

THE TRANSFORMATION CONTINUES!



AEROSTAR S.A.



Annual Report 2017- The Transformation continues!

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REPORT OF THE BOARD OF DIRECTORS



About AEROSTAR, in general

AEROSTAR was established in 1953 and acts in accordance with the Romanian law. It was registered in year 1991 as a shareholding company at the Bacau Trade Register under trade number J04/1137/1991 with the current name 'AEROSTAR' S.A., having the individual identification number 950531.

The registered headoffice is located on Condorilor Street, no. 9, Bacau, postcode 600302 and recently there has been registered a secondary site, a secondary place of business in Iasi.

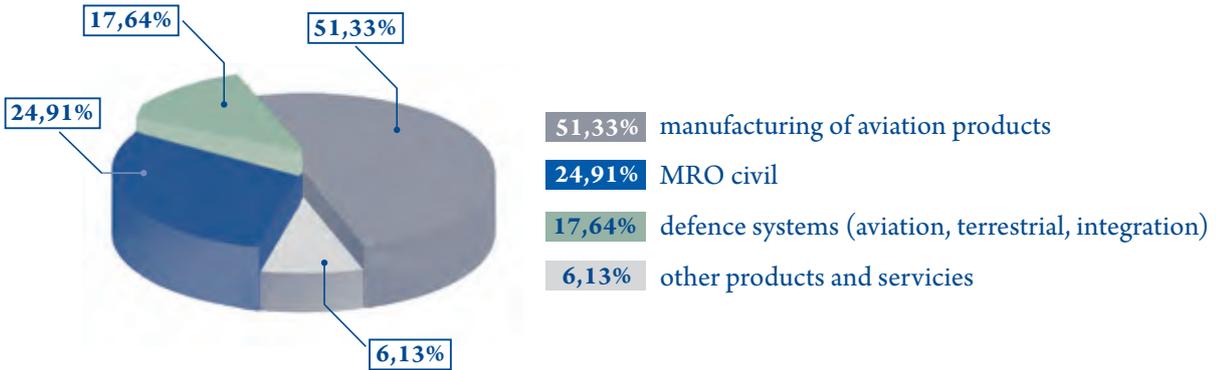
According to the classification of activities in Romanian economy, the main object of activity is manufacture of aircraft and spaceships – CAEN code 3030.

The main business lines of AEROSTAR are:

- ◆ **Manufacturing of aviation products;**
- ◆ **Commercial aircraft maintenance;**
- ◆ **Aero, ground and naval defence systems.**



Distribution of sales on business lines in 2017



At 29 September 2017, AEROSTAR got the new registration certificate containing the unique identification code at European level: EUID: ROONRC.J04/1137/1991.

A private company, publicly listed at the Bucharest Stock Exchange, the record of the shares and shareholders is kept, under the law, by Depozitarul Central S.A.

To perform its objective of activity, the resources of the company are used in a synergic manner through a unitary management of the processes and business relations of the company.

AEROSTAR maintained its positioning as number 1 in Romania for its scope of activity.

- ◆ **Number 1 in aviation manufacturing;**
- ◆ **Number 1 in civil aircraft maintenance.**

AEROSTAR is a significant supplier for the solutions in the field of aero, ground and naval defence systems.

AEROSTAR is regional leader in these market domains.

AEROSTAR footprint in the global aeronautical manufacturing programmes is significant, setting a pole for development in the aeronautical and defence industry.



Significant facts

- ◆ In 2017 the investments made by AEROSTAR from its own sources were of 23,447 thousand LEI. The total investments made by AEROSTAR, from its own funds and from attracted sources, are over 50 million Euro since its privatisation.
- ◆ AEROSTAR has founded the future Civil MRO Centre in Iasi – the first development outside the main head office. At this secondary head office, AEROSTAR will perform activities in the field of civil aircraft maintenance.
- ◆ In 2017, 245 young employees have found a job in AEROSTAR, the average age in the company being 45 years.
- ◆ AEROSTAR was designated the supplier of the year by SAFRAN Landing Systems (Messier-Bugatti-Dowty) on the occasion of the yearly ‘Quality Day’ meeting, organized with the subcontractors appreciated for their quality performance and on-time delivery field, as well as for the capacity of innovation and support for Safran activities.
- ◆ AEROSTAR received the Airbus award for partnership in the field of parts and components manufacturing on the occasion of the Airbus Group Detail Parts Suppliers Conference for the performance achieved, highlighting Airbus’ appreciation for AEROSTAR support in the success of Airbus programs.
- ◆ In October 2017 the Memorandum of Understanding was signed between AEROSTAR and Raytheon International Defence Systems, a first step for the long term co-operation in the field of equipment and components related to the multilevel air defence integrated system – the acquisition program of the Romanian Army for the Patriot systems.



Year 2017 in key figures

The export sales are higher.

The objective is to increase the export sales to over 80% from the turnover.

	UM	31.12.2017	31.12.2016
Registered capital	thousand lei	48,729	48,729
Turnover	thousand lei	340,172	356,219
– export sales	thousand lei	258,390	255,274
The effective number of personnel, from which:	no.	2,100	2,164
– own employees	no.	1,953	1,878
– employees attracted through temporary labour agent	no.	147	286
EBITDA*	thousand lei	82,669	96,047
EBIT**	thousand lei	58,787	65,865
Net profit	thousand lei	53,170	56,472
Cash - flow	thousand lei	163,886	163,153
* Earnings before interest, tax, depreciation & amortization			
**Earnings before interest and tax			
General liquidity	-	7.03	4.74
Expenses for investments from company sources	thousand lei	23,447	19,498

FINANCIAL PERFORMANCE (thousand lei)	31.12.2017	31.12.2016
– Total revenues	359,925	372,807
– Total expenses	301,138	306,942
– Gross profit	58,787	65,865

FINANCIAL POSITION (thousand lei)	31.12.2017	31.12.2016
– Imobilized assets (net value)	153,686	154,397
– Circulating assets	278,451	256,174
– Registered capital	48,729	48,729
– Company capitals	252,967	213,908
– Total debts	54,472	72,939

The exchange rate of the main foreign currencies in which the AEROSTAR business was performed:

	UM	2017	2016
Average exchange rate EURO/12 month	lei/EURO	4.5677	4.4907
Average exchange rate USD/12 month	lei/USD	4.0542	4.0585
Average exchange rate GBP/12 month	lei/GBP	5.2144	5.5016
Inflation	%	3.32	0.99

AEROSTAR S.A. prepares and releases the financial statements in accordance with the international financial reporting standards (IFRS).

Events of 2017



- ◆ **In the ordinary general meeting from 20 April 2017, the shareholders of the company AEROSTAR have approved the distribution of the amount of 13,704,970.0 lei from the profit of the year 2016 for dividends, which corresponds to a 0.09 lei gross dividend per share;**

The payment of the dividends was made starting with the date of 20.09.2017.

At the date of 31.12.2017 the amount which remained uncollected by the shareholders which have not been presented at the counters of the payment agent designated by AEROSTAR – CEC Bank S.A. was 557 thousand lei.

- ◆ **At 7 September 2017 AEROSTAR signed the lease with the Iasi County Council for an initial period of 49 years for a surface of 16.000 mp situated in the perimeter of Iasi International Airport with the purpose of building a new production capacity for maintenance of civil aircraft;**

At 15 January 2018, the Trade Register Office Bacau issued the Resolution no. 469/12.01.2018 regarding the admission of the registration application for the secondary place of business as it was formulated.



- ◆ **At 18 October the Memorandum of Understanding was signed between the Ministry of Economy, through Aerostar S.A., and the American company Raytheon International Defence Systems, regarding the co-operation in the field of equipments and components related to the air defence multilevel integrated system.**

With this document was initiated the launching of the acquisition program for the Patriot systems of the Romanian army, which also provides for the transfer of technology and technical assistance for the modernisation and new technologies for the existing equipment, as well as providing the technical support specific for the Patriot systems.



„We set the foundations of the future for the following decades. The transformation continues!”

The letter of the President - General Director

The transformation continues!



I am addressing to all the parties interested in AEROSTAR business, in relation with the company results of year 2017.

These results reflect an advanced positioning along the strategic directions of growth and development as provided in the Mission of the company.

The continuity and consistency of the changes for modernization along the business lines in the field of aviation products manufacturing and civil aircraft maintenance have imposed the business model of success which brings satisfaction to all the relevant interested parties: customers, employees, investors.

Aerostar has accomplished the provisions established through the budget approved in the general meeting of the shareholders and made important progress in the repositioning on the market in parallel with a proper business management, achieving an investment significant program.

In 2017, Aerostar sales were in amount of 340 million lei, the gross profit in amount of 59 million lei. Investments of almost 23.5 million lei were made, with 20% more than the year 2016.

Also in this year, we set the basis of the first significant development outside the main headoffice. We will build the future Civil Aircraft Maintenance Centre in Iasi, which will be in addition to the Centre of Excellence from Bacau, in the the field of Part 145 approved services for civil aircraft maintenance.

In 2018 and in the following years we will continue the investments according to the budget approved on the three main directions provided in our development strategy.

Grigore FILIP

PRESIDENT - GENERAL DIRECTOR

Vision

AEROSTAR is a market and people-oriented company.



We act in a consistent manner for a long-lasting and sustainable development of the company, at higher and higher performance levels, in conditions of profitability and responsibility.

The synergy of our competences and expertise for the civil and military market contributes to the AEROSTAR consolidation as a company for the future.

Our objective is to create VALUE and to be COMPETITIVE and to obtain a long-term SUCCESS.

We are focusing on increasing performance and continuous improvement.

We encourage the personal development of our employees in the spirit of integrity, innovation and initiative.

A history of 65 years, a journey into the past, present and future

In 2018, Aerostar marks the 65 years anniversary from its establishment.

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

The successive names held were URA-1953, Intreprinderea de Reparatii Avioane-IRAv (Aircraft Repair Enterprise)-1970, Intreprinderea de Avioane-IAv (Aircraft Enterprise)-1978 and since 1991 was registered as a shareholding company with fully state-owned capital, under the current name - AEROSTAR S.A.

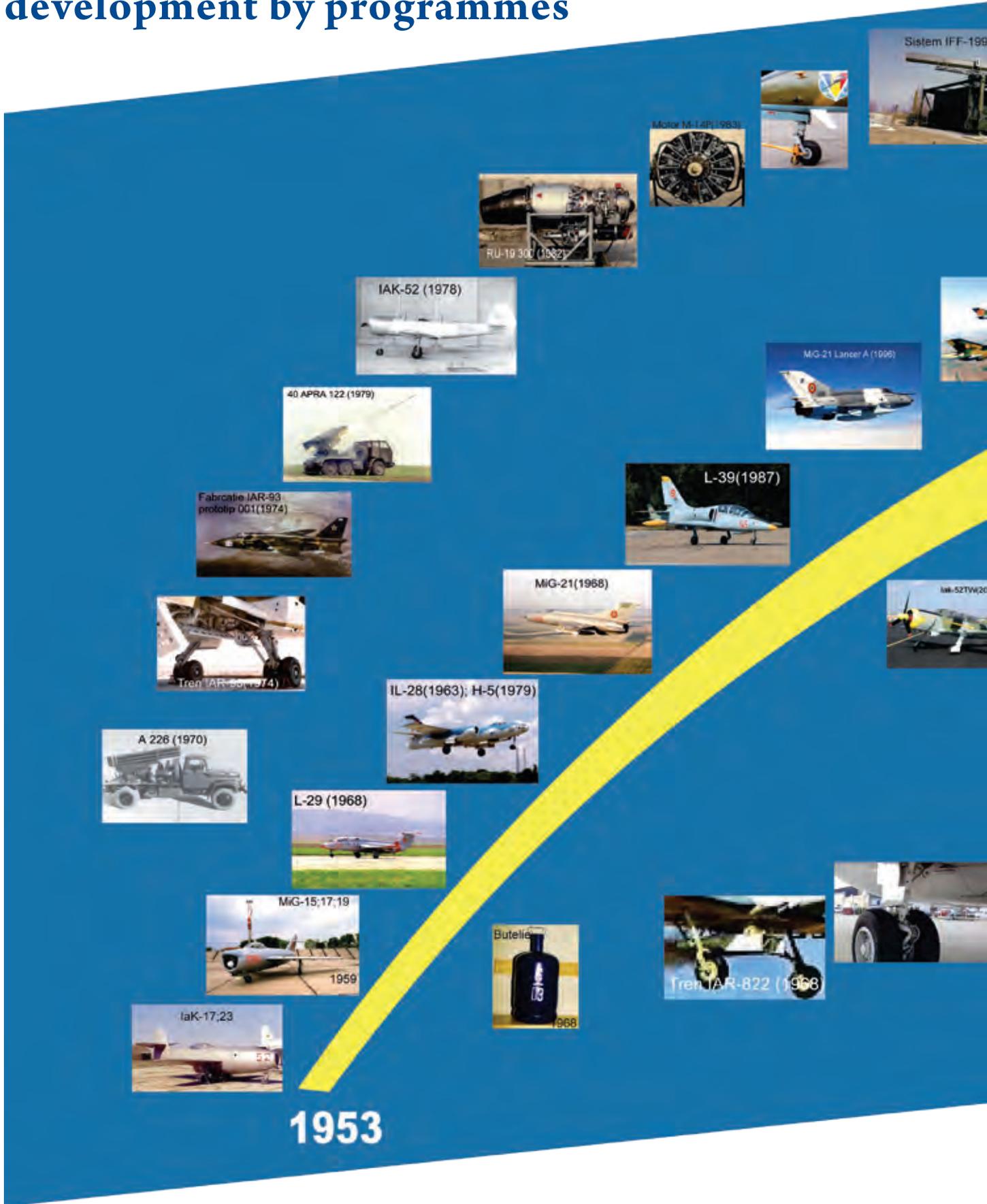
Since the year 2000 it is a fully private company, with the shares traded at Bucharest Stock Exchange, since 1998, with the ARS indicator.

The Mission statement set-up at the establishment of URA (Aircraft Repair Plant), the forerunner of today's AEROSTAR, was maintained and updated in the conditions generated by Romania's accession to NATO and European Union, and in the present, in order to secure the development of the company business, Aerostar's mission focuses on three lines of business, all in aeronautics and defence:

- ◆ Maintain the supplier status in the field of aviation and ground defence systems mainly for the Romanian Ministry of National Defence.
- ◆ Consolidation of AEROSTAR's position as supplier of parts, aerostructures, subassemblies and equipment for the commercial and general aviation, in such a way as to become a major subcontractor for the globalized aviation industry
- ◆ Consolidation of AEROSTAR's activities as a prime supplier of maintenance for civil aircraft and for conversion / upgrade of civil aircraft.



A history of 65 years, development by programmes





2018

The 65 years anniversary from the establishment of the company is a journey in history, as well as it is a journey in present which projects the future.

As a powerful industrial base in the field of aviation and defence, Aerostar holds a valuable legacy of knowledge and know-how taken along the generations which transfers to the future generations.

The trade mark of the company has international registration and enjoys an international reputation. The market, the customers and partners recognize the value associated to this name and to this industrial culture.

AEROSTAR S.A. was established in 1953 having the initial purpose of repair and maintenance for military aircraft in the inventory of the Romanian Air Forces.

Since its establishment to present, the company has a continuous development.

The period 1960-1970 featured the extension of the capabilities in the domain of the repairs and maintenance of military aircraft but also the initiation of production for ground defence systems: 122 mm launcher systems, but also various mobile shops and equipment for applications of the ground forces.

The period 1970-1980 is outlined by the prototype IAR-93, the first Romanian jet fighter airplane built after the second world war, the set-up of the IAK-52 light trainer aircraft factory, an airplane type manufactured by AEROSTAR in over 1900 units. This was the stage when a specialized facility was set up for manufacturing hydropneumatics and landing gears for all the aircraft types produced in Romania.



The years 1980-1990 continued and developed the capabilities in the field of military aircraft MRO, but also building a new facility for manufacturing aeroengines and gear boxes for aviation, as well as a new facility for radio and electronic equipment with defence applications.

After 1990, the name of AEROSTAR is related to the upgrading programmes of military aero and ground platforms: MIG-21 Lancer fighters, the modernization of the MiG-29 Sniper technological demonstrator, the modernization of the integrated artillery system for the Romanian Army, as well as the programme for the national identification friend or foe system, the maintenance and upgrades of radar systems or the C-130 upgrade with advanced IFF and air defence equipment, all of them being NATO compatible and interoperational.

AEROSTAR is an example of a competitive business model, adaptation to the market requirements, a model of growth and development.

“AEROSTAR” Shares (ARS)

The main characteristics of the shares issued: 152.277.450 shares, nominative, ordinary, of equal value, paid integrally, issued in dematerialized form and recorded by registration in the Register of Shareholders. This is managed by the S.C. Depozitarul Central S.A. Bucharest.

The issuer AEROSTAR S.A. Bacau is registered with the following data: Individual Identification Number 950531, ISIN ROAEROACNOR5 code, ARS stock exchange symbol, the issued shares being all in the standard category.

ARS shares

	year 2017	year 2016	year 2015
Number of shares	152,277,450	152,277,450	152,277,450
Nominal value per share (lei)	0.32	0.32	0.32
Company capitals (lei)	252,967,021	213,908,224	181,518,081
Price at the end of the year (lei)	4.70	3.27	2.72
Stock exchange capitalization ¹ (lei)	715,704,015	497,947,262	414,194,664
Maximum price (lei)	4.78	3.27	3.25
Minimum price (lei)	3.25	2.24	1.67
Result per share (lei)	0.349	0.371	0.343
Dividend per share ² (lei/actiune)	0.094	0.090	0.084
The performance of the dividend ¹	2.0%	2.8%	3.0%
Distribution rate of the profit ³	27.0%	24.3%	24.5%

¹ Calculated based on the closure price of the share in the last transaction day from the year in question;

² The dividend per share related to year 2017 will be submitted to GMS approval from 19 April 2018;

³ Calculated based on the net profit attributable to the shareholders of Aerostar;

MBR indicator ⁴ (market to book ratio)	2.8	2.3	2.2
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PER report ⁵ (stock exchange capitalization ratio)	12.67	9.53	7.93
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⁴ Calculated as a report between the market value and the accounting value (stock exchange capitalization/ company capitals);

⁵ Calculated as a report between the market value and the result (earning) per share.

The transaction price of AEROSTAR share oscillated in 2017 between a minimum level of 3.25 lei and a maximum level of 4.78 lei.



The evolution of the price of the shares on the Bucharest Stock Exchange in 2017



Main shareholders

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

There is a further number of shareholders, natural and legal persons, under the materiality threshold as provided in the regulations issued by the Financial Supervisory Authority and the Bucharest Stock Exchange.

