

AEROSTAR S.A.

Annual Report 2018

THE MISSION CONTINUES!



AEROSTAR S.A.

www.aerostar.ro Annual Report
2018

2018

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THROUGH
PROFESSIONALISM!
The Mission Continues!

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REPORT OF THE BOARD OF DIRECTORS

This Report of the Board of Directors is prepared in accordance with Annex 15 of the Regulation no. 5/2018 of the Financial Supervisory Authority (ASF), OMFP no. 470/11 January 2018 and OMFP no. 10/03 January 2019.

This report presents:

- the review of AEROSTAR's current economic & financial situation in comparison with the same period of the previous year
- the tangible assets
- the securities exchange market
- the management of the issuer
- the financial & accounting situation

Also, the report of the Board of Directors includes non-financial data and information, reporting on aspects related to environment, social and manpower aspects, human rights, anticorruption and bribery combat aspects in accordance with the requirements in OMFP 470/11.01.2018 and OMFP no. 10/03.01.2019 respectively, taking into account the methodology for reporting the non-financial information as described in the "Guide regarding the reporting of non-financial information" published in the Official Journal of the European Union, series C no. 215 dated 5 July 2017.

The Annex to the Report of the Board of Directors comprises the description of compliance with the Corporate Governance Code of the Bucharest Stock Exchange.

THE MISSION CONTINUES!



We can be proud of AEROSTAR's success and we continue to proceed so as to generate the capital of trust of all the parties interested in our success as a Value multiplier to support our vision of growth on long term.

In 2018, AEROSTAR made a total gross profit exceeding 87 million lei at a sales volume of 353 million lei. The investments made were close to 29 million lei, with 23% more compared to the year 2017.

The anniversary year AEROSTAR 65 provided not only a retrospect of the company's development but also the consolidation of the perspective and of the vision for the future which we are building.

We have created resources and we shall allocate significant resources for this future.

AEROSTAR's results for the year 2018 confirm the clear drive and the advanced positioning along the strategic direction of growth and development as provided in the Mission statement of the company, successfully fulfilled by successive generations dedicated to the Romanian aviation and defence industry.

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

As a part of the national defence industry, AEROSTAR was nominated Maintenance Centre for the F-16 aircraft in the inventory of the Romanian Army.

AEROSTAR is strongly anchored in the global aviation chains of supply, being a reliable partner to achieve success in the aeronautical manufacturing programmes.

To the same extent, the profile of a regional Centre of Excellence in the field of maintenance for civil aircraft was consolidated and this is a pole of sustainable development under significant growth.

Aerostar met the provisions set in the budget approved in the general meeting of the shareholders and realised a significant investment programme.

We have created significant resources to support the company's development, to be able to successfully honour the mission which we have to achieve.



We focus on ever growing performance and on continuous improvement to fulfil at a high level the requirements and expectations of our Customers, for now and in the future.

Grigore FILIP
President – General Director

Compliance with the non-financial reporting requirements

The report of the Board of Directors for 2018 also comprises non-financial data and information reporting on aspects related to environment, social and manpower aspects, human rights, anticorruption and bribery combat aspects in accordance with the requirements in OMFP 470/11.01.2018 and OMFP no. 10/03.01.2019 respectively, taking into account the methodology for reporting the non-financial information as described in the "Guide regarding the reporting of non-financial information" published in the Official Journal of the European Union, series C no. 215 dated 5 July 2017.

Such data and information are found in the chapters/sections/pages indicated as follows:

Non-financial information	Chapter/Section	Page
Business model	Business model	16
	Organization's context	17
	Benefits of aviation and aspects of impact	18
Social Responsibility Aspects		
– Environment	Investments for sustainable development	20
	Innovation, ecological processes	21
	Quality, competitive advantage	30
– Manpower – Human Rights	Our employees	32
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	Work practices	35
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– Anticorruption and bribery combat	Code of conduct	34
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Rewiew of the economic-financial situation

YEAR 2018, IN BRIEF

The preliminary results of the year 2018 were presented to all the interested parties on 14 February 2019, in accordance with the applicable legal provisions.

In 2018 AEROSTAR consolidated its position as a leader in Romania for its object of activity.

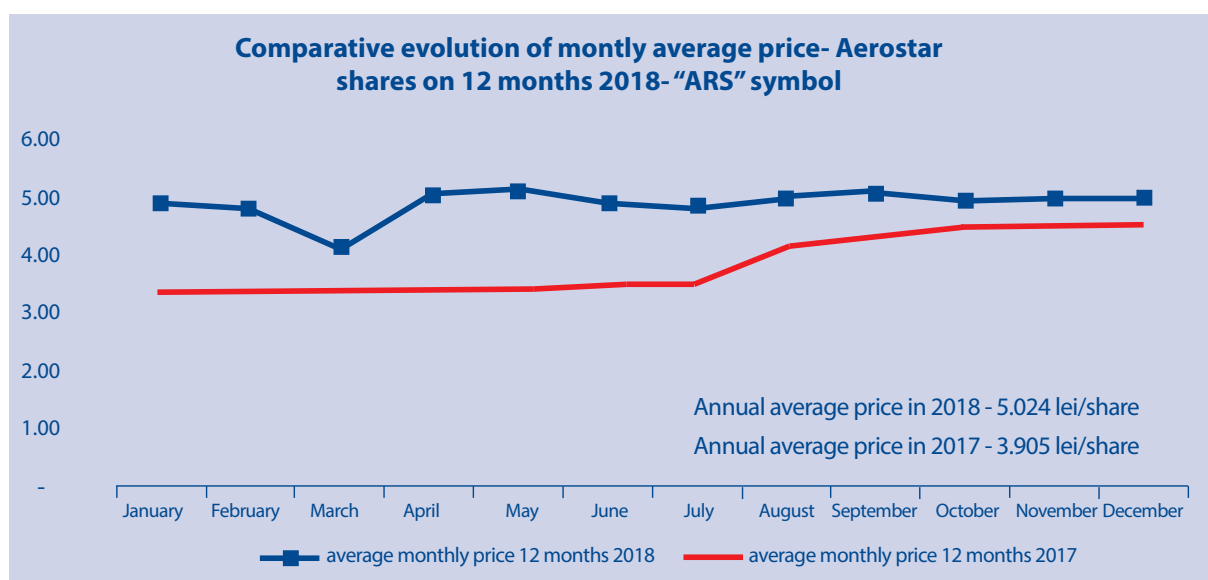
KEY FIGURES

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

	MU	31.12.2018	31.12.2017	31.12.2016
Share capital	thousand lei	48,729	48,729	48,729
Turnover	thousand lei	353,413	340,172	356,219
○ Export sales	thousand lei	267,382	258,390	255,274
No of employees, of which:	no.	1,969	2,100	2,164
○ own employees	no.	1,855	1,953	1,878
○ employees attracted through temporary labour agent	no.	114	147	286
Total gross profit (before tax)	thousand lei	87,420	58,787	65,865
Profit net	thousand lei	79,921	53,170	56,472

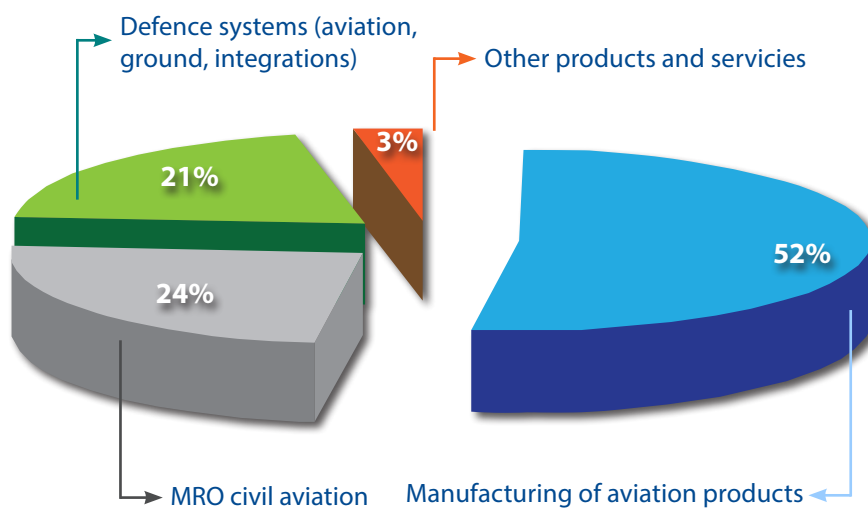
		31.12.2018	31.12.2017	31.12.2016
Cash-flow	thousand lei	167,45	163,886	163,153
General liquidity	-	9.71	7.03	4.74
Investments Expenses from own sources	thousand lei	28,798	23,447	19,498

EVOLUTION OF AEROSTAR SHARES IN 2018



Aerostar shares - in figures	year 2018	year 2017	year 2016
Number of shares	152,277,450	152,277,450	152,277,450
Nominal value per share (lei)	0.32	0.32	0.32
Price at the end of the year (lei)	4.85	4.70	3.27
Stock exchange capitalization (lei)	738,545,633	715,704,015	497,947,262
Maximum price (lei)	5.36	4.78	3.27
Minimum price (lei)	4.65	3.25	2.24
Result per share (lei)	0.525	0.349	0.371

Lines of business in AEROSTAR's total sales in 2018



Company sales are expressed in lei.

The exchange rates of the national currency were as follows:

	MU	2018	2017	2016
Average exchange rate EURO/12 months	lei/euro	4.6534	4.5677	4.4907
Average exchange rate USD/12 months	lei/USD	3.9411	4.0542	4.0585
Average exchange rate GBP/12 months	lei/GBP	5.2600	5.2144	5.5016
Inflation	%	3.27	3.32	0.99

Company profile, general elements

The main field of activity of AEROSTAR is production.

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

The main business lines of AEROSTAR are:

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

AEROSTAR S.A. is the successor of Uzina de Reparatii Avioane-URA (Aircraft Repair Plant) (UM 03767), the founder being the Romanian state, established through Resolution of the Council of Ministers (HCM) no 1165 dated 17 April 1953, Bucharest.

The company acted under continuity conditions all along this timeperiod.

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, under the current name Aerostar S.A., when the company was registered as a shareholding company with fully state-owned capital at the Bacau Trade Register under registration no J04/1137/1991.

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

AEROSTAR is part of the national defence industry in accordance with Act no 232/2016 under the Authorization no. 23/2018 from the Direction of the Defence Industry of the Ministry of Economy.

The company's unique identification code at European level (EUID) is ROONRC.J04/1137/1991 while the LEI identification code as a legal entity is 315700G9KRN3B7XDBB73.

The events of the year 2018

- On 16 January 2018 AEROSTAR S.A. communicated to the shareholders the **opening of a secondary headquarter with no legal personality (place of business) in Iasi, on Aeroportului Street, no. 25B** after, in 15 January 2018 the Trade Register of Bacau issued the Resolution no. 469/12.01.2018 regarding the admission of the registration application for the secondary place of business.
- The General Meeting of the Shareholders from 19 April 2018 approved the **nomination of the Audit Committee members**, prof. dr. Mihai DEJU and prof. dr. Daniel BOTEZ, according to art. 65 from Law no. 162/2017 regarding the statutory audit of the annual financial statements and consolidated annual financial statements.
- The Ordinary General Meeting of the Shareholders from 19 April 2018 approved the **nomination of the company MAZARS ROMANIA SRL as financial auditor** and execution of the financial audit contract with MAZARS ROMANIA SRL on a minimum period of 2 (two) years, with the possibility of extension.
- AEROSTAR communicated to the shareholders the execution of **a services contract, in the date of 24.05.2018, with the scope of the works for authorization, design, construction of a hangar for MRO commercial aircraft and the technical annex, installations, urban improvements and perimetral fencing of the secondary place of business opened in Iasi.**

The duration of this contract is 18 months and its total value is 5.600.000 Euro excluding VAT. The financing of this acquisition is provided from company's funds.

- **In December 2018, the Government of Romania nominated AEROSTAR as the Centre of Maintenance for the F-16 aircraft in the inventory of the Romanian army.**

The F-16 Centre of Maintenance will develop gradually by allocating and training the personnel, the manufacturing and acquisition of the jigs, fixtures and tooling and testing equipment, and the creation of the company infrastructure for the maintenance of the aircraft.

To date AEROSTAR manufactured and supplied a few batches of jigs, fixtures and tooling and ground support equipment required to perform "O" and "I" level maintenance work in the airforce units where the F-16 aircraft are operated.

- **Starting with 20.09.2018 the dividends were distributed to the shareholders from the profit made in the financial year 2017.**

The coordinates for the payment to the shareholders of the dividends allocated from the profit of the year 2017 were communicated through a press release published on August 20th 2018.

The dividends distributed from the profit realised in the financial year 2017 were paid to the shareholders starting with 20.09.2018 – the Payment Date approved by the ordinary general meeting of the shareholders from 19.04.2018.

The balance on 31.12.2018 of the dividends distributed and not collected by shareholders for different reasons incumbent to them, is in amount of 1.710.829, 06 lei.

