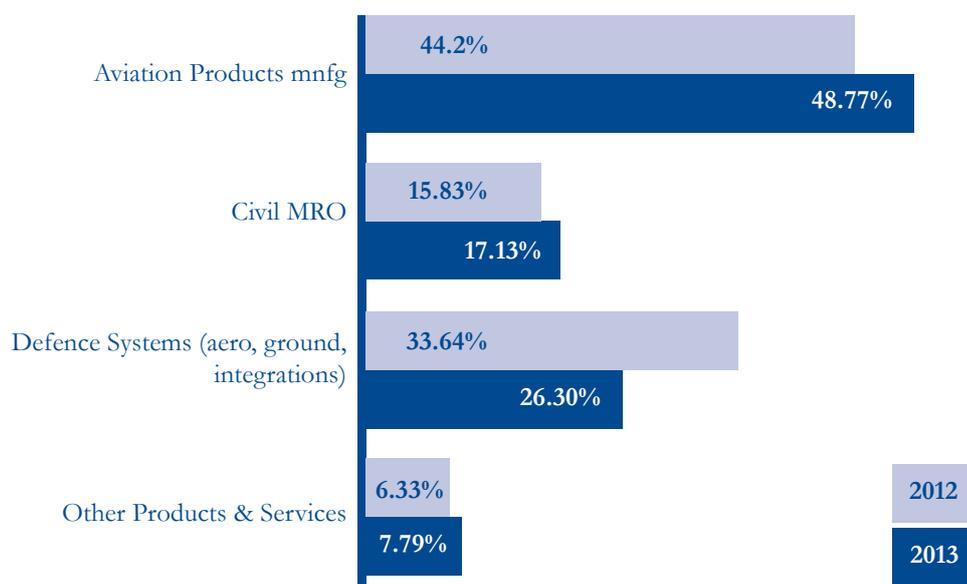
MACRO-ECONOMIC INDICATORS

		2012	2013
inflation rate	%	4.95%	1.55%
Average exchange rate EURO/12 months	lei/euro	4.4540	4.4187
Average exchange rate USD/12 months	lei/USD	3.4680	3.3282
Average exchange rate GBP/12 months	lei/GBP	5.4888	5.2038

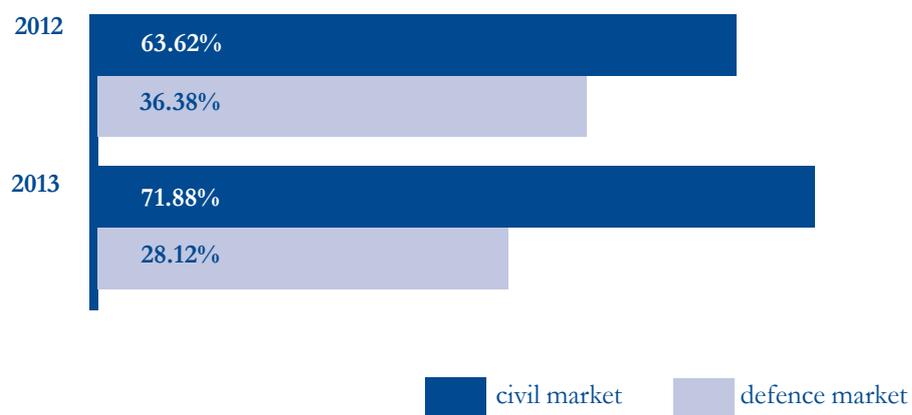
FINANCIAL POSITION

K lei	31.12.2012	31.12.2013
• Fixed assets (net values)	118,421	128,859
• Circulating assets	122,040	122,750
• Registered capital	37,484	37,484
• Company capital	128,061	132,385
• Total debts	112,400	119,224

Turnover distribution by main products and services in 2013



Sales distribution on civil/ defence market



STRATEGIC OBJECTIVES AND DIRECTIONS FOR FOLLOWING YEARS

Our vision for AEROSTAR's growth

We are acting consistently for a sustainable development for AEROSTAR at ever higher performance levels, in conditions of profitability and responsibility. The synergy of our competences and expertise for the civil aviation and defence market contributes to AEROSTAR's consolidation as a company for the future.

We act to develop the technologies which our clients need and which provide for the development of AEROSTAR's market position.

We are honest and correct in our actions and comply with high ethical and business conduct standards. We run our business in accordance with the Romanian law, the European Union legislation and the most advanced international practice.

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

How we see our future

AEROSTAR will continue as a strong industrial base for aviation and defence.

Our plans go deeply into the vision upon AEROSTAR as a Customer focused organization by enduring and sustainable development programmes and development of our competitiveness through knowledge and innovation, which provides for us to maintain our competitive advantage.

Among our investment priorities are the new technologies in parallel with the development of our organisational culture and our employees' in the spirit of the requirements on our current markets.

AEROSTAR S.A.
GRUP INDUSTRIAL AERONAUTIC-BACAU-ROMANIA

MILITARY AVIATION & GROUND DEFENCE SYSTEMS

Collage of aircraft and ground defence systems including: Platforma 1, MIG-21 Lancer B (1996), MIG-21 Lancer A (1995), Prototip Iak-52 (1976), Iak-52 nr. 1800 (1998), Iak-52W (1999), WT-01 (1994), A 226 (1970), Fabricatie IAR-83 prototip 001 (1974), 40 APRA 122 (1979), L-39 (1987), RU-18A-300, L-29 (1968), L-29 (1963), H-5 (1979), MIG-19 (1963), MIG-17 (1959), MIG-17 (1959), Iak-23, MIG-15 (1953), Iak-23, and 1953.

Major events of the year 2013

- **April** – Celebrating the 60 years anniversary
AEROSTAR’s 60 years anniversary highlighted its position as a company for the future, representative for the Romanian aviation and defence industry.
- **April** - Launching the action plan for the consolidation of a robust production system
- **May** – New technologies, through the programme “Set-up of a new manufacturing capacity for production diversification and export increase”

▪ **Organisational Remodelling**

In the second half of the year 2013, a new organisational system was designed. The changes over the recent years in the structure of the sales, correlated with the objectives of the development strategy for the time period 2011- 2015 have outlined the need for organisational remodelling focused on the consolidation of the manufacturing and maintenance sectors, improvement of the management act and especially the quality management improvement in order to meet our customers’ expectations in a higher degree.

The implementation of the foreseen changes was made gradually in the fourth quarter of 2013 to become fully operational as of January 1, 2014.

As a result of these changes, in 2014 the names of some organisational structures change: the Technological Division changes into the Utilities and Infrastructure Division; the Management – Development Direction changes into the Human Resources and Industrial Engineering Direction.

- **November** – Launching the training program for the consolidation of the organisational culture fully adapted to the specific values in the aviation industry and to customers’ requirements
- The distribution of the dividends for the year 2012 was made in accordance with the resolution of the General Meeting of Shareholders.





The year 2013 ended with good results for AEROSTAR. In 2013 the company achieved total revenues in amount of 229,892 thousand lei, while the turnover was 212,023 thousand lei. The expenses made to achieve these revenues amounted to 211,669 thousand lei. The net profit was 14,864 thousand lei. We made investments in a total of 18,952 thousand lei.

These results are compliant with the organic, consistent growth trend of the company and confirm AEROSTAR's positioning as a regional leader in the industry for aviation and defence in Romania.

In 2013 we had the 60 years anniversary since the set-up of the Aircraft Repair Plant in 1953, the predecessor of today's AEROSTAR S.A. Thus, AEROSTAR's performance becomes symbolic, joining the other indicators featured by our business.

The good results with which AEROSTAR team ended the year 2013 were not easy to obtain. The position of the products and services supplied by AEROSTAR on the aviation and defence market requires an ever-growing sense of responsibility and exigence towards our offer.

AEROSTAR's business is in a permanent competition on the market where we operate and the extent of our success is given first of all by our customers' satisfaction.

The development in the highly-competitive environment of this industry requires to focus on the continuous improvement processes, on modernization and development of intensive programmes to improve and adapt the structure of the organization to the requirements of the operations we perform.

We have extended the improvement processes to the management act area as well so that we have an organization more capable to provide the satisfaction of the highest requirements of our customers.

These processes are designed to increase the productivity in conditions of increased quality.

The new development stage reached by AEROSTAR requires for us to continue with an alert pace of the investments, to make smart investments while developing our competitive advantage.

The programmes carried out in AEROSTAR take into account the market evolutions in the field of aviation, defence and security. Although internally, but not only, the resources are scarce for defence programmes, we have developed the critical capabilities. The synergy with the capabilities in the field of civil aviation provide for AEROSTAR a good positioning to be able to attract future growth opportunities.

We focused on export, 86% of the sales in 2013 were on the foreign market and our sale objectives target the exports further on. For the year 2014, we pursue to attract new programmes and customers and diversify our offer of capabilities in compliance with the current demand on the market.

We consistently act to carry on the programmes for competitive growth, for the development and modernization of the company.

AEROSTAR has got recognition as a successful Romanian company. We are part of the growth core of the industry. The successful consolidation of the major changes in the company and maintaining growth at high levels brings wealth and satisfaction to all the parties relevant for our business: customers, shareholders, employees, the local community.

Grigore FILIP
President - General Director

AEROSTAR AND THE SHAREHOLDERS

AEROSTAR is a private company, listed on the Bucharest Stock Exchange since 1998.

Aerostar shares are nominative, ordinary, of equal value, issued in dematerialised form and registered in the Register of Shareholders. This is under the administration of S.C. Depozitarul Central S.A. Bucharest.

According to the records available at Depozitarul Central S.A. the share issuer AEROSTAR S.A. Bacau is registered with the following data: Individual Registration Code (VAT) 950531, ISIN code ROAEROACNOR5, stock exchange symbol ARS.

The company has a registered share capital of 37,483,689.60 lei, a total of 117,136,530 shares with a nominal value of 0.32 lei.

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

Further to these, there is a large number of shareholders, natural and legal persons, holding stock below the significance threshold as defined in the regulations of National Securities Exchange Commission – currently the Financial Supervisory Authority) and the Bucharest Stock Exchange.

The General Meetings of the Shareholders took place in full observance of the Law 31/1990 regarding companies, the Law 297/2004 regarding the capital market and the applicable regulations issued by National Securities Exchange Commission (currently Financial Supervisory Authority), as well as any other relevant legal provisions.

The General Meetings of the Shareholders were held on April 25 and December 5. They were convened and conducted in accordance with the legal and statutory provisions.

Over the last three years the company distributed dividends to its shareholders while consolidating a dividend policy which ensures its shareholders' satisfaction along with resources for the company's development.

During the General Ordinary Meeting of April 25, 2013, AEROSTAR's shareholders approved a gross dividend value per share for the year 2012 of 0.090 lei, corresponding to a nominal share value of 0.32 lei.

AEROSTAR paid the dividends for the year 2012 to the shareholders, fully observing the distribution due date of October 25, 2013.

During the year 2013, the company did not acquire Aerostar's own shares, nor did it issue bonds or other securities titles.



Mode of Administration

The administration of the company AEROSTAR is made in unitary system with the legal obligation to delegate the management of the company to one or several directors.

The Board of Directors of AEROSTAR consists of five members, elected in 2012 for a period of 4 years.

Members of the Board of Directors

No.	Name	Position	Background
1.	FILIP GRIGORE	President of the Board of Directors	engineer
2.	DAMASCHIN DORU	Vice-president of the Board of Directors	economist
3.	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors	engineer
4.	NIJNIC MARIN - ILIE	Member of the Board of Directors	engineer
5.	VIRNA DANIEL	Member of the Board of Directors	legal adviser



The direct participation of the Directors to the share capital of the company is below 1%.
 Mr. Grigore Filip was appointed President of the Board of Directors and General Director.
 Mr. Doru Damaschin was appointed Vice-president of the Board of Directors.
 They delegate attributions to the executive management of the company.

In 2013 the executive management of the company consisted of:



Item No.	Name	Position
1.	FILIP GRIGORE	General Director
2.	DAMASCHIN DORU	Director, Finance-Accounting
3.	POPA DAN PAUL MALIN	Director, Management-Development
4.	PETRAS SORIN	Quality Director
5.	ARHIRE SILVIU EMANUEL	Director, Special Products Division
6.	BUHAI OVIDIU	Director, Aviation MRO & Upgrades Division
7.	IOSIPESCU SERBAN	Director, Aeronautical Products Division
8.	PLACINTA THEODOR	Director, Technological Division
9.	PASCAL LAURENTIU	Director, Logistics Division

The direct participation of the executive management members to the registered capital of the company is also below 1%. None of the Directors in the Board or of the management members were involved in a litigation or other administrative proceedings with AEROSTAR over the last 5 years.

AEROSTAR's relation with the Capital Market Institutions

In 2013 as well, AEROSTAR fulfilled all its reporting obligations provided by law in its relation with the capital market institutions by continually releasing periodical reports in the electronic system of the National Securities Exchange Commission (currently Financial Supervisory Authority) and of the Stock Exchange, on the company's web page and by press releases.

AEROSTAR ensures to meet the shareholders' legitimate rights and interests.

The financial statements were prepared and published in compliance with the international financial reporting standards (IFRS).

The company fully observes the legal provisions in force on transparency and the continued release of information to the shareholders and investors on the capital market.

Throughout 2013, the financial reporting calendar was followed and the legal reports were sent to the capital market bodies, the Financial Supervisory Authority and the Bucharest Stock Exchange.

The trading price of one AEROSTAR share fluctuated in 2013 between a minimum level of 1.393 lei and a maximum level of 1.85 lei.

BUSINESS LINES, PROGRAMMES AND OPERATIONS



The total revenues made by AEROSTAR in 2013 amounted to 229,892 thousand lei, of which 212,023 thousand lei represented the turnover.

The expenses made to obtain these revenues amounted to 211,669 thousand lei. The net profit was 14,864 thousand lei.

The main lines of business developed by AEROSTAR are:

- Manufacturing of aeronautical products
- Maintenance of commercial aircraft
- Aero and ground defence systems, production and integrations



In the field of civil aviation



AEROSTAR made major investments in order to increase its competitiveness and the development of the centre of excellence for manufacturing of aviation products.

- AEROSTAR is a subcontractor of aerostructures and aviation assemblies for the global supply chains.
- AEROSTAR is a supplier of landing gears and hydraulic systems, approved for the production and testing thereof.



AEROSTAR's maintenance base for commercial aircraft is a regional centre of excellence which supplies base and heavy maintenance services for the aircraft family AIRBUS 320, for Boeing 737 aircraft all series and for BAe-146/ RJ aircraft, as well as for components.

AEROSTAR is also authorised to provide specialised services in the area of non-destructive tests.

In the field of defence

AEROSTAR is a major supplier of products and services in the category of aero and ground defence systems.

The market evolutions determined sales decrease for all the types of repair, upgrades, modifications and systems integrations as listed on the traditional capabilities.

The company customers in this field of business have in their inventory platforms of type MiG-21 and L-39 for which AEROSTAR also provides the logistic support for life extensions and continuity in service.

AEROSTAR has maintained a diversified capability for variants and configurations of 122 mm multiple launch rocket systems and for engineering and fire extinguishing equipment.

AEROSTAR also supplies various equipment and systems, as well as integrations of identification, communication and control systems.

The expertise in the area of IFF systems and equipment holds an outstanding footprint on the specific market.



POSITIONING ON THE MARKET

The aeronautical, defence and security industry is highly globalised, advanced and very competitive, contributing with high added value to the value chain.

AEROSTAR profile as a private, independent company which operates in a highly competitive environment is well defined.

AEROSTAR holds a leading position in Romania and is a regional leader in Central and South-Eastern Europe with reference to its diversified offer in the field of production and integrations for the aeronautical and defence industry, taking into account its experience and expertise, its technological level and number of employees.