The most recent information regarding the ownership structure were made available by Depozitarul Central for the date of 31 December 2017 and are presented in the following table:

Shareholder	Number of shares	Holding percentage (% from the registered capital)
S.C. IAROM S.A. București	108,568,180	71.2963
SIF MOLDOVA Bacău	22,919,887	15.0514
Natural persons	14,162,600	9.3005
Legal persons	6,626,783	4.3518
Total	152,277,450	100.0

The total number of Aerostar shareholders was of 6635, with no stake over 5% from among the natural and legal persons – other than IAROM and SIF.

In 2017, no new shares were subscribed, nor securities, convertible bonds, options or similar rights.

Relation with the Shareholders and the Capital Market

Aerostar monitors the activity related to the evolution of ARS shares at Bucharest Stock Exchange without interfering in its operations with such activity.

In the relation with the shareholders, AEROSTAR took into account, in year 2017 as well, to protect and provide for the rights of the shareholders, that is:

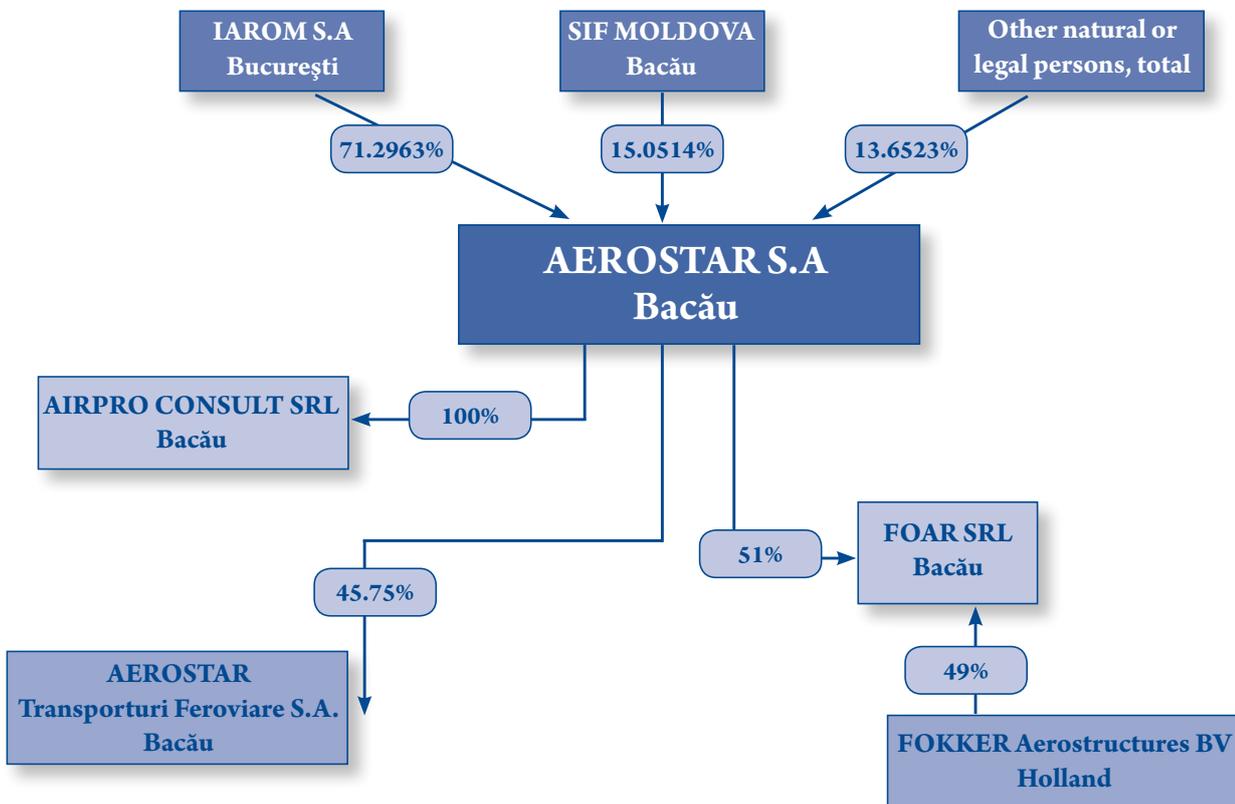
- ◆ to participate in the Ordinary General Meetings directly or by representation– by providing them special proxy forms, voting bulletins by correspondence, other useful information;
- ◆ to have a fair treatment, no matter the holdings;
- ◆ to receive dividends proportional with the holdings of each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

In the relation with the capital market, AEROSTAR has fulfilled, also in 2017, all the reporting obligations which went from the legal provisions by publishing the continuous and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, in the internet page of the company and by press release.

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

The shareholders can obtain information about AEROSTAR and its main events on the internet page www.aerostar.ro. Also, annual reports, as well as half-year and quarterly reports can be downloaded for the last five years, as well as the current reports and other useful information for the shareholders.

Aerostar’s relation with the parent-company and with the companies in which it has capital ownership



During 2017 there was no merger or significant reorganization, neither of AEROSTAR nor of the companies controlled by AEROSTAR.

Related parties

At 31.12.2017, AEROSTAR's participations in other companies are as follows:

- thousand lei -

Name of the subsidiary/ related company	Basic activity	No. of shares	Voting rights	Value of the holding (thousand lei)	Financial information 2016 *		
					Sales	Company capitals	Net profit
SC Airpro Consult SRL	code CAEN 7820	100	100%	10	8,530	163	96
SC Foar SRL	code CAEN 7739	408	51%	4	471	1,927	180
SC Aerostar Transporturi Feroviare S.A.	code CAEN 2822	9,150	45.75%	92	-	272	1
Total				106	9.001	2,372	278

* 2016 is the last financial year for which have been approved the financial statements of the related companies.

The transactions with the affiliated parties consist of:

- ◆ Supply by AIRPRO CONSULT SRL Bacau to AEROSTAR SA Bacau of services with temporary manpower;
- ◆ Supply by FOAR SRL Bacau to AEROSTAR SA Bacau of equipment renting services;
- ◆ Supply by AEROSTAR SA Bacau of services for renting spaces and provision of utilities to AIRPRO CONSULT SRL Bacau and to FOAR SRL Bacau;
- ◆ Dividends collected by AEROSTAR SA Bacau from AIRPRO CONSULT SRL Bacau and from FOAR SRL Bacau.

In 2017, no transactions were made with the company Aerostar Transporturi Feroviare S.A. whose activity was suspended since 2016.

The contributions of AEROSTAR in these companies are registered on cost.

During 2017, the company did not register modifications such as increase/decrease of the contribution percentage, AEROSTAR maintaining the same influence as in 2016.

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

AEROSTAR MANAGEMENT

The Board of Directors

The Board of Directors of AEROSTAR was chosen for a period of four years (from 11.07.2016 until 10.07.2020) during the Ordinary General Meeting of the Shareholders from 5 July 2016 and has the following members:



The attributions and responsibilities of the Board of Directors are provided in the Constitutive Act. The direct participation of the administrators to the registered capital of the company is lower than 1%. There is no agreement, understanding or family tie in connection with the nomination of the administrators of the company. There were no resignations or dismissals from among the members of the board of directors, or in connection with the auditor. There is no litigation between the company and the administrators with reference to their activity. None of the administrators was involved in a litigation or administrative procedure with AEROSTAR during the last 5 years.



Business Management

AEROSTAR is managed in a unitary system, with the delegation of the commercial company's management to the General Director, Mr. Grigore FILIP and the Financial Director, Mr. Doru DAMASCHIN.



Grigore Filip, General Director:

„Aerostar business proves successfully the power of the change processes consistently managed with professionalism and having constantly in mind the vision of a growth and development future.”



Doru Damaschin, Financial Director:

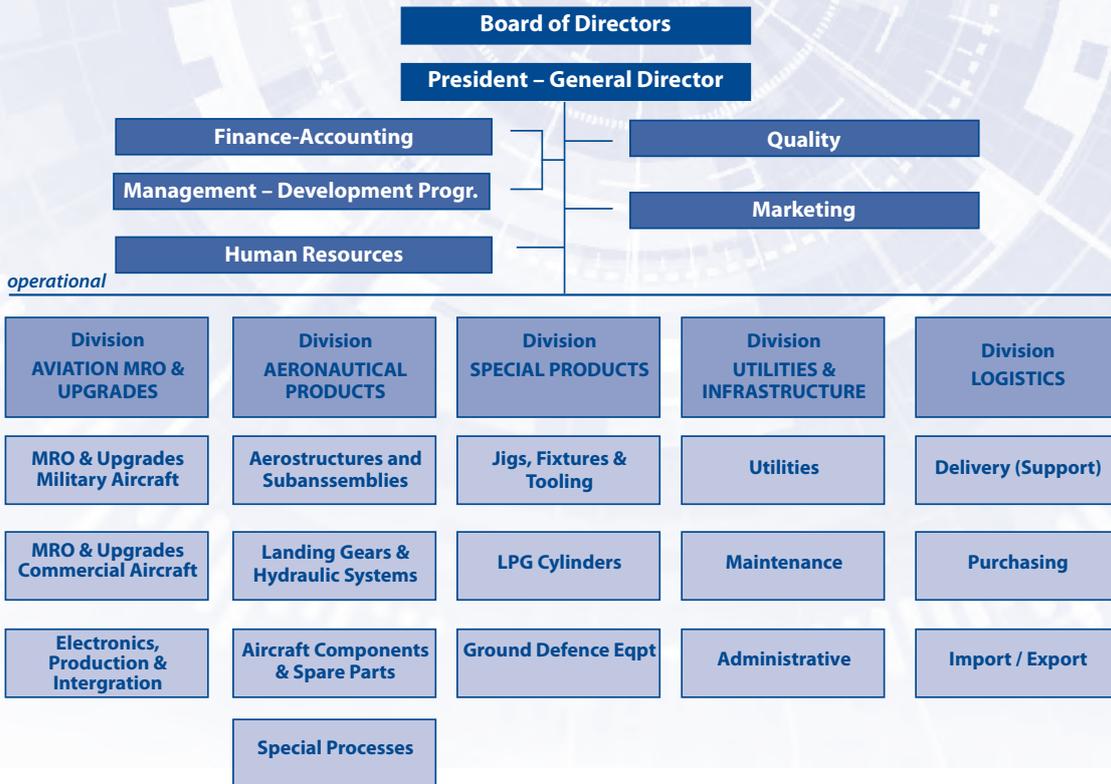
„I consider the digital transformation as being one of the most modern methods to increase economical efficiency, mainly by reducing the operational costs.”

The members of the executive management of the company in 2017 were:

Name and surname	Position
FILIP GRIGORE	General Director
DAMASCHIN DORU	Director Finance-Accounting
FILIP ALEXANDRU	Quality Director
POPA DAN PAUL MALIN	Director HR & Industrial Engineering
IOSIPESCU ȘERBAN	Director Aeronautical Products Division
BUHAI OVIDIU	Director Aviation MRO & Upgrades Division <i>* from 1.01.2018, runs the Defence Systems Division</i>
ACOSTOAE CLAUDIU	Director Special Products Division <i>* from 1.01.2018 runs the Ground Defence Platforms and GSE</i>
VLAD GABRIEL REMUS	Director Logistics Division
BRANCHE CĂTĂLIN	Director Utilities & Infrastructure Division

With a division type organisation structure, based on management centres in the area of operations, auxiliary activities and in the area of functional activities, Aerostar performs its scope of activity through an integrated utilization of the common resources of the organisation.

Organization of the operational structure during 2017:



During 2017 organizational and administrative actions were held with the purpose to implement the new organisation which entered in function at the beginning of the year 2018. The new organizational structure maintains the organizational principles and utilisation of the resources in a uniform, competitive and integrated manner.

The members of the executive management of the company on 1 January 2018:

FILIP GRIGORE



General Director

DAMASCHIN DORU



Director
Finance-Accounting

FILIP ALEXANDRU



Director
Quality

POPA DAN PAUL MALIN



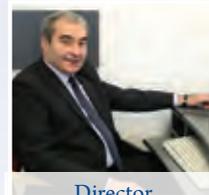
Director
HR & Industrial
Engineering

IOSIPESCU ȘERBAN



Director
Aeronautical Products
Division

BUHAI OVIDIU



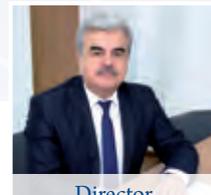
Director
Defence Systems
Division

VELESCU IOAN-DAN



Director
Civil Aviation MRO
Division

VLAD GABRIEL REMUS



Director
Logistics Division

BRANCHE CĂTĂLIN



Director
Utilities &
Infrastructure Division

Aerostar has operated organisational changes starting with 1 January 2018 with the purpose of better mobilisation and use of the resources, to better exploit the market opportunities and to respond better to the requests of the customers. This reorganisation preserves intact the overall industrial and manpower capabilities, assuring the development conditions of the business and the realisation of complex programs with an increased competitiveness.

The Special Products Division went through a restructuring process, the current GSE manufacturing programs and respectively Ground Defence Systems, creating one organizational structure under the name of 'Ground Defence Platforms and GSE within the new division 'Defence Systems Division'.

Therefore, the previous, Aviation Maintenance and Upgrades Division’, reorganized, is now the **Defence Systems Division** and focuses exclusively on military programs, being composed of: military, Aircraft and Engines Repairs and Upgrades unit, Ground Defence Platforms and GSE unit, the Program-Design, Production and Integrations of Electronic Systems, as well as other new programs, under development.

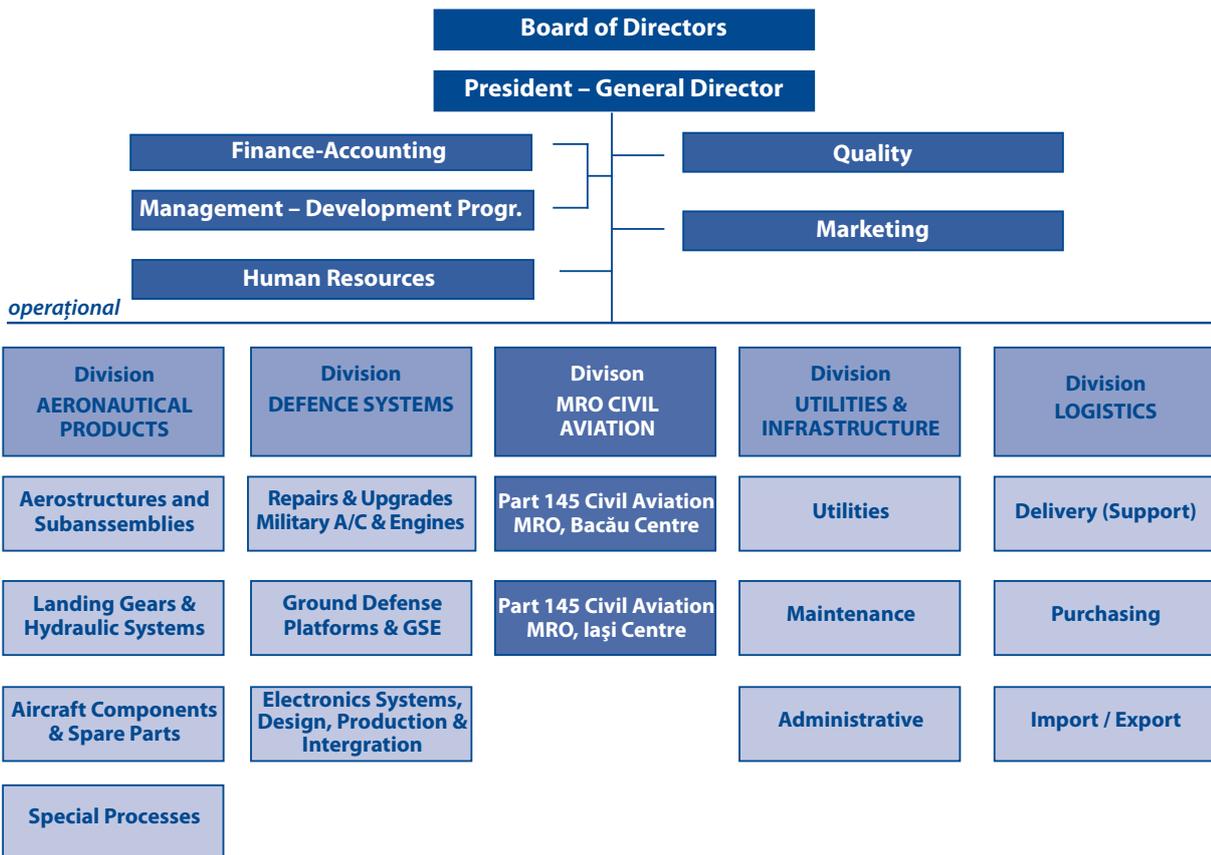
The **MRO Civil Aviation Division** was established as on 1 January 2018 and it

comprises the maintenance units related to the Part 145 Civil Aviation MRO Organization: The Part 145 MRO Civil Aviation Centre from Bacau and the future Part 145 MRO Civil Aviation Centre from Iasi.

The management of this division is assured by the director of the Part-145 Organization, who fulfils this responsibility since 2003.

The training unit set in this division provides the professional training necessary for the maintenance capacity in Iasi (maintenance engineers and mechanics).

From 1 January 2018, the new organizational structure is:



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

AEROSTAR market is part of the global markets



AEROSTAR acts on a global market, strongly competitive, in which the dynamic of the dominant players – the OEMs pursue in a consistent manner the major objective to grow the business.

The business in aviation and defence are tightly related to the global flows from the world economy. On a global scale the raising trend and the constant strong demand have a significant impact over the stability of the projections regarding the future.

Boeing and Airbus projections provide the demand growing for the next 20 years to almost 40.000 new airplanes of large size. Every year, in Asia, over 100 million people fly for the first time with the airplane. If the traffic is increasing, the airplane request follows the same pattern.

The stability and quality of the resources are critical for the supply chain, of large complexity and global geographical spread, as they are in this industry. The costs rose, the fuels are with approximately 20% more expensive than in the previous year. The costs of the manpower have also increased.

While the dynamics of growth is dominant, instability factors, geopolitical turbulences,

new types of phenomena and crises have been continuously arise at a global scale.

The studies show that over 90% of the economical and business activities are dependent on IT equipment and technologies. Their reliability and security are essential for the economic and social life, especially for the functioning of markets. The cybersecurity and the vulnerability of the strategic infrastructures are major areas for actions to provide the society functioning in good conditions.

In the defence industry, the synergies with the aviation, security and cybersecurity industries assure cost-effectiveness, as well as the fulfilment of the requirements for interoperability and efficiency of the costs.

The protectionist and the populist origin evolutions determine the migration of the capital flows to targets perceived as capable to imprint strategic positionings, and this results into a diversity of related phenomenona.

Brexit effects are also under attention.

The challenges of the current evolutions impose systemic and overall integrating approaches and processes for the management of the business risks.