The dividends whose collecting period expired were registered as income of the company.

Events after the reporting date

AEROSTAR S.A. identified no events after the reporting date which may have impact on the financial statements at 31.12.2018.

Anniversary Events

In 2018, the 65 years anniversary from the foundation of the company outlined the positioning as a representative company for the aviation and defence industry from Romania and Europe, as well as the impact on the local community's development.

THE COMPANY MISSION STATEMENT, initially set at the establishment of the *Economic Enterprise "Aircraft Repair Plant"*, today's AEROSTAR forerunner, has been maintained and updated in the conditions generated by Romania's accession to NATO and to the European Union, and in the present, in order to secure the business development needs of the company, Aerostar's mission focuses on three lines of business, all in aviation and defence:

- Maintain the status of supplier in the field of aviation and ground defence systems, mainly for the Romanian Ministry of National Defence;
- The consolidation of AEROSTAR's position as a 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 global aviation industry;
- The consolidation of AEROSTAR's activities as a prime supplier of maintenance for civil aircraft and for conversion / upgrade of civil aircraft.



- On 16 April 2018, the members of the County Council granted the title of an Honorary Citizen of Bacau county to Mr. Mihai Nicolae TONCEA, President- General Director of IAROM S.A., the majority shareholder of the company.



- On 17 April 2018 AEROSTAR celebrated 65 years from its establishment by a range of events. Most of the activities dedicated to these anniversary events were organized and financed by the Cultural Educational Association Aerostar Bacau.



- On 26 April 2018, the President of Romania, Mr. Klaus Werner JOHANNIS visited AEROSTAR.



- On 11 May 2018, a delegation led by the Minister of National Defence, Mr. Mihai FIFOR, together with Mr. Hans Klemm, the USA Ambassador and other government, parliamentary and local officials visited Aerostar.



AEROSTAR's business model

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

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

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

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

During the years, and neither in 2018, there were no significant modifications of the business model adopted.

The Organization's Context and Interested Parties for AEROSTAR

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

The elements of risk based management thinking, fundamented on understanding Aerostar as an organization and the context in which it operates, as well as on understanding the needs and expectations of the parties interested for the achievement of the organization's planned results, set the general framework for the risk approach, to the extent in which the risks are understood as uncertainties to meet the requirements/expectations of the interested parties, under the effect of certain factors which result from the context in which the organization operates.

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

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

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

Aviation Benefits and Impact aspects

In aviation and defence, business is closely connected to the global flows in the world economy. At a global scale, the upwards trend and the sustained demand maintain the stability of the projections with reference to the future.

The context of the current evolutions impose integrating system- and process-based approaches in the management of the business risks.

In the defence industry, the synergy with the aviation industry, security and cyber- security provides effectiveness, as well as meeting the interoperability and cost-effectiveness requirements.

Aviation is in the category of the connectivity industries, having as main impact the economical growth and development while the projections for the future are made on long-term.

The forecasted demand for the next 20 years is over 35.000 new aircraft, passengers and cargo. From these, 25.000 aircraft will be mid-currier, single-aisle, such as Airbus 320 and Boeing 737, but some other models as well.

However, significant reductions in the production rate are expected for certain aircraft types, such as A380 whose manufacturing shall end in 2021.

The absorption of the competition and the response of the chains of supply on this market segment are the subject of close analysis.

Subject to the context and strategy, the challenges of growth can have adverse effects. The production programmes which fail to keep up with the strong growth rate generate a potential fragilization with the reverberations on the entire global chain of supply.

The absorption of growth in the chains of supply and in the production systems for aircraft manufacture on this segment is not fast, being gradually made, but both of the dominant players, Airbus and Boeing, announced a record number of deliveries for the year 2018.

After July 2018, after the Airbus-Bombardier venture entered into effect, the aircraft Bombardier C Series, under the new brand Airbus A220, has attracted a big number of orders.

For the competitor aircraft Embraer E-Jet E2, Boeing and Embraer have now all the approvals to go further. It is not announced if E2 is to have a new brand, but Boeing shall have an 80% participation in this business, but also 49% in the development of the military transport aircraft KC-390.

In April 2018, Germany and France announced an agreement to develop the next European combat aircraft (FCAS), with Airbus and Dassault Aviation sharing roles for the platform of the future combat aircraft.

In the same sustained growth perspective, on a market much farther away, in Pacific-Asia, the aircraft demand will represent 41% of the world total market, contrary to Europe and USA, which will only be 36% of the market.

The Asian market will be the biggest aviation market in the world; the local aviation industry from China is strongly supported by governmental measures, as well through intensive investments made to take-over aviation companies operating on the European and USA markets.

The two dominant players, Airbus and Boeing, continue their intensive actions to secure the production capacities capable to produce a combined number of 120 airplanes A320 and B737 per month until the end of this decade.

However, both companies have programmes in place to reduce the number of subcontractors.

The evolutions of the chains of supply of the big OEMs outline the roadmap to follow in order to maintain the competitiveness and to increase the added value which AEROSTAR brings on mid and long term.

AEROSTAR is anchored for growth in the aeronautical and defence industry.

AEROSTAR's operational performance, confirmed by largely recognized key performance indicators is pursued through an intensive management action, based on budgets and projects management and on participating management approach, which values the operations and resources available integrated as a whole.

94% of AEROSTAR production in 2018 is in the field of aviation.



Investments for sustainable development

In 2018, the investment expenses made in Aerostar were in amount of 28.798 thousand lei. Of this, 82% were development investments planned to increase the productivity.

With this purpose, for the manufacturing programmes executed the company purchased state-of-the-art machinery, with low energy consumption.

The replacement investments, to replace the worn out or obsolete fixed assets represented 18%.

The investments in environment programmes represented approx. 9,2% of the investment expenses made in 2018.



The specific activities were continued for the construction of the new MRO Centre for civil aircraft, at Iasi Airport with the purpose to extend AEROSTAR's capacity to supply maintenance services for civil passenger aircraft Airbus A320 and Boeing 737. The target to finalize this investment is 2019.

The scope of this objective is to grow Aerostar's footprint as a supplier of civil aircraft MRO activities.

Innovative products and processes with minor impact on the environment



The development of AEROSTAR's market profile, as a supplier in the global supply chains in aviation and defence is based on competitiveness, better productivity, investments in capabilities, advanced machinery and technologies, in capacities and infrastructure, in people alike, as well as in organization and planning.

The management of sustainability is firstly a responsibility towards the future.

The development of the ecological production capacities and growing Aerostar's added value in the Value stream are important coordinates in the actions programmes adopted.

AEROSTAR develops and implements innovative technologies, realizes products and processes which have a minor impact over the environment during their whole lifecycle, taking into consideration:

- Minimize the consumption of water, materials, paper and energy, and the quantity of waste produced;
- Introduce local and international logistic processes which limit this type of impact and, especially, the carbon footprint of auxiliary activities;
- Preservation of natural resources;
- Recycling of own waste.

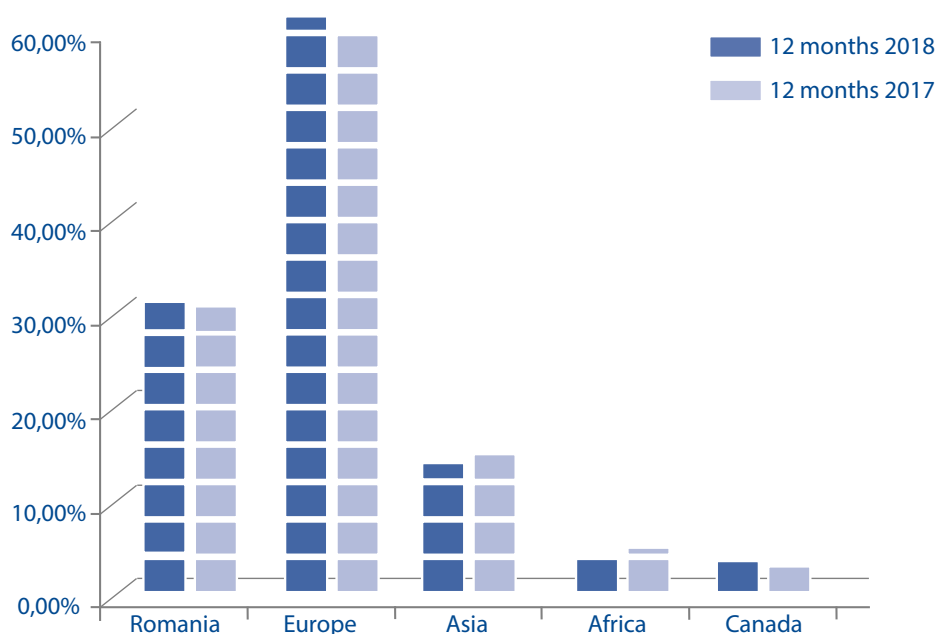
In 2018, the exterior walls refurbishment for thermal insulation of all the buildings in Aerostar was completed, which contributed to a significant improvement of the energy saving features and lower energy consumption, and improved work conditions.

According to the monitoring methodology approved by the National Agency for Environment Protection conforming with the requirements from (EU) regulation no. 601/2012 with reference to monitoring and reporting the greenhouse gas emissions in accordance with the directive 2003/87/CE, Aerostar holds the authorizations regarding the greenhouse gas emissions based on monitoring and compliance within the legal limits for all the installations which produce CO₂ generating sources.

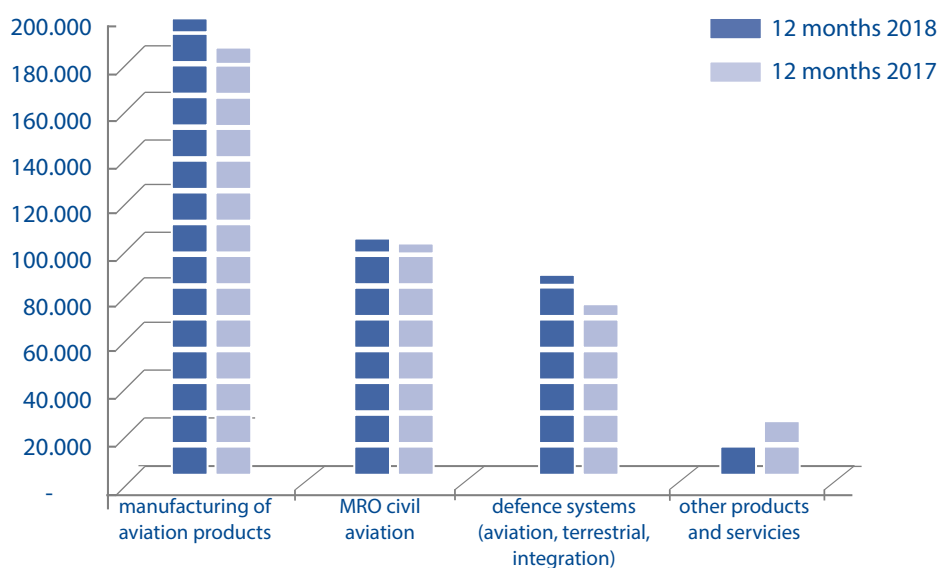
In 2018, in order to prevent accidental pollution, Aerostar rehabilitated 60% of the total transport network for residual waters resulting from certain technological processes.

AEROSTAR business in 2018

In 2018, AEROSTAR had sales of 353.413 thousand lei, from which 76% was export sales, with a high diversity of customers, in a large number of different production programmes.



Comparative evolution of the sales on the main business markets confirm the trend from the previous years:

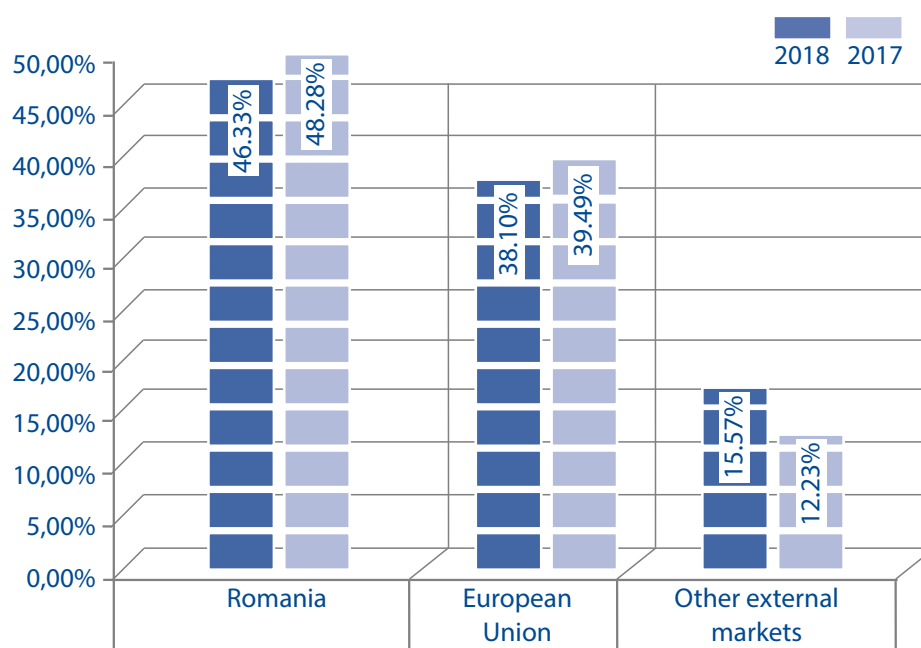


Safe Deliveries

With export sales of large volume, with a high number of ongoing different programmes, the safety of deliveries is confirmed by the key performance indicators (KPI) which are stable at the level of excellence.