The factors and elements which impact on the global economy also influence on AEROSTAR business.

The consolidation of the supply chains is the main feature of interest on a global market which is under development. The same applies in the field of maintenance.

Maintaining a strong and competitive industrial base has been a permanent preoccupation in the performance of defence programmes.

In 2013 AEROSTAR maintained and developed a strong business base.

The main lines of business were:

In the field of civil aviation,

- manufacturing of assemblies and aerostructure parts;
- manufacturing of landing gears, hydraulic systems and components
- MRO services for commercial aircraft.

In the field of aero and ground defence systems, AEROSTAR supplied repair and upgrade services, support and engineering services for the platforms in its expertise.

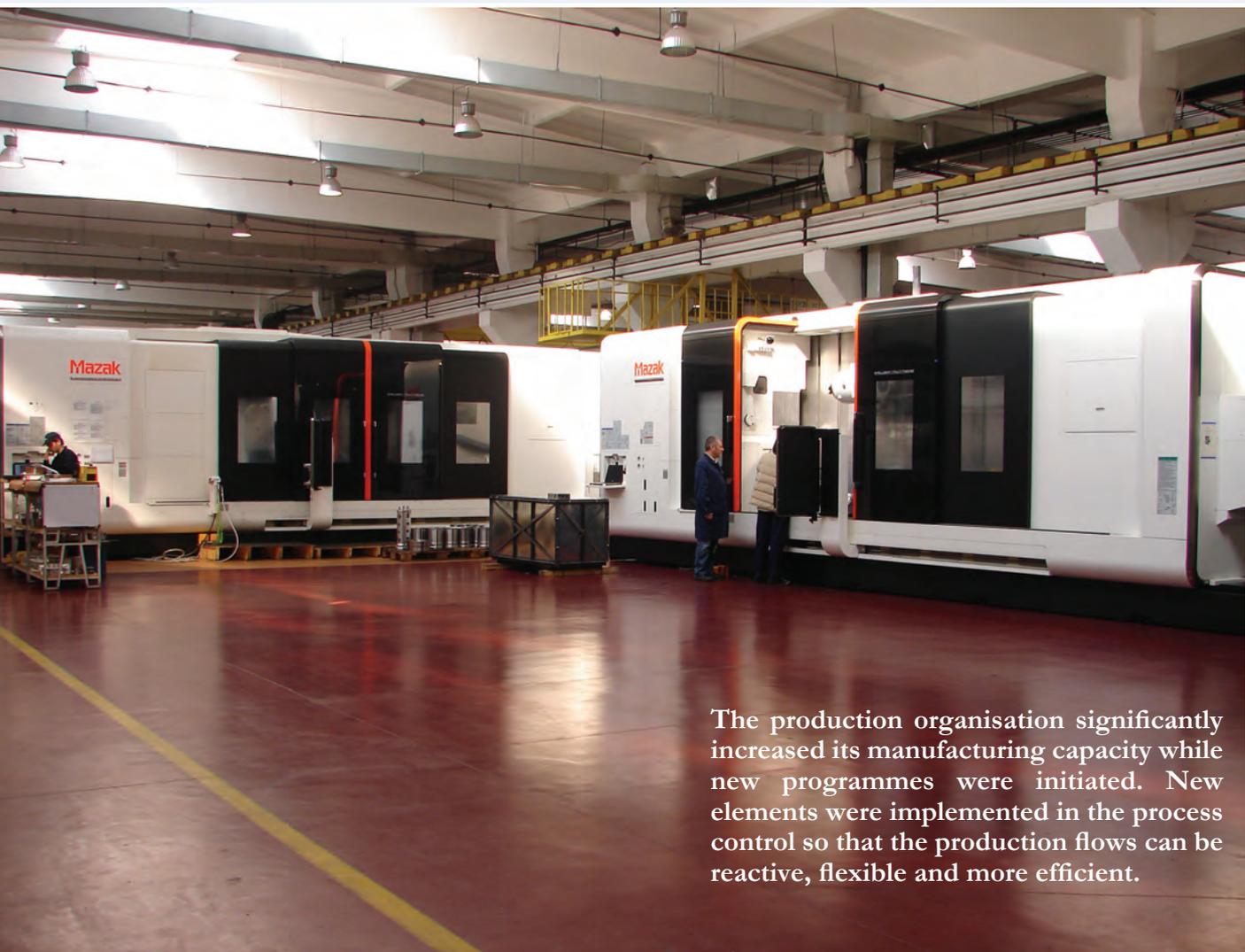
The gradual positioning on the Ground Support Equipment market has continued as a priority direction for development.



CENTRES OF EXCELLENCE FOR MANUFACTURING OF AERONAUTICAL PRODUCTS

AEROSTAR has maintained its competitive advantage as to the manufacturing capability for aeronautical products, has developed its positioning earned in the

previous years and has grown its business share in this field, 49% of the sales were in the field of structure subassemblies, parts and components and hydraulic systems.



The production organisation significantly increased its manufacturing capacity while new programmes were initiated. New elements were implemented in the process control so that the production flows can be reactive, flexible and more efficient.



Particular attention was given to the area of special processes, one of our areas of excellence which have been a major competitive advantage for the company. Over the years, Aerostar has made investments both in new processes and in increasing the capacity for the existing ones to comply with the international process standards and, especially with the customers' standards. These processes got both customers and Nadcap qualifications.



AEROSTAR's Centre of Excellence for Manufacturing aerostructure parts and assemblies

The dynamics of the investments made in technologies for manufacturing aluminium and aluminium alloy sheet metal parts is related to and determined by the volume of contracts and orders, but also by the strategic undertakings for the company development.

The large production volume in the range of types and dimensions of small size parts up to 2m long, the increasing diversity of parts determined extensive **continuous improvement** plans which focus on the improvement of the quality and production management system but also on the implementation of a series of effective management tools to anticipate the risks, to assess them and implement proper risk mitigation measures.

AEROSTAR supplies structure subassemblies and the volume of the currently supplied parts and subassemblies, both in numbers, but also as percentage of the respective total production increased. At the same time, new products were taken into production.

AEROSTAR is sole source for several subassemblies, in various programmes.

The growing production volume determined the reorganisation of the existing work space aiming, on one hand to streamline production by improved engineering flows and, on the other hand, to improve the working conditions.

The advanced requirements from the customers determined the implementation of flexible work practices which come forward to meet the market needs; this was made by using intensively the data processing and IT system, by continued adaptation of the organizatory work, flexible use of the working time and adopting a proactive management.

To secure our future we will continue the consolidation on the market. The consolidation of a robust quality system, the diversification of the technological processes and increase of the production capacity will warrant AEROSTAR to continue as an important name in the field of aerostructures manufacturing.

The contribution of this business line in the company turnover has increased significantly.



AEROSTAR – Centre of Excellence for Manufacturing of Landing Gears and Hydraulic Systems

A major investment programme is under way at this technological centre specialised in machining steel parts and components mainly.

The expertise and competence gathered, the inventory of know-how and proactive teams of specialists are the basis of impressive results: in 2013 the production of landing gears, hydraulic actuators and mechanical parts increased by 17% as compared to the previous year.

The new Model Based Definition technologies, state-of-the-art machine-tools such as 5-axes CNC mill-turn centres or other CNC machining centres provided the extension of the typodimensional range to manufacture larger size components up to 4 m in length.

The production structure has changed from manufacturing basically primary parts to a growing share of complex equipment and systems.

AEROSTAR supplies as sole source the complete landing gear for the TBM 850 aircraft manufactured by the French company Daher Socata. Aerostar is positioned as a major supplier for the nose gear retracting and locking actuators for the aircraft family Airbus 320.

In 2013 the company marked to take into production the interior shock absorber parts of the landing gear for the aircraft Boeing 787, Airbus A350 and Airbus 330. These parts are large size and require machinery, technological flows and qualifications both for machining processes and heat treatments and surface coatings.

The company opened in 2013 one of the most important investment chapters dedicated to this programme, namely the acquisition of a custom-made mill-turn centre which performs 5-axes milling and turning. The commissioning and qualification were successfully completed.

The building rehabilitation of the landing gear & hydraulic systems facility, along with the set-up of new machine-tools and CNC machining centres and the reorganising of the production flows determined a significant improvement of the working conditions. These complex processes took place throughout 2013 and are now close to end. The production schedule was not affected.



REGIONAL CENTRE OF EXCELLENCE FOR COMMERCIAL AIRCRAFT MRO

AEROSTAR is approved Part-145 by the Romanian Civil Aeronautical Authority, recognised by the European Aviation Safety Agency (EASA). In accordance with the customers' requests, AEROSTAR also got the approvals to perform these operations from the

civil aviation authorities from the United Arab Emirates, Ghana, Bermuda and is in process to extend with others as well.

AEROSTAR is the main independent provider of maintenance services for commercial aircraft in this geographical region.





AEROSTAR provides base and heavy maintenance for commercial aircraft. The range of maintenance services was extended in 2012 to cover currently heavy checks for the AIRBUS 320 family, for Boeing 737 all series and BAe-146/ RJ aircraft and aircraft components.

The company performs regular and non-routine checks including structural

modifications for these aircraft types. The inventory of tooling and control equipment held is in a large range. The number of specialists and authorised and licensed personnel is growing. Strong investments were made including investments for expanding the range of services provided to the customers as well as a wide range of NDT services provided on site or at the site of the customers.

AERO AND GROUND DEFENCE SYSTEMS

Business in the area of ground defence systems was under the impact of the scarce resources available with our traditional customers. While actions were taken to maintain the capabilities and capacities related to this line of business, new directions of activity were approached, for which there is a market demand.

AEROSTAR has demonstrated a high capability to adjust to this market. The company has maintained its competitiveness and the leading position for the platforms in its expertise area: MiG-21 and L-39. This expertise covers major overhauls of airframes and systems, upgrades and life extensions. The company operates on the market as a centre of excellence for repairs and life extensions on the engines R11, R13, R25.

The company is an approved supplier of the Romanian Ministry of National Defence and is present on a wide geographical market for

defence equipment and services, covering both traditional programmes and new programmes.

The company maintained its market position as a supplier of ground defence systems such as 122-mm ground-to-ground rocket launcher systems.

The mission and objectives established for the company provide to maintain further on the status of a first-rank supplier of services and equipment for the Romanian Army while marking its presence on the international market for defence equipment and services.

The traditional groups of products for defence have a decreasing trend as contribution in the turnover, diminished to 26.30% of the turnover, while the company is taking actions to occupy gradually a position on the market of the new generation systems and equipment, in new programmes.



COMMERCIAL AND LOGISTIC ASPECTS

AEROSTAR performs its business and commercial transactions in its own name, the same as the operations to obtain the licenses and and authorisations for the activities undertaken.

In the field of import and export operations, AEROSTAR acts as an Authorised Economic Agent for customs simplifications, security and safety, as approved by the Romanian Customs Authority.

The company is registered by the Ministry of Foreign Affairs – Exports Control Department to perform import and export operations with military products.

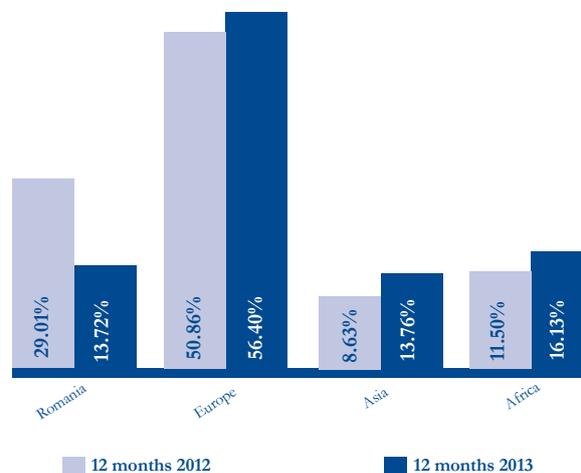
The implementation of the competitiveness related actions at company level is correlated with the mode of performance of the commercial and logistic operations. The basic planning and follow-up of the sequence of all the steps until the transaction is completed are individualized on the profile of each customer and type of business.

AEROSTAR has a streamlined and effective organization to perform the logistics of the sales and purchasing processes, with strongly structured processes and well controlled as efficiency.

In 2013 Aerostar sales amounted to 212,023 thousand lei, of which 86% were export sales, covering a large span of customers and geographic regions.

AEROSTAR fully observes all the applicable national and international regulations on the trade and, naturally, on the production of all goods and services in its supply profile.

The main markets where Aerostar sales are performed are:



The modernization of the purchasing and logistics processes related to the transactions performed increased the flexibility of the organisation; also, the supplier base has grown and this objective is further to be developed.

The requirement of yearly purchases is defined in the annual purchase plan while the corresponding purchasing operations are based on:

- the annual and multi-annual framework agreements
- the orders issued by AEROSTAR

The status of "Aerostar accepted supplier" is the result of a selection and evaluation process subject to commercial criteria.

The acquisition of equipment, standard parts and fasteners for the performance of the civil aviation programmes was a risk factor to provide the production and deliveries in good conditions; in order to diminish the risk a direct line feed (DLF) system has been continued to monitor the stocks.

During the year, the company purchased goods and services for the production activity in amount of 144,379 thousand lei.

The purchasing markets were the following:

- Romania 59.71%
- European Union 31.04%
- Other foreign markets 9.25%

INVESTMENTS AND DEVELOPMENT

The expenses for the investment programme and for the development programme made in 2013 totalled 18,952 thousand lei, of which 17,995 thousand lei were expenses for investments, representing approximately 8.5% of the company turnover for 2013.

The most important investment objectives finalised in 2013 are in the following areas: acquisition of technological equipment for machining, civil aviation maintenance work, modernization of buildings, purchases of transport vehicles, hardware and licenses for the IT system.

In 2013 the project started in 2012 continued: „*Set-up of a new manufacturing facility for production diversification and export growth*”, a project co-financed by the European Union, through the Sectorial Operational Programme for Increasing the Economic Competitiveness - POS CCE.

In accordance with the contract, the project total value is 21,976,768 lei, of which:

- Total eligible value: 17,385,456 lei;
- Non-reimbursable eligible value: 8,692,728 lei.

The investments made in this project comprised purchases of machine-tools, their commissioning,

modernizations and optimizations, setting of new technologies and getting the qualifications for the new processes.

The **Development Activities** are focused on technological development, starting with the main production programmes in the company.

The tasks approached target to increase the eco-efficiency of the products and services supplied by Aerostar.

Some of the tasks, with or without partnership co-operation, were based on firm research-development agreements and were carried out either as part of the internal research-development programme, or as part of the programme PARTENERIATE (Partnerships) included in the National Research-Development Programme for Innovation II (PNCDI II).

To be able to develop the capabilities required by the company customers, the qualification of a wide range of special processes proceeded and this was the scope of several development tasks made in order to meet the manufacturing requirements and specifications for a certain range of aviation products and assemblies, to expand the capabilities range and increase the sales on the aeronautical market.

Competitiveness and sustainable development

The development priorities for competitiveness through training, innovation and knowledge determine the projections which we make for the time period until 2020 and Aerostar goal is to be successful in the competition from the emerging markets.

Most of the production facilities feature new technologies and this renewal process continues. We will consolidate the fields of expertise and the existing capabilities. The market dynamics determines the technological development directions that we pursue.

AEROSTAR complies with the applicable European Regulations and started in 2013 to deliver products accompanied by the REACH Declaration.



Aspects related to the MANAGEMENT SYSTEM FOR QUALITY AND ENVIRONMENT

The launch of the programme to consolidate an organizational culture fully adjusted to the specific values in the aviation industry and to the customer requirements has been a defining milestone for the year 2013.