OPERATIONAL PERFORMANCE

Synergy of the business operations

AEROSTAR's current market profile is characterised by advanced capabilities and new programmes, which have successfully replaced most of the old, traditional programmes.

AEROSTAR successfully capitalizes the over 50 million Euro investments made since the company privatization in the year 2000.

The investments in capabilities, machinery and equipment, advanced technologies, in capacity and infrastructure, as well as in organization and planning assure Aerostar's participation in the global flows from the aviation and defence global industry.

With a high degree of vertical integration of the value supplied, Aerostar is a competitive and significant supplier in the global programmes.

The evolution of the supply chains of the big companies in the OEM category, with which Aerostar is in a partnership relation, indicate the roadmap to follow in order to maintain competitiveness and to increase the value which Aerostar brings on mid and long term.

The operational performance, confirmed through performance indicators of large recognition, is sustained by an intensive management, based on the budgets and projects, and on a participatory management, which capitalizes jointly the operations and available resources as a whole.

93% from the production in 2017 is in the aeronautical field, which confirms the focus on the business model adopted.

Commercial aspects in 2017

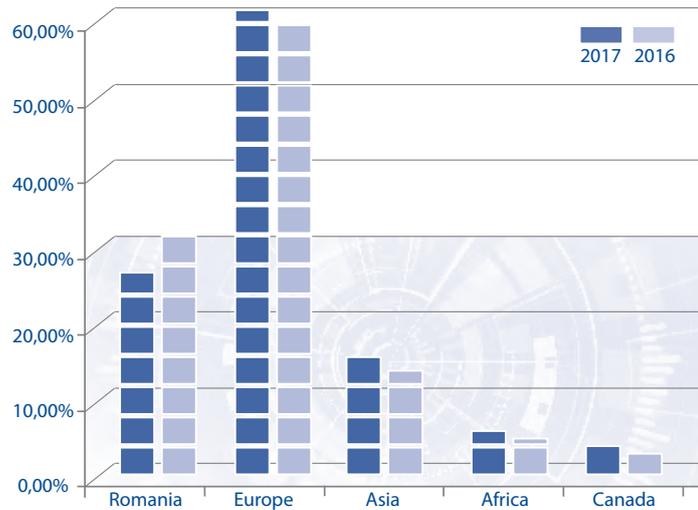


AEROSTAR performs its business and transactions on its own name, as well as the operations to obtain the licences and approvals for its operations.

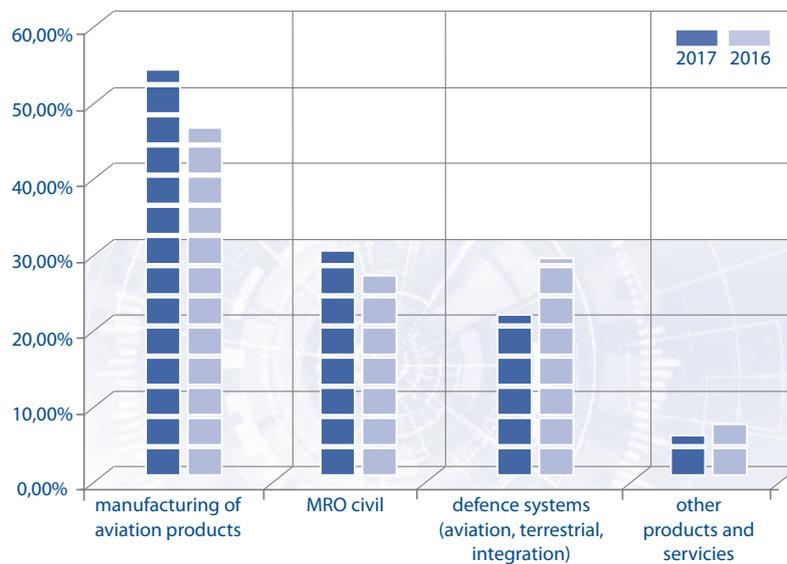
In 2017 AEROSTAR maintained and developed a solid basis for its business, with the new programmes representing most of the sales volume realised while the percentage of sales of military products and services decreased.

In 2017 AEROSTAR sales were in amount of 340,173 thousand lei, from which 258,390 thousand lei were export sales, up from the previous year, with a large customers diversity, in a big number of different production programmes.

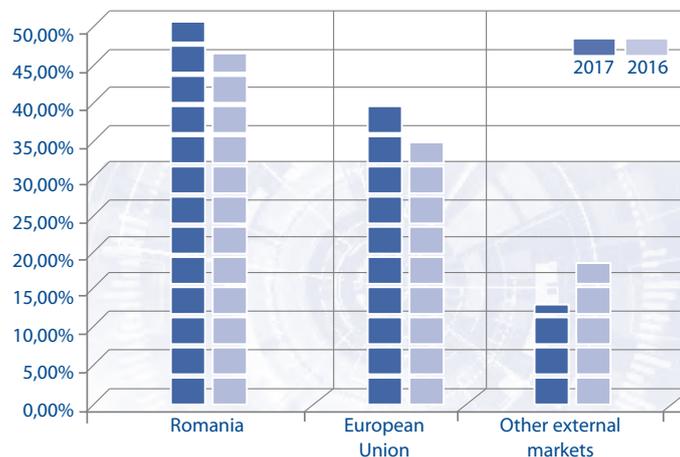
Aerostar sales are realised on a global market of large geographical extent both in the civil and defence field.



Comparative evolution of the sales of products and services confirms the market trends:



Increases of the goods and services volumes, purchased from the Romanian market continue compared to 2016.





Remus Gabriel VLAD, Logistics Director

„In the field of import and export transactions, AEROSTAR is an operator with a status of Authorised Economical Agent for customs, security and safety simplifications, authorised 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.

AEROSTAR fully complies with the regulations applicable at a national and international level, concerning trade, delivery and, certainly concerning the production of all the goods and services from its supplier profile.

AEROSTAR BUSINESS

Between Requirements and Expectations of the Customers



Alexandru FILIP, Quality Director

In Aerostar, customer orientation is defintory in all the activities performed.

In 2017 we continued to focus on the on-time delivery to our customers for the contracted products and services while reducing the number of claims for the products and services under warranty.

„The results obtained as well as our customers’ evaluations motivate us to continue the process of change and improvement.”

In 2017, Aerostar S.A. maintained all the certifications of the management system in accordance with SREN ISO 9001, AS/EN 9100, AQAP 2110 and SREN ISO 14001. During this year, modifications in the manangement system were implemented, changes to prepare for the transition to the new version of the standards which will take place in 2018.

The guidelines are the process- based approach, promoting the risk-based thinking, the digital

transformation of the processes, the employees’ implication and awareness.

In 2017, Aerostar also maintained the authorizations relevant to its field of activity. Worthwhile mentioning, the authorisation for the civil aircraft maintenance organisation was extended to cover as well the Neo Airbus A320 aircraft family.

The qualifications of the special processes with our customers were maintained in 2017 and even extended. The transition to the special processes with a low impact on the environment continued, mentioning here the Zn/Ni coating and etching processes free of hexavalent chrome.

Also on the environment, the Integrated Environment Authorization was reviewed in 2017 and the result of the environmental inspections outlined the compliance with all the legal requirements.

INVESTMENTS



Doru DAMASCHIN, Financial Director

„AEROSTAR management considers the digital transformation is part of those business decisions meant to secure effectiveness, efficiency and transparency of the processes, in order to be able to perform diagnosis and then optimize the flows of activity, the processes and the roles.”

In 2017, the investments made in Aerostar were in amount of 23.4 million lei. This category comprises several types of investments according to their destination, the funding being from company's internal source.

From a destination point of view, the categories of investments were: replacement investments, development investments, investments in new technologies, intended to replace the worn-out fixed assets or to modernize the production equipment.

The special attention for investments is determined by the following factors:

integration of the productivity increase goals, reduce the impact of the technological processes on the environment and increase the production capacity.

The digital transformation is among the strategic priorities for the development of the company.

The paradox is that although technology is in the center of the digital transformation, this is not

in fact about technology. It is about changing the organizational culture, how we think, how we take actions and how we work. It is more complex than simply introducing digital tools in the organizational processes.

The main driving motors to support the digital transformation are new business models and new technologies.

To measure the success of the digital transformation, four indicators are monitored by the company:

- ◆ Growth of the revenues;
- ◆ Cost reduction;
- ◆ Simplification of the processes;
- ◆ Operational efficiency.

The company will become more data focused and the digital transformation happens at the level of the whole organisation, with the integration and implication of the human resource.

Acquisitions were made for state-of-the-art CNC machinery, compatible design software and CMM measurement and control equipment as required for production.

The positive effects of the investments were pursued not only by increasing their volume but also by providing a proper structure as regards the source and objectives, considering that the investments to increase productivity – technical equipment and modern technologies – have the most powerful drive effects.

Therefore, besides the assets mentioned, necessary to perform the production agreements undertaken, new, modern manufacturing processes were implemented as well, such as:

1. TFSAA-sulphuric anodizing in thin layer, which will cover the customers' request to replace the chromic anodizing used in certain aviation components manufacturing processes. This surface coating is free of hexavalent-chrome (a very polluting chemical element), the coating layer (3-7 microns) assuring a good support for painting the parts;

2. Chemical milling – will allow the replacement of the mechanical processes for specific aviation parts with complex and difficult access areas, providing roughness features comparable with what is obtained by machining.

The direct effects, assumed, of the investments described are: increase, diversification and quality of Aerostar's offer, reduced pollution and energy consumption, modernisation of the production equipment, improved working conditions, and indirectly better living conditions for Aerostar's employees.

Last but not least, Aerostar via the specialized IT department, focused on promoting the 'industrialisation 4.0' concept and integration of other tasks which are in the scope of the digital transformation. Most of the company sectors were involved. To ensure the coherence of the changes and the cohesion of the new system, a strategy was put in place to devise a plan for each sector involved and avoid antagonistic effects. The digital transformation of the company will have a decisive role to increase profitability, to maintain competitiveness and compatibility in relation with other business partners and not last, assuring mid- and long-term business sustainability.



AEROSTAR civil aviation business

AEROSTAR, no. 1 in Romania in aviation products manufacturing

In the field of production of aviation parts, subassemblies and components, all the manufacturing programs are new, from the global scale and volume category, on mid and long-term.



In the supply chains of aeronautical products, Aerostar's position is, „Tier 2” type, in manufacturing of aerostructure parts and subassemblies. Aerostar produces a significant volume of aluminium small parts and subassemblies, in the range of over six million units per year, of a vast diversity of types and dimensions, manufacturing technologies and delivery modes.

Aerostar is, Tier 1' type supplier in manufacturing of hydraulics subassemblies, equipments and systems.

In certain aviation manufacturing programmes AEROSTAR is sole source.





Șerban IOSIPESCU, Director Aeronautical Products Division

The objective to increase competitiveness is sustained by investments implemented in an integrated mode in order to modernize and increase the production capacity, by actions to improve the agility in case of reduced production times and minimum risks at production increase.

The partnership with our customers will continue to be the key of our future development, which means to continue the modernisation of the aviation products manufacturing sector, to continue the investments for the acquisition of new CNC machinery and equipment. The objective is to increase the manufacturing capacity but also to take over new products in the aerostructures and aviation hydraulic field.

Equally important are the firm actions to improve the utilization of the resources as a whole, and the performance of major initiatives in regards to improved and more efficient processes, the reduction of the environment impact.

A pillar of the competitive advantage is the **Special Processes Centre** and the implementation of the most modern practices and standards related to environment protection. At the same time, the development of this capability has a synergic impact over all the business lines of the company, as a whole.

„The increase of the production volume as a subcontractor of civil aviation parts, aerostructures and equipment in modern technologies specific for metals processing: aluminium, titanium, steels etc., is based on the partnership with the Customers.”



number 1 in aviation



manufacturing

Civil Aviation MRO Centre of Excellence for Airbus 320 and Boeing 737 Under The Sign Of Growth

Number 1 in Romania, AEROSTAR is the main independent supplier of maintenance services for commercial aircraft in this geographical region, having a significant footprint as to the MRO business volume.

Aerostar supplies base and heavy maintenance for commercial airplanes such as the AIRBUS 320 family and Boeing 737, as well as for components.

The dedicated Centre of Excellence performs current maintenance and complex checks, including structural modifications for these aircraft types, for a large number of customers, located in general in the competitiveness geographical range for the company.

As in the field of aviation manufacturing, Aerostar business in MRO for commercial aircraft is anchored in the sector market defined as a growth core, Airbus 320 and Boeing 737; this is also the most competitive field.

Starting with the Part-145 authorization issued by the Romanian Civil Aeronautical Authority (AACR), recognised by the European Aviation Safety Authority (EASA), Aerostar's maintenance base developed its market position by obtaining a large range of approvals from civil aviation authorities of many countries in the European Union and beyond.





Dan-Ioan VELESCU, Director Civil aviation MRO Division

„Our growth objectives target to expand the civil maintenance work package by diversifying the work offer for Boeing 737 and the Airbus 320 family.

The experience gained in this field is the base for the development of the future Part 145 civil aviation MRO centre in Iasi.”

The authorisation from the American aeronautical authority FAA increases the market potential, opening the way for Aerostar to compete for work from customers whose airplanes are under FAA jurisdiction.

In 2017 Aerostar contracted the first heavy maintenance visit at a A320 neo aircraft, a premiere at European level.

The training of the technicians and engineers for the future civil MRO centre is correlated with the training activities for the MRO Centre in Bacau.



number 1

in civil aviation MRO



Defence Systems, a historical commitment, the present and the future



Ovidiu BUHAI, Director Defence Systems Division

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

Over the years, Aerostar has consolidated a significant position in programmes for the supply of systems and equipment – manufacturing, maintenance and upgrades, integrations and logistic support for various categories of forces and applications, as well as on the foreign market.

Aerostar takes action in a synergic manner in terms of business infrastructure with the purpose to create maintenance and logistic support capabilities for the new systems in the inventory of the Romanian army.

Aerostar has built a significant position in the field of primary and secondary radar systems, of the IFF identification systems and specialized systems for communications, control and data transmission, further to the experience in advanced MLRS and artillery systems, not to leave aside the successive modernization programmes in the military aviation field.



The objective of business growth in this sector is based on the capitalization of the experience and expertise gained in major programmes in the field of MRO and upgrades of military aircraft and engines, in the manufacturing and modernization programme for the integrated artillery system of the Romanian army, as well as in the field of several wide scope programmes in the field of communications and identification, as well as primary and secondary radar systems.

The key to provide added value further on is the partnership with suppliers of state-of-the-art technologies, the capitalization of the creativity and innovation capacity of the company by making a significant contribution in major programmes of the Romanian Ministry of National Defence. Aerostar holds significant capabilities and expertise accumulated in decades of activity in manufacturing and

maintenance for the MLRS and radar systems for the Romanian Army.

The experience gained in the successful aviation, artillery and communications upgrades, as well as in the integrated logistic support programmes, also the experience of the international partnerships, are strong qualifications to supply the services required for the new systems under acquisition, to provide for the success of our customers in the future as well.

Aerostar develops its market profile in the domain of Ground Support Equipment, jigs, fixture and tooling, for the aeronautical industry. The increase of their complexity and expanding the supply range is planned to bring better value from the existing capabilities and using this inclusively in the new programmes under implementation in Romania.



Major Supplier of solutions





for defence systems



AEROSTAR EMPLOYEES



Dan-Mălin POPA, Human Resources Director

Aerostar employees are recruited from the local labour market.

At the date of 31 December 2017 AEROSTAR had 2.100 employees from whom 147 employees made available by AIRPRO CONSULT S.R.L., which operates on the market as a temporary work agent.

In this period Aerostar continued its policy for selection and employment of replacement manpower and was active to perform training for the new employees at the level of the requirements of the jobs becoming available by the natural leaving of older employees.

AEROSTAR makes the training in specialties and competences which are not provided on the labour market in another manner.

Aerostar's management is preoccupied how to provide growth with no risks related to human resource.

To secure the expertise, to maintain and improve the know-how capacity of the company, this is the challenge we are facing.

To motivate expertise is a major task.

At 31 December 2017, 76% of Aerostar employees were union members.

„The company policy is clear: Business growth means to ‘grow’ people with expertise.”



On 22 March 2017, a new collective labour agreement was concluded, with validity from 01 April 2017 to 31 March 2019.

AEROSTAR has the certification for the Occupational Health and Safety Management System in accordance with SR OHSAS 18001: 2008 from the authorized certification body AEROQ Bucharest.

Actions on the labour market

In order to attract young graduates from the preuniversity and university institutions, AEROSTAR set partnerships with five technical colleges from Bacau and six universities in country, which provide the terms for a long-lasting collaboration, intended to support the professional formation and orientation of the youngsters to the domains of interest for AEROSTAR.

During 2017, a number of over 50 college students, and over 75 university students performed speciality practice in AEROSTAR.

The preoccupation to attract new people, well qualified and motivated to work in a competitive environment, in a peak industry, will continue in the following time period.

The Optimisations continue. Sustainable utilization of the resources



Cătălin BRANCHE, Director Infrastructure and Utilities Division

The continuous improvement programme comprises measures to improve the use of resources and utilities as a whole, as well as to improve the efficiency of the operational costs, by increased effectiveness in the utilization of energy, water and materials.

In 2017 the measures to improve the use of resources were continued, the same as the measures to increase effectiveness in the use of energy, drinking and industrial water, heating energy and IT infrastructure.

As to securing the electric energy, modernizations continued by the initiation of a project to achieve automated interconnection on the average voltage power supply.

„In Aerostar, the ongoing programmes for energy efficiency contribute to reduce further on the energy requirements for the production processes, as well as for better comfort at work.”

The exterior walls refurbishment for heat protection of AEROSTAR's buildings continued in 2017 exceeding 95% rehabilitated buildings with very good results relating to the heat comfort as well as by decreasing the heat energy requirements.

As to the heat power supply, a second upgrading phase was completed, by the installation of the second heating module and rehabilitating 30% of the heat distribution network.

The program dedicated to the efficient use of the drinking, industrial and reusable water continued. The industrial water requirements are completely covered from company sources using water from drilled water wells while the supply of industrial water was improved by completing the rehabilitation of the supply networks and stations.

As to the IT infrastructure, measures were taken in 2017 to modernize the mainframe computers in the IT system, hardware and software; new solutions were implemented for the work authentication in the internet and intranet network of the company.

We are continuously improving AEROSTAR's success model

On Aerostar business sustainability and Statement about non-financial aspects reporting

The regulatory framework established by AEROSTAR for the reporting of non-financial aspects, respectively non-IFRS information, takes into account the development strategy for 2017-2021 period, updated annually, as well as how the reporting of these aspects is actually made as provided in Aerostar document: *The organization's context and interested parties for Aerostar*.