The business practice from the company is in compliance with all the applicable regulations which are at the basis of the exports and imports of parts, components and technical data, supplying exact information and obtaining licences and/or export or import agreements, as applicable.

The acquisitions are mostly made from the Romanian marketplace.



In Aerostar are implemented the good practices specific to the aviation field provided in the contracts with customers and suppliers, including to maintain effective methods and adequate processes fit to minimise the risk of introducing counterfeit parts and materials in the products for delivery.

AEROSTAR BUSINESS IN CIVIL AVIATION



AIRBUS Awards

AEROSTAR S.A.

**Leader in
manufacturing of
aviation products**

As Detail Parts Partner Class B « Specialist »

For Operational performances and strategic positioning in 2018

Raphael Duflos

VP Procurement Detail Parts
Airbus SAS

Didier Cormary

VP Strategic Procurement
Dynamic Systems and Raw
Material
Airbus Helicopters

Audrey Tauran

VP Structure and Materials
Procurement
Airbus Defense and Space

David Muller

VP Procurement & Supply
Chain Management
Premium Aerotech GmbH

Eric Thiebault

VP Chief Procurement Office
Stelia Aerospace

AIRBUS

AEROSTAR is a leader in Romania for manufacturing of aviation products, being recognized by AIRBUS, as to the expertise level, as a “champion” in the “Specialist” category at the suppliers’ evaluation performed in December 2018 at Toulouse.

In the supply chain of Airbus, Aerostar currently has the position of “Tier 2”, having an Airbus code supplier since 2007, and subsequently also having the GKN Aerospace supplier code.

Aerostar manufactures a significant volume of parts and small aluminum assemblies, of 5-6 million pieces annually, with over 10.000 part numbers of different dimensions, manufacturing technologies and delivery modalities.

AEROSTAR is part of the supply chain of the main global programmes with a significant success rate. The potential fragilization impact from Brexit or from other manufacturing programmes such as F5X or A380 is closely followed to identify solutions to mitigate the reduction effects.

Aerostar is a „Tier 1” supplier, as regards to the manufacturing of landing gears, subassemblies, equipment or hydraulic systems.

The increase of the production volume as a supplier of parts, aerostructures and equipment for civil aviation in modern technologies specific to metal processing: aluminum, titanium, steels s.o. is based on the partnership with the customers.

A pillar of the competitive advantage is the **Centre for Special Processes** and the introduction of the most modern practice and standards related to environment protection.

In 2018, new manufacturing processes were qualified for stainless steel and titanium parts and subassemblies, Zn-Ni coatings for steels and copper alloys, for high resistance steels, including for the local application of such coatings.

The production processes use CNC equipment, 3-5 axis, based on modern infrastructure and IT applications for production planning, tracking and control, of MRP2 type.

The objective to grow the competitiveness is supported by integrated investments for the modernization and expanding the production capacities, by actions to improve the agility at reduced production durations and minimal risks when increasing production.



Civil Aviation MRO Centre of Excellence for Airbus 320 and Boeing 737

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.

In 2018 over 100 “heavy check” inspections were performed. In 2018, AEROSTAR’s Civil Aviation MRO Centre executed the first in Europe “C-check” for several A320 neo- LEAP-1A aircraft.

Also, Aerostar has extended its customers base from the Europe Union while successfully maintaining the trust of all its customers.



The same as in civil aviation manufacturing, Aerostar's MRO business for commercial aircraft is anchored in the sector market defined as the growth core, the Airbus 320 and Boeing 737; this is also the most competitive and competitional.

Starting with the Part-145 approval, 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.

The experience accumulated in this domain is the base for the development of the future civil aviation MRO Centre Part 145 in Iasi.

The training of the technicians and engineers for the future Civil MRO Centre in Iasi is coordinated with training activities for the Centre in Bacau.

The target is to complete this investment in 2019.

Obtaining the authorization from the FAA, the American Aeronautical Authority, increases the market potential, allowing Aerostar to compete for work from customers whose aircraft are under this jurisdiction.



Systems for defence



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

AEROSTAR is part of the national defence industry in accordance with Act 232/2016 and the Authorization no. 23/2018 from the Direction of the Defence Industry of the Ministry of Economy, having the status of an authorized economic operator registered in the Unique Register of the economic operators and production capacities and/or defence services, having the responsibility to maintain the physical and functional integrity of the assets in the inventory.

In December 2018, Aerostar was nominated by the Romanian Government as the Maintenance Centre for the F-16 aircraft in the inventory of the Romanian army.

The F-16 Maintenance Centre will gradually develop by assigning and training the personnel, the manufacturing and acquisition of the jigs, fixtures and tooling and test equipment and create the company's specific maintenance infrastructure for these aircraft.

To date, Aerostar manufactured and supplied to the airforce units operating the F-16 aircraft, a few batches of jigs, fixtures and tooling, ground support equipment required for the "O" and "I" level maintenance , and also consumables for such work.

Aerostar has built a significant position in the field of the technology for the primary and secondary radar systems, IFF identification systems and systems specialized in communication, control and retransmitting of data and information.

As to the radar technologies, the innovative solutions for repairs and upgrades of three-dimensional radars provide the compatibility with the present reconnaissance -secondary radar (IFF) systems, as well as the compatibility with the air data transmitting and processing systems.

Nominated and agreed as sole supplier for the IFF systems installed on the operational platforms of the army, AEROSTAR has successfully implemented IFF mode 4 equipment on different types of platforms (aircraft, helicopters, ships, air defence ground systems) being ready to proceed with the implementation of Mode 5, in accordance with the requirements and needs of the RoMoND.

AEROSTAR has developed a large expertise in the field of 122 mm multiple launch rocket systems manufactured and upgraded afterwards at NATO standards, as well as in the field of advanced launching and artillery systems; this is an experience proven in multiple successive manufacturing, repair and upgrading programmes.



By signing the Memorandum of Understanding between Aerostar and Raytheon International Defence Systems in October 2017, the company made 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 programme of the Romanian Army for the Patriot systems.

The status obtained by AEROSTAR in 2018 as an approved Raytheon supplier, the qualification of certain specific processes and procedures, resulted in the first part of 2019 in the order placed for manufacturing of components and mechanical assemblies for the installation and support of the electronics inside the radar shelter.

This way, AEROSTAR will enter in Raytheon's global supply chain.

Quality, a competitive advantage

On a quality and environment line, Aerostar has maintained its strategic objectives defined through the Declaration of the General Director and has established the actions required through the Quality and Environment Programme 2018.

The reconfiguration of the Quality and Environment Management System in Aerostar in accordance with the latest editions of the standards SR EN ISO 9001, AQAP 2110, AS 9100 Rev D, SR EN ISO 14001 places a special emphasis on the risk management.

The recertification obtained after the external audit for each of these certifications confirms the preoccupation and the good practice established in Aerostar.

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

Compliance, the results of the policies applied

All the certifications and authorizations obtained both from the certification bodies, and from the customers or other regulatory authorities, national civil aeronautical authorities, NADCAP, were maintained, providing the framework to achieve the objectives set.

For a systematic and dynamic approach of the issues related to environment protection - based on the continuous improvement principle - the environment management system implemented and maintained in Aerostar has the SR EN ISO 14001: 2015 standard as a reference and was recertified in 2018.

The improvement of the environment performance, pollution prevention and meeting the compliance requirements related to environment, represent a permanent preoccupation of the company.

The activities with impact on the environment are held under control through the scheduled internal inspections, through monitoring and measuring activities executed according to the provisions in the integrated Environment Authorization and in the water management authorization.

In 2018, following the inspections performed, the control authorities in the field of environment protection ascertained the compliance by Aerostar with the legal provisions and with the environment requirements in the approvals held.

Also, the authorization regarding the Greenhouse Gas Emissions was reviewed.

For the water site „Baza Izvoare”, situated on Chimiei Street, a new water management authorization was obtained.

As regards the safety of the products and services supplied, no events were reported for Aerostar's activity in the relevant domains, such as the military and civil aircraft maintenance, the production of parts and subassemblies for civil aviation, the production of radio-electronic equipment.

As regards the environment, Aerostar has entirely complied with the legal requirements.

The confirmation of this fact is both the absence of penalties as well as the review of the Integrated Environment Authorization with validity until 2027.

As regards the pollution prevention, Aerostar reduced the waste footprint as a result of its own activity, maintaining a high percentage of recoverable waste.

Also, the emissions of volatile organic compounds decreased, while the actions continued to replace the solvent based paints with water based paints.

As to the sustainable utilization of the resources, Aerostar continued to decrease the water quantity discharged in the sewage system, both in absolute value and in relation to the turnover figure, as a result of using industrial water recirculation and reprocessing stations.

As regards the climatic changes mitigation, Aerostar fulfilled all its obligations resulted from the Greenhouse Gas Emissions Authorization. The investments continued for increased effectiveness in the heating agent distribution, as well as for better energy saving features of the buildings.

The main risks and their management as regards quality and environment

In Aerostar there is a unitary mode to identify, assess and deal with the risks for the failure to meet the targets, for all the processes involved, from purchasing to delivery. The risks and actions for their mitigation are under track and reported.

The verification of the risks is also performed through internal audits throughout the organization. From an operational point of view, the environment aspects are also verified by inspections made by company's own environment protection analysts.

At the level of the entire company, the main risks, as regards both the conformance and the performance improvement, are related to the carbon emissions and the use of dangerous chemicals. For both of these aspects, risk mitigation and performance improvement actions are established.

Our employees

In 2018, AEROSTAR carried out activities providing the consolidation of the organizational culture specific to the aviation industry and the professionalisation of the young generations of employees, the absorption of the fragilization elements generated by the current socio-economical context in which the company operates.

At 31.12.2018 AEROSTAR had a total number of 1.969 employees, of which around 600 university graduates. A number of 180 employees are staffed in management positions.

The average union membership on 12 months 2018, was of 73,27%.

The average work duration in AEROSTAR is 17 years.

The average age of of AEROSTAR employees is 46 years.

The number of temporary employed personnel (through the temporary work agent) reached the number of 114.

The activities for growing a competent and motivated workforce are:

- the professional development of the employees by including them in professional training programmes and annual assessment of the individual performance;
- non-discrimination in recruiting as well as at the workplace;
- optimal conditions regarding labour safety and health for all the employees, as well as regarding the interventions in emergency situations;
- job practice stages for a number of 206 students from technical high schools.

In 2018, training courses for the company employees were organized, with focus on the instruction needs in the fields of interest for the execution of the production activities, as follows:

- 56 courses (formation training programmes) with external suppliers;
- 241 programmes of continuous training/ internal certification.

AEROSTAR, an employer motivated by success

We have the obligation towards both our employees and our customers, suppliers, investors, local community representatives, other business partners, to be honest, correct 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 effectiveness 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 from.

The satisfaction of our customers is the cornerstone of our set of values.



Credit for the results

Aerostar shows zero tolerance on any kind of **human rights** violation and is committed to the development and consolidation of this principle 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.

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

Code of business conduct & ethics

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**. The Code is also available on the company webpage www.aerostar.ro.

By including this code as well 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, active or 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.

General principles and considerations regarding labour practices

AEROSTAR acknowledges and applies fundamental principles such as:

- Labour is not a commodity and therefore the employees cannot be treated as a production factor and subject to the same marketplace mechanism applicable to commodities;
- Respect of each person's right to earn one's living by work freely chosen, as well as the right to beneficial work conditions;
- Provide the free access to justice for both the employees and their organizations;
- Create jobs, pay the salaries and other money benefits for the work done, have major consequences in human development, in raising the life standards and ultimately, a major impact over equity and social stability. As such, AEROSTAR gets a significant social responsibility the labour practice in place.

Manpower occupational relations

As an employer of high economic potential, AEROSTAR decisively contributes to the improvement of the life standards of the local community's members by creating secure work places, accepting and applying at the same time the principle according to which providing jobs for the people offers rights and imposes obligations both to the employer and to the employees in the interest of both parties. As a matter of fact, such rights and obligations are specified in the Collective Labour Agreement concluded at the company level, and in the Individual Labour Agreement concluded between the employer and each employee.

Also, by recognizing the importance of occupying the workforce in stability conditions for the employee, and to the same extent for the local community, AEROSTAR currently has 83,5% of the individual employment contracts concluded on indefinite duration, avoiding the use in excess of temporary work.