AEROSTAR is authorised in accordance with AS 9100 Rev.C standard and holds the NADCAP approval for a wide range of special processes.

Also, the recertification of the environment management system was renewed in accordance with the ISO 14001 standard.

The conformance with the requirements of the certification standards determined the set-up of the best practices with reference to the systematic performance of quality for the products and services supplied to the customers.

The continuous improvement programmes aim at customer satisfaction and their contents was based on the internal audit program for the year 2013.

The objectives related to the improvement of the Quality Management System were a central factor for the cohesion of the company modernization processes.

Through the integrated quality-environment management system, AEROSTAR consistently acts as a responsible economic agent in its relation with the customers and within the community. AEROSTAR has implemented permanent monitoring for the results obtained and the resources used.

THE ENVIRONMENT PROGRAMME

Any economic activity impacts on the surrounding environment. As for AEROSTAR operations, this impact has been limited and minimised, as proven by the completion of the Environment Programme, certifications maintained, and- specifically, by environment approvals maintained with no need of conformance programmes.

The objectives and goals of the Environment Programme pursued in 2013 confirm:

- Observance of the maximum emission limits for pollutants released in air, ground, water
- Observance of the maximum noise limits allowed at the perimeter of company premises
- Compliance with the procedure on collecting and delivering the hazardous recyclable waste to specialised agents
- Training of employees was performed according to plan



- Compliance with the REACH requirements on hazardous chemical substances and products
- Maintain and continuous improvement of the Environment Management System
- Compliance with the legal provisions specified in the Environment Authorisations and in the environment management system documents, as verified by inspections from the National Environment Guards, Environment Protection Agency, the national company APELE ROMANE, the authorised inspectors on greenhouse effect gases, as well as the independent external auditors.

AEROSTAR AS AN EMPLOYER

On 31.12.2013 Aerostar had a number of 1695 employees (of which 150 in management positions) and 167 employees from the temporary labour agent.

The temporary manpower is provided by AIRPRO CONSULT S.R.L., which acts on the market as a temporary labor agent. By means of this agent, AEROSTAR has the required tools to provide for its manpower needs in an open labour market.

The background and skills are as follows:

- 476 employees are university graduates
- 558 employees are high-school and post-high school graduates
- 661 employees are qualified from vocational schools or on-job training.



The average percentage of trade union affiliation in 2013 was 84.08%.

Other HR indicators as on 31.12.2013: the average employment duration in AEROSTAR is 17 years; the average age of the employees is 46; the number of employees to reach their retirement age by the end of 2014 is 85.

The social dialogue provided by the Collective Labour Agreement consists in frequent meetings between the company's executive management and representatives of the representative Union and/or representatives of the employees, as well as by joint committees such as the joint Social Committee, Health and Labour Security Committee and the committees of the Management and Employees for Negotiation and Monitoring of the Collective Labour Agreement application.

During 2013 an aggregate number of 3,415 employees attended training courses in various internal qualification programmes (approvals on various types of activities) and external (specializations, professional further education, post graduate courses). The priority was to cover the training needs for the areas of interest in production activities.

A qualification programme was completed for a number of fourteen graduates from Bacau area of vocational schools and/ or high schools to get the skills of aircraft structure workers. The MBA programme continued in co-operation with the Technical University „Gh. Asachi” of Iași, where seventeen employees are enrolled. This was organized at Aerostar's Training and Continued Professional Improvement Centre.

SOCIAL RESPONSIBILITY AND CODE OF ETHICS AND BUSSINESS CONDUCT

With a view to the continuous improvement of its economic performance and to obtain certain social and environmental benefits, Aerostar has developed a range of strategies and policies intended to ensure a sustainable development perspective for the organization.

Having implemented a Code of Business Conduct and Ethics aligned to the highest standards of business ethics, Aerostar offers to all its partners guaranteed honesty and high-quality services in all its contracts and business relations. The Code of Business Conduct and Ethics is an appendix to the Collective Labour Agreement in force and pursues to develop among its employees a proper conduct with third parties and an ethical treatment of all the activities performed, based on non-discrimination, equal chances, fair treatment and transparent communication.

The company pursues to get an effective feedback from its customers and/or partners with whom a permanent dialogue is set-up in order to be able to come forward to their needs and promptly solve any possible issues or claims.

As one of the largest and most important companies in the north-eastern region, Aerostar endeavours to support the local community by a series of actions such as:

- recruit manpower with priority from within the local community;
- develop business co-operations with companies in the local area;
- develop long-term partnerships with education institutions for organising classes to qualify in skills which are hard to find in the field of machining, including CNC machining, skills and specialties also requested on the local labour market, in the field of special processes (surface coatings, heat treatments and painting), as well as for the aeronautical industry;
- develop long-term partnerships with universities for organising groups of graduates in specialized engineering areas specific for aircraft construction and CNC programming, as also required on the local labour market;
- financial support for educational and cultural, sports-related activities. The company is main sponsor for the Sports Club Aerostar, where a total of 160 children and young people are members; this is in a strong belief that sports education can be a viable alternative to “street education”.



TANGIBLE ASSETS

The company owns a total land area of 45.12 hectares, with access to the European road E85, both directly by Condorilor street and by Chimiei Street. Aerostar has direct access to the runway of the airport “George Enescu” of Bacau.

The production facilities of S.C. AEROSTAR S.A. are all located at the company’s registered headoffice in Bacau, 9 Condorilor Street.

At the registered headoffice the premises comprise all types of facilities required for the proper performance of the production operations in conformance with the company’s object of activity.

The production facilities include hangars, industrial shops, test benches, as well as facilities for administrative and social activities. The company also holds space allocated for engineering and economical activities.

All these facilities are properly maintained.

The built area is approximately 13.47 hectares.

All the buildings and special constructions are owned by the company.

INTERNAL CONTROL SYSTEM

The organisational structure of the internal control system in AEROSTAR SA comprises the following components:

- Quality Audit and Inspection
- Control of Accounts and Assets (patrimony)
- Budgets Control
- Controlling
- Internal Audit

CONTROLLING

AEROSTAR SA has adopted the advanced concept of **controlling** as a specific support for the company management, which is at the basis of a high performance decision-making system, sparing and effective, which performs the control, coordination and consultancy in each step of the decision making process, at strategic and operational level as well.

Implemented and acting in the organisation under the form of the **management act control**, the controlling action goes at **strategic level**, mainly oriented towards data processing objectives with a view to the permanent improvement of the company processes and

functions, offering an early warning system for any issues likely to occur in individual or more general cases.

At operational level, aimed at the conformance objectives, the **controlling** action is made on a current or regular basis, or with specific tasks, on an occasional basis, to monitor and review the profitability planned for the production orders, to check the level of indirect expenses is below the values planned; deviations are evaluated and corrective and preventive actions are proposed to the executive management.

Thus, the decisions of the executive management provide for the growth of the adaptation capacity on the market as well as for the sustainability and stability of the directions planned for the organization.

CONTROL OF ACCOUNTS AND ASSETS

The control of accounts and assets is made by inventory and verifies the company accounts in accordance with applicable regulations in force. Control documents are prepared and specific control tasks are executed, as ordered by the top management.

The inventory of the company assets is made based on the yearly work plan approved by the company management.

INTERNAL AUDIT

According to the law, AEROSTAR S.A. has organised the internal audit activity in a distinct compartment in its organisational structure, as provided in the organisation chart.

The internal audit is directly subordinated to the Board of Directors, being an independent, objective activity to ascertain and consult, designated to evaluate and improve the company operations.

The scope of the Internal Audit is for the conformity of the operations, the protection of the company assets and the effectiveness and efficiency of the operations.

The internal audit activities are carried out based on the annual programme approved by the Board of Directors and as requested by the executive management or the Board.

The internal audit reports are presented on a regular basis in the meetings of the Board of Directors.

RISK MANAGEMENT

Through the risk management processes, the company pursues to secure the mid- and long-term sustainability and reduce the uncertainty associated to its strategic and financial objectives.

The risk management processes conducted in various areas ensure the identification, analysis, assessment and administration of all risks with a view to minimise their effects to an accepted level.

The company performs a continuous reevaluation of its portfolio of existing risks, identifying new exposures and, when necessary, applying the most effective countermeasures, directly or preventive (provisional).

The risks under current administration by the company are:

- operational risk
- credit risk
- liquidity risk
- market risk, which includes price risk, currency risk and interest rate risk

The Operational Risk is the risk of loss occurrence or failure to make profits at the budgeted level, a risk that can be caused by internal factors (inadequate performance of certain activities, inadequate technological processes, manpower) or external factors (economic conditions, changes in the business environment, legislative changes).

The objective of the operational risk management is to achieve a balance between avoiding the financial loss and impairment of company reputation, on the one hand, and increasing effectiveness of the the cost structure, on the other hand.

The main responsibility for developing and implementing controls as to the operational risk lies with the top management of each division, such responsibility being supported by the development of general standards at company level for the management of the operational risk.

The Credit Risk is the risk of AEROSTAR to incur a financial loss as a result of a customer's failure to meet the contractual business obligations.

The credit risk is assessed and managed for each business partner based on performance rating review including the risk of the country where the customer operates.

Subject to the customer rating review, the customers are allocated a maximum commercial credit level (in terms of amount and credit duration) while the rating re-evaluations and the credit limits granted are reviewed on a regular basis.

In certain cases, specific credit risk mitigation instruments will be required (advance payments, bank guarantees payable, confirmed letters of credit).

AEROSTAR holds no significant exposure toward any single partner or group of partners with similar features (affiliated parties).

The Liquidity Risk is the risk for AEROSTAR to encounter difficulties in the fulfillment of its debt related obligations once they are due.

To evaluate the liquidity risk, the cash flows from operations, from investments or financing operations are monitored and reviewed weekly, monthly, quarterly and yearly with a view to determine the estimated level of the net cash changes. Such reviews provide the basis for the financing decisions and capital undertakings.

To ensure continued financial flexibility and liquidity, as necessary, a cash reserve is set yearly as a Credit Line granted by banks.

During the reporting period, AEROSTAR did not use the contracted Credit Line of 2,500,000 USD, all the company's activities being funded from own sources.

The Market Risk is the risk of future fluctuations in the just value or cash flows of a financial instrument due to market price changes.

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

The price risk is determined by the possibility to incur a loss or failure to obtain the estimated profits as a result of market price fluctuations, especially in case of business agreements with execution along periods of time longer (over 1 year).

The price risk can be avoided or diminished by including in the business agreements a series of yearly price escalation clauses or by including in the agreement price of a margin to secure against the risk of raw material price changes.

AEROSTAR is exposed to the currency risk since 86% of its turnover is related to USD and EUR, while a considerable amount of operational expenses is reported to the operational currency (lei).

Thus, the company is exposed to the risk of the exchange rate fluctuations to affect both

its net revenues and the financial position, as expressed in Lei.

An analysis of AEROSTAR's sensitivity to currency fluctuations by +/-10% is detailed under Note 9 (Financial Instruments) of the Financial Statements.

On December 31, 2013 no financial loss was registered by AEROSTAR.

As for the interest rate risk, due to the fact that AEROSTAR did not use the contracted Credit Line during the reported period, the revenues and cash flows are independent from the interest rate variation on the banking market.

OUTLOOK FOR THE YEAR 2014

AEROSTAR is positioned for growth and acts consistently to achieve its budget of revenues and expenses approved for the year 2014. The volume of orders and multiannual agreements currently performed by the company is significant.

The organisational remodelling processes, effective since the beginning of this year, are meant to increase the performance level of the company with a view to meet the expectations of our customers to a greater extent.

The budget of the company will be executed based on the Strategic Directions and Development Actions for the years 2011 - 2015, with the components:

- priority direction - „manufacturing of aviation products”
- priority direction - „civil aviation MRO”
- priority direction - „defence systems (aero, ground, integrations)”
- priority direction - „products and services in the fields: civil electronics, special processes, utilities”

The strategy for this time period preserves and develops AEROSTAR's main scope of activities so that the share of aeronautics in the turnover is 60% - 70%.

Following these priority development directions the general objective is the annual growth of the turnover. Also, the strategic objectives provide the growth of the market footprint, especially on the international market, so that export continues to represent at least 60% of the sales.

In support of the general objective, the specific objectives provide for the continued organic growth of the company: the development of the centres of excellence through continued modernizations, investments and continuous improvement programmes. The training programme for the consolidation of an organisational culture fully adapted to the specific values in the aeronautical industry and to our customers' requirements shall set new development stages at the level of the entire organisation.

The improvement of the key performance indicators and the extension of their application in more of the fields of operations, bringing these indicators at the standardized levels or as established by the management of the company, are part of the instruments envisaged to accompany the modernization processes.

In 2014, AEROSTAR will continue as a Customer- focused organisation and increase its value contribution in the chain of values of the aeronautical industry.

In these undertakings, the allocation of resources will provide that AEROSTAR is a strong company, which delivers Value for its Customers, which provides sustainable investments and business while it is competitive and profitable and brings satisfaction to all AEROSTAR shareholders, as well as to all the other parties involved.

**President of the Board of Directors and General Director
Grigore FILIP**

**The statement „Comply or Explain”, February 2014,
on the Code of Corporate Governance of the Bucharest Stock Exchange
is available at www.aerostar.ro**

**INDIVIDUAL FINANCIAL STATEMENTS
ON DECEMBER 31, 2013**

PREPARED IN CONFORMANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
ADOPTED BY THE EUROPEAN UNION

STATEMENT OF THE FINANCIAL POSITION
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)

	Note	December 31, 2013	December 31, 2012
ASSETS			
Immobilized assets			
Tangible immobilizations	4	118,735	108,905
Intangible immobilizations	5	1,882	1,777
Real estate investments	4	7,237	7,556
Financial immobilizations	6	1,005	183
Total Immobilized Assets		128,859	118,421
Circulating assets			
Stocks	8	34,640	24,749
Commercial Receivables and Other Receivables	9,10	51,383	49,211
Cash and cash equivalents	12	36,727	48,080
Total Circulating Assets		122,750	122,040
Total Assets		251,609	240,461
COMPANY CAPITALS AND DEBTS			
Capital and reserves			
Registered Capital	13	37,484	37,484
Current result		14,864	15,068
Reported result	24	54,733	56,915
Other reserves	14	17,850	14,175
Other elements of company capital		7,454	4,419
Total company capitals		132,385	128,061
Long-terms Debts			
Provisions	20	43,650	29,220
Subsidies for investments	23	8,424	6,365
Other long-terms debts	11	0	4,087
Total long-terms debts		52,074	39,672
Current debts			
Commercial debts	11	36,199	31,174
Financial leasing debts	11	0	22
Debt from tax on current profit	11	1,024	406
Provisions	20	24,580	36,615
Other current debts	11	5,347	4,511
Total current debts		67,150	72,728
Total Debts		119,224	112,400
Total company capitals and debts		251,609	240,461

**STATEMENT OF GLOBAL RESULT
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

	Note	December 31, 2013	December 31, 2012
Revenues	15	212,023	196,913
Other revenues	15,17	676	605
Variation of stocks of finished products and production in progress	15	4,141	9,340
Activity executed by the company and capitalized	15	1,004	619
Total revenues		217,844	207,477
Expenses			
Expenses with materials	16	(91,125)	(76,211)
Expenses with employees' benefits	16	(75,958)	(65,478)
Expenses for amortizing immobilizations and depreciation of current assets	16	(7,659)	(10,388)
Expenses with provisions	18	(2,395)	(13,950)
Expenses related to external services	16	(21,356)	(23,071)
Other expenses	16	(3,339)	(2,172)
Total Expenses		(201,832)	(191,270)
Profit from Operations		16,012	16,207
Financial Revenues	19	12,048	11,744
Financial Expenses	19	(9,837)	(9,385)
Financial Profit		2,211	2,359
Profit before taxation		18,223	18,566
Tax on current profit and deferred	7	(3,359)	(3,498)
Net profit of financial year		14,864	15,068
Result per basic share	22	0.12	0.12