These are based on elements of risk management thinking, built on understanding Aerostar as an organization and the context in which it operates, as well as on the understanding of the requirements and expectations of the interested parties to achieve the organization's expected results.

The purpose is to establish the general framework for the treatment of risks to the extent in which the risks are understood as uncertainties to meet the requirements / expectations of the interested parties, as a result of certain factors arising from the context in which the organization operates.

As early as its first annual report drafted since Aerostar was listed on Bucharest Stock Exchange and the first financial statements publicly released in 1997, Aerostar has informed the stakeholders about non-financial aspects, which as considered, can contribute to the understanding of the company's business and the way of organizing and developing the company's business.

In the current Report on Business Sustainability, Aerostar takes into account the Minister of Finance Order no. 470/2018 from January 11, on the main aspects of the preparation and submission of the annual financial statements and annual accounting statements, as well as the reporting requirements for the non-financial aspects, called non-IFRS information in the international practice and our business partners' practice.

The European Commission's Communication "Guideline concerning the Non-Financial Information Reporting" (non-financial reporting methodology - 2017 / C215 / 01), published in the Official Journal of the European Union, Series C, No 215 of July 5th, 2017 was also taken into account.

Although the non-financial data reporting is not mandatory, guided by business responsibility and in the spirit of the aviation and defence business, Aerostar is faithful to the best practices of the industry and, in consonance with the practices of its business partners, provides explanations and data from this category of information for several years already.

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

The aspects identified as part of AEROSTAR's internal context are: human resources, infrastructure, capabilities and authorizations, from the governance area but also in the organizational performance field.

The stakeholders are also defined with the requirements and expectations for each of them.

The relevant stakeholders identified are: Customers, employees, investors, applicable technical and regulatory authorities, certification organizations, suppliers, education units, trade unions, the local community and the State.

Aerostar's Business Model

AEROSTAR operates on the market as an independent company

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

- ◆ manufacture of aeronautical products;
- ◆ civil aviation MRO;
- ◆ defence systems, aviation, ground and naval.

The management has adopted an integrated business model, based on a systemic-process approach and RISK thinking. The company management policy is focused on maintaining a solid capital base to sustain the uninterrupted development and implicitly, to accomplish its strategic goals.

The development vision aims to a business model based on selective growth within a general framework which admits that AEROSTAR success is determined by the Customers requirements and expectations, as well as by the evolutions in the aviation and defence industry. The specific synergies of these industries generate value for customers in terms of competitiveness.

The value created by the company in the value chain of the economy is supported by a divisional type organization, based on accounts management centres in the area of production, auxiliary activities and functional activities. Aerostar performs its object of activity using in an integrated way the common resources of the organization.

The business model followed is based on work and expertise and the achievement of the operational performance through an efficient and highly professional management.

Operating on a continuous basis and pursuing the company's mission statement, no significant changes of the business model took place over the years, nor in 2017.

The Policy and Diligence Process in the field of Quality and Environment

In terms of quality and environment, Aerostar has imposed certain strategic objectives, endorsed by the Quality and Environmental Policy. These strategic objectives are:

- ◆ Meeting with customer requirements and complying with applicable legal and regulatory requirements;
- ◆ Full safety for the users of Aerostar products and services;
- ◆ Continuous improvement of the competitiveness for products and services;
- ◆ Increasing the environmental performance;
- ◆ “Zero Defects” on the products and services within the warranty period.

In order to achieve these strategic objectives, Aerostar assumes to maintain a management system in conformity to SR EN ISO 9001, AS/EN 9100, AQAP 2110 and SR EN ISO 14001 standards requirements.

From the points of view of social responsibility and sustainable development, in terms of environment Aerostar has established the improvement of the performance in pollution prevention, in sustainable use of resources and in the field of climate change mitigation, following the guidelines of the SR ISO 2600 standard.

Result of the applied policies

In 2017, Aerostar maintained the management system certifications, thus, ensuring the framework to reach its objectives.

From the point of view of customers' requirements satisfaction, at operational level Aerostar pursued to achieve the indicators regarding delivery deadlines and to decrease the percentage of claimed products and services, and, as a result, Aerostar succeeded to obtain positive assessments from the customers, also awards.

In terms of products and services safety, in 2017 no events were reported as a result of Aerostar activity in relevant areas such as civil and military aircraft maintenance, manufacture of parts and subassemblies for civil aviation, production of pressurized recipients, and manufacture of electronic radio electronic equipment.

In terms of environment, Aerostar has fully complied with the legal requirements. The confirmation of this fact is represented by both no penalties, and the review of the Environment Integrated Authorization with validity until 2027.

In terms of pollution prevention, Aerostar has reduced the waste impact as a result of its own activity, maintaining a high percentage of recoverable waste. Also, in 2017 the volatile organic compounds emissions have decreased, continuing with the actions on the replacement of the solvent based paints with water-based paints.

In terms of using dangerous chemical substances, in Aerostar, the utilization is made according to the Safety Data Sheet. From the point of view of the utilization of substances containing hexavalent chrome, in 2017 the transfer of production from the anodizing line which uses chromic acid, on the anodizing

line which uses sulphuric and tartaric acid was successfully continued. For the other processes for which doesn't exist yet alternatives of qualified processes, the substances are purchased from the supply chain of the importing or producing companies which obtained the authorization from the European Commission, following the positive analysis of ECHA.

In terms of sustainable utilization of the resources, in 2017 Aerostar continued to decrease the quantity of water discharged into the sewer network, both in absolute value, and in relation to the company turnover, as a result of the utilization of industrial water treatment and recirculation plant.

In terms of the climatic change mitigation process, Aerostar complied with all its obligations arising from the greenhouse gas related authorization. However, the lower temperatures in January to February 2017 period, compared with the same period in 2016, caused a higher energy consumption for heating and higher CO₂ emissions. In order to reduce them, the investments were continued in 2017 for a more efficient distribution of the heating agent and a better energy efficiency of the buildings.

The main risks and their management

In terms of quality and environment, in Aerostar there is a unitary way of identifying, assessing and treating the risks of not accomplishing the targets, for all involved processes, from purchasing to delivery. The risks and their mitigation actions are monitored and reported. The risk checking is also done through internal audits which are performed throughout the organization. From the operational point of view, the environment aspects are verified also through operational inspections performed by the environmental protection inspectors.

At the whole company level, the main risks, both in terms of compliance and performance improvement, are related to the carbon emissions and to the utilization of dangerous chemical substances. For both issues, actions are set for mitigating the risks and improving the performance.

RISK MANAGEMENT

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

Coordination of the Internal Control Programme

Aerostar entirely respects Romania's laws and regulations.

Aerostar respects all the policies, laws, regulations and procedures in the export control field issued by the competent authorities, respectively the Ministry of Foreign Affairs – the Export Control Department.

The Internal Control Programme defines the operational procedures and responsibilities which enforce the compliance with the law in force, being an important instrument in the preventive management of the potential risks associated with the business of the company.

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

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

Still, there may be risks and uncertainties further to the ones presented as follows, which are not currently known, or which are considered insignificant but which may affect in the future the business lines followed by AEROSTAR.

Operational risk

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

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

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

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

Aerostar allocates and will continue to allocate investment expenses and other operational expenses in order to prevent and manage the operational risk.

In addition, Aerostar seeks to have available adequate capital, by setting provisions for risks and related expenses, company funds, to cover its risks of exposure.

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

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

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

The credit risk, including the risk of the country where the customer performs its operations, is administered for each business partner. When considered necessary, specific mitigation tools are required (payments in advance, letters of bank guarantee, confirmed letters of credit).

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

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

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

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

In order to reduce liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line used as overdraft granted by banks in amount of 2,500,000 USD. During the reporting period, AEROSTAR did not use the contracted credit line, all the activities being financed from company's own sources.

The **Market Risk** is the risk that the fair value or future cash flows of a financial instrument

will fluctuate because of the changes in market prices.

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

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

The management of this risk is made by:

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

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

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

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

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

About human rights

Aerostar shows zero tolerance on any kind of human rights violation and is committed to the development and consolidation of this desideratum in order to make sure that human rights are respected, both as regards its own business standing and as regards its suppliers.

No restrictions on the labour rights, freedom of work, equal treatment, negotiation of the working conditions, enhancement of professional training, the right to health and labour safety, are just a few of the principles which warrant the respect of human rights, incorporated in the collective labour agreement of the company and a proof of the permanent social dialogue between the management of the company and the social partners.

All the participants in the working process are involved on equal standing in permanent monitoring of all the undertakings assumed jointly with the social partners; they are encouraged to bring to the attention of the management any nonconformity, as well as proposals to improve the work processes in the company.

Further to the internal prevention and protection service, there is the health and work safety committee (a two-sides body), as well as persons designated, specially trained, at the level of each company department who constantly monitor the safety and health at work for all the employees in the company.

The major investments from past years resulted in a significant improvement of the working conditions from the company, the current standards in Aerostar being comparable with any other top company from the global aerospace industry.

Assuming its role as a promoter of human rights compliance, Aerostar requires from its suppliers to comply with the same standards.

Social and labor aspects

AEROSTAR has implemented the fundamental conventions of the International Labor Organization.

By the provisions of the Collective Labour Agreement in force all the contracting parties comply with the Romanian Constitution, the Universal Declaration of Human Rights, “Charter from Paris, for a new Europe”, as well as all the conventions and recommendations of the International Labour Organization recognized by the Romanian Government.

About equal treatment in terms of employment (related to age, sex, sexual orientation, religion, disability, ethnic origin and other aspects).

In employment contracts Aerostar respects the equal treatment principles concerning the age, sex, sexual orientation, religion, level of disability, ethnic origin a.o.

According to the collective labour agreement in force:

- ◆ Employing manpower complies with the fundamental rights of the citizens on criteria of professional skills and competence, with no direct or indirect discrimination.
- ◆ In the work relations frame in the company, the principle applied is equal treatment of all employees, being forbidden any form of direct or indirect discrimination towards an employee, which purpose is not to grant or restrain or remove the recognition of the use or exercise of the rights provided by the labour laws and the collective labour agreement, on reasons of such criteria as: sex, sexual orientation, age, race, ethnicity, religion, political option, social origin, disability, family situation or responsibility, union membership or activity.
- ◆ When the salary is set and given, any form of discrimination on sex, sexual orientation, genetic characteristics, age, nationality, race, colour, ethnicity, religion, political option, social origin, disability, family situation or responsibility, union membership or activity.

- ◆ Any employee who performs work for the company benefits the respect of his dignity and conscience, without any discrimination.

On the relationship with trade unions, respecting the trade union rights

As a voluntary process which includes negotiation, consultation and information among social partners in order to establish agreements of joint interest, social dialogue based on trust, promptness, good faith and transparency, this is provided in the collective labour agreement. Thus, AEROSTAR recognizes the importance of the social dialogue bodies, always respecting the right of the employees to join the trade unions organizations and to take advantage of the collective negotiations. To mention, in this regard, the level of trade unions membership is 76%.

Employee consultation processes include trainings in all forms defined by law, the meetings of the occupational health and safety committee, direct discussions with the employees on specific subjects through the Internal Prevention and Protection Service, occupational health and safety representatives, the occupational health and safety committee members, work place managers as well as in the occupational risk assessment processes.

About the occupational health and safety

Occupational health and safety is an important component of the work practices consisting of promoting and keep in shape at high levels the psychical and mental shape, and social well-being of the employees, preventing the health-related harmful effects caused by the work conditions, protecting the employees against health risks and adapting the work conditions, to the extent possible, to their physiological and psychological needs.

Starting with December 2014, AEROSTAR has the Occupational Health and Safety Management System certified in accordance with SR OHSAS 18001/2008 by AEROQ Bucharest.

Community relations, social and economic development of local communities.

AEROSTAR S.A. constantly profiles an important position and role within the local community regarding the responsible professional training, in full compliance with the concrete needs of the Bacau labour market.

Aerostar promotes the education of the young generation and the cultivation of the sporting spirit by financing the activities of Aerostar Sports Club for a number of over 200 children. Over the years, some will become employees of company.

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

The Educational-Cultural Association AEROSTAR Bacău

The Educational-Cultural Association AEROSTAR Bacau operates on the basis of the Government Ordinance no 26/2000.

Successor of the former AEROSTAR-PAS association, after closing the privatization process of AEROSTAR S.A., the association aims, among other things, to support and promote the interests and image of AEROSTAR, to support social, cultural, artistic and sports activities - carried out by the members of the association, their families, as well as by AEROSTAR's employees or members of their families.

Fighting against corruption and bribery

Being part of the supply chain for global aerospace industry leaders, Aerostar has adopted business conduct standards and integrity principles that meet the most demanding requirements coming from its business partners, or the legal regulations respectively, applicable on the markets where Aerostar currently operates.

The commitment of the Board of Directors, as well as of the entire executive management, is to lead the Aerostar business with integrity, honesty and transparency, complying with the laws and regulations applicable to the company, with zero tolerance for any form of corruption or bribery.

The conduct standards and integrity principles are found in Aerostar's Code of Business Conduct and Ethics. By including this code in the company's collective labour agreement, we ensure that it is precisely known and respected not just by the company's management, but by all our employees.

No employee of Aerostar has the right to engage in any corruption activity, neither public nor private, neither active nor passive. No employee of Aerostar must offer, try to offer, authorize or promise any kind of bribe, payment or other facilities to a civil servant or to any other person for the purpose of obtaining or retaining a business or other inappropriate advantage. Furthermore, no employee of Aerostar shall demand or accept bribe or other benefits from a public official or any other person. It is also not allowed to get someone under contract to do anything that is not ethical or legal for himself/ herself.

We are convinced that the commitment we undertake today in supporting these fundamental values will ensure tomorrow's success of the company.

AEROSTAR's Principles & Values

The Code of business conduct and ethics adopted by Aerostar pursues consistently the respect of the most advanced ethics standards in business.

We have the obligation both towards our employees, and our investors, customers, suppliers, representatives of the local communities, other business partners, to be honest, fair and sincere in all our business activities.

- ◆ We perform our business in accordance with the Romanian law, the European Union legislation and the most advanced international practice.
- ◆ We are honest and correct in our actions and comply with high ethical and business conduct standards.
- ◆ By our efficiency we contribute to the wealth and development of the society: shareholders, customers, of our employees and of our business partners, of the community we are part of.
- ◆ The satisfaction of our customers is the cornerstone of our set of values.

Tangible Assets

AEROSTAR's production facilities and capacities are located at the site in Bacau, where is the registered head office of the company, 9 Condorilor St, Bacau 600302, Romania.

The company owns a total land area of 45,33 hectares, with access to the European Highway E85.

AEROSTAR has direct access to the runway of the "George Enescu" airport of Bacau.

At the registered head office there are all types of facilities required for the proper performance of the production activities in accordance with the company's object of activity.

The production facilities include hangars, industrial hangars, test benches, facilities for administrative and social activities. The company also holds office areas allocated for technical and economical activities.

All these facilities are properly maintained.

The effective built area is approximately 13,47 hectares.

On 31st of December 2017 Aerostar has in property tangible assets for the activity deployment in gross value of 211,776,000 lei, materialized in land areas, buildings, special constructions, installations, technological equipments, transport vehicles:

Tangible assets category	Gross accounting value (thousand lei)	Degree of wear (%)	Estimated useful life (years)
Land	28,433	N/A	N/A
Constructions	54,159	23%	30-50 years
Investments in fixed assets	8,810	21%	25-50 years
Technical instalations, from which:	119,436	44%	
– technological equipment	110,436	45%	4-25 years
– transport vehicles	4,500	45%	4-18 years
Other tangible assets	938	38%	2-18 years
TOTAL	211,776	X	X

During 2017 there were no problems concerning the right of property on tangible assets.

CORPORATE GOVERNANCE

As a company listed at Bucharest Stock Exchange, AEROSTAR S.A. pursues the compliance with the Code of Corporate Governance of Bucharest Stock Exchange adopted on 11 September 2015.

At the same time, the corporate governance system in Aerostar is compliant with the provisions of the Constitutive Deed of the company and observes the provisions of the laws 31/1990 and 297/2004 and 24/2017 with the subsequent modifications and updates, the Regulations no 1/2006 and no 6/2009 issued by National Securities Commission (Financial Supervisory Authority).

The Board of Directors provides special attention to observing the corporate governance principles with a view to ensure:

- ◆ obtain performance in conditions of sustainable development of the company;
- ◆ accuracy and transparency in the decision-making process of the company;
- ◆ respect of the rights and fair treatment of the shareholders by protecting and practical implementation of their prerogatives;
- ◆ transparency and access to information by periodic release of the relevant financial and operational information.

Details on the conformance with the principles and recommendations of the Corporate Governance Code of Bucharest Stock Exchange are presented in the declaration “Comply or Explain”, which is integral part of this report.

The corporate governance structures are:

- ◆ Shareholders – General Meetings of Shareholders
- ◆ Board of Directors
- ◆ Executive Management

The general meeting of shareholders is the main corporate body, with attributes of decision on all the aspects specified in the Constitutive Deed.

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

The company’s shares are indivisible and provide equal rights to the holders, each share giving the right to one vote in the General Meeting of Shareholders.

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

The General Meetings may be ordinary and extraordinary. The Ordinary General Meeting is held at least once a year, in maximum 4 months after financial year’s end while the Extraordinary General Meeting is held whenever necessary.

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

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

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

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

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

The General Meetings of Shareholders took place with full compliance of Law 31/1990 regrading companies, Law 297/2004 regarding the capital market, Law 24/2017 regarding the issuers of financial instruments and market operations, and the applicable regulations issued by FSA, as well as any applicable provision.

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

In accordance with the legal provisions applicable, the right to claim dividends approved by the General Meeting of the Shareholders and not collected are prescribed after the expiry of a period of three years calculated from the dividend’s, payment date’ for each financial year individually.

During the year 2017 the company did not purchase its own shares and did not issue obligations or other securities as receivables.

INTERNAL CONTROL SYSTEM

The internal control system in AEROSTAR comprises the following components:

- ◆ Accounts control;
- ◆ Budgetary control;
- ◆ Controlling;
- ◆ Internal audit.

ACCOUNTS CONTROL

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

Throughout 2017, the inventory activity was made in compliance with the legal provisions and company regulations.

The results of the inventory processes were submitted for the approval of the Board of Directors and registered in the company's accounting records.

No significant deviations were found compared to the records.

BUDGETARY CONTROL

The budgetary control is performed by the persons in charge with the budget.

From the budgets perspective, the company is organised as follows:

- ◆ profit centers;
- ◆ cost centres.

There are 19 budgets set in the company which are based on activity programmes, corresponding to the functions of the company.

The budgetary control provides:

- ◆ conformity with the values provided for each budgetary indicator;
- ◆ basis for possible corrective actions.