Work conditions and social protection

Whereas the work conditions affect the quality of life for the employees and their families, and consequently, the economic and social development, AEROSTAR is permanently preoccupied to provide for its employees:

- work conditions in compliance with the legislation and regulations in force;
- respecting the provisions established by the Collective Labour Agreement concluded at the company level;
- decent salaries according to the salary system and the principles in the Collective Labour Agreement made with the social partner such as: equal salary for equal complexity work, the right person in the right job, better motivated employees, payment against competence and performance a.s.o.;
- balance of work and resting time (weekly rest, vacations) which offer the possibility to combine work with family responsibilities, professional life with personal life;
- maternity protection by allocating the women who are pregnant, recent moms or nursing in work places as provided in the Collective Labour Agreement and specific legal regulations;
- respecting the local traditions (aviation day) or the religious ones (winter holidays and Easter holidays) by organizing events and vacations on Christmas and Easter holidays.



The Social Dialogue

As a voluntary process which includes the negotiation, consultancy and exchange of information between the social partners with the purpose to set joint agreements, the social dialogue, based on mutual trust, promptly, in good faith and transparency is provided in the Collective Labour Agreement. As such, AEROSTAR recognizes the importance of the social dialogue institution by permanently respecting the rights of the employees to adhere to the unions and to benefit from collective negotiations. To mention, in 2018 there was the union membership in the company was 73,27%.

Health and Safety at work

Since December 2014, AEROSTAR has the Occupational Health and Safety Management System certified as per the SR OHSAS 18001: 2008 by the authorized certification body AEROQ Bucharest.

Aerostar protects the health, safety and well being of its employees, of its contractors, visitors or other persons who can be affected by the company's activities by respecting the legislation and the applicable regulations regarding the environment, health and safety at work.

The policy regarding health and safety at work is based on:

- minimising the risks;
- regular maintenance of the work equipment;
- employees knowing the health and safety legislation and regulations;
- safe work equipment for the employees;
- perform medical checks when first employed in the company and on a regular basis;
- refusing work which is reasonably considered an imminent danger for their life or health or of other participants in the work process;
- reporting the safety and health problems to the competent authorities;
- participation in the decision- making process regarding the occupational health and safety through the Health and Safety Committee jointly set with an equal number of representatives of the employees and of the administrative management, respectively, and with the labour specialized physician under contract with the company.

Human development and professional training

For more than 15 years, AEROSTAR applies an Annual Professional Training Plan which covers over half of the employees training in certain areas, the company providing for each employee an internal or external training programme at every 2 years.

Also, AEROSTAR has in place partnership agreements with 6 technical high school colleges and 6 universities in Romania, in order to support the training for skills and competences specific to aeronautics or related fields, providing the practical training of the high school and university students.



Community relations, social and economical development of the local communities

AEROSTAR has constantly had an important place and role in the local community regarding the responsible professional training, fully consistent with the actual needs of labour market in Bacau.

AEROSTAR promotes the education of the young generations and cultivation of the sporting spirit by financing activities for a number of over 200 children through the association **Clubul Sportiv Aerostar**. Over the years, some will become employees of the company.

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

Among these, the AEROSTAR Educational- Cultural Association functioning under Government Ordinance no. 26/2000. The association proposes, among other things, to support and promote AEROSTAR interests and image, performing certain social, cultural, artistic, and sporting activities– performed by the members of the association, their families as well as the employees of the company or their family members.

Tangible assets

The company operations take place at its registered headquarters located in Bacau, 9, Condorilor Street, postal code 600302.

AEROSTAR has a second site without legal personality, a secondary place of business, in Iasi, 25B Aeroportului Street.

Currently, AEROSTAR does not perform economic activities at this secondary place of business.

Aerostar's production facilities and capacities are found at the site in Bacau, where there is also the registered headquarter of the company.

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

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

At the registered headquarter are built all the types of facilities required for the proper

performance of the production activities according to the object of activity.

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

All these spaces are maintained in good condition.

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

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

At 31 December 2018 the tangible assets held in property by AEROSTAR to perform the activities are in gross value of 245.346 thousand lei, which comprise the land, buildings, special constructions, installations, technological equipment, transport vehicles:

Category of tangible assets	Gross value (thousand lei)	Degree of wear (%)	Estimated useful life (years)
Land	28,401	N/A	N/A
Construction	55,736	30.4%	30-50 years
Investment property	10,260	22.7%	25-50 years
Technical installations, of which:	149,601	47.2%	
• technological equipment	144,757	46.9%	4-25 years
• transport vehicles	4,844	56.6%	4-18 years
Other tangible assets	1,348	34.5%	2-18 years
TOTAL	245,346	N/A	N/A

In 2018 there were no issues related to the ownership right over the tangible assets of the company.



AEROSTAR shares "ARS"

AEROSTAR shares are listed on the Bucharest Stock Exchange ('ARS' symbol) – the standard category.

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

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

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



Aerostar Shares – in figures	year 2018	year 2017	year 2016
Number of shares	152,277,450	152,277,450	152,277,450
Nominal value per share (lei)	0.32	0.32	0.32
Price at the end of the year (lei)	4.85	4.70	3.27
Stock exchange capitalization (lei)	738,545,633	715,704,015	497,947,262
Maximum price (lei)	5.36	4.78	3.27
Minimum price (lei)	4.65	3.25	2.24
Result per share (lei)	0.525	0.349	0.371

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

The evolution of the dividend's gross value per share is the following:

year 2015 – gross dividend 0,084 lei/share;

year 2016 – gross dividend 0,09 lei/ share;

year 2017 – gross dividend 0,094 lei/ share.

During 2018 there was no acquisition programme to buy company's own shares.

During 2018 Aerostar did not issue securities or other similar bonds.

Main shareholders

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

Further to these, a large number of shareholders is added, natural and legal persons, under the significance threshold as specified in the regulations of the Financial Supervisory Authority and the Bucharest Stock Exchange.

According to the data from the Bucharest Stock Exchange, the shareholding structure at 31 December 2018 is presented below:

Shareholder	Number of shares held	Participation owned (% of the share capital)
IAROM S.A. Bucharest	108,585,664	71.3078
SIF MOLDOVA Bacău	22,919,887	15.0514
Other shareholders	20,771,899	13.6408
Total	152,277,450	100.0

There are no litigations with the persons mentioned earlier.

In 2018, there were no subscriptions of new shares, nor participation certificates, 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 2018 as well, to protect and secure 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 stakeholdings;
- to receive dividends proportional with the holdings of each shareholder.

In the relation with the capital market, AEROSTAR fulfilled in 2018 as well, all the reporting obligations arising from the legal provisions by publishing the mandatory current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the internet page of the company and by press releases.

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

The shareholders can obtain information about AEROSTAR and its main events on the internet page www.aerostar.ro. 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.

Aspects regarding the capital and administration of the company

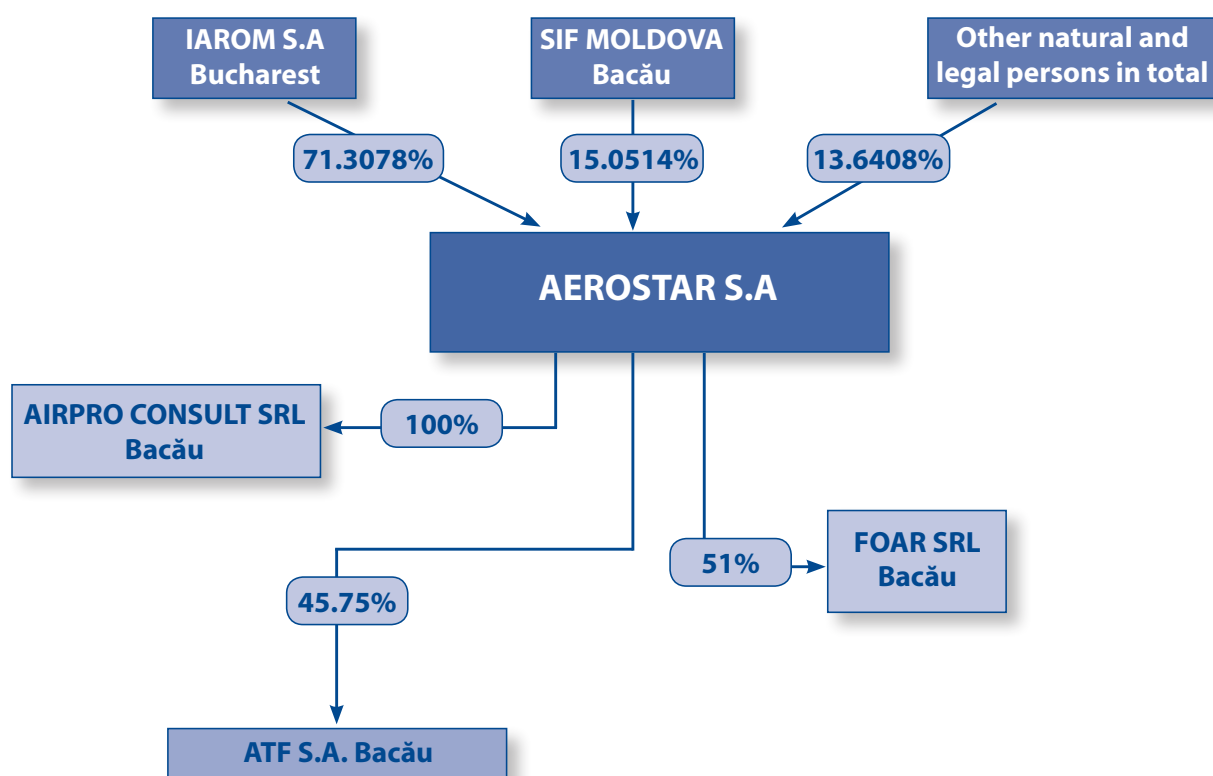
There were no modifications which affect the capital and administration of the company.

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

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

AEROSTAR'S relation with the parent company and with the related companies

In 2018 there was no merger or significant reorganization, neither in AEROSTAR nor of the companies controlled by AEROSTAR.



The General Meeting of the Shareholders of "AEROSTAR TRANSPORTURI FERROVIARE" S.A. Bacău, held in statutory conditions at 08.11.2018, decided in unanimity the modification of art. no. 1 of the constitutive deed, that is to change the company name from "AEROSTAR TRANSPORTURI FERROVIARE S.A." to "ATF" S.A., while maintaining the organization of the company as a shareholding company.

Related parties

On 31.12.2018, AEROSTAR participations in other companies are the following:

- thousand lei -

Name of the subsidiary/ related company	Basic activity	No. of shares held	Voting rights	Value of the holding (thousand lei)	Financial information for the last financial year (for 2017) for which the financial statements of the related companies were approved		
					Sales	Company capitals	Net profit
Airpro Consult SRL	CAEN code 7820	100	100%	10	9,138	171	106
Foar SRL	CAEN code 7739	408	51%	4	479	1,966	219
Aerostar Transporturi Feroviare S.A. (renamed ATF SA)	CAEN code 2822	9,150	45.75%	92	-	273	1
Total				106	9,617	2,410	326

The transactions with the related parties in 2018 consisted in:

- Supply by Airpro Consult to AEROSTAR of services with temporary manpower;
- Supply by FOAR to AEROSTAR of equipment renting services;
- Supply by AEROSTAR to Foar of services for space and utilities renting;
- Dividends collected by AEROSTAR from Airpro Consult and from Foar.

In January – December 2018, no transactions were made with the company Aerostar Transporturi Feroviare S.A. Bacau, its activity being suspended since the year 2016. Starting with November 2018, the company changed its name into ATF SA.

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

During 2018, the company did not register modifications such as increase/decrease of the contribution percentage, AEROSTAR maintaining the same influence as in 2017.

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

AEROSTAR management



FILIP GRIGORE



DAMASCHIN DORU



TONCEA MIHAIL-NICOLAE



DOROȘ LIVIU - CLAUDIU



VÎRNĂ DANIEL

AEROSTAR's Board of Directors was elected 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:

Name and surname	Position	Profession
FILIP GRIGORE	President of the Board of Directors	Aviation Engineer
DAMASCHIN DORU	Vicepresident of the Board of Directors	Economist
TONCEA MIHAIL- NICOLAE	Member of the Board of Directors	Aviation Engineer
DOROȘ LIVIU-CLAUDIU	Member of the Board of Directors	Economist
VÎRNĂ DANIEL	Member of the Board of Directors	Legal advisor

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 under unitary administration, by delegating the executive management of the company to the General Director, Mr. Grigore FILIP, and to the Financial Director, Mr. Doru DAMASCHIN.