**OTHER ELEMENTS OF GLOBAL RESULT
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

	31 december 2013	31 december 2012
Net Profit of financial year	14,864	15,068
Transfer of result carried forward ref. reserve from re-evaluation of immobilizations to result carried forward surplus from re-evaluation	2	74
Tax on deferred profit recognized on account of company capitals	3,035	738
Result carried forward originating from transition to IFRS	(3,035)	8,865
Other Elements of Global Result	2	9,677
Total Global Result of the period	14,866	24,745

**STATEMENT OF COMPANY CAPITALS MODIFICATIONS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2012**
(unless stated otherwise, all amounts are stated in K lei)

	Registered Capital	Other reserves	Other elements of company capital	Result carried forward	Total Company Capitals
Global Result					
Balance on 1 January 2012	37,484	13,110	8,201	51,791	110,586
Profit of the year				15,068	15,068
Other elements of global result					
Increases of reserves from re-evaluation of tangible immobilizations, net of deferred tax	-	-	-	14,923	14,923
Increases of reserves from re-evaluation of intangible immobilizations, net of deferred tax	-	-	-	1,380	1,380
Transfer of reserves from re-evaluation to the result carried forward due to assignment of tangible immobilizations	-	-	-	74	74
Tax on deferred profit			738		738
Result carried forward originating from transition to IFRS			(4,520)	(2,918)	(7,438)
Total Global Result of the period	-	-	(3,782)	28,527	24,745
Transactions with shareholders, recognized directly in company capitals					
Other reserves		1,065			1,065
Dividends to pay related to the year 2011				(8,335)	(8,335)
Total transactions with shareholders, recognized directly in company capitals		1,065	-	(8,335)	(7,270)
Balance on December 31, 2012	37,484	14,175	4,419	71,983	128,061

**STATEMENT OF COMPANY CAPITALS MODIFICATIONS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013**
(unless stated otherwise, all amounts are stated in K lei)

	Registered Capital	Other reserves	Other elements of company capital	Result carried forward	Total Company Capitals
Global Result					
Balance on 1 January 2013	37,484	14,175	4,419	71,983	128,061
Profit of the year 2013				14,864	14,864
Other elements of Global Result					
Transfer of result carried forward ref. reserve from re-evaluation of immobilizations to result carried forward as surplus from re-evaluation	-	-	-	2	2
Tax on deferred profit	-	-	3,035	-	3,035
Result carried forward originating from transition to IFRS.	-	-	-	(3,035)	(3,035)
Total Global Result of the period	-	-	3,035	11,831	14,866
Transactions with shareholders, recognized directly in company capitals					
Other reserves - statutory reserves distributed from profit of 2012	-	3,675	-	(3,675)	-
Dividends related to the year 2012 paid in 2013	-	-	-	(10,542)	(10,542)
Total transactions with shareholders, recognized directly in company capitals	-	3,675	-	(14,217)	(10,542)
Balance on 31 December 2013	37,484	17,850	7,454	69,597	132,385

STATEMENT OF TREASURY CASH-FLOWS (direct method)
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)

Note	year 2013	year 2012
TREASURY CASH FLOWS FROM OPERATIONS		
	212,593	221,115
Cash from customers		
	12,668	7,397
Reimbursement of taxes and dues from state budget		
	(183,366)	(158,817)
Payments to suppliers and employees		
	(29,743)	(26,768)
Payments of taxes and dues to state budget		
	(2,433)	(6,798)
Tax on profit paid		
	9,719	36,129
NET CASH FROM OPERATIONS		
TREASURY CASH FLOWS FROM INVESTMENTS		
	5,542	-
Cash from non-reimbursable funds		
	22	13
Interest received from loans granted		
	2,357	1,884
Interest received from bank deposits		
	61	23
Dividends received	21	
	51	19
Cash from sales of tangible immobilizations		
	78	192
Cash from instalments received from loans granted		
	(17,820)	(19,408)
Payments for purchasing of immobilizations		
	(900)	-
Loans granted	21	
	(10,609)	(17,276)
NET CASH USED IN INVESTMENTS		
TREASURY CASH FLOWS FROM FINANCING OPERATIONS		
	(10,434)	(8,341)
Dividends paid to shareholders		
	(29)	(148)
Financial leasing paid		
	(10,463)	(8,490)
NET CASH USED IN FINANCING OPERATIONS		
	(11,353)	10,363
Net increase/ decrease of cash and cash equivalents		
	48,080	37,716
Cash and cash equivalents at year beginning		
	36,727	48,080
Cash and cash equivalents at year end	12	

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

1. GENERAL INFORMATION

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

AEROSTAR operates at its registered office located in Bacau, 9 Condorilor Street.

The main field of activity of AEROSTAR S.A. is production.

The main object of activity is “manufacturing of aircraft and spaceships” - code 3030.

This company was registered at the Trade Register Office of Bacau (under no J04/1137/1991) with the current name S.C. AEROSTAR S.A. and identification code (VAT) 950531.

The shares and shareholders record is kept, as provided by law, by S.C. Depozitarul Central S.A. Bucharest.

2. BASIS TO PREPARE – APPLY THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The individual financial statements are prepared by the Company in accordance with the International Financial Reporting Standards adopted by the European Union.

These financial statements were approved for release by the Board of Directors on 23.04.2014.

2.1 Evaluation bases used

The financial statements were prepared based on the historical cost.

2.2 Currency for operations and presentation

The company’s accounting is in lei. The company considers that the functional currency is the Romanian Leu, in accordance with the definition in IAS 21 “Effects of currency exchange rate variations”. The financial statements are presented in K lei, rounded to the immediately next thousand lei.

2.3 Use of professional estimates and judgements

The preparation and presentation of the financial statements in conformity with IFRS require the use of some estimates, judgments and assumptions that affect the application of policies and the reported amounts of the assets, liabilities, revenues and expenses. The actual result may differ from these estimates. The estimates and reasoning are made based on historical experience as well as some factors deemed appropriate and reasonable.

The amounts of the reported assets, liabilities which cannot be determined or obtained from other sources are based on these estimates deemed appropriate by the management.

The estimates, judgements and assumptions that were the basis for them, are reviewed periodically and the result of these revisions is recognized in the period in which the estimate was revised.

2.4 Sources of estimation uncertainty and administration of significant risks

By risk management processes, the company aims to achieve a desired level of profits, reducing uncertainties associated with its strategic objectives in strict compliance with the law.

The risk management processes implemented at various levels of the company are designed to ensure the identification, analysis, evaluation and management of all risks in order to minimize their effects.

The company has implemented proactive countermeasures to reduce the likelihood of developing risks but also reactive countermeasures to reduce the impact of risks.

2.4.1 Operational risk

The operational risk is the risk to have losses or the failure to achieve the estimated profits, risk which is determined by internal factors (inadequate performance of certain activities, manpower problems or the existence of inadequate technological processes) or external factors (economic conditions, changes in business environment, legislative changes, etc.).

The company is constantly reassessing its existing risks portfolio, identifying new exposures and implementing the most effective countermeasures. The main responsibility for the development and implementation of the operational risk controls is in charge of the top management of each division; such responsibility is supported by general measures at company level regarding operational risk management.

The company has no significant exposure to a single business partner or group of partners with similar characteristics (related parties).

2.4.2 Market risk

The market risk is defined as risk of loss or failure to achieve the expected profit, as a result of fluctuations in prices, in interest rates and in currencies exchange rates. The market risk categories to which the company is exposed are:

- price risk – there is the possibility that the value of the goods and services offered fluctuates due to changes in market prices;
- interest rate risk or the risk of exposure to adverse changes in interest rate;

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013

(unless stated otherwise, all amounts are stated in K lei)

- currency risk, the risk of exposure to adverse fluctuations in exchange rates.

The highest exposure is to the currency risk because 86% of the turnover is reported in USD and EUR, while a significant portion of the operating expenses is related to the functional currency (lei).

The main types of risks arising from the financial instruments to which the company is exposed are presented in Note No. 9 – Financial Instruments.

2.4.3 Economic environment risk

The global economic and financial environment in 2014 is marked by uncertainties and contradictions, there are risks from the perspective of extending the effects of the economic recession, of the prolonged stagnation in the euro zone respectively (this market being significant for the company).

2.4.4 Adequacy of Capitals

The management policy is focused on maintaining a sound capital base in order to support the continuous development of the company and fulfill its strategic objectives.

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

2.5 Aspects related to the presentation of information in the financial statements

The financial statements are presented in accordance with the requirements of IAS 1 “Presentation of the financial statements”. The company made the option for a presentation in accordance to the nature and liquidity in the statement of the financial position while the presentation of the revenues and expenses is made in accordance with their nature in the statement of the global result, considering that these presentation methods provide information relevant for the company status.

In terms of accounting regulations, AEROSTAR S.A. is an affiliate to IAROM S.A. and therefore, the mother company that consolidates the financial statements of the group is S.C. IAROM S.A., with the unique identification code (VAT) 1555301, having its registered office at 39, Aerogarii Boulevard, Bucharest. The consolidated financial statements for the financial year 2012 were registered with the National Authority for Fiscal Administration (ANAF), under registration number 38697375/ 24.09.2013. The mother company will prepare and publish a set of consolidated financial statements in compliance with the applicable accounting regulations for the financial year ended on 31.12.2013.

Starting with 2014 financial year, AEROSTAR S.A. will prepare consolidated financial statements following

the application of IFRS10 and IAS 27 modified, if applicable.

The amount of dividends proposed before the financial statements are authorized for release (not recognized as distribution to owners during the period) is 10,430,298 lei, corresponding to a gross dividend per share of 0,089 lei.

2.6 Standards and interpretations in force

2.6.1 Standards and interpretations in force during current timeperiod

The following amendments to the existing standards issued by the Committee for International Accounting Standards and adopted by the European Union are currently in force:

- Amendments to IAS19 – the modification of the accounting treatments of the post-employment benefits (applicable as of 01 January 2013 or later). The modifications to IAS 19 are not relevant for the company, since the company does not offer post-employment benefits to its employees.
- IFRS 13 “Evaluation at fair value” - in force for the timeperiods starting with or after January 01, 2013 – modifications to this standard do not have a significant impact because the company uses the model based on cost.
- Amendments to IAS 12 “Tax on profit” - in force for the timeperiods starting on or after January 01, 2012. Application of amendments had no effect on the amounts reported as the company has no real estate investments registered in accounts based on fair value model from IAS 40.
- Amendments to IFRS7 “Financial Instruments – information to be provided” - Compensation of financial assets with financial debts (in force for the annual timeperiods starting with or after January 01, 2013. The administrators consider that the application of these modifications have no significant impact on the financial statements of the company.

As a conclusion, the company considers such modifications are not relevant for its financial statements and their implementation caused no modification of the accounting policies of the company.

2.6.2 New standards and interpretations

Standards and interpretations adopted by the Committee for International Accounting Standards and by the European Union, but not in force yet.

- IFRS 10 “Consolidated financial statements” - in force for the timeperiods starting on or after January 01, 2014.

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- IFRS 11 “Venture Agreements” - in force for the timeperiods starting with or after January 01, 2014
- IFRS 12 “Information to present concerning interests in other entities” - in force for time periods starting with or after January 01, 2014.
- IAS 27 (revised in 2011) “Individual financial statements” - in force for the timeperiods starting with or after January 01, 2014.
- IAS 28 (revised in 2011) “Investments in associated entities” - in force for the timeperiod starting with or after January 01, 2014.
- IFRS 9 “Financial Instruments” (applicable to annual periods starting on January 01, 2015.
- Amendments to IFRS 9 “Financial Instruments” - applicable to annual periods starting on January 01, 2015
- Additions to IFRS 9 “Financial instruments” (applicable to annual periods starting on January 01, 2015 or afterwards).
- Amendments to IAS 32 “Financial Instruments: presentation” – Compensation of financial assets and financial debts (applicable to the periods starting on 01 February 2014).
- IFRIC 21 “Taxes” applicable to annual periods starting on January 01, 2014 or afterwards.

The company is in the process to evaluate the potential effects of the amendments to the International Financial Reporting Standards and, based on the initial estimates, the adoption thereof is not anticipated to have a significant impact on the financial statements.

3. ACCOUNTING POLICIES

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting the financial statements.

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

These policies have been developed considering the specific activity of the company and were approved by the Company’s Board of Directors.

In developing the accounting policies compliance is provided with the requirements from the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Accounting policies modification

Modifications in the accounting policies is permitted only if required by IFRS or results in more relevant and reliable information concerning the company operations.

The company modifies an accounting policy only if the change:

- is required by an IFRS or
- results in financial statements providing more reliable and more relevant information about the effects of the transactions, other events and conditions on the financial position, of the financial performance or cash flows of the entity.

The application of the modifications in the accounting policies:

The entity takes into accounts a modification in the accounting policy which results from the initial application of an IFRS in accordance with specific transitional provisions, if they exist, and when the entity modifies an accounting policy upon the initial application of an IFRS which does not include specific transitory provisions.

General accounting principles

The general accounting principles underlying the accounting record of the operations, transactions, of the evaluation of the items presented in the annual financial statements and the preparation of financial statements are:

Principle of continued activity. The company continues to operate normally without going into liquidation or significant reduction of the activity.

Consistency principle. The evaluation methods and accounting policies are applied consistently from one financial year to another.

Prudence principle according to which the assets and revenues shall not be overevaluated, and the expenses and debts underevaluated. In case of the individual global result, this may only include the profit achieved as on the date of the financial statements.

The financial statements present all debts appeared during the current year or the previous exercise, even if they become apparent only between the balance sheet date and the date of its preparation.

The financial statements present all foreseeable debts and potential losses arising in the current year or the previous financial year, even if they become apparent only between the balance sheet date and the date of its preparation.

In this purpose possible provisions are taken into consideration, as well as the debts resulting from contract clauses. This is highlighted in the balance sheet or in the notes according to the nature of debts.

All depreciations are taken into account, whether the result of the financial year is a loss or profit. The registration of adjustments for depreciation or loss in

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value is made on account of the expenses accounts, regardless of their impact on the global result.

Principle of independent exercises

The revenues and expenses of the financial year are presented regardless of the date when cashing the revenues or the date when paying the expenses.

Principle of accrual accounting

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

Principle of separate evaluation of assets and debts

according to which the components of the assets and of the debts must be evaluated separately.

Principle of non-compensation

The assets and debts and the revenue and expenses respectively, shall not compensate each other except when the compensation is requested or permitted by a standard or an interpretation thereof.

Principle of substance over form according to which the presentation of the values of the balance elements and profit and loss account takes into account the economic background of the reported transaction or operation, and not only its legal form.

Significance and aggregation threshold

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

Accounting policies on estimates and errors

Estimates

Preparation and presentation of financial statements in accordance with IFRS involves the use of estimates, judgements and assumptions that effect the application of policies and reported amounts of assets, debts, revenue and expenses. Estimates and reasoning are made based on historical experience as well as some factors considered appropriate and reasonable.

The reported accounting values of assets, debts which can not be determined or obtained from other sources are based on these estimates considered appropriate by management.

The estimates, reasonings and assumptions which are their basis are periodically reviewed and the result of these reviews is recognized in the period in which the estimate was revised.

Any modification in an accounting estimate shall be recognized prospectively by including it in the result of:

- the period in which the modification occurs if it affects only that period; or

- the period and the next one in which the modification occurs if the change has effect further on.