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

CONTROLLING

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

Controlling provides compliance and respect of the mission statement and the strategic objectives of the company. Also, it provides conformity with the planned treasury cash flows, while making the periodic review of the necessity, opportunity and legality of the amounts received and paid by the company.

INTERNAL AUDIT

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

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

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

The internal audit activity is structured in:

- ◆ effectiveness audit;
- ◆ management audit;
- ◆ operational audit;
- ◆ conformity audit;
- ◆ financial audit.

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

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

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

AEROSTAR BUSINESS TARGETS

A SOLID FUTURE

AEROSTAR's business fits into the global defence and aviation specific trends, a synergic relation of its business lines which enhances the capacity of action on the market and supports the power to integrate complex business.

AEROSTAR has acted consistently, intensively and transparently to follow growth opportunities and provide access to new aviation and defence programmes.

The growth potential targeted is in the business based on a consolidated technological tradition in Aerostar's field of expertise, according to the **company's Mission** statement, and which have the perspective of continuity and development on mid- and long term.

AEROSTAR has started several projects which envisage to replace certain products and services related to defence with current generation military products and services.

These projects are very important for completing the cycle of transformations and implementation of new technologies initiated in the company after the year 2000.

The recognition gained on the market is based on competitiveness criteria and on the trend of economic efficiency indicators in terms of sales volume, operating profit, efficiency of using the human resource and the efficiency of the engaged capital etc.

THE TRANSFORMATION CONTINUES!

The factors and trends of economic, social, geopolitical nature and related to capitals which operate at global scale influence Aerostar's business.

Specific to the industry in which it operates, Aerostar will use competitively the civil aviation technologies to develop solutions in the technologies required on today's defence market.

Aerostar's capability offer, structured in a balanced way in relation to the requirements and demand on the market, ensures the growth of company's strength in the competitive environment; at the same time, the adhesion to the improvement programmes and the reactivity to opportunities will continue to ensure Aerostar's positioning with an important competitive advantage and an agility degree significant for the company's success.

Aerostar applies a selective growth strategy which has the objective of sustainable development of the company.

Reconfirmed year after year, the growth strategy put in practice has transformed Aerostar into a sustainable development pole in aeronautics, which brings satisfaction to all involved parties: Customers, Employees, Investors.

The solid operational performance, the optimization and improvement programmes provide a strong foundation for growth further on in the future.

We will continue to increase our competitiveness, based on a productivity growth and on a growing profitability of the production flows with modern technologies and an improved maturity regarding opportunities capitalization from the market.

We will continue to improve our competitiveness, based on higher productivity and on growing cost-effectiveness of the production flows, based on modern technologies and improved maturity as to capitalizing the opportunities on the market.

We will intensify the modernization actions, we will continue the transformations.

Also, the strategic objectives provide an increase of market footprint, especially on the foreign market, the export to represent over 80% from the turnover.

The development of the agility within the global market context is a constant challenge while this can rely on the inflow of talents and the experience gained in the ample processes for restructuring and rearticulation of the business model.

The competitive advantage will be maintained and improved: quality, capabilities, high level equipment and technologies, reactivity to opportunities, adhesion to the improvement programmes.

The competitiveness growth will continue through investments implemented in an integrated manner to modernize and to expand the production capacities and through establishing a partnership of trust with the customers in order to improve the agility at reduced production times, and minimal risks at production growth.

Among the challenges, the profound changes generated by the new stage of the industrial revolution cannot be ignored. The digital transformation of the company is an ongoing project.

On behalf of the Board of Directors

Grigore FILIP

President and General Director

Annex

A commitment for good corporate governance practices
Compliance with the Corporate Governance Code of Bucharest Stock Exchange 2017

Code Provision	Comply	Not comply or partially comply	Reason for non-compliance
A.1	x		
A.2	x		
A.3	x		
A.4		x	Three of the five BoD members are non-executive. The Board of Directors does not comprise an independent member, being voted in this structure by the General Meeting of Shareholders.
A.5	x		
A.6	x		
A.7	x		
A.8	x		
A.9	x		During 2017 a number of 9 meetings took place, of which: - In 4 meetings all the BoD members were present; - In 3 meetings, 4 members were present, the fifth attended by telecon; - In a meeting there were 2 members present, the other 3 attended by telecon; - In a meeting, 3 members were present, the other 2 have attended by teleconference; - In a meeting, 4 members were present, the fifth being absent.
B.1		x	Currently, the auditing is provided by an internal auditor who is a chartered financial auditor, reporting directly to the BoD.
B.2		x	There is no independent Director.
B.3		x	This activity is performed currently by the President of the Board of Directors.
B.4		x	This activity is performed currently by the President of the Board of Directors.
B.5		x	This evaluation is currently performed by the external auditor and by the internal auditing dept.
B.6		x	This function is performed currently by the President and by the Vicepresident of the Board of Directors.
B.7		x	This function is provided by the Board of Directors. The internal auditing reports are presented in the BoD meetings, being submitted for review and approval thereof.
B.8		x	This function is provided by the Board of Directors.
B.9	x		
B.10	x		
B.11	x		
B.12		x	The internal auditing reporting is made directly to the BoD.
C.1	x		All the GMS resolutions related to the remuneration of the BoD members were publicly released. Currently, there is a distinct section in the BoD Regulations.
D.1	x		
D.1.1	x		
D.1.2		x	Such information in this section are available on request but is not published on company website.
D.1.3	x		
D.1.4	x		
D.1.5	x		
D.1.6	x		
D.1.7	x		
D.2	x		
D.3	x		
D.4	x		
D.5	x		
D.6	x		
D.7	x		
D.8	x		
D.9	x		
D.10	x		

**INDIVIDUAL FINANCIAL STATEMENTS
AT 31 DECEMBER 2017**

INDEPENDENT AUDITOR'S REPORT

BENEFICIARY:

- ◆ S.C. AEROSTAR S.A.

HEAD OFFICE:

- ◆ Bacau, 9 Condorilor Street

MANAGEMENT:

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

STATUTARY AUDITOR:

- ◆ S.C. H.M. AUDIT CONTAB S.R.L.
- ◆ Authorization no. 1019 / 2010

REGISTERED HEAD OFFICE:

- ◆ Bacau, 1 Ion Luca Caragiale Street, bl. 1, sc. D, ap. 12

PLACE OF BUSINESS:

- ◆ Bacau, 3 Pasajul Revolutiei Street

MANAGEMENT:

- ◆ Financial Auditor - Ec. MONICA HUSANU

CONTRACT no. 129/15.12.2015

INDEPENDENT AUDITOR'S REPORT

REGARDING THE INDIVIDUAL FINANCIAL STATEMENTS ON 31.12.2017

Opinion

1. We have audited the individual annual financial statements prepared by S.C. AEROSTAR S.A. („The Company”) as on 31.12.2017, with the registered head office in Bacau, Condorilor Street, no. 9, identified by the individual identification number no. RO950531 in accordance with the International Financial Reporting Standards adopted by the European Union, which comprise: the individual Statement of the Financial Position, the individual Statement of Profit or Loss, Other Elements of the Global Result, the individual Statement of the Equity’s Modifications, the individual Statement of Treasury Cash Flows, Notes to the Individual Financial Statements. The following documents are also attached: Report of the Board of Directors (including the non-financial statement), the Declaration of the Company Management in accordance with the provisions of art. 30 of the Accounting Law No. 82/1991 and the Regulation no. 1/2006 issued by Financial Supervisory Authority (“ASF”), the Proposal for the Distribution of the Net Profit Achieved in the Financial Year 2017, comprising the information determined in accordance with the IFRS provisions.
2. On 31.12.2017 the individual financial statements are identified as it follows:
 - Total equity 252,967 thousand lei;
 - Net turnover 340,172 thousand lei;
 - Total net profit 53,170 thousand lei.
3. In our opinion, the attached individual financial statements of the Company are prepared, under all the significant aspects and they present the financial position of the Company as on 31 December 2017, as well as its financial performance, treasury cash flows, for the year ended on this date, compliant with the requirements of the Romanian accounting standards, specifically the Accounting Law no. 82/1991 (republished), MPF Order no. 2844/2016 for the approval of the accounting regulations compliant with the International Financial Reporting Standards, applicable to the companies whose securities are admitted to trading on a regular market, with further modifications and completions, the MFP Order no. 470/2018 regarding the main aspects related to the preparation and submission of the annual financial statements and the annual accounting reports of the economic operators to the territorial units of the Public Finance Ministry, as well as for the modification and completion of certain accounting regulations and Regulation no. 1/2006 regarding the issuers and the operations with securities, Law no. 297/2004 regarding the capital market, Law no. 24/2017 regarding issuers of financial instruments and market operations.

Basis of Opinion

4. We conducted the audit in accordance with the International Auditing Standards, adopted by the Romanian Chamber of Financial Auditors (“ISA”), Regulation (EU) no. 537/2014 of the European Parliament and of the Council regarding the requests to the statutory audit of the public interest entities and of abrogation of 2005/909/CE Decision of the Council and Law no. 162/2017 regarding the audit of the annual financial statements and of the consolidated annual financial statements and by modifications of certain normative acts. According to these standards, our responsibility is further described in the Auditor’s Responsibilities section in connection with the auditing of the financial statements from our report. We are independent from the Company according to the Code of Ethics of Professional Accountants (“IESBA Code”) issued by the Board for International Standards of Ethics for Accountants, together with the ethics requirements relevant for the audit of the financial statements in Romania, including Regulation and Law and we have fulfilled the ethical responsibilities, according to these requests and to IESBA Code. We consider that the audit evidence which we have obtained are sufficient and adequate to constitute the basis of our audit opinion.

Continuity of activity

5. The auditor did not identify any events, conditions or aspects which indicate the existence of a material uncertainty which could question in a significant way the Company’s capacity to continue its activity according to the accounting principle of “Continuity of activity”.

The key aspects of the audit

6. The audit key aspects are those aspects which, in the base of our professional judgement, had the highest importance for the audit of the financial statements of the current period. These aspects were approached in the context of the financial statements overall and to form our opinion towards them, and we do not offer a separate opinion regarding these key aspects.

For each aspect below, we have presented in that context a description of the mode in which our audit has approached the aspect in question.

Inventories

The key aspects of the audit	The approach of the audit regarding to the key aspects of the audit
<p>1. The existence and evaluation of the inventories</p> <p>In accordance with the information presented in note 10 'Inventories', the total inventories presented in the individual financial statements are in the amount of 67,925 thousand lei and they represent a significant percentage from the total assets of the company, their evaluation implying a high level of judgement of the management. These inventories consisted mainly of raw material, consumables, finished products and in progress. The evaluation of the inventories is made, mainly, at the lowest value between cost and net realisable value. The evaluation at cost includes different components such as production or purchasing cost, including trade discounts received as well as other costs in order to bring them in the place and state in which they are found at a certain point. At the output of the management of the inventories, these are evaluated and highlighted in accounting by applying the Weighted Average Cost method. In regards to the finished products, the net realisable value is estimated in relation to the sale price, including the commercial discounts granted. The adjustments for the depreciation of the inventories at the end of the financial year are 13,556 thousand lei.</p>	<p>Performed tests:</p> <p>Our audit procedures for testing the existence of inventories were mainly, but not limited to them, in the participation to the inventory during the year, including, the reconciliation of the counting performed by the auditor with the one of the representatives of the company, the identification of possible physical/moral depreciated inventories. In order to validate the evaluation of the acquisition/production costs of the inventories, we have performed detail tests regarding to the evaluation in relation with the requirements of the IAS 2 'Inventories'. We have verified the correctness of the estimations regarding to net realisable value in relation to the sale price and we verified if there have been inventories which were sold with a negative margin through the recent sales invoices from December 2017.</p>
<p>2. Trade receivables</p> <p>As it is presented in Note 8 – 'Trade receivables' at 31.12.2017, the net trade receivables have the value of 44,553 thousand lei (40,823 thousand lei – 2016). The recovery of trade receivables and the level of adjustments of value for uncertain receivables are considered to be a significant risk due to the global nature of these balances in the financial statements, as well as the importance of collection of cash, with reference to the management of the working capital of the company. Then accounting policies referring to recoverability of trade receivables are presented in note 3 "Accounting policies on company receivables".</p>	<p>Tests performed:</p> <p>Our audit procedures have included, but were not limited to these, among others:</p> <ul style="list-style-type: none"> – The evaluation of the control's effectiveness regarding the monitoring of the recoverability of the receivables; – The evaluation of the management's estimates regarding the value adjustments performed in relation to the level, the age of the claims and of the collecting degree; the verification of the appliance's consistency of the accounting policies referring to the adjustment of the receivables; – The evaluation of the recoverability of the outstanding receivables referring to the historical levels of the expenses with the uncertain receivables and the risk profit of the partners; – The testing of these balances, based on a sample, for which we have requested direct confirmation on 31.12.2017, as well as the verification of the transactions from 2018 at the clients who did not confirm the balances at the end of the financial year; – The examination of the coherent character of the decisions regarding the monitoring the recovery of the trade receivables and of the revenues achieved, through discussions with the management in order to justify these decisions and to obtain audit evidence necessary to sustain the management's justification.

<p>3. Provisions and contingent liabilities</p> <p>The key aspect of the audit in this matter refers to the adequate appliance of the IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. In Note 13 are presented total provisions in the amount of 125,189 thousand lei for year 2017 (year 2016 – 124,245 thousand lei). An important proportion from the provisions presented concerns the provisions for the warranties granted to customers 40,504 thousand lei and other provisions specific to the object of activity 57,005 thousand lei. The estimation of a provision implies significant professional judgements and hypotheses on behalf of the management regarding the possible results of the events and the quantification of potential obligations, where and if it is the case.</p>	<p>Tests performed:</p> <p>I have analysed the hypotheses and the estimations of the Company regarding the establishment of the provisions, including the obligations recognised or the contingent obligations presented in the individual financial statements. We have evaluated the possibility of a negative result of the de facto situations and certainty of the related estimations related to the obligation in question.</p>
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Other information – Report of the Board of Directors

7. The administrators are responsible for the preparation and presentation of other information. That other information contains the Report of the Board of Directors which also includes the Non-Financial Declaration, in accordance with MFP Order no. 2844/2016 for the approval of the accounting Regulations compliant with the International Financial Reporting Standards, applicable to the commercial companies whose securities are admitted to transaction on a regular market, Appendix 1, Chapter 3 and of the requirements of the Financial Supervisory Authority ('ASF'), report which must not contain significant distortions. The administrators are responsible, also, for that internal control which allows the preparation of the report of the board of directors which shall not contain significant distortions, caused by fraud or error. The report of the Board of Directors presented in the appendix is not part of the individual financial statements.

Our opinion in regards to the financial statements does not cover such other information and, except the case explicitly mentioned in our report, we do not express any conclusion of assurance concerning these.

In regards to our audit concerning the individual annual financial statements for the financial year ended at 31.12.2017, our responsibility is to read the information and, in this endeavour, to appreciate if that information is significantly inconsistent with the financial statements, or with the knowledge which we have obtained during the audit, or if they seem to be significantly distorted.

On the exclusive basis of the activities which must be performed during the audit of the financial statements, in our opinion:

- The information presented in the Report of the Board of Directors for the financial year for which the financial statements were prepared are in accordance, in all the significant aspects, with the financial statements;
- The report of the Board of Directors identified earlier includes, in all the significant aspects, the information requested by the legal accounting regulations concerning the individual annual financial statements – MFP Order 2844/2016;
- In addition, on the basis of our knowledge and understanding regarding the Company and its environment, obtained during the audit of the individual annual financial statements, for the financial year ended on 31.12.2017, concerning S.C. AEROSTAR S.A., we did not identify information included in the Report of the Board of Directors which is incorrect.

The responsibilities of the management and of the persons responsible with the governance for the individual annual financial statements

8. The company management is responsible for the preparation and fair presentation of the individual annual financial statements in accordance with the requirements of the Romanian accounting regulations, that is, the Law of Accounting no. 82/1991 (republished), MFP Order no. 2844/2016 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards, applicable to the commercial companies whose securities are admitted to transaction on a regular market and with later amendments, and the Order of the Minister of Public Finances no. 470/2018 concerning the main aspects related to the preparation and filing of the annual financial statements and of the annual accounting reports of the economic operators

to the territorial units of the Minister of Public Finances, as well as for the amendments and later completions of the accounting regulations. This responsibility includes: the design, implementation and maintaining of an internal control relevant for the proper preparation and presentation of the individual annual financial statements which shall not contain significant distortions, due to fraud or error, selection and application of the adequate accounting policies, the development of certain accounting estimations reasonable in the given circumstances.

9. In the preparation of the individual annual financial statements, the management is responsible for the evaluation of the Company's capacity to continue the activity on the basis of the principle of activity's continuity, presenting, where necessary, aspects related to the continuity of activity and adequacy of the use of the accounting principle of activity's continuity.
10. The persons responsible with the governance are responsible for the supervision of the financial reporting process of the Company.

Auditor's responsibilities for the audit of the individual annual financial statements

11. Our objectives shall consist of obtaining a reasonable assurance concerning the measure in which the individual annual financial statements, as an assembly, are free of significant distortions, caused by fraud or error, as well as in issuing an auditor's report which includes our opinion. The reasonable assurance represents a high level of assurance, but it is not a warranty of the fact that an audit performed in accordance with the ISA will always detect a significant distortion, if this exists. The distortions can be caused either by fraud or by error and are considered to be significant if it can be expected, in a reasonable way, that these, individual or collected, will influence the economic decisions of the users, made on account of these individual annual financial statements.
12. As part of an audit in accordance with the Audit Standards issued by the Romanian Audit Chamber and of the International Standards of Audit, we perform professional judgement and we maintain professional scepticism during the audit. Also, we:
 - identify and evaluate the significant distortion risks of the individual annual financial statements, caused either by fraud or by error, we shall design and execute auditing procedures as a response to the respective risks and we obtain sufficient auditing evidence, adequate to provide a basis for our opinion. The risk of failure to detect a significant misrepresentation caused by fraud is higher than the risk of failure to detect a significant misrepresentation caused by error, as fraud can suppose secret understandings, false data, intentional omissions, false statements and avoidance of internal control;
 - understand the internal control relevant for the audit, in order to design audit procedures adequate to the circumstances, but without having the purpose to express an opinion on the effectiveness of the internal control of the Company;
 - evaluate the degree of adequacy of the accounting policies used and the reasonable character of the accounting estimations and of the presentations disclosed by the management;
 - express a conclusion on the adequacy in the utilization by the management of the accounting of the continuity of activity and shall determine, based on the auditing evidence obtained, if a significant uncertainty exists, in regards to the events or conditions which may generate significant doubts as to the Company's capacity to continue its activity. Our conclusions are based on the auditing evidence obtained until the date of the auditor's report. Nevertheless, future events or conditions can determine the Company to stop operating its activity on the basis of the principle of activity's continuity.
 - evaluate the presentation, structure and the content of the financial statements, including the presentations of information, and to the extent in which the financial situations reflect the transactions and events which provides the basis of these in a manner in which it results in a fair presentation;
 - communicate to the persons in charge with corporate governance, among other aspects, the planned area and the auditing schedule, as well as the main findings of the audit, including any significant deficiencies of the internal control, identified during the audit.
 - also, we provide to the persons responsible with the governance a declaration concerning our conformity with the ethical requests in regards to the independence and we shall communicate all the relations and other aspects which can be considered, in a reasonable way, that may affect our independence and, where applicable, the corresponding safety measures.