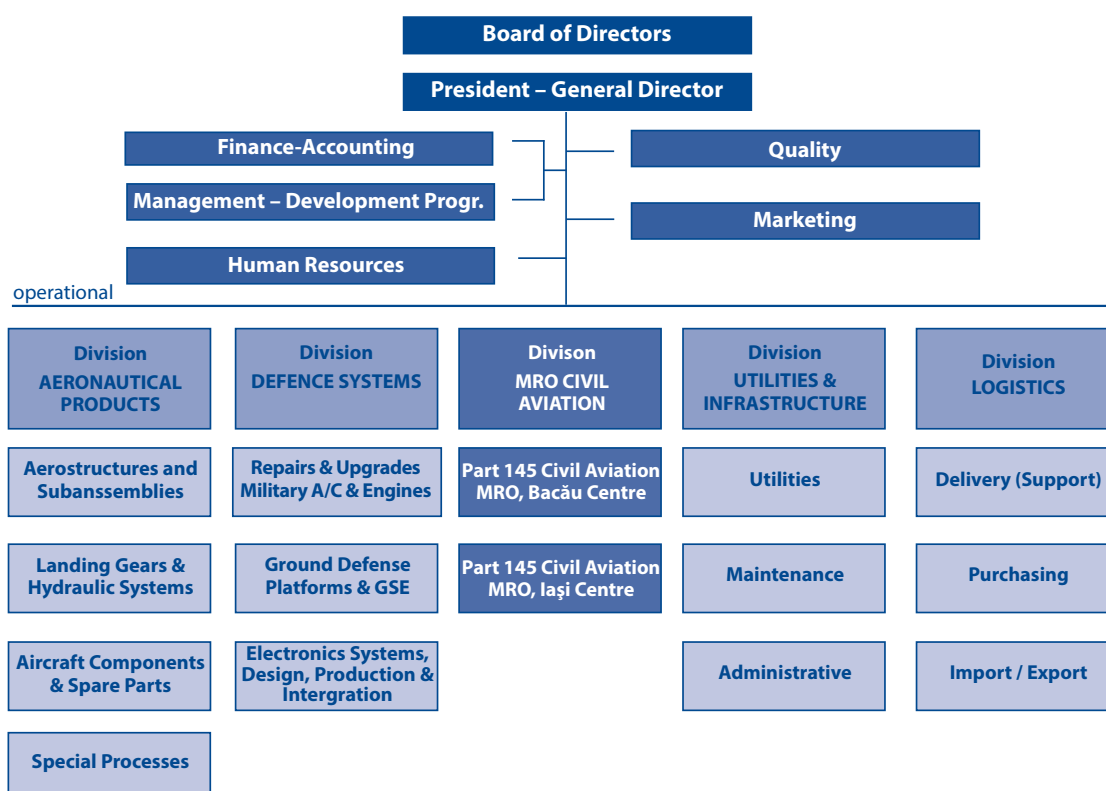
As for the organization and management system in Aerostar, the management structure at operational level provides the activities based on a divisional type organization, with accounts management centres in the areas of operations, auxiliary and functional activities.

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

The organizational structure implemented since the beginning of 2018 generated the results envisaged while maintaining the principles for the organization and utilization of the resources in a unitary, competitive and integrated mode.

This organization provides the development of the capacities in order to realise the new programmes for defence as well as the necessary investments in this purpose.

From 1 January 2018, the organizational structure is:



At 31 December 2018 the management structure which provides the management of the company functions subject to the division type organisation is:

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

FILIP GRIGORE



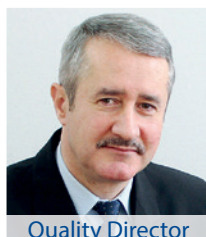
General Director

DAMASCHIN DORU



Director Finance-Accounting

ROGOZ VASILE-LAURENȚIU



Quality Director

POPA DAN PAUL MALIN

Director
HR & Industrial
Engineering

FILIP ALEXANDRU

Director
Logistics Division

IOSIPESCU ȘERBAN

Director
Aeronautical
Products Division

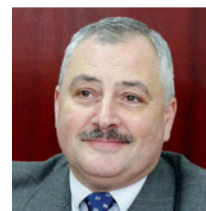
VELEȘCU IOAN-DAN

Director
MRO Civil Aviation

BUHAI OVIDIU

Director
Defence Systems
Division

BRANCHE CĂTĂLIN

Director
Utilities &
Infrastructure Division

The direct participation of the executive management to the registered capital of the company is lower than 1%. There are no litigations with the persons mentioned above.

Aerostar has operated organisational changes starting with 1 January 2018 with the purpose of a better mobilisation and use of the resources, to better exploit the market opportunities and to respond better to the requirements of the customers.

This reorganisation preserves intact the overall industrial and manpower capabilities, providing the business development conditions and the realisation of complex programmes with an increased competitiveness.

The Special Products Division was reorganized, the current GSE manufacturing programmes and the Ground Defence Systems, respectively, forming one single organizational structure under the name of "Ground Defence Platforms and GSE" as part of the new division named "Systems for Defence".

As such, the former "Aviation Maintenance and Upgrades Division", reorganized, is now the **Defence Systems Division**, focusing exclusively on military programmes, and comprises: Military, Aircraft and Engines Repairs and Upgrades, Ground Defence Platforms and GSE, the Programme for the Design, Production and Integrations of Electronic Systems, as well as other new programmes under development.

Starting with 1 January 2018, the new **MRO Civil Aviation Division** was set, which comprises the maintenance units related to the MRO Civil Aviation Organisation, Part 145 approved, namely the Part 145 MRO Civil Aviation Centre in Bacau and the future Part 145 MRO Aviation Centre from Iasi.

At the level of the Defence Systems Division, the structures were established, also the functioning mode and the corresponding responsibilities in order to provide the business development related to the new programmes in the field of defence.

Corporate governance

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

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

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

The administration of the company is in unitary system.

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

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

The corporate governance structures

The corporate governance structures are:

- Shareholders – the General Meeting of Shareholders
- The Board of Directors
- The Audit Committee
- The executive management

The General Meeting of the Shareholders

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

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

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

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

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

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

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

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

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

Each 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 the Shareholders.

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

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

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

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

During the year 2018 the company did not purchase its own shares and did not issue bonds or other securities as receivables.

The Board of Directors

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

In 2018 seven (7) meetings of the Board of Directors were held.

All the BOD members were present in three (3) meetings, in two (2) of the meetings were present four (4) members while the fifth participated in telecon mode, and in one meeting were present four (4) members and one was absent.

The attributions and responsibilities of the Board of Directors are provided in the Constitutive Deed and in the Internal Regulation of the Board of Directors on www.aerostar.ro/InvestorsRelation.

The direct participation of the administrators to the share capital of the company is under 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 Directors (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.

The Audit Committee

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

The attributions of the independent audit committee are provided in the Internal Regulations of the audit committee, approved by the Board of Directors, completed with the provisions of the Law no. 162/2017 and the EU Regulation no. 537/2014, which is found also on [www.aerostar.ro/Investors Relation/Reference documents](http://www.aerostar.ro/InvestorsRelation/Reference%20documents).

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

The **Audit Committee** has the role to assist the Board of Directors in realizing its attributes regarding the financial reporting process, the effectiveness of the internal quality control system and of the risk management system and of the internal audit regarding the financial reporting.

The Audit Committee has the goals to:

- monitor the financial reporting process;
- monitor the statutory audit of the financial statements;
- monitor and evaluate the independence of the statutory audit;
- monitor the effectiveness of the risk management activity;
- monitor the internal audit's activity regarding the financial reporting.

The Audit Committee meets the legal attributions provided in art. 65 from the Law no. 162/2017 regarding the statutory audit of the consolidated annual financial statements, respectively:

- monitors the financial reporting process and transmits recommendations or proposals to ensure its integrity;
- monitors the effectiveness of the internal quality control system and of the risk management systems of the entity and, as applicable, of the internal audit regarding the financial reporting of the audited entity, without infringement of its independence;
- monitors the statutory audit of the annual financial statements and of the consolidated annual financial statements, especially its execution, taking into consideration the findings and conclusions of the competent bodies, in accordance with art. 26 paragraph (6) from (EU) Regulation no. 537/2014;
- evaluates and monitors the independence of the financial auditors or of the audit companies in accordance with art. 21-25, 28 and 29 and Law no. 162/2017 and with art. 6 from the (EU) Regulation no. 537/2014 and, especially, the opportunity to perform certain non-audit services to the entity audited in accordance with art. 5 from such regulation.

The audit committee shall meet on a regular basis, at least 4 times a year, as well as exceptionally, as applicable.

In the execution of its attributions and the improvement of the activities which they review, endorse, monitor, the committee collaborates with:

- The economic direction, including its related structure;
- The internal audit;
- The internal accounts management control;
- The management, with the representatives of the functional structures in AEROSTAR.

AEROSTAR's Code of business conduct & ethics

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

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

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

- obtaining performance in long-term sustainable development conditions of the company;
- accuracy and transparency of the decision- making process of the company;
- respecting the laws and fair treatment of the shareholders by protecting and implementing their prerogatives in practice;
- transparency and access to information by periodically publishing the relevant financial and operational information.

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

Management of the conflict of interest

The members of the Board of Directors must notify the Board of Directors regarding any conflicts of interest which occurred or may arise and must refrain from participating in any discussions (including by non-attendance, except when the non-attendance would prevent the quorum set-up) or casting such votes for the adoption of any decision regarding the matter at the origin of the conflict of interest.

Respecting the requirement of the Internal Regulations of the Board of Directors, art. 3.5, all the members of the Board filled in and signed a Declaration regarding the Conflicts of Interest, for the year 2018.

Following the assessment, based on these declarations, the following were observed:

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

Executive management

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

The internal control system

The internal control system of AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

Accounts control

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

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

Throughout 2018, the inventory activity was made in compliance with the legal provisions and company regulations.

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

No significant deviations were found compared to the scriptic records.

Budgetary control

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

From the budgeting perspective, the company is organised in:

- profit centres
- cost centres.

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

The budgetary control provides:

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

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

Controlling

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

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

Also, it provides conformity with the planned treasury cash flows, while making the periodic review of the necessity, opportunity and legality of the amounts collected and paid by the company.

Internal Audit

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

AEROSTAR's internal auditing activity is organized according to law, as a distinct compartment in the 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;
- conformance 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.

Risk Management

AEROSTAR is exposed to multiple 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.

With a significant proportion of the export and import operations in the company's transactions, the internal control programme is a major component of the risk management activities.

About the 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, namely 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.

The reconfiguration of the Management System and of the Quality Management System in AEROSTAR compliant with the latest editions of the standards ISO 9001 of 2015, AQAP 2110 of 2016, AS 9100 Rev D of 2016, ISO 14001 of 2016 places a particular emphasis on the risk management.

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

By adopting an integrated approach for the risk management, AEROSTAR has in place a robust risk management system.

The risks are structured as follows:

Operational risk, Credit Risk, Liquidity Risk and Market Risk.

The **Operational risk** is monitored through the intensive Management System actions applied at all levels, and this process is supported by the used applications and implemented through the digitisation programme.

Associated to the **Operational risk** is the **Risk connected to reaching the turnover value**, for which the management and the mitigation of the possible consequences are based on actions specific to the phases of the P-D-C-A (strategic planning on the business lines, diversification and scheduling on divisions, component subunits and on products, regular reviews at each management level, updating the scheduling if relevant aspects are identified given the organisational context).

These actions lead to the achievement of the production under contract and maintaining a low level of the **risk related to immobilizations of inventories** and of the **business' discontinuity risk**; a defining positive factor is the fact that the company has implemented a robust production management system assisted by adequate IT systems.

There are no risks regarding the production financing as the company operations are secured from its own funds.

The company has financial provisions for the risks which may arise.

Also associated to the **Operational risk** is the **Legal risk**.

The highly varied spectrum of AEROSTAR's suppliers and customers, at multi-continental level, makes the legal risk extremely important, detailed and outlined by:

- **Risks regarding the geopolitical changes/ uncertainties due to the actions of the major global actors** (changes in the US Administration position in the field of economic trade and related commercial taxes, the Brexit Agreement execution and completion between Great Britain and the European Union with potential impact on the sales volume to UK companies, a.s.o.);
- **Risks regarding the commercial competitiveness**, in the competition contractual landscape in aviation, including the concentration of the customers;
- **Risks regarding the changes of the laws/ regulations regarding the legislation in force** (including anti-trust, anti-corruption, embargo/ sanctions legislation, etc).

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

AEROSTAR allocates and will continue to allocate funds for investment expenses, development and other operational expenses in order to prevent and administrate the **operational risk**, including for the **Lease risk** possible to arise.

We appreciate that currently the **operational risk** level in Aerostar is low.

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 taking into account the possible **association/ partnerships risk**.

In this context, the emphasis is on the possible syncopes in the development and execution of certain programmes possible to be abandoned by the partners due to extraordinary events or to certain collaborations where additional delayed, postponed, unmaintainable Programmes may arise (**Risk of discontinuity of the Programmes' lifecycle**).

Also, by allocating adequate resources, the monitoring is focused on the mitigation of the possible dangers specific to cyber-attacks, including to minimize the **Risk of the computer system to operate in security and safety terms**.

With a strong and proactive organisational culture in the human resources area, with adequately budgeted programmes, AEROSTAR mitigates the **Risk related to the increased mobility of the manpower**, which leads to additional costs for the identification of skills and competences and for professional adaptation.