The company uses estimates for the determination of:

- uncertain clients and adjustments for such related receivables depreciation;
- value of provisions for risks and expenses to set up at the end of the period (month, quarter, year) for litigation, for disposal of tangible assets, for restructuring, for guarantees given to customers, for obligations towards personnel and other obligations;
- adjustments for depreciation of tangible and intangible assets;

At the end of each reporting period, the company must estimate whether there are indications of depreciation. If any such indication exists, the recoverable amount of the asset is estimated to determine the amount of the depreciation (if any). The recoverable amount is the maximum between the fair value minus the selling expenses and the value in operation. In the establishment of the value in use, the management estimates a future cash flow reduced to the present value using a discount rate that reflects the current market value of the currency amount in time and the risks specific to the asset for which the estimated cash flows have not been adjusted.

- Useful lives of tangible and intangible immobilized assets;

The company reviews the estimated useful lives of the tangible and intangible assets at least at each financial year-end to establish the degree of adequacy.

- The stocks of raw materials and other materials that require creating adjustments for depreciation;
- deferred taxes

Presentation of information

The company, to the extent possible, shall present the nature and amount of a modification in accounting estimates, that has an effect in the current/future periods.

Errors

The errors can occur on the recognition, evaluation, presentation or the description of financial statements items.

The financial statements do not comply with IFRS if they contain either significant errors or insignificant errors made intentionally to achieve a particular presentation of the financial position or financial performance of the cash flows an entity.

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Accounting policies on immobilizations

TANGIBLE IMMOBILIZATIONS

Recognition

The company recognizes the tangible immobilizations when:

- They are likely to generate future economic benefits for the company with reference to the respective assets.
- The cost of the asset can be evaluated in a reliable manner.

The tangible assets are tangible items that:

- are held to be used in production or for the supply of goods or services, to be rented to third parties or to be used for administrative purposes ;
- are intended to be used during more than one time period.

The following are not capitalized:

- Repairs and maintenance
- General administration expenses
- Initial operation losses
- Costs related to relocation or reorganizing of activity.

The company management has established an asset capitalization threshold of 2.500 lei. All the purchases below this amount shall be considered as expenses of the timeperiod.

Exceptions:

Computers are considered amortizable tangible immobilizations regardless of the input value and will be amortized over the useful life determined by the reception committee.

Also, the tooling equipment is accounted as stocks and recognized as expenses at the time of their consumption, regardless of the input value, taking into account the fact that usually they have a useful life less than one year, and of their degree of specialization (intended to be used for a given type of product / service).

Derecognition

The accounting value of a tangible immobilization item is derecognized:

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

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

Evaluation at recognition

The costs at which a tangible immobilization is registered comprise:

- the purchasing price, including customs taxes and non-refundable purchasing taxes, net of any discount and commercial deductions
- costs that can be attributed directly to bringing of assets to the location and in the condition required to be functional in the way desired by the company management.

The initial estimation of disassembly and restoration costs for the site where it is situated.

For such costs to be accounted for, IAS 37 is applicable "Provisions, contingent debts and contingent assets".

IAS 2 "Stocks" is applicable to determine the costs to execute the tangible immobilizations under company's administration.

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

Evaluation after recognition

The company adopted the cost-based accounting policy. After the recognition as an asset, the tangible immobilization is registered at its cost minus the aggregate amortization and any aggregate losses from depreciation.

Reclassification in real estate investments and tangible immobilization held for sale

When the utilization of a tangible immobilization changes from a tangible immobilization used in the production of goods or supply of services or used in administrative purposes, into a tangible immobilization to be used for rent, this is reclassified as a real estate investment, as per IAS 40. When the conditions for an asset classification are met as being held for sales, this is reclassified in accordance with IFRS 5.

Amortization of tangible immobilizations

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

The amortizable value is allocated systematically throughout the useful lifetime of the asset.

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

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The amortization of an asset begins when the asset is available for use (when they are in the location and necessary condition to be able to function in the manner intended by management) and ends when the asset is reclassified into another category or when the active is derecognized.

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

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

On a regular basis, the land has an unlimited useful life and therefore it is not amortized.

On each reporting period the company presents, in explicative notes, the gross book value of tangible immobilizations fully amortized and which are still in operation.

Depreciation

To determine whether a tangible immobilization item is depreciated, the company applies IAS 36 “Depreciation of assets”.

At the end of each reporting period the company estimates whether there are any indications of depreciated assets.

If such indications are identified, the company estimates the recoverable value of the asset.

INTANGIBLE IMMOBILIZATIONS

Recognition

The company makes use of professional reasoning when recognizes intangible immobilizations in order to decide if the most important component is the physical one or the immaterial one.

Criteria for recognition of intangible immobilizations:

- the asset is identifiable
- the company has control over the asset
- future economic benefits are supposed to arise in connection with the asset
- the cost (value) of the asset is measurable in a credible and trustworthy manner.

Derecognition

An intangible immobilization is derecognized upon assignment or when no future economic benefits are estimated to occur from its use or assignment.

Evaluation upon recognition

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

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

In case of acquisition, the cost comprises:

- Purchase price including import customs taxes and non-refundable acquisition costs, after deducting discounts and commercial deductions.
- Any other costs directly attributed to prepare the respective asset to be usable.

In case of internally generated intangible immobilizations, the execution phases are clearly separated, as follows:

- research phase. The research costs are treated as expenses for the applicable period of time
- development phase. The development costs are written-up as intangible assets, provided the following terms are proven:
 - technical feasibility to complete the asset, so that it is available for use or sale;
 - availability of adequate resources – technical, financial, human for finalizing the development;
 - intention to finalize and use or sell the intangible asset;
 - capacity to use or sell the asset;
 - the manner in which the asset will generate future economic benefits;
 - capacity to evaluate the costs.

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

Items not capitalized by the company:

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

Evaluation after recognition

The company adopted as accounting policy the cost-related model which assumes that the intangible assets are evaluated at their net accounting value equal to their cost, less the cumulated amortization and any registered loss from depreciation, corresponding to those assets.

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

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Amortization of intangible immobilizations

The company assesses whether the useful life of an intangible immobilization is definite or indefinite.

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

The amortization of an intangible asset starts when it is available for utilization and ends when the asset is reclassified into another category or at the date when the asset is derecognized.

The relevant factors to determine the useful life are provided in IAS 38 "Intangible immobilizations".

The intangible immobilizations with a definite useful lifetime are amortized by the company using the linear method while the expense with the amortization is recognized in the profit or loss, except when it is included in the book value of another asset.

The intangible immobilizations with an indefinite life shall not be amortized.

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

The residual value of an intangible immobilization with a definite useful life is evaluated as null, except when:

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

Depreciation

In accordance with IAS 36, the intangible immobilizations with indefinite life must be tested yearly as to their depreciation, by comparing their recoverable value with their accounting value.

The tests shall be carried out whenever there are indications according to which an intangible immobilization with indefinite life might be depreciated.

REAL ESTATE INVESTMENTS

Recognition

An investment in real estate is that property (land or a building – or a part of a building or both) held (by the owner or lodger based on a financial leasing agreement)

for renting or for increasing the capital value or both, rather than for:

- use in production or supply of goods or services or for administrative purposes ;
- being sold during the normal course of operations.

A real estate investment must be recognized as an asset only when:

- future economic benefits related to the real estate investment are likely to be generated for the company;
- the cost of the real estate investment can be assessed in a credible way.

Derecognition

The real estate investments must be de-recognized upon their assignment or when they are withdrawn definitively from use and when no future economic benefits are likely to arise from such assignment. The assignment of a real estate investment can be made by sales or by a financial leasing agreement. To determine the date when the real estate investment was assigned, the criteria of IAS 18 "Revenues" or IAS 17 "Leasing agreements" are applicable. The revenues or loss by write-off or assignment of a real estate investment must be recognized in the profit or in the loss in the period when the removal from use or assignment was made.

Classification

The category of real estate investments includes:

- land held for long-time increase of the capital value;
- land held for an indefinite future use;
- a building owned by the company and rented;
- real estate properties in process of establishment or arrangement with a view to the future use as real estate investments.

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

If these two parts can be sold separately (or rented separately), then they must be accounted for separately – one as real estate investment and the other one as a tangible immobilization.

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

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In this case the decision will be based on professional reasoning.

If auxiliary services are supplied to the occupants of a real estate property and such services are an insignificant part of the whole contract, the property will be classified as real estate investment.

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

Evaluation upon recognition

A real estate investment must be evaluated initially on cost, including any other expenses directly attributable. If the payment for a real estate investment is postponed, its cost will be its price equivalent in cash. The difference between this amount and the total payments is recognized during the crediting period as expenses with interest paid.

Evaluation after recognition

After initial recognition, the company made the option for the cost based model for all its real estates investments in accordance with the provisions of IAS 16 for that model.

The transfers from and into the real estate investment category are possible only and only if there is a modification of their use.

The transfers between various categories do not modify the accounting value of the transferred real estate property, nor do they modify the cost of that real estate property for evaluation or presentation purposes.

Amortization

The real estate investments are amortized in accordance with the provisions set forth in IAS 16 "Tangible immobilizations".

Assets purchased based on leasing agreements

The leasing contracts by which the company substantially assumes the risks and benefits related to the ownership right are classified as financial leasing.

At the time of initial recognition, the asset which is the object of the leasing contract is evaluated at the minimum of the just value and the current value of the minimum leasing payments.

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

The other leasing agreements are classified as operational leasing.

FINANCIAL IMMOBILIZATIONS

In financial immobilization category are reflected:

- Shares held in affiliated companies, financial assets classified as investments kept until due;
- Other immobilized securities
- Long term granted loans and related interest. This category include payments to third parties under contracts for which interest will be charged according to the law.
- Other receivables immobilized and related interest. This category includes guarantees, deposits and securities deposited with third party, receivables related to financial leasing.

Evaluation upon recognition

Financial immobilizations recognized as an asset are evaluated at cost or acquisition value determined by their purchasing contract.

Evaluation after recognition

Financial assets are presented in the statement of financial position at the entry value less any recognized depreciation losses.

Accounting policies on stocks

Stocks are assets:

- held for sales during the normal course of business;
- in manufacturing process with a view to their sales;
- such as materials and other consumables to be used in the manufacturing process or for the supply of services.

Stocks are appraised at the lesser of the following values: cost value and net achievable value.

The net achievable value represents the estimated selling price of the stocks, minus all estimated costs of completion and the necessary selling costs.

The cost of stocks comprises: the purchasing costs, conversion costs as well as other costs borne for reaching the current condition and location of the stocks.

Costs of acquisition of inventories comprise the purchase price, import duties and other taxes (except those that the entity subsequently recoverable from tax authorities), and transport handling and other costs directly attributable to the acquisition of finished goods, materials and services.

The conversion costs include the purchasing cost of the raw materials and expendables, direct manpower costs, other direct production expenses, as well as systematic allocation of indirect production expenses, fixed and variable overhead. The allocation of overhead expenses on each product is based on the volume of work used for the execution of that product.

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The calculation of those stocks that are not normally fungible and of the resulting goods or services is determined by the specific identification of their individual costs.

Upon the exit from accounting control of the stocks and fungible assets, they are evaluated and registered in the accounts by applying the Average Weighted Cost.

Indebtedness cost

The indebtedness costs are recognized as financial expenses according to contractual provisions in the period when costs are due or actually produced, and are not directly attributable to the acquisition.

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

The production cost of a long manufacturing cycle asset includes only those indebtedness costs that relate to the production period.

The stocks category includes:

- raw materials that directly participate in production and can be found integral or partially in the finished product, in their original state, or transformed.
- consumable materials (auxiliary materials, fuel, packaging materials, spare parts and other consumables), which participate or assist in the construction or operation without retrieval, usually, in the finished product;
- inventory materials objects;
- products, namely:
 - semifinished parts;
 - finished products;
 - rejects, recoverable materials and waste;
 - goods;
 - packaging, including reusable packaging, purchased or manufactured, designed and sold products that can be stored temporarily by third parties, the obligation of restitution as provided in the contract;
 - production in progress.
 - the assets under custody for processing or in consignment at third parties.

Purchased stocks, for which the risks and benefits were transferred, but which are in course to be supplied are reflected distinctly.

The stock accounting is kept on quantity and value, using the permanent inventory.

In these conditions, accounts register all input and output operations, which allows to determine and know the inventory at all times, both in quantity and value.

Periodically, the company management approves the normal technological losses.

Evaluation upon recognition

The accounting registration of the entry of stocks is made at the transfer of risks and benefits. Holding under any title of any materials goods, and otherwise the performance of economic operations, without being accounted for, are prohibited.

For stocks accountability, the reception of all material goods entered is provided by the reception commission and registration in the stores.

The registration in the store is performed by the person in charge with the respective account.

Material goods received for processing, in custody or in consignment are received and registered distinctly as entries into accounts.

If there are gaps between the supply and the reception of the goods under company property, the procedure is as follows:

- incoming goods without invoice are recorded as entry in accounts both at the store and in the accounting records based on the reception and accompanying documents.
- incoming goods, unreceptioned, are registered as entry in accounting records.

If there are gaps between the sales and delivery of goods, this is registered as exit from the company; no longer considered company property the following procedure is pursued:

- The goods sold and not delivered are registered distinctly in company accounts, while in the accounting records they are registered off-balance in account 8039– Other values off-balance sheet.
- Goods delivered but not invoiced are recorded as exits from company accounts both at the store and in accounting records, based on the documents which confirm the exit from accounts.
- The goods purchased or sold under provisions regarding the ownership title are registered in accordance to concluded contracts.

Evaluation after recognition

Stocks are evaluated at acquisition cost or production cost, as applicable. Value adjustments are made to circulating assets, quarterly, based on the findings of the inventory commissions and / or business units managers with a view to present the assets at the lower of the cost and net achievable value.

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

Accounting policies on company debts

The debts of the company are registered on account of third party accounts. Accounting of suppliers and other debts are held by categories, and by each person or entity.

Tax on profit / revenue is recognized as a debt in the limit of the unpaid amount.

Accounting registration of excises and special funds included in prices or rates is done on the corresponding debts accounts, without transit through the accounts of revenues and expenses.

The operations that cannot be recorded distinctly in the corresponding accounts and which require further clarifications are recorded in a distinct account 473 (Settlement of operations pending clarification).

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

Monthly evaluation

At the end of each month, foreign currency debts are evaluated at the exchange rate of the currency market, provided by the National Bank of Romania in the last banking day of the month in question.

The exchange rate differences are recognized into accounts as revenues or expenses from exchange rate variations, as applicable.

At the end of each month, the debts expressed in lei, whose settlement is made subject to a currency rate is evaluated at the exchange rate of the currency market announced by the National Bank of Romania in the last banking day of the month in question.

The exchange rate differences recorded are recognized in accounts as other financial revenues or other financial expenses, as applicable.

The exchange rate differences which appear during the foreign currency debts settlement at rates different from those at which they were initially recorded during the month or to those which are accounted must be recognized in the month when they occur, as revenues or expenses from exchange rate differences.

The differences in value that occur during the settlement of debts expressed in lei, according to a currency rate different from that to which they were initially recorded during the month or to those which are accounted must be recognized in the month when they occur, as other financial revenues or expenses.

Short-term debts

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

- is expected to be settled in the normal course of operations of the company, or
- is exigible within 12 months from the balance sheet date.

All other debts must be classified as long-term debts

Long-term debts

The debts that are exigible within more than 12 months are long term debts.

Are also considered long-term debts bearing interest, even when they are exigible in 12 months from the date of the financial statements if:

- a) the original term was for a period longer of 12 months; and
- b) there is a refinancing or reschedule agreement, which is concluded before the date of the financial statements.

The long-term debts comprise:

- bank loans on long and mid-term,
- commercial debts and similar debts and their related interest.