Other aspects

13. This report is addressed exclusively to the shareholders of the company as a whole. Our audit was performed in order to be able to report to the shareholders of the company those aspects which we must report in a financial auditing report, and in no other purpose. To the extent permitted by the law, we assume our responsibility only to the Company and its shareholders, as a whole, for our audit, for this report or for the opinion formed.
14. The individual annual financial statements attached are not meant to present the financial position, the result of the operations and a complete set of annual explicative financial notes in accordance with the regulations and accounting principles accepted in countries and jurisdictions other than Romania. Therefore, the individual annual financial statements attached are not prepared for the use of the persons who are not aware of the Romanian accounting and legal regulations i.e. the Accounting Law no. 82/1991 (republished), MFP Order no. 2844/2016 for the approval of the accounting regulations in accordance with the International Financial Reporting Standards, applicable to commercial companies whose securities are admitted to trading on a regulated market, with later amendments and completions, and the Order of the Ministry of Public Finance no. 470/2018 regarding the main aspects of the preparation and submission for approval of the annual financial statements and of the annual accounting reports of the economic agents to the territorial units of the Minister of the Public Finance.

Report concerning other legal provisions and regulations

15. We were named by the annual general meeting of the shareholders to audit the financial statements of S.C. AEROSTAR S.A. for the financial years 2008-2012, as PFA Husanu Monica, and for the financial years 2015-2017 as legal person – S.C. H.M. AUDIT CONTAB SRL. The total uninterrupted period of our agreement was on a period of 10 years, covering the financial years ended on 31.12.2008 until 31.12.2017.

We confirm that:

- Our audit opinion is in accordance with the additional report presented to the Audit Committee of the Company, which we have issued in the same day when we issued this report. Also, while performing our audit, we have maintained our independency towards the audited entity.
- We did not supply forbidden non-audit services to the Company, mentioned in Article 5, paragraph (1) from UE Regulation no. 537/2014.

S.C. H.M. AUDIT CONTAB S.R.L.

CAFR Authorization 1019/2010

By **MONICA HUSANU**

Financial auditor chartered with the Romanian Chamber of Financial Auditors under no. 2401/2008

Bacau, 30.03.2017

**INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)**

	Note	31 December 2017	31 December 2016
ASSETS			
Immobilized assets			
Tangible immobilizations	6	144,613	146,007
Intangible immobilizations	5	1,858	1,689
Investment property immobilizations	6	6,987	6,499
Financial immobilizations	7	228	202
Total Immobilized Assets		153,686	154,397
Circulating assets			
Inventories	10	67,925	50,272
Commercial receivables and other receivables	8;9	46,640	42,749
Cash and cash equivalents	11	163,886	163,153
Total circulating assets		278,451	256,174
Expenses in advance	31	491	521
Total assets		432,628	411,092
COMPANY CAPITALS AND DEBTS			
Capital and reserves			
Share capital	12	48,729	48,729
Current result	12	53,170	56,472
Result carried forward	12	57,524	56,331
Other reserves	12	110,843	67,833
Debts/Receivables regarding tax on deferred profit recognized on the account of company capitals	17	(7,961)	(6,362)
Distribution of profit for legal reserve	12	(9,338)	(9,095)
Total company capitals	12	252,967	213,908
Income in advance			
Subsidies for investments	14	12,677	15,001
Revenues registered in advance	31	28	33
Total income in advance		12,705	15,034
Long-term debts			
Debts regarding deferred income tax	17	2,126	3,804
Other long-term debts	16	51	-
Total long-term debts		2,177	3,804
Long-term provisions	13	75,825	71,448
Current debts			
Commercial debts	15	29,515	37,472
Debt with current income tax	23	1,522	2,215
Other current debts	16	8,553	14,414
Total current debts		39,590	54,101
Short-term provisions	13	49,364	52,797
Total provisions		125,189	124,245
Total debts		41,767	57,905
Total company capitals, income in advance, debts and provisions		432,628	411,092

**INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)**

	Notes	31 december 2017	31 december 2016
Revenues from sales	19	340,172	356,219
Other revenues	19	3,632	3,654
Revenues related to inventories of products and production in progress	19	10,420	3,817
Revenues from production of immobilizations	19	1,287	1,603
Total revenues from operations		355,511	365,293
Expenses			
Material expenses	20	(128,002)	(126,222)
Expenses with employee benefits	20	(108,629)	(99,488)
Expenses with amortization of immobilizations	20	(24,275)	(16,042)
Influence of adjustments on current assets		1,337	(592)
Influence of adjustments on provisions	20	(945)	(13,549)
Expenses related to third party services	20	(30,629)	(40,957)
Other expenses	20	(4,228)	(3,835)
Total Expenses for Operations		(295,371)	(300,685)
Profit from Operations		60,140	64,608
Financial incomes	21	4,413	7,514
Financial expenses	22	(5,766)	(6,257)
Financial profit/loss		(1,353)	1,257
Profit before tax		58,787	65,865
Tax on current and deferred profit	17;23	(5,617)	(9,393)
Net profit of the financial year		53,170	56,472

**INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)**

	31 december 2017	31 december 2016
Net profit of the financial year	53,170	56,472
Deferred income tax recognised on the account of company capitals according to O.M.F.P. 2844/2016	(406)	(10,131)
Result carried forward arising from transition to IFRS	-	(1,161)
Other elements of global result	(406)	(11,292)
Total Global Result of financial year	52,764	45,180

**INDIVIDUAL STATEMENT OF THE COMPANY CAPITAL MODIFICATIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(unless specified otherwise, all amounts are stated in thousand lei)**

	Share capital	Reserves	Deferred income tax recognized on account on company capitals	Result carried forward	Result of the year	Total company capitals
Global result						
A. Balance account on 1 January 2017	48,729	67,833	(6,362)	56,331	47,377	213,908
The profit of the year					53,170	53,170
Other elements of the global result						
Deferred income tax recognized on the account of the company capitals	-	-	(1,599)	1,193	-	(406)
Distribution of profit for year 2016 to allocations decided by shareholders in GMS from April 2017 (NOTE 13)	-	-	-	47,377	(47,377)	-
Distribution of profit from 2017 for legal reserves in gross amount	-	9,338	-	-	(9,338)	-
Total global result of the year	-	9,338	(1,599)	48,570	(3,545)	52,764
Statutory reserves distributed from the profit of the year 2016		33,672		(33,672)		-
Dividends distributed to the shareholders from the profit of the year 2016		-		(13,705)		(13,705)
Transactions with shareholders, directly recognized on company capitals		33,672		(47,377)		(13,705)
B. Balance on 31 December 2017	48,729	110,843	(7,961)	57,524	43,832	252,967
C. Modifications of company capitals (NOTE 12)	0	43,010	(1,599)	1,193	(3,545)	39,059

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

	Note	31.12.2017	31.12.2016
TREASURY CASH FLOWS FROM OPERATIONS			
received from customers		347,140	387,310
taxes and excises recovered from State Budget		5,824	7,166
payments to suppliers and employees		(250,453)	(245,231)
payment of taxes, contributions and dues to State Budget		(52,366)	(48,121)
payment of profit tax		(8,342)	(10,089)
NET CASH FROM OPERATIONS	27	41,803	91,035
TREASURY CASH FLOWS FROM INVESTMENT ACTIVITIES			
collected from non-reimbursable funds	14	0	4,671
interest collected from granted loans		6	6
interest collected from bank deposits		530	478
collected dividends from affiliated companies		189	231
collected from sales of tangible immobilizations		90	31
instalments collected from loans granted		4	4
payments for purchase of tangible and intangible immobilizations		(27,597)	(22,651)
NET CASH USED IN INVESTMENT ACTIVITIES	27	(26,778)	(17,230)
TREASURY CASH FLOWS FROM FINANCING ACTIVITIES			
paid dividends but unclaimed, recovered		73	88
gross dividends paid		(13,289)	(12,437)
NET CASH USED IN FINANCING ACTIVITIES	27	(13,216)	(12,349)
Net increase of the cash and of cash equivalents		1,809	61,456
Cash and cash equivalents at the beginning of the period		163,153	101,299
Effect of the exchange rate variation over the cash and cash equivalents	27	(1,076)	398
Cash and cash equivalents at the end of the period	11	163,886	163,153

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

NOTE 1. LEGAL PRINCIPLES AND INFORMATION DATABASES

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

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

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

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

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

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

The amount of the dividends proposed before the authorization of the financial statements to be distributed (unrecognized as distribution towards the owners during the period) is of 14,314,080 lei, i.e. a gross dividend per share of 0.094 lei.

The financial exercise corresponds to the calendar year.

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

REPORTING BASES

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

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

Evaluation bases used

The financial statements were prepared based on the historic costs.

Currency for operation and presentation

The company's accounting records are kept in lei. The company considers the Romanian currency (Leu) as the currency for operations in accordance with the definition in IAS 21 "The Effects of Changes in Foreign Exchange Rates". The financial statements are presented in thousand lei, rounded to the closest thousand lei.

Aspects related to the presentation of information in the financial statements

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

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

Segment Reporting

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

Capital Adequacy

The management policy is focused on maintaining a solid base of capital, with the purpose of sustaining the continuous improvement of the Company and reaching its strategic objectives.

The Company will stand firm furthermore to assure the sustainability of the investments and the business increase.

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

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

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

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

NOTE 2. USE OF ESTIMATES, HYPHOTESSES AND ACCOUNTING JUDGEMENTS

Estimates

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

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

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

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

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

The company uses estimates to determine the:

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

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

- ◆ the lifespan of the tangible and intangible immobilized assets;

The company reviews the lifespan of the tangible and intangible immobilized assets at least at the end of each financial year, to establish its adequacy.

- ◆ stocks of the prime materials and materials which require the creation of adjustments for depreciation.
- ◆ deferred taxes.

Presentation of information

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

Errors

- ◆ The errors which can occur can be related to recognition, evaluation, presentation or description of the elements of the financial statements.

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

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

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

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

- ◆ the nature of the error for the previous period;
- ◆ for each previous period presented, to the extent possible, the value of the correction:
 - for each row-item affected from the financial statement;
 - for the base results and diluted per share.
- ◆ value of the correction at the beginning of the previous presented period;
- ◆ if the retroactive retreatment for a specific previous period is impossible, there must be presented the circumstances which lead to the existence of that condition, a description of the mode in which it has occurred and the moment from which the error has been corrected.

NOTE 3. ACCOUNTING AND EVALUATION PRINCIPLES

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

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

- ◆ Modifications of the International Accounting Standard IAS 12 *Tax by profit*, which is applied starting with January 1st 2017. The essence of these modifications refers to the requests regarding the deferred tax claims related to the unrealized losses as well as the approach of some practical aspects related to future probable taxable incomes.
- ◆ Modifications of the IAS 7 *Statement of Cash Flows* – regarding the presentation initiative of the information related to the financial debts, the effect of exchange currency variation, the provision of reconciliations in case of the debts resulted from the financial activities. It is applied starting with January 1 2017.

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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(unless specified otherwise, all amounts are stated in thousand lei)**

- ◆ Republishing of IAS 40 Investment property with later amendments.

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

3.2 Standards (Modifications to Standards) and interpretations adopted by the Committee of the International Accounting Standard and by the European Union through Regulations issued but unentered in force:

- ◆ Adoption of IFRS 9 *Financial instruments* (came into force from January 1st 2018) together with the modifications for the International Standard Reports, in accordance with IFRS 9:

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

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

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

- ◆ The impact of a new standard on the key figures of the Company is limited, because the incomes are already recognized at the moment of the delivery of the goods and/or services.
- ◆ Exception: incomes from services performed evaluated according to IAS 18, depending on the stage of completion of the contract, their amount in year 2017 being 477 thousand lei, incomes which were derecognized at the end of the financial year, in order to early apply IFRS 15.
- ◆ Adopting IFRS 16 *Lease accounting* (in force from January 1st 2019) together with the modifications of the International Accounting Standards, in accordance with IFRS 16:
- ◆ Amendments to IFRS 4 *Insurance contracts* which are applied starting with 01.01.2018.

The company evaluates the potential effects of the new Standards and amendments to the International

Financial Reporting Standards and according to the initial estimations, provides that these will not have a significant impact over its financial situations.

3.3 Accounting and evaluation principles

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

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

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

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

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

Modifications of the accounting policies

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

The company modifies an accounting policy only if the modification:

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

How the modifications are applied in the accounting policies

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

The presentation of the information:

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

- ◆ the title of IFRS;
- ◆ the nature of the accounting policy modification;

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

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

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

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

General accounting policies

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

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

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

In the financial statements, all the debts arising during the current financial year or of a previous financial year are highlighted, even if they become apparent only between the date of the balance sheet and the date of its establishment.

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

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

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

- ◆ The principle of independence

The revenues and expenses of the financial year are registered, no matter the date of the revenue collection or of the date of payment of the costs;

- ◆ The principle of accrual accounting

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

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

Materiality and Aggregation

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

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

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

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

Element which establishes the material threshold	Method of calculation	Value (%)
Fixed assets	Analysed asset/ Total Immobilized assets	0.5%
Current assets	Analysed asset/ Total current assets	0.5%
Debts	Analysed debts/Total debts	0.25%
Operating benefits	Analysed income/ Total operating income	0.25%
Financial income	Analysed income/ Total financial revenues	0.25%
Operating expenses:		
- expenditure on inventories of materials	Analysed expense/ Total inventory expense	0.25%
- expenditure with manpower	Analysed expense / Total expenditure with manpower	0.1%
- depreciation expense	Analysed expense / Total depreciation expense	0.5%
- other expenses	Analysed expense / Total other expenses	0.25%
Financial expenses	Analysed expense / Total financial expenses	0.25%

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

Accounting policy on immobilizations

TANGIBLE IMMOBILIZATIONS

Recognition

The company recognizes the intangible immobilizations when:

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

The tangible immobilizations are tangible assets which:

- ◆ are held to be used for the production or supplying goods or services, to be rented to the third parties or to be used in administrative purposes;
- ◆ are expected to be used over several periods of time

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

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

The specific recognition criteria for subsequent expenditures of the nature of the work performed on the tangible assets from the buildings category:

- ◆ The lifespan of the work performed shall be at least equal with the remained useful lifespan of the building in question.
- ◆ The expense cost shall be over 25% from the gross accounting value of the building.

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

If the spare parts and the service equipment can be used only in relation with an element of tangible immobilization, they are accounted as tangible immobilizations, in case in which the initial purchasing value can be established (placing in service) of the part being replaced.

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

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

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

Derecognition

The accounting value of a tangible immobilization element is derecognized:

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

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

Evaluation at recognition

The costs to which a tangible immobilization is accounted contains:

- ◆ the purchasing price, including customs taxes and non-reimbursable purchasing fees net of any discount and commercial deductions;
- ◆ costs which can be directly attributed to bringing the assets to the location and condition needed in order to function as desired by the company management;
- ◆ the initial estimate of the costs to dismantle and restore the site where it is located. For such costs to be accounted, the provisions set forth in IAS 37 "Provisions, contingent liabilities and contingent assets" shall be applied.

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

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

Assessment after recognition

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

Reclassification in investment property and immobilized assets held for sale

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

Amortization of tangible immobilizations

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

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

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

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

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

The amortisation does not cease when the asset is not in use.

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

Usually the lands have an unlimited lifetime and therefore it is not amortized.

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

Depreciation

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

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

External sources: it is analysed the value of the market capitalization indicator of the Company in comparison with the value of company capitals.

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

In case in which such indicators are identified, the company estimates the recoverable value of the asset.

INTANGIBLE IMMOBILIZATIONS

Recognition

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

Criteria for recognition of intangible immobilizations:

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

Derecognition

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

Evaluation at recognition

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

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

In case of purchase, the cost comprises:

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

In case of intangible immobilizations internally generated, the construction phases are clearly separated into:

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

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

The company does not capitalize:

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

Evaluation after recognition

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

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

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Amortization of intangible immobilizations

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

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

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

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

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

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

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

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

Depreciation

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

INVESTMENT PROPERTY**Recognition**

An investment property is the property (land or a building – or a part thereof, or both) owned (by the owner or the tenant based on a financial leasing agreement) for renting purposes or to increase the capital value or both, rather than for:

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

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

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

Derecognition

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

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

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

Classification

The category of investment property comprises:

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

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

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

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

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

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

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

Evaluation upon recognition

An investment property must be assessed initially on cost, including any other expenses directly attributable.

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If the payment for an investment property is postponed, then its cost will be its price equivalent in cash. The difference between this amount and the total payments is recognized during the crediting period as expense with an interest.

Evaluation after recognition

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

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

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

Amortization

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

ASSETS PURCHASED BASED ON LEASES

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

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

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

The other leases are classified as operational leases.

FINANCIAL IMMOBILIZATIONS

The financial immobilizations account:

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

Evaluation upon recognition

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

Evaluation after recognition

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

Accounting policies on inventories

The inventories are assets:

- ◆ held for sale during the course of the regular activity;

- ◆ in production for future sale;
- ◆ represented by materials and other consumables to be used in the production processes or for the supply of services.

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

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

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

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

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

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

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

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

Borrowing Cost

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

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

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

The inventories category comprises:

- ◆ raw materials participating directly in the manufacture of products and found on the completed finished product, in total or in part, either in their original form or transformed;
- ◆ consumables (auxiliary materials, fuels, packaging materials, spare parts and other consumables), participating or contributing to the manufacturing or in the operational process, typically not identifiable in the finished product;

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- ◆ materials such as inventory objects; products, such as:
 - blanks/semi-finished products;
 - finished products;
 - scraps, recoverable materials and waste;
 - merchandise;
 - packing, including reusable packaging material, purchased or manufactured, intended to be used on the sold products, and which can be kept temporarily by third parties and returned as established in the agreements;
 - production in progress;
 - goods in custody, for further processing or in consignment at third parties.

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

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

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

Evaluation upon recognition

Recording in the accounts of the entry of stocks is performed on the date of the transfer of risks and benefits. Holding in any way of any material goods or the execution of any financial operations without recording them in the accounts is prohibited.

To highlight the inventories, the reception of all the material assets entered in the company by the commission of reception and their recording at the storage sites shall be assured.