At the same time, the activity of the employees is monitored in order to react quickly and focused to the potential events related to **Psycho- social risks** (both stress, as well as harassment and/ or accusation of violence at work) and the Possible **Health and Occupational Safety Risks**, which are largely diminished because the company has an integrated management system (Quality – Environment- Occupational Health and Safety), certified according to the standards in force.

By following the laws specific to work and social protection, AEROSTAR records no possible **Risks related to pension funds**.

Also, in order to minimize the **Operational risk**, AEROSTAR annually renews the liability insurance contract with first rank insurance-reinsurance companies in connection with its main business lines (aviation products manufacturing and maintenance of commercial aircraft), knowing and respecting the provisions specific to the **Insurance risk** while the possible signs of influence on the organisation's reputation, the **Risk of affecting the image** of the company, are attentively monitored and mitigated.

The **Risk of affecting the company image** is mitigated by a continuous set of fundamented and conjugated actions, communicated according to the legal regulations in force, taking into account the stakeholders' requirements and based on AEROSTAR's results.

The Credit Risk

The cash flows and the statement of the amounts collected and paid for each partner are permanently monitored and controlled, maintaining a close relation with them, so we appreciate that this risk is very low.

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

The **Credit risk**, including the **Country risk** in which the customer carries out the activity, is managed on each business partner.

When deemed necessary, the company requires specific credit risk mitigation tools (prepaid expenses, letters of credit with bank guarantee, confirmed export letters of credit).

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

However, there is a significant exposure to the global market of the Airbus programmes, a large share of the company's products being embedded in Airbus aircraft.

The Liquidity Risk

In this period, this risk is practically non-existent.

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. For the administration of the **liquidity**, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line usable as a bank overdraft in amount of 2.500.000 USD.

During the reporting period, AEROSTAR did not use the Credit Line, all the activities being financed from company's own sources.

The Market Risk

The market risk is relevant subject to 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, due to some extraordinary events (the Brexit Agreement with an impact on the purchasing of materials from Great Britain, implementation of certain international sanctions with consequences on the limitation of the possibility to provide the necessary parts and materials, etc.), as well as the increase of the costs of specific duties for the import/ export of metallic products (steel and/ or aluminium) to and from USA.

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 from certain suppliers.
- long term contracts, with fixed price clauses.

AEROSTAR is exposed to the **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 in LEI.

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

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

Description of the trends for the main risks and uncertainties for the following period

For the following period, AEROSTAR does not foresee other significant risks, additional to the ones managed in the current period and presented as following:

The operational risk: the risk of registration of loss or failure to make the estimated profits is carefully monitored through the management system applied.

The legal risk: the risk of loss due to fines, penalties and sanctions chargeable to AEROSTAR in case of failure to apply or misapplication of the dispositions, legal or contractual regulations. The internal control systems provide an effective management of these risks.

The credit risk: the risk that AEROSTAR suffers a financial loss as a result of a partner's failure to meet the contractual obligations is monitored by the methods of the management by programmes.

Still, there may be additional risks and uncertainties, which currently are not known or are considered insignificant, but which can affect the business lines performed by AEROSTAR in the future.

Financial statements – summary

– thousand lei –

Summary of Assets, Equity, Liabilities and Provisions	31.12. 2018	31.12.2017
Total non-current assets	156,876	153,686
Total current assets	318,289	278,451
Prepaid expenses and receivables related to deferred tax	11,636	11,055
Total assets	486,801	443,192
Total company equity	315,139	252,967
Total provisions	112,551	125,189
Income in advance	10,239	12,705
Total liabilities	48,872	52,331
Total Equity, Liabilities, Provisions	486,801	443,192

– thousand lei –

Summary of Income, Expenses, Results	year 2018	year 2017
Total operating income, of which:	371,245	355,511
- income from sales	353,413	340,172
Total operating expenses	(288,168)	(295,371)
Profit from operating activity	83,077	60,140
Financial income	7,806	4,413
Financial expenses	(3,463)	(5,766)
Profit/financial loss/profit	4,343	(1,353)
Profit before tax	87,420	58,787
Tax on current and deferred profit	(7,499)	(5,617)
Net profit of the financial year	79,921	53,170

– thousand lei –

Cash Flow Summary	31.12. 2018	31.12.2017
collected from operating activities	357,608	352,964
payments for operating activities	(311,155)	(311,161)
Net cash from operating activities	46,453	41,803
collected from investment activities	3,341	819
payments for investment activities	(32,669)	(27,597)
Net cash from investment activities	(29,328)	(26,778)
paid dividends but unclaimed, recovered	47	73
gross dividends paid	(13,658)	(13,289)
Net cash used in financing activities	(13,611)	(13,216)
Net increase of the cash and cash equivalents	3,514	1,809

Main economic-financial indicators on 12 months 2018

– thousand lei –

Indicator	31.12.2018	31.12.2017
Current liquidity indicator	9.7	7.03
Indebtedness indicator	0	0
Rotation speed of the customers debits	70 days	50 days
Rotation speed of the non-current assets	2.25 days	2.21 days

Resources are provided for a solid future for AEROSTAR!

The economic, social, geo-politic and capital factors and trends which operate at a global scale influence on Aerostar's business.

The transformation of AEROSTAR's market profile has been realised throughout multiple successive stages, the company's footprint being present distinctly with a significant contribution in programmes of global scale, mainly in the field of civil aviation.

The current transformation stage of the company envisages the successful completion of a transformation cycle in which new programmes gradually replace, entirely, the traditional programmes – on all the directions of AEROSTAR's defence production profile.

The targets do not change but the processes to achieve the objectives shall be adapted to the current reality in the political, social, economic and digital context of the company.

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

Also, the strategic objectives provide the growth of the company's market footprint, mainly on the foreign market, so that the export shall represent over 80% from the turnover.

Completing the cycle of transformations and new technologies initiated in the company after the year 2000 is a commitment, as well as a great responsibility.

The development of the company's agility in the context of the global market is a permanent, renewed challenge.

The resources necessary to support the growth in this context are important, to prepare the organization for this is important alike, in relation to the new reality flows, including the awareness and generalization of the changes related to the digital processes and cybersecurity.

AEROSTAR's competitive advantage shall be maintained and improved: quality, capabilities, state-of-the-art equipment and technologies, reactivity to opportunities, adherence to the improvement programmes.

On behalf of the Board of Directors,

Grigore FILIP

President-General Director

Compliance with the Code of Corporate Governance

Annex

Compliance with the Code of Corporate Governance of the Bucharest Stock Exchange, 2018

Code provisions	Comply	Not comply or partially comply	Reason of non-compliance
A.1	x		
A.2	x		
A.3	x		
A.4		x	Three of the five BoD members are non-executive. The Board of Directors 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 2018 a number of 7 meetings took place, of which: - In 3 meetings all the BoD members were present; - In 2 meetings, 4 members were present, the fifth attended by telecon; - In 1 meeting there were 3 members present, the other 2 attended by telecon; - In 1 meeting, 4 members were present, the fifth being absent.
B.1	x		The company has constituted an independent committee audit according to article 65 from Law no. 162/2017
B.2	x		The members of the audit committee are independent persons elected by the GMS and hold competences in the accounting and statutory audit.
B.3	x		
B.4	x		
B.5	x		
B.6	x		
B.7	x		
B.8	x		
B.9	x		
B.10	x		
B.11	x		
B.12	x		
C.1	x		All the GMS resolutions regarding the remuneration of BoD members were published. Currently there is a distinct section in the BoD Regulation.
D.1	x		
D.1.1	x		
D.1.2		x	The information in this section is available, on request, but are not published on the company's website.
D.1.3	x		
D.1.4	x		
D.1.5	x		
D.1.6	x		
D.1.7	x		
D.2	x		
D.3	x		
D.4	x		
D.5	x		
D.6	x		
D.7	x		
D.8	x		
D.9	x		
D.10	x		

INDIVIDUAL FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

In accordance with OMFP no. 2844/2016, for the approval of the accounting regulations conforming with the International Financial Reporting Standards

INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 december 2018	31 december 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	147,763	144,613
Intangible assets	5	1,043	1,858
Investment property	6	7,930	6,987
Long-term financial assets	7	140	228
Total non-current assets		156,876	153,686
Current assets			
Inventories	10	82,368	67,925
Trade receivables and other receivables	8;9	68,376	46,640
Cash and cash equivalents	11	167,545	163,886
Total current assets		318,289	278,451
Receivables regarding deferred profit tax	17	11,132	10,564
Prepaid expenses	31	504	491
Total assets		486,801	443,192
COMPANY EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	48,729	48,729
Current result	12	79,921	53,170
Result carried-forward	12	58,324	57,524
Other reserves	12	166,395	110,843
Deferred income tax recognized based on own equity	17	(12,195)	(7,961)
Distribution of profit for legal reserve	12	(26,035)	(9,338)
Total company equity	12	315,139	252,967
Prepaid income			
Subsidies for investments	14	10,239	12,677
Prepaid income	31	-	28
Total prepaid income		10,239	12,705
Long-term liabilities			
Liabilities regarding deferred income tax	17	16,055	12,690
Other long-term liabilities	16	45	51
Total long-term liabilities		16,100	12,741
Long-term provisions	13	95,796	75,825
Current liabilities			
Trade liabilities	15	21,197	29,515
Liability with current income tax	23	2,357	1,522
Other current liabilities	16	9,218	8,553
Total current liabilities		32,772	39,590
Short-term provisions	13	16,755	49,364
Total provisions		112,551	125,189
Total liabilities		48,872	52,331
Total company equity, prepaid income, liabilities and provisions		486,801	443,192

**INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**
(unless specified otherwise, all amounts are stated in thousand lei)

	Nota	31 december 2018	31 december 2017
Operating income			
Income from sales	19	353,413	340,172
Other income	19	3,473	3,632
Income related to the inventories of finished goods and work in progress	19	12,528	10,420
Income from production of assets	19	1,645	1,287
Income from operating subsidies	19	186	-
Total operating income		371,245	355,511
Operating expenses			
Material expenses	20	(124,124)	(128,002)
Expenses with employees' benefits	20	(114,974)	(108,629)
Expenses regarding amortization of assets	20	(25,307)	(24,275)
Adjustments regarding current assets	20	(5,106)	1,337
Adjustments regarding provisions	20	12,638	(945)
Expenses regarding external services	20	(26,659)	(30,629)
Other expenses	20	(4,636)	(4,228)
Total operating expenses		(288,168)	(295,371)
Profit/loss from operating activity		83,077	60,140
Financial income	21	7,806	4,413
Financial expenses	22	(3,463)	(5,766)
Financial profit/loss		4,343	(1,353)
Profit before tax		87,420	58,787
Tax on current and deferred profit	17;23	(7,499)	(5,617)
Net profit of the period		79,921	53,170

**INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**
(unless specified otherwise, all amounts are stated in thousand lei)

	31 december 2018	31 december 2017
Net profit of the financial year	79,921	53,170
Deferred income tax recognized on company equity according to O.M.F.P. 2844/2016	(3,435)	(406)
Other elements on the global result	(3,435)	(406)
Total global result of the period	76,486	52,764

**INDIVIDUAL STATEMENT OF THE COMPANY CAPITAL MODIFICATIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**
(unless specified otherwise, all amounts are stated in thousand lei)

	Share capital	Reserves	Deferred income tax recognized on equity	Result carried forward	Result of the period	Total equity
Global result						
A. Balance on 1 January 2018	48,729	110,843	(7,961)	57,524	43,832*	252,967
Profit of the period					79,921	79,921
Other elements of global result						
Deferred income tax recognized on the account of equity	-	-	(4,235)	800	-	(3,435)
Distribution of the profit of 2017 on the destinations decided by the shareholders in OGMS from the 19 April 2018 (Note 12)	-	-	-	43,832	(43,832)	-
Distribution of the profit of 2018 for the legal reserves in gross amount	-	26,035	-	-	(26,035)	-
Total global result relating to the period	-	26,035	(4,235)	44,632	10,054	76,486
Reserves distributed from the profit of 2017		29,518		(29,518)		-
Dividends related to 2017, paid to the shareholders (Note 32)		-		(14,314)		(14,314)
Transactions with the shareholders directly recognized in equity		29,518		(43,832)		(14,314)
B. Balance on 31 December 2018	48,729	116,396	(12,196)	58,324	53,886	315,139
C. Modifications on own equity (Note 12)	0	55,553	(4,235)	800	10,054	62,172

***Note:**

The result of the prior period is 53,170 thousand lei and is influenced by allocation of the profit on the legal reserves in amount of 9,338 thousand lei.