Certificates for gas emissions with greenhouse effect

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

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

If the company estimates that it will use less than the allocated quota of certificates for gas emissions with greenhouse effect, any potential revenue from the selling of unused certificates is recognized only upon the effective sales thereof.

Accounting policies on company receivables

The receivables include:

- commercial receivables which are amounts owed by customers for sold goods or services provided in the normal course of business;
- commercial effects to cash, third party instruments;
- amounts owed by employees or affiliated companies;
- advance payments to suppliers of immobilizations, goods and services;

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- receivables related to personnel and to the state budget.

The receivables are registered based on accrual accounting in accordance with the legal or contractual provisions.

The receivables accounts provide the evidence of company receivables in relation with clients, personnel, social security, state budget, shareholders, various debtors.

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

The debts coming from advance treasury unsettled, from distributions of work equipment and debts originating in material damage, fines and penalties decided based on legal court decisions and other receivables related to personnel, are recorded as other receivables related to personnel.

The operations that cannot be registered distinctly in the appropriate accounts and which require further clarifications are provisionally registered in a distinct account (account 473). The amounts recorded in this account are cleared within three months from the finding date.

Receivables with settlement in foreign currency or lei, subject to a foreign currency exchange rate

The receivables and debts in foreign currency, resulted from company transactions, are registered both in lei and in the foreign currency.

The foreign currency transactions are initially recorded at the exchange rate communicated by the National Bank of Romania for the date when the operation was performed.

At the end of each month, the currency receivables are evaluated at the market exchange rate of that currency communicated by the National Bank of Romania in the last banking day of the month in question. The exchange differences are recognized as a revenue or expense from exchange rate differences, as applicable.

At the end of each month, the receivables expressed in lei whose settlement is made according to a foreign currency rate is evaluated at the market exchange rate provided by the National Bank of Romania in the last banking day of the month in question. In this case, the differences are recognized in the accounts as other financial revenues or expenses, as applicable.

The exchange rate differences which occur at the settlement of the foreign currency debts at rates, different from those at which they were initially

registered during the month or registered in the books must be recognized in the month when they occur as revenue or expense from exchange rate differences.

The value differences that occur during the settlement of receivables expressed in lei, according to a currency rate different from the initially registered one during the month or from the books must be recognized in the books in the month when they occur as other financial revenues or expenses.

The removal from accounts of the receivables with prescribed collection terms is only made after all legal steps were taken to settle them.

The uncertain receivables are registered distinctly in account 4118 "uncertain clients or in litigation".

In the annual financial statements, the receivables are evaluated and presented at their probable value to collect.

When it is estimated that a receivable will not be collected in full, adjustments for depreciation will be registered at the level of the amount which cannot be recovered.

The evaluation in the financial statements of the receivables expressed in foreign currency and the receivables in lei with settlement subject to a foreign currency rate is made at the exchange rate announced by the National Bank of Romania for the closing date of the fiscal year.

Accounting policies on liquidities and short-term investments

Liquidities in foreign currency and lei

The current accounts with banks are kept analytically on each bank. The interest to collect, related to the funds available in banks, is registered distinctly.

The payable interest and the interest to collect for the financial year in progress are recorded as financial expenses or financial revenue, as applicable.

The accounting of deposits in banks / cashier and their movement as a result of collection and payments made, is kept distinctly in lei and in the foreign currency.

The operations related to foreign currency collection and payments are registered in the accounting at the exchange rate communicated by the National Bank of Romania as on the date of the transaction.

The sale and purchase of foreign currency including those conducted within contracts with due date settlement are registered in the accounting at the exchange rate used by the commercial bank where the currency bidding is made, without generating thus accounting exchange rate differences.

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At the end of each month, the currency liquidities and other treasury values are evaluated at the market exchange rate communicated by the National Bank of Romania in the last banking day of the month in question.

The exchange rate differences are recognized as revenue or expenses from exchange rate differences.

The cash funds and other similar amounts in foreign currency are evaluated in the financial statements at the exchange rate announced by the National Bank of Romania for the closing date of the financial year.

Treasury advances

For making payments in cash, the company gives treasury advances to employees and third parties.

The justification of granted advances is based on a specific document prepared by the advance holder, with attached support documents, exception for the daily allowance, for which no proof is requested.

In case of foreign currency payments made from treasury advances, the expenses are recognized in the accounts at the exchange rate on the date of the operation or at the exchange rate on the date when the advance is settled, for those expenses for which no proof is presented, such as the daily allowance.

At the date of the balance sheet the amounts representing treasury advances given and not settled are shown in the various debtors account or receivables account related to personnel, subject to the type of receivable.

Accounting policies regarding the recognition of expenses

The expenses are recognized in the global result statement when a future economic benefits decrease can be reliably evaluated related to the decrease of an asset or an increasing debt.

Consequently the recognition of the expenses occurs simultaneously with the recognition of debts growth or with assets decrease.

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

- consumption of stocks;
- executed work and performed services for the company's benefit;
- expenses with employees' benefits,
- execution of legal or contractual obligations,
- provisions
- amortizations
- adjustments for depreciation or loss of value.

The accounting of expenses is kept on categories:

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

The operational expenses include:

- expenses with raw materials and consumables, the cost of procurement of materials not under stock, countervalue of utilities consumed, cost of sold goods;
- expenses with personnel- employees' benefits: salaries, insurance and social security and other expenses with manpower paid by the company: expenses with training, expenses with meal vouchers and social expenses;
- expenses with: services supplied by third parties, insurance policies, rent, protocol, advertisement and publicity, transport of goods and personnel, travel, temporary transfers, banking services, post and telecommunications, etc;
- other operational expenses: losses from receivables and diverse debtors, fines and penalties, etc.

Employees' benefits

The benefits of the employees are forms of consideration given by the company in exchange for the services provided by the employees.

Throughout the normal course of business, the company pays to the Romanian state, on behalf of its employees, the contributions for pensions, health insurance and unemployment. The expenses with these payments are registered as profit or loss at the same time as the related salary expenses.

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

AEROSTAR recognizes the following categories of employees' benefits:

- short-term benefits such as salaries and social security contributions, annual and medical leave paid, and bonuses (if payable within 12 months from the end of the period), meal tickets and other benefits provided in the collective labour agreement; post-employment benefits such as benefits related to retirement;
- benefits for cancellation of the labour agreement - are negotiated periodically and are provided in the collective labour contract.

The financial expenses are:

- expenses related to financial investments which were assigned;

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- unfavourable differences of the exchange rate;
- expenses related to interest;
- other financial expenses.

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

All indebtedness costs which are not directly attributable to the acquisition, construction or production of assets with a long manufacturing cycle are recognized in the profit and loss account, using the effective interest method.

Upon the draw-up of the financial statements, the transactions in other currencies than the company's operational currency are recognized at the exchange rates applicable on the dates of such transactions.

At the end of each reporting period, the items expressed in foreign currency are converted at the exchange rates applicable on the respective dates.

The revenues or losses due to exchange rate differences are reported on a net value basis.

Synthetic accounts of expenses are developed on analytical accounts according to accounting regulations in force (the general plan of accounts) and according to the needs of the company- with management approval.

The fiscal year expenses also comprise provisions, amortizations and adjustments for depreciation or loss of value, current and deferred tax on revenue and other taxes, calculated according to the law, which are shown separately, according to their nature.

Accounting policies regarding the recognition of revenues

The revenues are recognized in the global result statement of the company when an increase of future economic benefits can be reliably evaluated in relation to an increase of an asset or a decrease of a debt.

As a result, the recognition of revenues occurs simultaneously with the recognition of the growth of assets or debts reduction.

The revenues category includes both the amounts collected or to receive in its own name, and the gains from any source.

The revenue are classified as follows:

- Revenues from operations
- Financial revenues
- Extraordinary revenues

The revenues are recognized on the accrual accounting basis.

The synthetic accounts of revenues are developed on analytical accounts according to the accounting regulations in force (the general plan of accounts) and according to the needs of company- with the management approval.

The revenue is evaluated at the fair value of the consideration received or that may be received.

The sales revenues are reduced for returns, trade discounts and other similar reductions.

Sales of goods

The revenues from sales of goods are recognized when all of the following conditions are accomplished:

- the company transferred to the buyer the risks and rewards related to the ownership title upon the goods;
- the company does not maintain continued management involvement down to the level usually associated with the ownership right, nor the effective control over the goods sold;
- the revenue value can be appraised accurately;
- the economic benefits related to the transaction are likely to be directed to the entity;
- the costs borne or which will be borne in relation to the transaction can be measured precisely.

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

Supply of services

The revenues from the supply of services are recognized in the profit or loss account proportionally with the status of the transactions at the reporting date. The execution status is evaluated in relation to the work carried out. In case the result cannot be estimated, the revenues are recognized up to the level of the recoverable costs.

Revenues from rent

The revenues from rent related to real estate investments are recognized in the profit or loss account , linearly during the rental agreement.

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

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

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

Accounting policies on provisions

Provisions

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

The value recognized as a provision is the best estimate of the countervalue needed for settling the current obligation at the end of the reporting period, taking into account the risks and uncertainties related to such obligation.

The accounting of provisions is kept on categories, depending on their nature, purpose or scope for which were established.

Guaranties

The company sets up a provision for guaranties when the product or services covered by guaranties are sold.

The value of the provision is based on historic or contractual information about the guaranties granted and is estimated by weighing all possible results against each such occurrence probability.

Provisions for risks and expenses

When risks and expenses are identified which are likely to occur due to the past events or events in progress, and whose object is accurately determined, but their occurrence is uncertain, the company covers such risks by setting up provisions.

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

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

Provisions for dismantling of tangible immobilizations

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

Accounting policies on taxation of profits

The expenses with profit tax represent the amount of the tax to pay currently and the deferred tax.

Current tax

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

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

Deferred tax

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

The asset related to the deferred tax is generally recognized for all temporary differences deductible up to the moment when such taxable revenues, to which deductibility was applied, can be used.

The accounting value of the assets to which the deferred tax is applied is revised at the end of each reporting period and reduced to the limits where it is no longer likely that there will be sufficient taxable profits to allow the integral or partial recovery of the assets.

The assets and the debts related to the deferred tax are measured at the level of taxes proposed to be applied during the period of time established for recovery of the debt or execution of the asset, subject to the level of taxes (and fiscal laws) in force or about to enter in force by the end of the reporting period.

The measurement of the debts from deferred tax and of the assets reflects the tax-related consequences which can arise from the manner in which the company anticipates at the end of the reporting period to recover or settle up the accounting value of its assets and debts.

The current tax and the deferred tax are recognized in the profit and loss account except when they refer to items recognized directly in the company's own capital; in such a case the current tax and the deferred tax are also recognized directly in the company's own capital.

Accounting policies on subsidies and other non-reimbursable funds

The subsidies reflect distinctly:

- government subsidies;
- non-reimbursable loans as subsidies;
- other amounts received as subsidies.

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Recognition

The subsidies are recognized at their approved amount. The subsidies received as non-monetary assets are recognized at the fair value.

Government subsidies

The government subsidies are recognized initially as revenue deferred at the fair value when there is reasonable certainty that this will be received while the company complies with the terms associated to the subsidy.

The subsidies compensating the company for the expenses made are recognized in the profit and loss account systematically, during the same periods of time when the expenses are recognized. The subsidies compensating the company for the cost of an asset are recognized in the profit and loss account systematically throughout the life of the asset.

Subsidies for investments

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

The deferred revenue is recorded in the profit and loss account in correlation with the registration of the expenses with amortization or write-off or assignment of the assets.

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

Subsidies related to revenues

The subsidies related to revenues are recognized on a systematic basis as revenues of the periods corresponding to the related expenses which such subsidies are to compensate.

In case during a period subsidies are collected in relation to expenses which were not made yet, the subsidies received do not represent revenues of the current period. They are recognized as revenues in advance and are resumed in the profit and loss account in correlation with the execution of the expenses which they compensate.

The return of a subsidy related to revenues is accomplished by reducing the deferred revenues. If the amount reimbursed exceeds the deferred revenue or if such revenue no longer exists, the surplus, the fully reimbursed value respectively, is immediately recognized as an expense.

Accounting policies for determining the result per share

The company provides information about the result per basic share. Such result is calculated by dividing the profit or loss to distribute to the shareholders of ordinary stock of the company to the average weight of the ordinary shares in circulation during that time period.

Accounting policies regarding the financial instruments

A financial instrument is a contract generating simultaneously:

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

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

A standard purchase or sale of financial assets will be recognized and derecognized, as applicable, using the method of entry into accounts at the date of the transaction or of the settlement.

All the financial assets and debts are initially recognized at the just value plus, in case of a financial asset or a financial debt that is not evaluated at the fair value in the profit and loss account, the transaction costs which are directly attributable to the acquisition or issue of the financial asset or debt.

The securities which were not under transaction are evaluated at the historic cost less the possible adjustments for loss of value.

The company compensates a financial asset with a financial debt solely when:

- it has the legal right to proceed as such and
- intends either to settle on a net basis or
- to achieve the asset and to extinguish the debt simultaneously.

A financial asset is depreciated when its accounting value is higher than its estimated recoverable value. The company establishes the existence of depreciation indications at the date of each balance sheet.

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

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

In applying the accounting policies, the company issues procedures, instructions and working provisions**Comparative statements**

Certain amounts in the individual statement of the financial position, the individual statement of the global result, statement of the treasury cash flows and the individual statement of the company capitals modifications for the previous year were reclassified to conform with the current year presentation.

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4. TANGIBLE IMMOBILIZATIONS

Gross values	Land	Constructions	Technical equipment and machinery	Other tangible immobilizations	Tangible immobilizations in progress	Real estate investments	Total
On January 1, 2013	27,966	41,132	37,190	49	2,568	7,556	116,461
input	-	1,672	18,038	22	17,462	46	37,240
out	-	-	57	-	19,761	-	19,818
On December 31, 2013	27,966	42,804	55,171	71	269	7,602	133,883

Amortization	Land	Constructions	Technical equipment and machinery	Other tangible immobilizations	Tangible immobilizations in progress	Real estate investments	Total
On January 1, 2013	-	-	-	-	-	-	-
input	-	1,768	5,782	14	-	365	7,929
out	-	-	18	-	-	-	18
On December 31, 2013	-	1,768	5,764	14	-	365	7,911

Net accounting value of tangible immobilizations on December 31, 2013

	Gross value	Amortization	Adjustments for loss value	Net accounting value
1. Land	27,966	-	-	27,966
2. Constructions	42,804	1,768	-	41,036
3. Technical equipment and machinery	55,171	5,764	-	49,407
4. Other tangible immobilizations	71	14	-	57
5. Real estate investments	7,602	365	-	7,237
6. Tangible immobilization in progress	269	-	-	269
Total (1+2+3+4+5+6)	133,883	7,911	-	125,972

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

- Land;
- Constructions;
- Equipment, technical installations and machinery;
- Transportation vehicles;
- Other tangible immobilizations;
- Real estate investments.

For tangible immobilizations, the company estimated and included in the cost of tangible immobilization, the cost for removal and relocation of the asset, and the cost for site restoration at the end of the useful lifetime. These costs are reflected by the set-up of a provision,

which will be registered in the profit and loss account throughout the life of the tangible immobilization, as part of the yearly amortization expenses.

The useful lifetimes are established by committees made up of the company's specialists.

The functioning fiscal duration of the tangible immobilizations are provided in the fiscal legislation.

The amortization methods and the estimated useful lifetimes are reviewed by the company management at each reporting date.

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

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The gross accounting value of tangible immobilization with integral amortization and still in function on December 31, 2013 is 182,175 lei.

In accordance with IAS 36 – Assets depreciation - at the inventory of tangible immobilization, the inventory committee proceeded to identify indications that they might be depreciated.