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

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

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

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

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

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

- ◆ the goods sold and not delivered are distinctly recorded in the company accounts, while in the company accounts they are registered as off-balance sheet, in the account 8039 – Other values off-balance-sheet;

- ◆ the goods delivered but not invoiced yet are recorded as outflows from the company inventory, both at the store and in the accounts, based on the documents confirming the outflow from the inventory.
- ◆ the goods purchased or sold with clauses as to the ownership title are recorded in accordance with the agreements concluded.

Evaluation after recognition

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

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

Accounting policies on the company liabilities

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

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

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

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

Debts with settlement in currency

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

Periodic evaluation

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

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

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

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

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The differences in value which occur at the settlement of the liabilities expressed in lei, at an exchange rate different from the exchange rate used for recording such liabilities initially, or during that month, or from the ones recorded in the accounts must be recognized in the same month when they arise, as other financial revenues or expenses.

Short-term debts

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

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

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

Long-term liabilities

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

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

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

The long-term liabilities comprise:

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

Certificates for greenhouse effect gas emissions

The company acknowledges the deficit of certificates for greenhouse effect gas emissions in the financial statements based on the net debt method. According to this method, only the debts expected to arise from the exceedance of the quotas allocated certificates.

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

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

Accounting policies on Receivables

Such receivables include:

- ◆ commercial receivables, which are amounts owed by the customers for goods sold and services supplied in the normal course of activity;
- ◆ commercial effects to receive, as instruments from third parties;

- ◆ amounts owed by the employees or affiliated companies;
- ◆ advances given to the suppliers of immobilizations, goods and services;
- ◆ receivables related to manpower and state budget.

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

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

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

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

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

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

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

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

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

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

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

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

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In the yearly financial statements, the receivables are evaluated and presented at the value likely to be received. Whenever it is estimated that a receivable is not to be fully received, adjustments for depreciation are recorded at the level of the amount which can no longer be recovered.

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

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

Cash comprises cash on hand and at banks;

Cash equivalents shall include:

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

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

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

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

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

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

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

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

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

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

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

Accounting policies on the recognition of expenses

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

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

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

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

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

The operational expenses comprise:

- ◆ **expenses with raw materials and consumables**, the purchase costs of materials which are not inventories, the counter value of used utilities, the cost of sold goods;
- ◆ **expenses with manpower – employee benefits** (salaries, insurance and social security and other manpower-related expenses in charge of the company: expenses with training, meal tickets and social expenses);
- ◆ **expenses with: services executed by third parties**, insurance premiums, rents, protocol, advertising and publicity, transportation of goods and personnel, reassignments of personnel, bank services, mail and telecommunications, etc.;
- ◆ **expenses with amortization**, expenses with value adjustments regarding the assets and the expenses with provisions;
- ◆ **other operational expenses**: losses from receivables and various debtors, fines and penalties, etc.

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Employee Benefits

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

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

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

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

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

Benefits for termination of the labour agreement

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

The financial expenses are:

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

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

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

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

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

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

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

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

Accounting policies on the recognition of revenues

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

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

The revenues are classified as follows:

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

Revenues are recognized based on accrual accounting.

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

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

Operating income include:

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

Sales of goods

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

- ◆ the company has transferred to the buyer the risks and benefits related to the ownership title for the goods;
- ◆ the company does not keep the continuous managerial involvement up to the level associated, usually, with the ownership, the actual control over the goods sold;
- ◆ the value of the revenue can be accurately evaluated;
- ◆ the economic benefits related to the transaction are likely to be directed to the entity;
- ◆ the costs incurred or to be incurred in relation to the transaction can be measured precisely.

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

Supply of services

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

Revenues from rent

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

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

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

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

Accounting policies regarding trade and financial discounts

Trade reductions are:

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

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

Recognition:

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

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

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

Accounting policies on provisions

Provisions

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

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

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

Warranty Accounting

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

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

Provisions for risks and expenses

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

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

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

Provisions for decommissioning of tangible immobilizations

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

Provisions for the benefits of the employees

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

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

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

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Accounting policies regarding debts and contingent assets

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

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

A contingent debt represents:

- ◆ a possible obligation resulted from past events and whose existence will be confirmed only by the apparition or the absence of one or several uncertain next events, which are not totally under the control of the entity; or
- ◆ a present obligation which appeared as a result of some past events, but which is not recognised as it is unlikely for settling of such obligation to have outflows of resources necessary, incorporating economic benefits, or the obligation value cannot be assessed in a sufficiently reliable manner.

Accounting policies on profit taxation

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

Current tax

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

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

Deferred tax

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

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

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

The assets and the debts related to the deferred taxes are measured at the level of the taxes proposed to be applied during the period of time established for recovery of the debt or to make the asset, based on the level of taxes (and

fiscal laws) already in force or about to enter in force by the end of the reporting period. The measurement of the deferred tax debts and assets mirrors the tax-related consequences likely to result from the way in which the company anticipates, at the end of the reporting period, to recover or settle up the accounting value of its assets and debts.

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

Accounting policies on the profit distribution

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

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

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

Reserve

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

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

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

Profit distributions on the other destinations

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

The profit can be assigned for:

- ◆ cover the accounting loss carried over;
- ◆ dividends distribution;
- ◆ other statutory reserves.

The covering of the accounting loss

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

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

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

Accounting policies on establishing the result per share

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

Accounting policies on subsidies and other non-reimbursable funds

The category of subsidies distinctly comprises:

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

Recognition

The subsidies are recognized at their approved value.

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

Government subsidies

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

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

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

Subsidies for investments

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

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

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

Subsidies related to revenues

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

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

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

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

Accounting policies for Related Parties

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

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

Disclosure of information

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

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

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

The presentation of the information will at least include:

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

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

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

Accounting policies for production of goods and services

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

Plan of accounts

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

The object of accounts management consists of:

- ◆ collecting of direct charges, indirect and auxiliary after their nature,

- ◆ the distribution of indirect cost,
- ◆ the settlement of direct and indirect costs.

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

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

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

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

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

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

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

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

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

STAGES OF ESTABLISHING THE COSTS ON ORDERS

- ◆ Establishment of the provisional calculation of costs on orders;
- ◆ Collection of direct expenses on orders;
- ◆ Collection of indirect expenses;
- ◆ Allocation of indirect expenses and the settlement of the costs for the auxiliary activities related orders;
- ◆ Settlement of the costs for the direct orders on indirect expenses;
- ◆ Allocation of the indirect expenses related to the main activity;
- ◆ Settlement of the production cost and getting the production goods and sub unitary one;
- ◆ Determine the production in progress.

Accounting policies for events following after the reporting date

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

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

Presentation of the information

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

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

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

Accounting policies on financial instruments

A financial instrument is a contract generating simultaneously:

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

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

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

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

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

- ◆ it has the legal right to proceed as such and
 - ◆ it intends to settle it on a net basis
- or
- ◆ to make the asset and to pay off the debt simultaneously.

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

On the date of each balance sheet the company determines the existence of any depreciation indications. The accounting value of the asset must be reduced down to the level of the estimated recoverable value and the loss will be included in the profit and loss account for the respective time period.

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

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

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NOTE 4. TRANSACTIONS IN FOREIGN CURRENCIES

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

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

At the end of the Financial Position Situation, the assets and financial debts denominated in currency are evaluated in the functional currency using the exchange rate, communicated by the Romanian National Bank, valid that day:

Currency	31.12.2017	31.12.2016
EUR (Euro)	4.6597	4.5411
USD (American Dollar)	3.8915	4.3033
GBP (British Pound)	5.2530	5.2961

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

Considering that 76% from the turnover registered in the reporting period is denominated in USD and EUR, while a significant part of the operating costs is denominated in LEI, the foreign exchange rates variations will affect both its net incomes as well as the financial position as it is expressed in the functional currency.

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

31.12.2017	THOUSAND EUR	THOUSAND USD	THOUSAND GBP
Proceeds from financial assets	10,226	44,989	0
Payments of financial liabilities	10,138	14,904	656
Currency net exposure	88	30,085	(656)

In year 2017 the medium appreciation of 10% of the USD/LEU currency exchange rate compared to the beginning of the year has determined the reporting of the financial loss from unfavourable differences of exchange rate the amount of 2,433 thousand LEI.

NOTE 5. INTANGIBLE IMMOBILIZATIONS

Gross values	Development expenses	Licenses	Other intangible immobilizations	Total
On January 1, 2017	-	3,766	607	4,373
Inputs	89	892	589	1,570
Outputs	(89)	(56)	-	(145)
On December 31, 2017	-	4,602	1,196	5,798

Amortization	Development expenses	Licenses	Other intangible immobilizations	Total
On January 1, 2017	-	2,432	252	2,684
Inputs	89	746	566	1,401
Outputs	(89)	(56)	-	(145)
On December 31, 2017	-	3,122	818	3,940

NET ACCOUNTING VALUE OF INTANGIBLE IMMOBILIZATIONS ON 31 DECEMBER 2017

	Gross value	Amortization	Adjustments for loss of value	Net accounting value
1. Development expenses	89	89	-	0
2. Licenses	4,602	3,122	-	1,480
3. Other intangible immobilizations	1,196	818	-	378
Total (1+2+3)	5,887	4,029	-	1,858

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

- ◆ Development expenses;
- ◆ Licenses;
- ◆ Other intangible immobilizations.

The IT programmes are registered in other intangible immobilizations.

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

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

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

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

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

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

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

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

Increases in gross values of intangible immobilizations were obtained by: **1,570**

- ◆ capitalization of the development expenses fully financed by AEROSTAR 89
- ◆ development of the IT production management system AEROPROD 589
- ◆ purchasing of software licenses 892

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

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

NOTE 6. TANGIBLE IMMOBILIZATIONS

Gross values	Land	Constructions	Technical equipment and transport vehicles	Other tangible immobilizations	Tangible immobilizations in progress	Investment property	Total
On 1 January 2017	28,346	51,372	107,125	805	1,282	7,946	196,876
entries	-	2,676	12,572	132	21,967	1,063	38,410
transfer	87	112	-	-	(16,443)	(199)	(16,443)
immobilizations extra to inventory	-	-	19	-	-	-	19
exits	-	-	(280)	-	-	-	(280)
On 31 December 2017	28,433	54,160	119,436	937	6,806	8,810	218,582

Amortization	Land	Constructions	Technical equipment and transport vehicles	Other tangible immobilizations	Tangible immobilizations in progress	Investment property	Total
On 1 January 2017	-	7,092	35,619	211	-	1,447	44,369
entries	-	5,164	17,192	142	-	376	22,874
exits	-	-	(261)	-	-	-	(261)
On 31 December 2017	-	12,256	52,550	353	-	1,823	66,982

NET ACCOUNTING VALUE OF TANGIBLE IMMOBILIZATIONS ON 31 DECEMBER 2017

	Gross value	Amortization	Adjustments for loss of value	Net accounting value
1. Land	28,433	-	-	28,433
2. Constructions	54,160	12,256	-	51,906
3. Technical equipment and transport vehicles	119,436	52,550	-	68,886
4. Other tangible immobilizations	937	353	-	584
5. Investments property	8,810	1,823	-	6,987
6. Tangible immobilization in progress	6,806	-	-	6,806
Total (1+2+3+4+5+6)	218,582	66,982	-	151,600

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

- ◆ Land;
- ◆ Constructions;
- ◆ Technical equipment (plant, machinery, installations);
- ◆ Means of transport;
- ◆ Other tangible immobilizations;
- ◆ Investments property.

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

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

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

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

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

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

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

The values from lease incomes in 2017 was 1,884 thousand LEI (1,790 thousand LEI in year 2016).

In year 2017, AEROSTAR invested in modernization of accommodation spaces (classified in the immobilized investments) the amount of 1,063 thousand LEI.

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

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

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

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

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

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

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

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

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

Information source

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

The indicator which offers information regarding the interest from the investors in the company listed on the capital market is the market capitalization reported to own's capital (MBR).

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

MBR-Market indicator to book ratio	31.12.2017	31.12.2016
market capitalization / company capitals	2.8	2.3

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Internal information sources:

- ◆ the economic performance of the assets is good, all the immobilizations in operation bring benefits to the company;
- ◆ in year 2017 no changes occurred with adverse effects on the extent and manner in which the assets are used, nor such modifications are expected in the near future.

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

In conclusion, the tangible immobilizations in the balance sheet on 31.12.2017 are not depreciated and no adjustments were made for the depreciation thereof.

The gross accounting value of the fully amortized tangible immobilizations which were still in operation on 31 December 2017 is 3,849 thousand lei.

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

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

Increases in gross values of the tangible immobilizations, achieved by: **38,429**

- ◆ acquisition on technical equipment, hardware equipment, equipment of measuring and control, modernization of buildings 21,967
- ◆ transfer during the year of the investments in progress 16,443
- ◆ immobilization found after inventory 19

Decreases in gross values of tangible immobilizations, achieved by: **16,723**

- ◆ the transfer of the investments in progress in tangible immobilizations 16,443
- ◆ derecognition of certain tangible immobilizations, due to the fact that the company no longer expects future economic benefits from their use 280

NOTE 7. FINANCIAL IMMOBILIZATIONS

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

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

Details of the investments in other companies are:

Subsidiary name / Registered headquarter	CAEN Code	No. of shares/ shares issued	Voting rights (%)	Value shares held by Aerostar (thousand lei)	Financial information 2016					
					Registered capital of the company	Reserve	Net profit	Nominal value/ share	Net asset/ share	
SC Airpro Consult SRL Bacau 9, Condorilor Street	- main activity according to code CAEN 7820	100	100%	10	10	55	97	0.1	1.6	
SC Foar SRL Bacau 9, Condorilor Street	- main activity according to code CAEN 7739	800	51%	4	8	1,739	180	0.01	2.4	
SC Aerostar Transporturi Feroviare S.A Bacau 9, Condorilor Street	- main activity according to code CAEN 2822	20,000	45.75%	92	200	38	1	0.013	0.010	
TOTAL		×	×	×	106	218	1,832	278	×	×

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

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

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

NOTE 8. COMMERCIAL RECEIVABLES

COMMERCIAL RECEIVABLES FROM WHICH:	31 December 2017	1 January 2017
Customers	38,050	38,789
Domestic customers	4,470	2,115
Foreign customers	33,580	36,674
Uncertain customers	1,162	1,024
Adjustments for depreciation of customer receivables	(1,162)	(1,024)
Suppliers – debtors	6,371	1,486
Customers – invoices to draw up	-	477
Effects to receive from the customers	-	71
Other immobilized receivables with due date less than 12 months	132	-
Total of commercial receivables	44,553	40,823

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

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

Debtors-suppliers have a discount limit in year 2018.

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

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania to close the month of December 2017.

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

NOTE 9. OTHER RECEIVABLES

	31 December 2017	01 January 2017
Receivables related to manpower and assimilated accounts	30	16
Receivables related to the budget of social insurance, from which:	1,573	1,317
– VAT to be recovered	768	-
– non-chargeable VAT	154	339
– excises to recover related to fuel consumption	504	792
Interest to receive from bank deposits	346	17
Diverse debtors	233	259
Adjustments for the depreciation of the receivables – diverse debtors	(113)	-
Other receivables	18	317
Total other receivables	2,087	1,926

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

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NOTE 10. INVENTORIES

from which:	31.12.2017	31.12.2016
Raw materials	14,789	11,139
Consumables	25,444	23,270
Other materials	146	14
Semifinished products	-	48
Packings	34	2
Finished Products	17,796	11,918
Products in process	23,271	20,063
Goods	0.6	3
Adjustments for depreciation of inventories	(13,556)	(16,185)
TOTAL	67,925	50,272
The value of the inventories with no adjustments	81,481	66,457

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

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

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

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

The value adjustments are made on a regular basis, based on the findings of the inventory committees and/

or managers of the facility, in order to present the assets at the lower value between cost and net achievable value.

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

The total value of the inventories recognized as expense during the reported time period is 117,559 thousand LEI.

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

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

NOTE 11. CASH AND CASH EQUIVALENTS

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

	31.12.2017	31.12.2016
Cash	6,546	38,137
Bank deposits	157,336	125,013
CECs and trade effects receivable	4	3
Cash and cash equivalents in treasury cash flow statements	163,886	163,153

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

The cash equivalents comprise:

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

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

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

The value of the credit facilities, used under the form of an overdrawn, available for the future operating activity, is of 9,729 thousand LEI (2,500 thousand USD).

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

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NOTE 12. COMPANY CAPITALS

The company capitals at the date of 31 December 2017 are of 252,967 thousand LEI.

The net increase of the company capitals in 2017 compared to 2016 was of 39,059 thousand LEI.

The modifications of the main elements of the company capitals incurred in year 2017 compared to 2016 are as follows:

◆ **The share capital remained unchanged**

On 31 December 2017, the share capital of SC AEROSTAR SA Bacau is 48,728,784 LEI, divided in 152,277,450 shares with a nominal value of 0.32 LEI.

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

Shareholder	Number of shares	Holding percentage (% from the share capital)
S.C. IAROM S.A. Bucuresti	108,568,180	71.2963
SIF MOLDOVA Bacau	22,919,887	15.0514
Natural persons	14,162,600	9.3005
Legal persons	6,626,783	4.3518
Total	152,277,450	100.0

◆ **The reserves increased with 43,010 thousand lei on the account of:**

- the reinvested profit of the year 2017 in the amount of 9,338 thousand LEI.
- the distribution of the amount of 33,673 thousand LEI from the profit relating to the financial year 2016.

◆ **Other capital elements have increased with the amount of 1,599 thousand LEI on the account of the deferred profit tax recognized in company capitals.**

◆ **The result carried forward:**

- **increased with:**
 - 1,193 thousand LEI on the account of the deferred profit tax recognised on the account of the company capitals
 - 47,377 thousand LEI representing the profit to be distributed relating to the financial year of 2016
- **and diminished** with the profit of the financial year 2016, distributed as:
 - at reserves in the amount of 33,672 thousand LEI
 - for dividends in the amount of 13,705 thousand LEI

The result in the balance account carried forward on 31 December 2017 is of 57,524 thousand LEI, compound from:

- the result carried forward obtained from the use, on the date of transition to IFRS, of the fair value as presumed cost = 40,886 thousand LEI;
- result carried forward, representing a surplus obtained from re-evaluation reserves, capitalized as the tangible and intangible immobilizations are amortized = 20,313 thousand LEI.

◆ **The result of the period was of 53,170 thousand LEI.**

During the period the amount of 56,715 thousand LEI was distributed, representing the distributable profit of 2016. The amount of 3,545 thousand LEI which influenced the company capitals at the date of 31.12.2017 represents the arithmetical difference between the result of the period (53,170 thousand lei) and the allocations of the period (56,715 thousand LEI).