INDIVIDUAL STATEMENT OF THE TREASURY CASH FLOWS (direct method)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31.12.2018	31.12.2017
CASH FLOWS FROM OPERATIONS			
collected from customers		352,279	347,140
taxes and excises recovered from State Budget		5,329	5,824
payments to suppliers and employees		(253,029)	(250,453)
payment of taxes, contributions and dues to State Budget		(50,851)	(52,366)
payment of profit tax		(7,275)	(8,342)
NET CASH FROM OPERATIONS		46,453	41,803
CASH FLOWS FROM INVESTMENTS			
interest collected from bank deposits formed		3,057	530
dividends received from subsidiaries		202	189
collected from sales of property, plant and equipment		18	90
interest collected from loans granted		59	4
instalments collected from loans granted		5	6
payments for purchasing property, plant and equipment and intangible assets		(32,669)	(27,597)
NET CASH FROM INVESTMENTS	27	(29,328)	(26,778)
CASH FLOWS FROM FINANCING ACTIVITIES			
dividends paid but unclaimed		47	73
gross dividends paid		(13,658)	(13,289)
NET CASH FROM FINANCING ACTIVITIES	27	(13,611)	(13,216)
Net increase of cash and cash equivalents		3,514	1,809
Cash and cash equivalents at the beginning of the period		163,886	163,153
Effect of the exchange rate variation over the cash and cash equivalents	27	146	(1,076)
Cash and cash equivalents at the end of the period	11	167,545	163,886

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

NOTE 1 - DESCRIPTION OF THE COMPANY

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

AEROSTAR S.A. operations take place at its registered headquarters located in Bacau, no.9 Condorilor Street, code 600302. According to the Decision of the Board of Directors no.2/14.12.2017, the establishment of a secondary place of business was approved without legal personality (work place) in Iasi, on 25B Aeroportului Street.

The main activity field of AEROSTAR is production.

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

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

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

During the year 2018, there was no subscription of new shares, nor of any participation certificates, convertible bonds, warranties, options or similar rights.

In terms of accounting regulations, AEROSTAR S.A. is the subsidiary of the company IAROM S.A. and, therefore, the parent company that consolidates the financial statements of the group is S.C. IAROM S.A., with the individual identification code 1555301, having its registered headquarters in Bucharest, 39 Aerogarii Boulevard. The consolidated financial statements for the financial year 2017 were submitted to A.N.A.F. under registration number 150489860/22.08.2018. Copies of the consolidated financial statements can be obtained from the headquarters of the parent company, IAROM S.A. The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended 31.12.2018.

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

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

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

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

The company equity entirely covers the financing needs of production and achievement of the investment volume. Through its dividend policy, the company develops its equity as the sales and investment volume are increasing.

During 2018, the company did not use loan capital and neither equity contribution from the shareholders.

NOTE 2 - ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

2.1. Estimates

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

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

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

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

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

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

The company uses estimates in order to determine:

- the uncertain customers and the adjustments for impairment of related receivables;
- the value of the provisions for risks and expenses to set up at the end of a time period (month, quarter, year) for litigations, for the dismantling of property, plant and equipment, for restructuring, for collateral granted to customers, for obligations towards manpower and other obligations;
- the adjustments for impairment of property, plant and equipment and intangible assets. At the end of each reporting period, the company estimates whether there is any impairment. If such signs are identified, the recoverable amount of the asset is estimated to determine the extent of impairment (if any).
- the lifetimes of property, plant and equipment and intangible fixed assets. The company reviews the estimated periods of use of tangible and intangible fixed assets at least at the end of each financial year to determine the adequacy.
- the inventories of raw materials and materials requiring to set up adjustments for impairment.
- deferred taxes.

Presentation of information

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

2.2. Errors

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

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

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

In the event of an error being identified, the company shall disclose the following information:

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

2.3. Changes in the accounting policies

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

The company modifies an accounting policy only if such change:

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

Applying changes in Accounting Policies:

- The entity takes into account a change in the accounting policy that results from the initial implementation of an IFRS in accordance with the specific transitory provisions, if any, of that IFRS; and
- When the entity changes an accounting policy to the initial application of an IFRS that does not include specific transitory provisions.

Presentation of the information

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

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

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

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

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

NOTE 3 - ACCOUNTING AND EVALUATION PRINCIPLES

3.1. Basis for the preparation and presentation of financial statements

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

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

Adopting for the first time the new and reviewed standards

- Adoption of IFRS 9 *Financial Instruments* (into effect starting with 1st January 2018) together with the modifications of the International Financial Reporting Standards, in accordance with IFRS 9.

The standard supersedes IAS 39 *Financial instruments* and introduces new requirements regarding classification, evaluation and presentation of the assets and financial liabilities.

- Adoption of IFRS 15 *Revenues from Contracts with Customers*, which supersedes Standards IAS 11; IAS 18 and IFRIC13; IFRIC15; IFRIC18 and SIC31 Interpretations. IFRS 15 is applied starting with 1 January 2018, together with the modifications of the International Accounting Standards correlated with IFRS 15;
- Amendments to IFRS *Revenues from Contracts with Customers*, into effect starting with 1 January 2018

The standard establishes a new model of recognition of the revenues from the contracts with the customers in five steps. Also, the regulations are applied for the recognition

and evaluation of the gains and losses from the non-financial assets sales. They include new classification requirements and a more detailed presentation requirements of the contracts with the customers, including execution obligations, modifications of the assets and liabilities balance accounts, reasonings used and estimations. The company has adopted the new standard for the accounting statements of the financial year 2018 without requiring the retreatment of the financial statements of 2017, due to the following considerations:

- The impact of the new standard on the company's key figures is limited because the revenues were recognized at the moment of the transfer of the control from the seller to the buyer.
- Exception: revenues from the services provided evaluated according to IAS 18, depending on the contract's stage, their amount in 2017 being 477 thousand lei, revenues which were unrecognized at the end of the financial year, in order to early apply IFRS 15.
- Amendments to IFRS 4 *Insurance Contracts* which are applied starting with 01.01.2018;
- The modifications of the standards IAS 28 *Investment in Associates and Joint Ventures* IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 12 *Disclosure of Interests in Other Entities*, entered into force starting with the financial year 2018;
- Modifications to IFRS 2 *Share-based Payment* entered into effect starting with the financial year 2018;
- Amendments to the Standard IAS *Investment Property* entered into effect in 2018;
- A new interpretation entered to IFRIC 22 *Foreign Currency Transactions and Advance Consideration* starting with the financial year 2018.

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

- Adopting IFRS 16 *Leases* (in effect since 1 January 2019) together with the modifications with the International Accounting Standards, in accordance with IFRS 16.
- Adopting the IFRIC 23 *Uncertainty over Income Tax Treatments* of the Committee for the Standards which enter in force starting with 1 January 2019.

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The company evaluates the potential effects of the new Standards and amendments brought by the International Financial Accounting Standards and according to the initial estimates, provides that these will not significantly impact its financial statements.

- Accounting Law no. 82/1991, republished, as subsequently amended and supplemented;
- O.M.F.P. no. 881/2012 on the application of International Financial Reporting Standards by companies whose securities are admitted to trading on a regulated market;
- O.M.F.P. no. 2.844/2016 on the approval of the Accounting Regulations conforming to the International Financial Reporting Standards;
- O.M.F.P. no. 2.861/2009 for the approval of the Norms regarding the organization and execution of the inventories of elements such as assets, debts and own capital;
- O.M.F.P. no. 1.826/2003 on the approval of the Explanatory Memorandum regarding some measures of organization and management of the business accounting;
- O.M.F.P. no. 2.634/2015 regarding the financial accounting documents, including subsequent amendments and additions.

The accounting is kept in Romanian and in the national currency.

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

The financial year is the calendar year.

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

The financial statements are prepared based on historical cost.

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

3.2. Applied Accounting Policies

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

The most significant accounting policies are presented below:

• Accounting Policies regarding property, plant and equipment

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

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

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

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

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

- they have as an effect the improvement of the initial technical parameters;
- are the sources of future economic benefits materialized by cash-flows that are supplementary to those initially estimated; and
- can be reliably assessed.

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

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

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

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

The property, plant and equipment to be used in production or in administrative activities are presented in the situation of the financial position of cost, less any loss accumulated from impairment. Such assets are classified in the respective asset classes when they are completed and ready for use in the manner desired by the management, for the intended purpose.

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

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

In case of internally generated **intangible assets**, the phases of the production are clearly separated, namely:

- *The research phase.* The research costs are treated as expenses of the period
- *The development phase.* The development costs are registered as an intangible asset, if the following conditions are demonstrated:
 - the technical feasibility of completing the asset, so that it is available for use or sell;
 - the availability of adequate resources - financial, human, financial - to complete the development;
 - the intention to complete and use or sell the intangible asset;
 - the ability to use or sell the asset;
 - how the asset will generate future economic value;
 - the ability to assess costs.

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

The company has chosen as accounting policy the cost model that requires that the intangible assets to be valued at their net asset value, equal to their cost, except the accumulated impairment and any impairment losses, for those assets.

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

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

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

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

In the category of **financial assets**, are highlighted:

- Shares held in affiliated companies.
- Other property, plant and equipment.
- Long-term loans as well as interest on them. In this category are included the amounts granted to third parties based on interest-rate contracts, according to the law.
- Other fixed liabilities as well as interests related to them. This category includes collateral, deposits and bills placed with third parties, receivables related to financial leasing contracts.

The long-term financial assets recognized as an asset are measured at the cost of acquisition or at the amount set in their acquisition contract.

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

• **Accounting policies on inventory items**

The registration of inventories is recorded at the time of the transfer of risks and benefits.

The calculations of those inventories that are not usually fungible and of those goods or services, products are determined by specific identification of their individual costs.

At the inventory outflow and of those active fungible, those are assessed and recorded in the accounting by applying the FIFO method.

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

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

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The value adjustments are made for the current assets of the inventory, upon each reporting period, based on the age of inventories, of the resolutions given by the inventory commissions and/ or by the management of the business modules, for the presentation of assets at the lowest value between cost and net achievable value.

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

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

Income tax to be paid is recognized as a liability within the limit of the unpaid amount.

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

Operations that cannot be separately recorded in the appropriate accounts and for which further clarification is required are recorded in a separate account 473 *Accounts settled from operations under clarification*.

Foreign currency liabilities are recorded in the accounting both in RON as well as in foreign currency.

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

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

All other liabilities are classified as long-term liabilities.

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

Are also considered to be interest-bearing long-term liabilities even when they are due within 12 months of the date of the financial statements, if:

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

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

Receivables include:

- trade receivables, which are amounts owed by customers for goods sold or services rendered in the normal course of the activity;

- commercial revenue (effects) to be collected, third party instruments;
- amounts owed by the employees or affiliated companies
- advance payments to the suppliers of property, plant and equipment, of goods and services;
- receivables related to manpower and state budget.

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

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

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

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

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

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

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

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

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

• **Accounting Policies for Revenue Recognition**

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

Revenues are classified as follows:

- revenues from operations;
- financial revenues.

The revenue is recognized on an accrual basis.

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The revenue is measured at the fair value of the amount received or to be received. The sales revenue is diminished for returns, commercial rebates and other similar discounts.

Revenues from operations include:

- revenues from sales (goods, services, commodities, residual products);
- revenues related to the cost of product inventories;
- revenues from the production of property, plant and equipment;
- revenues from changes in adjustments of assets respectively from impairments or reversals of provisions;
- other operating revenues.

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

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

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

Revenues from rendering of services

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

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

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

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

The **rental revenues** from real estate investments are recognized in the income statement on a straight-line basis over the period of the lease.

The **financial revenues** include interest revenue, foreign exchange revenue, dividend revenue and other financial revenue.

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

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

• **Accounting policies for provisions**

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

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

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

Provisions for collaterals

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

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

Provisions for Risk and Expense

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

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

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Provisions for the decommissioning of property, plant and equipment

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

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

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

Provisions for the employees' benefits

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

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

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

• Accounting Policies on grants and other non-refundable funds

The subsidies are distinctly reflected:

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

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

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

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

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

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

• Accounting policies for the production of goods and services

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

The management accounting consists of:

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

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

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

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

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

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

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

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

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

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

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

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NOTE 4 – TRANSACTIONS IN FOREIGN CURRENCIES

AEROSTAR considers the Romanian LEU as the functional currency and the financial statements are presented in thousand LEI. The currency transactions are recorded at the exchange rate of the functional currency at the date of the transaction.

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

Currency	31.12.2018
EUR (Euro)	4.6639
USD (American Dollar)	4.0736
GBP (British pound)	5.1931

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

Considering that 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 expressed in the functional currency.

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

Year 2018	THOUSAND EUR	THOUSAND USD	THOUSAND GBP
Collected from financial assets	16,616	46,376	0
Payments of financial liabilities	(11,797)	(16,818)	(613)
Foreign Currency Net Exposure	4,819	29,558	(613)

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

-2.65% 1st quarter 2018 – beginning of the year 2018,

+2.90% 2nd quarter 2018 – 1st quarter 2018,

+2.47% 3rd quarter 2018 – 2nd quarter 2018,

+2.22% 4th quarter 2018 – 3rd quarter 2018,

has determined the registration of a financial profit from favourable exchange rate differences of 1,269 thousand LEI.