The commission appealed to internal sources of information for the depreciation tests from the internal reporting provided and found that:

- the economic performance of assets is good, compared with the expected one, all assets that are in operation bring benefits to the company
- during the year 2013 there were no changes with an adverse effect on the extent and manner in which the assets are used and no modifications are planned in the near future;
- cash flow for assets acquisition and subsequent maintenance is not higher than the one provided in the budget.

The commission concluded that tangible assets in balance at 31.12.2013 are not depreciated and adjustments for their depreciation are not set.

a) Increases of gross value of tangible assets by:	<u>37,240</u>
▪ Acquisition of technological equipment, CNC machine tools, modernization of buildings, following the completion of the investments objectives and recognition of certain immobilization as assets	19,778
▪ Capitalization of expenses related to investments in progress, including:	17,462
• capitalization of expenses made for investment financed from European funds „Setup of a new manufacturing capacity for diversification of production and export growth”	6,754
• capitalization of expenses made for other investments	10,708
b) Reductions of gross value of tangible immobilizations by:	<u>19,818</u>
▪ finalization of investments in progress	19,761
▪ De-recognition of tangible assets due to the fact that the company no longer expected future economic benefits from their use	57

5. INTANGIBLE IMMOBILIZATIONS

Gross values	Development expenses	Licenses	Other intangible immobilizations	Total
On January 1, 2013	-	1,794	177	1,971
input in 2013	261	533	-	794
out in 2013	261	11	-	272
On December 31, 2013	-	2,316	177	2,493

Amortization	Development expenses	Licenses	Other intangible immobilizations	Total
On January 1, 2013	-	194	-	194
input in 2013	261	398	30	689
out in 2013	261	11	-	272
On December 31, 2013	-	581	30	611

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Net accounting value of intangible assets on December 31, 2013

	Gross value	Amortization	Adjustments for value loss	Net accounting value
1. Development expenses	-	-	-	-
2. Licenses	2,316	581	-	1,735
3. Other intangible immobilization	177	30	-	147
Total (1+2+3)	2,493	611	-	1,882

In intangible assets category are included the following assets classes:

- Development expenses
- Licenses
- Other intangible immobilization

In other intangible assets are recorded computer programs.

a) Increase of gross value of intangible immobilizations by: 794

- capitalization of **development expenses** performed in order to completion of tasks in the development program funded entirely by Aerostar: 261
 - special processes qualification
 - „mechanical processing” qualification
 - „electrochemical treatments” processes qualification
- acquisition of **software licenses** 533

In accordance with IAS36 – Assets depreciation – during the inventory of intangible assets the inventory committee proceeded to identify indications that they might depreciate.

The commission has used internal sources of information for the depreciation tests, provided by internal reports and found that:

- the economic performance of assets is good and compared with the expected one, all assets that are in operation bring benefits to the company;
- during 2013 year there were no changes with an adverse effect on the extent and manner in which the assets are used and no modifications are expected in the near future;
- cash flow for acquiring and subsequent maintenance of assets is not higher than the provided budget.

b) Reductions in gross value of intangible immobilizations by: 272

- the settlement and amortization of development tasks, made and finalized during the analyzed period 261
- derecognition of intangible assets (licenses) due to the fact that the company does not expect future economic benefits from their use 11

6. INVESTMENTS IN SUBSIDIARIES AND OTHER IMMOBILIZATIONS

	year 2013	year 2012
On January 1	106	106
Increase/ Reduction	-	-
On December 31	106	106

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The details of the investments in other companies as on 31.12.2013 are:

Subsidiary name	Basic activity	No. of shares	Voting rights (%)	Aerostar holding value (K lei)	Financial information of the last financial year (2012) for which were approved the financial statements of the affiliated companies		
					Registered capital of the company	Reserve	Net profit
SC Airpro Consult SRL Bacau	- activities of contracting manpower on a temporary basis	100	100%	10	10	45	61
SC Foar SRL Bacau	- rental and leasing with other machinery, equipment and tangible goods	408	51%	4	8	829	393
SC Aerostar Transporturi Feroviare S.A Bacau *)	- manufacturing of lifting and handling equipment	9,150	45.75%	92	200	36	14
TOTAL				106	218	910	468

The entity participation in other companies is registered on cost, there is no active market for such securities and no other information with recent market transaction. In 2013, the entity has not registered modifications like the increase / reduction in the percentage of participation, and keeping the same influence as in 2012. All companies in which the entity holds shares are registered in Romania.

*) the company's activity is suspended until 15 November 2015.

7. PROFIT TAX

The profit tax represents the current tax and the deferred tax. The profit tax is recognized in the global result statement or in other elements of the global result if the tax relates to capital items.

Tax on current profit is the tax to pay in relation to the profit achieved in the current period, determined based on the applicable fiscal regulations as on the reporting date. The profit tax rate applicable for the financial year 2013 was 16% (the same rate applied for the financial year 2012).

	<u>Dec. 31, 2013</u>
Expenses with current profit tax	3,050
of which- with payment due date on 25.03.2014	1,024

Deferred tax is determined for the temporary differences arising between the fiscal basis of calculation for tax on assets and debts, and their accounting value. The deferred tax is calculated using tax rates that are expected to be applicable to the temporary differences when they are resumed, under the law applicable at the reporting date.

Deferred profit tax recognized on account of the result

Receivables related to deferred tax in balance on 01.01.2013	1,874
Expenses with deferred tax	961
Revenues from deferred profit tax	652
Receivables related to deferred tax in balance on 31.12.2013	1,565

Deferred profit tax recognized on account of company capitals

Debts related to deferred profit tax recognized on account of company capitals in balance on 01.01.2013	4,419
Set-up of deferred tax-debt in 2013	3,035
Debts on deferred profit tax recognized on account of company capitals in balance on 31.12.2013	7,454

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8. STOCKS

	31.12.2013	31.12.2012
Raw material	7,148	4,994
Consumables	11,840	8,776
Other materials	13	-
Finished products	8,230	5,995
Products in progres	14,830	14,111
Goods	5	4
Adjustments for depreciation of stocks	(7,426)	(9,131)
TOTAL	34,640	24,749

The motion within depreciation adjustments of stocks is the following:

	31.12.2013	31.12.2012
Balance at the beginning of the year	9,131	5,567
Set-up during current year	5,614	6,891
Resumed during current year	(7,319)	(3,327)
TOTAL	7,426	9,131
Influence in the statement of global result	1,705	(3,564)

9. FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial debt or an instrument of owned capitals for another entity.

AEROSTAR's financial assets include cash and cash equivalents, commercial receivables and other receivables, loans granted.

AEROSTAR's financial debts include commercial debts, debts related to financial leasing, long-term bank loans, credit lines used as account overdrafts .

The main types of risks the company is exposed to, generated by the financial instruments are: credit risk, liquidity risk, currency exchange risk and interest rate risk.

a) Credit risk

Exposure to credit risk

The accounting value of the financial assets, net from depreciation adjustments, represents the maximum exposure to the credit risk.

Maximum exposure to credit risk at the time of reporting:

	31.12.2013	31.12.2012
Cash and cash equivalents	36,727	48,080
Comercial receivables	43,906	33,637
Other receivables (customer- guarantees)	1,716	1,785
Loans granted	899	77
Total	83,248	83,579

Maximum exposure to the credit risk for commercial receivable for various geographical areas:

	31.12.2013	31.12.2012
Domestic market	1,191	14,094
Euro countries zone	14,189	9,855
Great Britain	6,219	6,201
Other European countries	1,144	911
Other regions	21,163	2,576
Total	43,906	33,637

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Depreciation Adjustments

The time structure of commercial receivables at the time of reporting::

	Gross value 31.12.2013	Adjustment for Depreciation 31.12.2013	Gross value 31.12.2012	Adjustment for Depreciation 31.12.2012
In time	43,843	-	33,555	-
Pastdue, total of which:	804	741	1,447	1,365
0-30 days	63	-	82	-
31-60 days	-	-	-	-
61-90 days	-	-	-	-
91-120 days	-	-	-	-
Over 120 days	153	153	45	45
More than 1 year	588	588	1,320	1,320
Total	44,647	741	35,002	1,365

The motion in the provision set for depreciation of commercial receivables during the year was:

	2013	2012
Balance on January 1	1,365	1,369
Adjustments for depreciation, set-up	969	111
Adjustments for depreciation resumed at revenues	(1,593)	(115)
Balance on January 31	741	1,365

Based on historical data on past due payments, the company considers that, except the above-mentioned notes, no recognition of depreciation adjustments is necessary for the commercial receivables which are overdue up to 30 days. On December 31, 2013, 98% of the balance for commercial receivables relate to customers with a good payment record.

b) Liquidity risk

The company policy on liquidities is to maintain an optimum level so as to be able to pay for liabilities as they become due.

	Financial debts	Accounting value
December 31, 2013	Commercial debts	14,649
	Financial leasing	-
December 31, 2012	Commercial debts	16,470
	Financial leasing	22

The due payment terms of the financial debts are less than 6 months.

c) Currency risk

c1) Exposure to currency risk

AEROSTAR is exposed to currency risks as approximately 86% of its turnover registered on 31.12.2013, is reported in relation to USD and EUR, while as a significant part of the operating expenses relates to LEI.

So the company is exposed to the risk of having the exchange rate fluctuations affect both its net revenues and its financial position, as stated in lei.

Below is described the company exposure to the currency risk, based on accounting values, denominated in foreign currency:

December 31, 2013	K LEI	K EUR	K USD	K GBP
Commercial receivables	2,540	2,417	9,378	-
Commercial debts	(7,617)	(687)	(1,125)	(53)
Net exposure	(5,077)	1,730	8,253	(53)

c2) Sensitivity analysis

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AEROSTAR is exposed mainly to USD and EUR variations; A detailed presentation of the company's sensitivity to a 10% increase/ decrease of Romanian Leu versus the reference currency (EUR, USD, GBP) is shown in the table below.

December 31, 2013	K LEI	K EUR	K USD	K GBP
Net exposure, in original currency	(5,077)	1,730	8,253	(53)
Currency exchange rates	1	4,4847	3,2551	5,3812
Net exposure, in functional currency	(5,077)	7,759	26,864	(285)
Reasonable variations, possible for exchange rates	0%	+/- 10%	+/- 10%	+/- 10%
Variation effect in profit and loss account		+/- 3,433 K LEI		

d) Interest rate risk

As on 31.12.2013 AEROSTAR has contracted a credit facility of 5,000 thousand USD, intended for financing the operational activities, wich includes the following sublimits:

- 1) A cash sublimit in amount of 2,500 K USD, usable as an account overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve).
- 2) A non-cash sublimit in the amount of 2,500 K USD, usable to guaranty the commercial contractual obligations by issue of a letter of bank guarranty and/or import letters of credit.

The interest is applicable only for the account overdraft utilized within the sublimit of 2,500 K USD.

As during the reported period AEROSTAR did not use the cash sublimit of 2,500 K USD , the company's revenue and cash flow are independent from the interest rate variation on the baking market.

On 31.12.2013 the level of guarantees granted by AEROSTAR as part of the commercial agreements by issue of bank guarantee letters amounts to 517 K USD (the equivalent of 1,683 K lei); no import L/C's are issued.

On 31.12.2013 the level of guarantees granted by AEROSTAR to fund the investment-related activities is 3.000 K LEI, bank guarantee issued on 24.08.2012, in favor of the Ministry of Economy, Trade and Business Environment (MECMA – AMPOSCCE), according to the contract completion no. 229226/14.06.2012, to guarantee the repayment of the pre-financing received by deducting from the reimbursement claims submitted to MECMA Bucharest .

The restitution obligation by deducting it from the reimbursement requests was fulfilled by AEROSTAR, the bank guarantee following to expire on 07.02.2014.

10. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

a) Statement of Receivables

RECEIVABLES	Balance on December 31, 2013	Balance on January 01, 2013
Commercial Receivables	46,092	39,080
Domestic customers	1,191	14,095
Foreign customers	43,170	21,166
Uncertain customers ¹⁾	741	1,365
Adjustments for depreciation of customer receivables	(741)	(1,365)
Suppliers- debtors	1,731	3,646
Customers – invoices to draw - up		173
Immobilized Receivables	1,716	1,785

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

Other receivables, of which :	3,274	8,346
• Receivables related to manpower and similar accounts, of which:	56	33
- <i>salary advance payments to employees</i>	22	19
• Receivables related to social insurance budget and state budget,	3,037	7,994
of which:		
- <i>VAT to recover</i>	426	1,665
- <i>excises related to fuel for aircraft testing</i>	715	1,319
- <i>amounts such as subsidies to receive for investments</i>	-	3,000
- <i>current and deferred tax receivables</i>	1,565	1,874
• Interest to receive	52	237
• Other receivables	129	82
Expenses in advance	301	-
TOTAL	51,383	49,211

¹⁾ Uncertain customers were recorded distinctly in the accounting records of the company.

To cover the risk of non-recovery of the amounts representing uncertain debts, the company has recorded adjustments for depreciation of uncertain customers, at their integral value. When determining the recoverability of a commercial receivable we took into account the changes in the customer's credit rating from the time when the credit was granted till the time of reporting.

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania for closure of financial year 2013.

The favorable or unfavorable differences between the market exchange rate at which the receivables in foreign currency are registered and the market exchange rate communicated by the National Bank of Romania for closure of the financial year 2013 were recorded in the revenue or expense account for the exchange rate differences, as applicable.

The receivables related to the state budget at the end of December amount to 3,037 K lei, of which:

- VAT to recover 426 K lei
- Excises for the fuel for aircraft testing 715 K lei
- Deferred tax receivables 1,565 K lei
- Non-exigible VAT in amount of 265 K lei.

11. STATEMENTS OF DEBTS

a) Statement of long-term debts

DEBTS	Balance on December 31, 2013	Balance on January 01, 2013
Advance payments received on customers' account	-	3,882
Domestic customers-creditors	-	-
Foreign customers-creditors	-	3,882
Suppliers	-	205
Domestic suppliers	-	205
Foreign suppliers	-	-
TOTAL	-	4,087

b) Statement of short-term debts

DEBTS	Balance on December 31, 2013	Balance on January 01, 2013
Advance payments received on customers' account	21,550	14,886
Domestic customers-creditors	101	93
Foreign customers-creditors	21,449	14,793

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

Suppliers	14,649	16,287
Domestic suppliers	6,481	8,772
Foreign suppliers	5,915	5,412
Suppliers – invoices not arrived	1,664	937
Suppliers of immobilizations	589	1,166
Financial leasing debts	-	22
Debt with tax on current profit	1,024	406
Other current debts, of which	5,347	4,511
• Debts related to manpower and similar accounts	1,436	1,288
• Debts related to social insurance budget and state budget	3,475	2,816
• Other debts, of which:	436	407
- dividends not cashed in by shareholders	293	257
TOTAL	42,570	36,112

The advance payments received on customers' accounts, amounting to 21,550 K lei are intended for aircraft maintenance and repair work, to be settled in 2014.

The company paid full dividends distributed from the profits of the financial year 2012.

At the end of December 2013 the company made undertaking, under the form of bank guarantee letters in amount of 1,439,000 USD issued in favour of the commercial partners subject to contractual requirements. For these undertakings, AEROSTAR registered provisions.

The exchange rate differences, favourable or unfavourable, between the market exchange rate at which the debts are registered in foreign currency and the market exchange rate communicated by the National Bank of Romania for closure of the financial year 2013, were registered in the corresponding revenues or expenses accounts for the exchange rate differences, as applicable.