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NOTE 13. PROVISIONS

	31 December 2016	Increases/ Set provisions	Reductions/ Provisions resumed	31 December 2017
Total provisions	124,245	27,406	26,462	125,189
Provisions for warranties granted to customers	41,418	14,478	15,392	40,504
Provisions for decommissioning tangible immobilizations	16,122	0	6	16,116
Provisions for the employee benefits	5,370	6,234	5,850	5,754
Provisions for litigations	700	5,110	0	5,810
Other provisions	60,635	1,584	5,214	57,005
from which:				
Long-term provisions	71,448	10,423	6,046	75,825
Provisions for guarantees granted to customers	7,929	4,257	5,273	6,913
Provisions for decommissioning tangible immobilizations	16,122	0	6	16,116
Provisions for litigations	0	5,110	0	5,110
Other provisions	47,397	1,056	767	47,686
Short-term provisions	52,797	16,983	20,416	49,364
Provisions for guarantees granted to customers	33,489	10,221	10,119	33,591
Provisions for employee benefits	5,370	6,234	5,850	5,754
Provisions for litigations	700	0	0	700
Other provisions	13,238	528	4,447	9,319

Provisions set up for guarantees granted to customers

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

Provisions for decommissioning the tangible immobilizations

Provision for decommissioning of tangible immobilizations are formed to cover the decommissioning costs, of removal of the elements and restoration of the locations in which are placed and included in their cost. The value was estimated using an update annual rate of 5%;

Provisions for benefits granted to employees

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

Provisions for litigations

Provisions for litigations are set up for any indemnities owed to the company's ex-employees.

The provisions are reanalyzed at the end of each reporting period and are updated in order to reflect the best estimation of the probable payments.

Other provisions

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

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

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

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NOTE 14. SUBSIDIES**Subsidies related to assets**

AEROSTAR recognizes as deferred revenue the assets-related subsidies.

	31.12.2017	31.12.2016
Balance on January, 1	14,972	16,828
Subsidies related to assets	0	0
Subsidies registered as revenues related to calculated amortization	(2,323)	(1,856)
Balance on December, 31	12,649	14,972

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

1. Contract no. 210304/22.04.2010: 'Extension of the manufacturing and assembly capacities for aerostructures for civil aviation', performed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 5,468 thousand Lei;
2. Contract no. 229226/14.06.2012: 'Set-up of a new manufacturing capacity for diversifying production and export growth', performed between June 2012 and May 2014, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 6,011 thousand Lei;
3. Contract no. SIM/013/24.03.2015: 'Consolidation and sustainable development of the mechanical processing and painting sectors by high performance investments', performed between March and December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being of 8,299 thousand Lei.

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

The balance of 12,649 thousand LEI represents the subsidies related to investments in immobilized assets which are to be recorded at the incomes while the costs of the calculated amortization are registered, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 2,824 mii lei
2. contract no. 229226/14.06.2012: 3,349 mii lei
3. contract no. SIM/013/24.03.2015: 6,476 mii lei

NOTE 15. COMMERCIAL DEBTS

	31 December 2017	01 January 2017
Advance payments received on customers account	4,896	10,327
Domestic customers-creditors	3,985	8,096
Foreign customers-creditors	911	2,231
Suppliers	24,580	27,140
Domestic suppliers	9,269	11,143
Foreign suppliers	11,540	12,735
Suppliers - invoices not arrived	1,803	1,892
Suppliers of immobilizations	1,968	1,370
Commercial effects to pay	39	5
Debt with current profit tax	29,515	37,472

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

For the highlighted debts no mortgages were established.

At the end of December 2017 the Company has made commitments under letters of bank guarantee for the amount of 4,608,000 USD issued in favor to the business partners according to the contractual requirements.

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

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NOTE 16. OTHER DEBTS

	31 December 2017	01 January 2017
Other current debts, of which:	8,553	14,414
◆ Debts related to manpower and assimilated accounts	2,242	1,892
◆ Debts related to social security budget and state budget, of which:	4,503	10,951
– VAT payable	1,451	6,543
– social insurance	2,016	2,960
◆ Other debts, of which:	1,808	1,571
– dividends, of which:	1,492	1,309
– from 2016	557	-
– from 2015	508	591
– from 2014	427	488
Other long-term debts	51	-

The dividends in balance account on 31 December 2017, with the amount of 1,492 thousand LEI, represent amounts remained to be distributed to the shareholders from the dividends of the years:

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

NOTE 17. THE DEFERRED PROFIT TAX

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

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

The structure of deferred profit tax registered at 31.12.2017 is:

Debts on deferred tax

1. Debts related to deferred tax generated by the differences between accounting bases (greater than) and the fiscal ones (lower than) of the immobilized assets	3,674
2. Debts related to the deferred tax concerning legal reserves	1,559
3. Debts on deferred tax related to reserves from the fiscal facility	7,396
4. Debts on deferred tax related to the reported result representing a surplus realised from revaluation reserves	61
Total debts on deferred tax	12,690

Deferred tax asset

1. Deferred tax asset related to adjustment for clients' depreciation in 2010	994
2. Receivables on deferred tax related to the provisions for warranties granted to customers, established between 2014-2017	6,480
3. Receivables on deferred tax related to the provisions for the benefits of the employees	921
4. Receivables on deferred tax related to stocks	2,169
Total receivables on deferred tax	10,564

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

The Company has registered on 31 December 2017 a debt regarding the deferred profit tax in the amount of 2,126 thousand LEI (12,690 thousand LEI – 10,564 thousand LEI).

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NOTE 18. FINANCIAL INSTRUMENTS

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

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

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

- financial instruments kept for making transactions (including derived instruments)
- financial instruments kept till due date
- financial instruments available for sale

The financial assets of AEROSTAR S.A. include:

- cash and cash equivalents
- commercial receivables
- commercial effects received
- immobilized receivables (customer-guaranties)
- loans granted with interest

The financial debts of AEROSTAR S.A. include:

- commercial debts
- commercial effects to pay

On the reporting date AEROSTAR does not have financial debts concerning financial leasing, overdrafts and long-term bank loans.

The main types of risks generated by the financial instruments held, to which AEROSTAR S.A is exposed are:

- a) credit risk,
- b) liquidity risk,
- c) currency risk,
- d) interest rate risk.

a) Credit risk

The credit risk is the risk that one of the parties involved in a financial instrument generates a financial loss for the other party as a result of the failure to meet a contractual obligation, related mainly to cash, cash equivalents (bank deposit) and commercial receivables.

The cash and cash equivalents are placed only at first-rank bank institutions considered to have a high solvency rate.

In some cases, specific instruments of commercial credit risk decrease (receipts in advance, letters of payment bank security, confirmed export credentials).

AEROSTAR has no significant exposure toward a single partner and records no significant concentration of receivables on a single geographical area.

Exposure to credit risk

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

The maximum exposure to the credit risk on the reporting date was:

	31.12.2017	31.12.2016
Cash and cash equivalents	163,886	163,153
Commercial receivables net of depreciation adjustments	37,602	38,789
Commercial effects received	0	71
Creante imobilizate Immobilized receivables (warranties submitted to third parties)	168	0
Loans granted with interest	87	97
Total	201,743	202,110

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

	31.12.2017	31.12.2016
Domestic market	4,470	2,115
Euro zone countries	19,029	15,164
Great Britain	9,308	13,769
Other European countries	1,147	1,695
Other regions	3,648	6,046
Total	37,602	38,789

Depreciation adjustments

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

	Gross value 31.12.2017	Adjustments for depreciation 31.12.2017	Gross value 31.12.2016	Adjustments for depreciation 31.12.2016
In due time	37,547		37,854	
Past due, total of which:	1,217	1,162	1,959	1,024
1-30 days	13	13	727	0
31-60 days	817	772	106	0
61-90 days	99	89	15	0
91-120 days	98	98	87	0
Over 120 days	189	189	786	786
Over 1 year	1	1	238	238
Total	38,764	1,162	39,813	1,024

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

	31.12.2017	31.12.2016
Balance on January, 1	1,024	254
Adjustments set for depreciation	6,040	4,264
Adjustments for depreciations resumed as revenues	(5,902)	(3,494)
Balance on December, 31	1,162	1,024

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

b) Liquidity risk

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

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

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

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

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

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

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	Financial debts	Accounting value	Contractual cash flows	0-30 days	31-60 days	over 60 days
31.12.2017	Commercial debts	22,776	(22,776)	(14,836)	(5,793)	(2,147)
	Commercial effects to be paid	39	(39)	(39)	0	0
31.12.2016	Commercial debts	25,133	(25,133)	(19,014)	(4,429)	(1,690)
	Commercial effects to be paid	5	(5)	(5)	-	-

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

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

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

c) Foreign currency risk

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

Exposure to the foreign exchange currency risk

AEROSTAR is exposed to the foreign currency risks, as 76% of its turnover in 2017 is related to USD and EUR, while a significant part of the operating expenses relates to LEI.

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

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

31.12.2017	THOUSAND EUR	THOUSAND USD	THOUSAND GBP
Cash and cash equivalent	1,257	1,800	20
Commercial receivables	1,592	6,607	0
Commercial debts	(1,129)	(1,591)	(109)
Net exposure in original currency	1,720	6,816	(89)

Sensitivity analysis

Taking into consideration the net exposure calculated in the above table it can be considered that AEROSTAR is exposed mainly to the foreign exchange risk generated by the variation of the foreign exchange rate USD/RON and EUR/RON.

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

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

31.12.2017	
Total net exposure in the currency of origin (thousand USD)	6,816
USD/LEU exchange rates	3.89
Net exposure in functional currency	26,514
Possible reasonable variation of exchange rate	+/- 10%
Effect of variation in profit and loss account	+/- 2,651 THOUSAND LEI

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d) Interest rate risk

For the reporting period AEROSTAR has contracted a multi-product Credit Facility of 7,000 thousand USD, destined to financing the Company's operations, which includes:

- 1) Product A: in the amount of 2,500 thousand USD, usable as overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) Product B: in the amount of max. 7,000 thousand USD (with the condition that the sum used from Product A and Product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility by issuing warranties instruments to ensure the commercial contractual obligations by issuing bank warranties letters and import letters of credit.

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

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

On 31.12.2017, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 4,608 thousand USD (equivalent to 17,932 thousand LEI).

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

NOTE 19. REVENUES

	31 December 2017	31 December 2016
Revenues from sales, of which:	340,172	356,219
Revenues from sale of products	187,880	182,597
Revenues from services supplied	145,632	167,188
Revenues from selling goods	4,086	3,765
Revenues from renting	2,024	1,921
Commercial discounts granted	(2)	-
Revenues from other activities	552	749
Revenues related to inventories of finished products and production in progress	10,420	3,817
Other revenues from operations	3,632	3,654
Revenues from the production of immobilizations	1,287	1,603
Total Revenues from Operations	355,511	365,293

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

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NOTE 20. EXPENSES

	31 December 2017	31 December 2016
Expenses with employee benefits, from which:	108,629	99,488
Salaries and allowances	83,419	78,261
Expenses with benefits in kind and expenses with ticket meals granted to employees	6,254	3,995
Expenses with social security	18,956	17,232
Expenses with raw materials and materials	106,717	103,651
Power supply, water and gas	8,314	8,349
Other material expenses, of which:	12,971	14,221
Expenses with non-stored materials	2,130	3,571
Expenses with goods	3,878	2,972
Expenses with packages	245	-
Expenses with other materials	6,718	7,678
Expenses with external services, from which:	30,629	40,957
Repairs	12,227	19,416
Transport costs	3,290	3,545
Commission and fees	3,272	6,391
Travels, deployments	1,069	1,466
Renting expenses	770	766
Other expenses with services supplied by third parties	7,810	7,250
Amortizations	24,275	16,042
Increase/decrease of adjustments referring provisions	945	13,549
Increase/decrease of adjustments for depreciation of inventories	(1,337)	592
Other operational expenses	4,228	3,835
Total Expenses with Operations	295,371	300,685

NOTE 21. FINANCIAL REVENUES

	31 December 2017	31 December 2016
Revenues from exchange rate differences	3,334	6,891
Interest incomes	890	392
Revenues from shares held at related parties	189	231
Total financial revenues	4,413	7,514

The Company is exposed to the currency risk generated mainly by the exchange differences USD/RON, with significant influences over the financial result. Aspects regarding the Company's exposure to the risks generated by the financial instruments held are presented in *Note 18 Financial instruments*.

NOTE 22. FINANCIAL EXPENSES

	31 December 2017	31 December 2016
Expenses from exchange rate differences	5,766	6,257
Total financial expenses	5,766	6,257

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

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

NOTE 23. TAX ON PROFIT**Tax on profit**

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

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

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

		<u>31 December 2017</u>		
Gross accounting profit		58,787		
Expenses with tax on current profit		7,650		
Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	357,667	Fiscal revenues	304,612	-53,055
Accounting expenses*	299,275	Fiscal expenses	236,855	-62,420
Restated Gross accounting profit*	58,392	Fiscal profit	67,757	+9,365
Accounting tax (16%)	9,343	Fiscal tax (16%)	10,841	+1,498
Tax reductions	-	Tax reductions	3,191	+3,191
Tax on final profit	9,343	Tax on final profit	7,650	-1,693
The applicable legal rate	16.00%	The legal rate applicable	16.00%	
The effective medium rate, calculated on restated accounting gross profit			13.10%	

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

The main factors which have affected the effective tax rate:

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

The company has registered on 31 December 2017 a debt regarding the current income tax in the amount of 1,522 thousand LEI related to fourth quarter of 2017.

The tax on specific activities

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

NOTE 24. PROFIT PER SHARE

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

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

IN LEI	31.12.2017	31.12.2016
Profit distributable to ordinary shareholders	53,169,633	56,471,595
Number of ordinary shares	152,277,450	152,277,450
Profit per share	0.349	0.371

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NOTE 25. THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is of 1.834 for year 2017 and 1.719 for year 2016.

To these is added a medium number of personnel attracted through temporary employment business and used in the production process of AEROSTAR.

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

	year 2017	year 2016
Total personnel	2,031	1,958

NOTE 26. TRANSACTIONS WITH RELATED PARTIES

Acquisitions of goods and services	year 2017	year 2016
S.C Airpro Consult SRL Bacau	9,252	9,182
S.C Foar SRL Bacau	571	566
TOTAL	9,823	9,748

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

Debts	Balance at 31.12.2017	Balance at 01.01.2017
S.C Airpro Consult SRL Bacau	765	979
S.C Foar SRL Bacau	33	34
TOTAL	798	1,013

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

The transactions with the affiliated parties in 2017 consisted in:

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

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

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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(unless specified otherwise, all amounts are stated in thousand lei)**

NOTE 27. INFORMATION ON CASH FLOW

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

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

In the context of Cash Flows Situation:

- ◆ the cash flows are the receipts and payments of cash and cash equivalents;
- ◆ the cash contains the money availability from banks and on hand;
- ◆ the cash flows contain the deposits in banks and cheques and order tickets deposited at banks to be collected.

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

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

The operations activities are the main cash-generating activities of AEROSTAR. Thus, in year 2017 the receipts from customers were 347,140 thousand LEI, from which 29,940 thousand LEI represent the receipts in advance from the customers, and the payment to the suppliers and employees were the amount of 250,453 thousand LEI.

The operations activity has generated a net cash of 41,803 thousand LEI used for:

- ◆ the increase of the operating activity by purchasing tangible and intangible assets in the amount of 27,597 thousand LEI;
- ◆ the payment of the dividends rightful to the shareholders in the amount of 13,289 thousand LEI.

NOTE 28. LIABILITIES AND OTHER OFF-BALANCE ITEMS

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

	31 December 2017	31 December 2016
• Liabilities		
○ guaranties granted to customers as letters of bank guarantee	11,809	10,192
○ guaranties received from suppliers – as letters of bank guarantee	43,311	433
• Goods		
○ inventories such as other materials released for use (tooling & jigs, personal protective equipment, measuring and control instruments, technical library, etc.)	25,026	22,348
○ material values received in custody	1,799	1,796
○ tangible and intangible immobilizations – result of research & development, purchased through projects in cofinancing	4,151	1,151
○ material values received for processing/repairs	1,016	616
○ other goods off-balance sheet	178	169
• Other values off-balance sheet		
○ commitments on the covering of some future obligations to A.J.O.F.M under OUG 95/2002	6,215	6,635
○ debtors cleared from assets, yet still monitored	579	349
○ material guaranties	185	186
• Greenhouse Gas Emission Certificates	498	263

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

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

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

The market value from the last day of transaction in year 2017 of a GES certificate was of 8.18 Euro (in 2016: 5.09 Euro).

NOTE 29. REMUNERATION OF THE DIRECTORS

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

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

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

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

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

- ◆ a net remuneration of the members for the financial year 2018 of 4,500 LEI;
- ◆ a maximum level of additional remunerations for the executive members of the Board of Directors, of not more than 10 (ten) times the net remuneration (inclusively);
- ◆ the empowering of the Board of Directors for the negotiation of additional remuneration, with the executive members, within the limit of the ceiling approved by the Ordinary General Meeting.

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

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

NOTE 30. RISK MANAGEMENT

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

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

Operational risk

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

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

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

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

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

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

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

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

The credit risk, including the risk of the country where the customer performs its operations, is administered for each business partner. When considered necessary, specific mitigation tools are required (advance payments, letters of bank guarantee, confirmed letters of credit).

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

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

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

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

In order to reduce liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line (used as overdraft) granted by banks. During the reporting period, AEROSTAR did not use the contracted credit line in amount of 2,500,000 USD, all the activities being financed from company's own sources.

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

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

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

The management of this risk is made by:

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

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

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

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

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

NOTE 31. EXPENSES AND INCOMES IN ADVANCE

	31 December 2017	01 January 2017
Expenses registered in advance	491	521
Incomes registered in advance	28	33

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

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

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

NOTE 32. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

	31 December 2017 (lei)
Net profit preliminary realized	53,169,633
○ Distribution to the legal reserve of the profit reinvested	9,337,716
○ Distribution to statutory reserve	29,517,837
○ Distribution as dividends (gross dividend per share: 0,094 LEI)	14,314,080

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

Significant modifications were made to the tax legislation.

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

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

**General Director,
GRIGORE FILIP**

**Financial Director,
DORU DAMASCHIN**

DECLARATION

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

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

President and General Director,
GRIGORE FILIP

Vice-president and Financial Director,
DORU DAMASCHIN

DISTRIBUTION OF THE PROFIT OF THE YEAR 2017

The net profit of the financial year 2017	53,169,632.90 lei
◆ Distributions to the legal reserve of the reinvested profit	9,337,715.64 lei
◆ Distributions to reserves	29,517,837.26 lei
◆ Distributions as dividends (gross dividend per share: 0.094 LEI)	14,314,080.00 lei

PRESIDENT & GENERAL DIRECTOR
GRIGORE FILIP

VICEPRESIDENT & FINANCIAL DIRECTOR
DORU DAMASCHIN

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