12. CASH AND CASH FLOW EQUIVALENTS

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

	31.12.2013	31.12.2012
Cash	499	359
Bank deposits	36,149	47,626
Cheques to cash in	58	24
Collateral deposits	21	71
Cash and cash equivalents in the treasury cash flow statement	36,727	48,080

Cash equivalents are:

- bank deposits of high liquidity, with due term shorter than three months
- cheques deposited in banks for cashing in
- collateral deposits made, subject to legal provisions at relevant customs authority in Bacau with a view to secure the payment of current customs obligations (customs taxes and VAT)

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

There are no restrictions on the liquidity accounts in banks.

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

13. REGISTERED CAPITAL

The registered capital on 31 december 2013 and 2012 was as follows:

	December 31, 2013			December 31, 2012		
	Number of shares	Nominal Value (K RON)	%	Number of shares	Nominal Value (K RON)	%
S.C. IAROM S.A. Bucharest	83,271,380	26,647	71.0892	83,271,380	26,647	71.0892
SIF MOLDOVA Bacau	17,053,630	5,457	14.5588	14,647,020	4,687	12.5042
OTHER SHAREHOLDERS, of which:	16,811,520	5,380	14.3520	19,218,130	6,150	16.4066
<i>Natural persons</i>	<i>11,802,740</i>	<i>3,777</i>	<i>10.0760</i>	<i>12,151,740</i>	<i>3,889</i>	<i>10.3740</i>
<i>Legal persons</i>	<i>5,008,780</i>	<i>1,603</i>	<i>4.2760</i>	<i>7,066,390</i>	<i>2,261</i>	<i>6.0326</i>
Total	117,136,530	37,484	100.0000	117,136,530	37,484	100.0000

14. RESERVES

	December 31, 2013	December 31, 2012
Legal reserves	6,297	6,297
Statutory reserves	6,811	3,136
Other reserves	4,742	4,742
Total	17,850	14,175

15. REVENUES

	December 31, 2013	December 31, 2012
Revenues	208,034	193,580
Variation of stocks of finished products and production in progress	4,141	9,340
Other revenues	676	605
Activity executed by the company and capitalized	1,004	619
Total revenues	213,855	204,144

16. SALES COST

	December 31, 2013	December 31, 2012
Personnel expenses	75,958	65,478
Expenses with raw materials and consumables	71,732	58,724
Expenses with external services	11,135	11,345
Energy, water and gas	9,801	10,230
Repairs	5,843	8,471
Depreciation and amortization	8,618	7,277
Other materials expenses	9,591	7,258
Other costs	3,340	2,170
Transportation costs	4,378	3,255
Total	200,396	174,208

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

17. OTHER REVENUES FROM OPERATIONS

	December 31, 2013	December 31, 2012
Revenue from rentals	1,441	1,145
Revenue from sale of goods	2,548	2,188
Total	3,989	3,333

18. OTHER OPERATING EXPENSES

	December 31, 2013	December 31, 2012
Increase/ decrease of adjustment, on provisions	2,395	13,949
Increase/ decrease of adjustment, for stock depreciation	(959)	3,112
Total	1,436	17,061

19. FINANCIAL RESULT

	December 31, 2013	December 31, 2012
Revenue from exchange rate differences	9,794	9,584
Interest revenues	2,193	2,136
Revenues from shares in subsidiaries	61	23
Expenses from exchange rate differences	(9,836)	(9,373)
Interest expenses	(0.2)	(5)
Other financial expenses	(1)	(6)
Financial profit	2,211	2,359

20. PROVISIONS

	December 31, 2012	Provisions	Reduction/ Reversal of provisions	December 31, 2013
Total provisions, of which:	65,835	39,172	36,777	68,230
Provisions for guarantees granted to customers	20,381	3,917	15,046	9,252
Other provisions for risks and expenses	26,402	28,632	15,678	39,356
Provisions for litigations	0	0	0	0
Provisions for employee, benefits	2,871	6,623	6,053	3,441
Provisions for dismantling of tangible immobilizations	16,181	0	0	16,181
Long-term provisions	29,220	19,398	4,968	43,650
Provisions for guarantees granted to customers	3,487	2,471	4,685	1,273
Other provisions for risks and expenses	9,552	16,927	283	26,196
Provisions for dismantling of tangible immobilizations	16,181	0	0	16,181

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

Short-term provisions	36,615	19,774	31,809	24,580
Provisions for guarantees granted to customers	16,894	1,446	10,361	7,979
Other provisions for risks and expenses	16,850	11,705	15,395	13,160
Provisions for litigation	0	0	0	0
Provisions for employee benefit	2,871	6,623	6,053	3,441

21. TRANSACTIONS WITH RELATED PARTIES

Procurement of goods and services (without VAT)	year 2013	year 2012
S.C Airpro Consult SRL Bacau	10,187	7,245
S.C Foar SRL Bacau	807	618
TOTAL	10,994	7,863

Sales of goods and services (without VAT)	year 2013	year 2012
S.C Airpro Consult SRL Bacau	21	20
S.C Foar SRL Bacau	9	9
TOTAL	30	29

Debts	Balance at 31.12.2013	Balance at 31.12.2012
S.C Airpro Consult SRL Bacau	649	899
S.C Foar SRL Bacau	72	58
TOTAL	721	957

Loans granted by Aerostar	year 2013	year 2012
S.C Foar SRL Bacau	900	-

Dividends collected by Aerostar	year 2013	year 2012
S.C Airpro Consult SRL Bacau	61	23

The transactions with related parties in 2013 consisted in:

- expenses with temporary manpower and equipment rental;
- revenues from rental of buildings and other revenues.
- loan granted exclusively for the purchase of a CNC machine DMU100 monblock for a period of three years, at an interest rate of 8.29% per year, updated quarterly depending on the index ROBOR 3M published by National Bank of Romania.

Stipulated penalties: additional penalty interest applied to amounts not paid on time (monthly payment deadline), amounting to 0.06% per day of delay.

There were no transactions with S.C.Aerostar Transporturi Feroviare S.A. Bacau, because since November 2009 the company's activity is suspended.

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED ON 31 DECEMBER 2013
(unless stated otherwise, all amounts are stated in K lei)**

22. PROFIT PER SHARE

The profit per share was calculated based on the profit distributable to ordinary shareholders and based on the number of ordinary shares.

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

IN LEI	31.12.2013	31.12.2012
Profit distributable to ordinary shareholders	14,863,993	15,068,186
Number of ordinary shares	117,136,530	117,136,530
Basic profit per share	0.12	0.12

23. SUBSIDIES FOR INVESTMENTS

	2013	2012
Balance on January 1	6,264	3,656
Subsidies for investments	2,539	3,000
Subsidies moved to revenues subject to calculated amortization	(473)	(392)
Balance on December 31	8,330	6,264

The balance of 8.330 K lei represents collected subsidies for investments to be properly recorded as revenues corresponding to the calculated amortization.

The subsidies for investments are collected based on a non-refundable financing agreement concluded between AEROSTAR S.A. and the Ministry of Economy, Trade and Business Environment (MECMA) :

1. contract 210304/22.04.2010: Extension of aerostructures manufacturing and assembly capacities for civil aviation;
2. contract 229226/14.06.2012: Set-up of a new manufacturing capacity for diversification of production and export growth.

24. RESULT CARRIED FORWARD

	31.12.2013
Balance on January 1, 2013	56,915
Increase of result carried forward representing surplus from reserve from re-evaluation at assets assignment.	2
Decrease of result carried forward derived from use of fair value as cost deemed on account of deferred tax registration	(1,554)
Decrease of result carried forward on account of recording deferred profit tax directly in company capitals	(630)
Balance on December 31, 2013	54,733

**General Director,
GRIGORE FILIP**

**Financial Director,
DORU DAMASCHIN**

INDEPENDENT AUDITOR'S REPORT

BENEFICIARY:

- S.C. AEROSTAR S.A.

HEAD OFFICE:

- Bacau, Condorilor Street, No. 9

MANAGEMENT:

- GENERAL DIRECTOR - GRIGORE FILIP
- FINANCE- ACCOUNTING DIRECTOR - DORU DAMASCHIN

STATUTORY AUDITOR:

- Authorized Natural Person MONICA HUSANU
- Authorization No. 2401 / 2008

REGISTERED HEADOFFICE:

- Bacau, Ion Luca Caragiale Street, No. 1, bl. 1, se. D, ap. 12

MANAGEMENT:

- Financial Auditor - MONICA HUSANU

CONTRACT nr. 28/14.12.2012

INDEPENDENT AUDITOR'S REPORT REGARDING FINANCIAL STATEMENTS ON 31.12.2013

1. Introduction:

We have audited the individual financial statements, prepared by S.C. AEROSTAR S.A. („The Company”) on 31.12.2013, in accordance with International Standards of Financial Reporting, adopted by the European Union, comprising: the Statement of the Financial Position, the Statement of the Global Result; Other elements of the Global Result; the Statement of Company Capitals Modifications; the Statement of Treasury Cash Flows, Notes to the individual Financial Statements and annexes – The Report of the Board of Directors, the Declaration of the Management in conformance with the provisions of art. 30 of the Accounting Act no. 82/1991 and the Regulation no. 1/2006 issued by the National Securities Exchange Commission, currently the Financial Supervisory Authority („ASF”), the Proposal for the distribution of the net profit achieved in the financial year 2013, as well as the verification balance sheet which comprises the information determined in accordance with IFRS provisions.

The financial statements mentioned refer to:

- Total company capitals of 132,384,919 lei;
- Net turnover 212,022,588 lei;
- Net profit..... 14,863,993 lei.

The annual financial statements are prepared under the responsibility of the company management. Our responsibility is to express an opinion on these annual financial statements, as well as on the degree of conformity of the Report of the Board of Directors with the annual financial statements for the same financial year.

2. Management Responsibility for the financial statements

The Company's management is responsible to prepare and present adequately these annual financial statements in accordance with the requirements of the accounting regulations in Romania, i.e. the Accounting Act no 82/1991 (republished), the order of PFM no 1286/2012 with reference to the approval of the accounting regulations in accordance with the International Financial Reporting Standards, applicable to the companies listed at a regular stock exchange market, and the Order no 79/ 2014 of the Public Finance Ministry regarding the main aspects related to the draw-up and submission of the annual financial statements and annual accounting reports of the economic agents at the territorial offices of the Public Finance Ministry.

This responsibility includes: the design, implementation and maintaining an internal control relevant for the adequate preparation and presentation of the annual financial statements which should not include significant misrepresentations, due to fraud or error; the selection and application of the proper accounting policies, elaboration of reasonable accounting estimations in the circumstances given.

3. Responsibility of the Auditor

- a) Our responsibility is, based on the audit conducted, to express an opinion upon these annual financial statements as resulted of the statutory audit conducted. We conducted the auditing in accordance with the Auditing Standards issued by the Chamber of Financial Auditors of Romania and with the International Auditing Standards. These standards require that we comply with the ethical requirements, to plan and conduct the audit with a view to obtain a reasonable assurance that the annual financial statements are free of significant misrepresentations.
- b) A statutory audit consists in the execution of procedures with a view to obtain the auditing evidence with reference to the amounts and information presented in the annual financial statements examined. The procedures selected are subject to auditor's professional reasoning, including the assessment of the risks, either of significant misrepresentation of the annual financial statements, or due to fraud or error. In the assessment of these risks, the auditor takes into consideration the internal control relevant for the correct preparation and presentation of the annual financial statements with a view to establish the auditing procedures adequate in the circumstances given, but not in the purpose to express an opinion upon the efficiency of the company's internal control.

- c) A financial audit also includes the evaluation of the adequacy level of the accounting policies which were used and the reasonable character of the accounting estimates elaborated by the management, as well as the conformance of the information existing in the audited annual financial statements with IFRS requirements.
- d) We consider that the auditing evidence which we obtained is sufficient and adequate to constitute the basis for our audit opinion.

4. Opinion

- a) The auditing of the annual financial statements as on 31.12.2013 was conducted with a view to express a pertinent opinion on the conformity both of the annual accounts with the accounting references in force, and of the latter with the International Financial Reporting Standards. No significant deviations were found out from the general accounting standards while the data and information registered in the annual accounts provide a fair image and satisfy the requirements of all categories of finance-accounting information users, and the rules established by the institutions or bodies in Romania, as well as the provisions of the International Financial reporting Standards are complied with.
- b) Subject to the above, the auditor's opinion is with no reserve, that is the financial statements of S.C.AEROSTAR S.A. Bacau for the financial year 2013, provide a faithful image of the assets, debts, of the company capitals, of the revenues and expenses and information data of this entity. In other words, the financial statements for 31 December 2013, in accordance with IFRS, present faithfully under all significant aspects, the financial position, the global result and the other information related to the activity performed by S.C.AEROSTAR S.A. in accordance with the Accounting Act no 82/1991, republished, of the Regulations no 1/2006 issued by the National Securities Exchange Commission and in principle, of the International Financial Reporting Standards.

5. Other aspects

This report is addressed exclusively to the shareholders of the company as a whole. Our audit was conducted with a view to be able to report to the shareholders of the company those aspects which we have to report in a financial auditing report and in no other purposes. To the extent permitted by the law we do not accept and we do not assume any responsibility for our auditing, for this report or for the opinion formed, other than towards the company and its shareholders as a whole.

The annual financial statements attached are not intended to present the financial position, the results of operations and a complete set of notes to the financial statements in accordance with regulations and accounting principles accepted in countries and jurisdictions other than Romania. Therefore the annual financial statements attached are not prepared for the use by persons who do not know the accounting and legal regulations in Romania and namely, the Accounting Act no 82/1991 (republished), the Order of PFM no 1286/2012 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards, applicable to the companies listed at a regular stock exchange, and the Order no 79/2014 of the Public Finance Ministry regarding the main aspects related to the draw-up and submission of the annual financial results and annual accounting reports of the economic agents at the territorial offices of the Public Finance Ministry.

6. Report upon the conformity of the Report of the Board of Directors with the annual financial statements closed at 31.12.2013

In accordance with the requirements of the Financial Supervisory Authority, we have read the report of the board of directors. This is attached to the annual financial statements. In the report of the directors we did not identify financial information which is significantly nonconforming with the information presented in the annual financial statements.

Bacau, 17.03.2014

HUSANU MONICA

FINANCIAL AUDITOR, registered with
Financial Auditors Camera on no.2401/2008



Str. Condorilor nr.9, Bacau 600 302; Inmatriculat cu nr: J04/1137/1991-R.C.Bacau;
Cod Unic de Inregistrare: 950 531; Atribut fiscal:R; Capital social: 37.483.689,60 lei(RON)
Tel:+40.234.575 070; Fax:+40.234.572 023;572 259
e-mail:aerostar@aerostar.ro; Website:http://www.aerostar.ro

DECLARATION

The undersigned GRIGORE FILIP, as President of the Board of Directors and General Director of SC AEROSTAR S.A. and DORU DAMASCHIN, as Vicepresident of the Board of Directors and Financial Director of S.C AEROSTAR S.A., we hereby undertake the responsibility for the preparation of the individual financial statements at 31.12.2013, and confirm that:

- a) The accounting policies used to draw up the individual financial statements at 31.12.2013 are in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.
- b) The individual financial statements at 31.12.2013 provide a fair image compliant with the reality of the assets, debts, financial position, global result and of the other information related to the activity performed.
- c) The Report of the Board of Directors for the financial year 2013 comprises a correct review of the development and performance of S.C. AEROSTAR S.A., as well as a description of the main risks and uncertainties specific to the activity performed.
- d) S.C. AEROSTAR S.A. BACAU performs its operations in conditions of continuity.

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

Vicepresident of the Board of Directors and Financial Director,
DORU DAMASCHIN

DISTRIBUTION OF THE PROFIT ACHIEVED IN 2013

Net profit of the year 2013 to be distributed as follows:	14,863,993 lei
A. For increase of the registered share capital	4,433,695 lei
B. Dividends (gross dividend per share = 0.089 lei)	10,430,298 lei



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