NOTE 5 - INTANGIBLE ASSETS

	31 December 2018			01 January 2018		
	Gross values	Depreciation/ Impairment	Net accounting value	Gross values	Depreciation/ Impairment	Net accounting value
Capitalized development costs	152	(152)	0	89	(89)	0
Licences /Trade marks	4,902	(3,926)	976	4,602	(3,122)	1,480
Other intangible assets	1,413	(1,346)	67	1,196	(818)	378
Total	6,467	(5,424)	1,043	5,887	(4,029)	1,858

Net accounting value

	Balance on 1 January 2018	Increase	Reclassification	Disposals	Depreciation/ Impairment during the period	Balance on 31 December 2018
Capitalized development costs	0	152	0	0	(152)	0
Licences	1,480	327	0	0	(831)	976
Other intangible assets	378	217	0	0	(528)	67
Total	1,858	696	0	0	(1,511)	1,043

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

- Development expenses
- Licences
- Other intangible assets

The software programmes are registered in other intangible assets.

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

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

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

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

The intangible assets in the balance sheet account as on 31.12.2018 are not depreciated and no adjustments were made for the depreciation thereof.

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

The value of the completely amortized software licenses on 31 Decembrie 2018 and which are still in use is 1,887 thousand LEI.

All the intangible assets recorded in the balance sheet as on 31 Decembrie 2018 are property of AEROSTAR.

Increases in gross values of intangible assets were obtained by: **696**

- | | |
|---|-----|
| • capitalization of the development expenses fully financed by Aerostar | 152 |
| • development of the IT management system of production-AEROPROD | 217 |
| • purchasing of software licences | 327 |

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

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

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Imobilizările corporale la 31 decembrie 2018 și 01 ianuarie 2018 cuprind următoarele:

	31 December 2018			01 January 2018		
	Gross values	Depreciation	Net accounting value	Gross values	Depreciation	Net accounting value
Land	28,401	0	28,401	28,433	-	28,433
Constructions	55,736	16,922	38,814	54,160	12,256	41,904
Technological equipment and transport	149,601	70,623	78,978	119,436	52,550	66,886
Other equipment and office equipment	1,348	466	882	937	353	584
Investment property	10,260	2,330	7,930	8,810	1,823	6,987
Property, plant and equipment under construction	687	-	687	6,806	0	6,806
Total	246,033	90,341	155,692	218,582	66,982	151,600

Net accounting value

	Balance on 1 January 2018	Increase	Reclassification	Disposals/ Transfer	Depreciation	Balance on 31 December 2018
Land	28,433	0	0	(32)	0	28,401
Constructions	41,904	1,579	0	0	(4,669)	38,814
Technological equipment and transport	66,886	30,640	0	(42)	(18,506)	78,978
Other equipment and office equipment	584	412	0	0	(114)	882
Investment property	6,987	1,450	0	0	(507)	7,930
Property, plant and equipment under construction	6,806	27,955	0	(34,074)	0	687
Total	151,600	62,036	0	(34,148)	(23,796)	155,692

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

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

Depreciation expenses are recognised in the profit and loss statement.

The following useful lives are assumed:

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

The useful lives are established by committees formed by Company's specialists. The useful lifetimes of the Property, Plant and Equipment were reviewed at September 2018.

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

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

The investment property contains a number of 11 real estate – buildings and related lands which are rented to third parties based on renting contracts.

The value of renting incomes in 2018 was of 1.991 thousand lei (12 months 2017: 1.884 thousand lei).

At the date of transition to IFRS, the Company has estimated and included in the cost of the Property, Plant and Equipment 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 Property, Plant and Equipment, by inclusion in the depreciation expense.

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

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

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

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

In accordance with the provisions of IAS 36 - Impairment of assets, the company proceeded to the identification of any signs of impairment of Property, Plant and Equipment, taking into consideration external and internal sources of information.

External source of information:

Market value (market capitalization) has registered a growth of 3 % on 31 December 2018 compared to 31 December 2017.

The indicator which offers information regarding the interest from the investors in the company listed on the capital market is the market capitalization reported to company equity (MBR).

AEROSTAR continues to register a very good value of the indicator, obtained by the top-rated companies on the capital market which present interest from the investors.

MBR-Market indicator to book ratio	31.12.2018	31.12.2017
Stock exchange capitalization/ company equity	2,3	2,8

Internal source of information:

- the economic performance of the assets is good, all the immobilizations in operation bring benefits to the company
- in the reporting period no changes occurred with adverse effects on the extent and manner in which the assets are used. The rotation of immobilizations (Turnover/Property, Plant and Equipment – indicator monthly monitored) has been at the same level (2,25 rotations) in comparison with the similar prior period (2,21 rotations).

In conclusion, the Property, Plant and Equipment in the balance sheet on 31.12.2018 are not depreciated and no significant depreciation indicators were identified.

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

The gross accounting value of the fully depreciated Property, Plant and Equipment which were still in operation on 31 December 2018 is of 6.379 thousand lei.

On 31.12.2018 no mortgages were set on plant, property and equipment in the property of AEROSTAR S.A.

Increases in gross values of the Property, Plant and Equipment, achieved by: 62,036

• acquisition on technical equipment, hardware equipment, equipment of measuring and control, modernization of buildings etc.	34,074
• investments performed in 2018	27,955
• immobilization found plus inventory	7

Decreases in gross values of Property, Plant and Equipment, achieved by: 34,148

• the transfer of the immobilizations in progress under Property, Plant and Equipment following their placing in service;	34,074
• derecognition of certain Property, Plant and Equipment, due to the fact that the company no longer expects future economic benefits from their use;	42
• expropriation, for a public use cause, of a land surface of 452 m ² owned by AEROSTAR – to realize the investment objective of local interest, „Rehabilitation of the Aeroportului Street“.	32

NOTE 7 - FINANCIAL ASSETS

	Shares held in affiliated entities	Other immobilized securities	Long-term loans	Other receivables -supply bonds	Total
On 1 January 2018	14	92	87	35	228
Increases/Decreases	-	-	(87)	(1)	(88)
On 31 December 2018	14	92	-	34	140

Details of the entity's investments on 31.12.2018 in other companies are the following:

Subsidiary name/ Registered headquarter	CAEN Code	No. of shares/ shares issued	Voting rights (%) held	Value of shares held by Aerostar (thousand lei)	Financial Information Related to 2017				
					Company's Share capital	Reserve	Net Profit	Nominal value/ share	Net asset/ share
Airpro Consult SRL Bacau Condorilor Street no. 9	- main activity according to CAEN code 7820	100	100%	10	10	55	106	0.1	1.7
Foar SRL Bacau Condorilor Street no. 9	- main activity according to CAEN code 7739	800	51%	4	8	1,739	219	0.01	2.5
ATF S.A Bacau Condorilor Street no. 9	- main activity according to CAEN code 2822	20,000	45.75%	92	200	38	1	0.01	0.013
TOTAL	x	x	x	106	218	1,832	326	x	x

AEROSTAR's share contribution in these companies is registered based on cost.

In 2018, the company recorded no modifications i.e. no increases/decreases as to the shareholding percentage, maintaining the same influence as in 2017.

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

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NOTE 8 - TRADE RECEIVABLES

TRADE RECEIVABLES OF WHICH:	31 December 2018	31 December 2017
Customers, of which	54,909	38,050
Domestic customers	9,735	4,470
Foreign customers	45,174	33,580
Uncertain customers	32	1,162
Adjustments for impairment of receivables - customers	(16)	(1,162)
Suppliers – debtors	10,559	6,371
Effects to receive from customers	161	-
Other fixed liabilities with due date less than 12 months	-	132
TOTAL TRADE RECEIVABLES	65,645	44,553

In accordance with the provisions from the Accounting Policies Manual, to cover the non-recovery risk of the amounts that represent the uncertain trade receivables, the company registers adjustments for the depreciation of the uncertain customers in percentage of 50% from the value of the receivables not collected on time if the due date is between 30 days and 180 days and it is in percentage of 100% from the value of the receivables with the due date longer than 180 days. On 31 December 2018 the company has registered only adjustments for the depreciation of the uncertain customers in percentage of 50% from the value of the receivables not collected, having no receivables with due date exceeding 180 days.

When determining the recoverability of a trade receivable, the changes considered were those 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 the year 2019.

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 2018.

The favourable and unfavourable exchange rates differences between the exchange market rate, to which are accounted the receivables in currency, and the market exchange rate communicated by the National Bank of Romania available for the end of 30 December 2018, were recorded in the related income or expense account.

NOTE 9 - OTHER RECEIVABLES

	31 December 2018	31 December 2017
Receivables relating to manpower and similar accounts	8	30
Receivables related to the budget of social insurance and the state budget, of which:	2,416	1,573
– VAT to be recovered	958	768
– Non-chargeable VAT	49	154
– Amounts to be recovered from the National Health System (allowances on medical leaves)	488	127
– Excise duty to be recovered related to the fuel used	826	504
– Operating subsidies to be collected	72	-
Interest to receive from bank deposits	156	346
Diverse debtors	252	233
Adjustments for the depreciation of the receivables – diverse debtors	(102)	(113)
Other receivables	1	18
Total other receivables	2,731	2,087

To cover the risk of non-recovery of the amounts representing certain categories of receivables– diverse debtors, the company registered adjustments for impairment of diverse debtors in amount of 102 thousand lei.

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NOTE 10 - INVENTORIES

of which:	31 December 2018	31 December 2017
Raw materials	18,446	14,789
Consumables	32,621	25,444
Other materials	78	146
Semi-finished/ Forgings	1,907	-
Packaging	19	34
Finished products	25,624	17,796
Products and services in progress	23,446	23,271
Goods	-	0,6
Adjustments for impairment of inventories	(19,773)	(13,556)
TOTAL	82,368	67,925
Gross value of the inventory (unadjusted)	102,141	81,481

The inventories are assessed at the lowest value between the cost and the net achievable value.

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

The cost of inventories includes: acquisition costs, conversion costs as well as other costs incurred to bring inventories to the state and in the place where they are currently found.

Adjustments of their value are made regularly based on the findings of the inventory commissions and/ or the managers of the production modules in order to present them at the lowest value between the cost and the net achievable value.

Within the Company, the goods which are considered to be depreciated are those that are older than the storage period established by internal decision of the Board of Directors.

The total value of inventories recognized as an expense during the period is of 113,943 thousand lei.

AEROSTAR holds inventories of finished products (buffer) at the levels contractually agreed with the customers. AEROSTAR has no pledged inventories.

Starting with 01 January 2018, following the approval of the Board of Directors, the decision was made to voluntarily change the accounting policy for the assessment of the inventories at their exit from accounts, from the Weighted Average Cost to the FIFO method. The reasons for this change are:

- the new policy provides reliable and more relevant information on the effects of transactions on the financial position and financial performance of the Company;
- the change of the initial terms (characterized by significant inflation and the volatility of the exchange rate) since the adoption of the Weighted Average Cost method;
- a better inventory tracking of the inventories and their traceability, by batches;
- a better performance in operating the IT applications for the management of production and inventories.

From the estimations made, the effects of this change of the accounting policy for the previous periods are not significant.

NOTE 11 - CASH AND CASH EQUIVALENTS

At the end of the reporting period the cash and cash equivalents consisted in:

	31.12.2018	31.12.2017
Cash	9,931	6,546
Bank deposits	157,614	157,336
Exchange bills and trade effects to collect	0	4
Cash and cash equivalents in the cash-flow statement	167,545	163,886

The cash contains the current cash available cashier's desk and in banks;

The cash equivalents comprise:

- short-terms bank deposits;
- exchange bills and trade effects (promissory notes) submitted to banks for collection.

The treasury balance is influenced by the prepaid amounts received from the customers.

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

The value of bank Credit facilities, usable as an overdraft, available for future operations, is of 2,500 thousand USD (10,184 thousand lei).

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NOTE 12 - COMPANY EQUITY

The company equity on 31 December 2018 is 315,139 thousand lei.

The net increase of the equity in 2018 in comparison with 2017 was 62,172 thousand lei.

The modifications of the main elements of the company equity incurred in 2018 in comparison with 2017 are the following:

- **The share capital remained unchanged**

On 31 December 2018, the share capital of AEROSTAR SA is 48,728,784 lei, divided in 152,277,450 shares having each a nominal value of 0.32 lei.

The structure of the company's shareholding on 31.12.2018 is the following:

Shareholder	Number of shares held	Participation held (% from share capital)
IAROM S.A. Bucharest	108,585,664	71.3078 %
SIF MOLDOVA Bacau	22,919,887	15.0514 %
Other shareholders	20,771,899	13.6408 %
Total	152,277,450	100.0 %

- **The reserves increased with 55,553 thousand lei on the account of:**
 - the distribution to reserves of the reinvested profit related to 2018 in gross amount of 26,035 thousand lei.
 - the distribution to reserves of the amount of 29,518 thousand lei related to the financial year 2017.
- **Other capital elements have increased with the amount of 4,235 thousand lei** on the account of the deferred income tax recognized in company equity.
- **Result carried-forward:**
 - **has increased with:**
 - 800 thousand lei on the account of the deferred profit tax recognized on the account of the company equity
 - 43,832 thousand lei representing the profit to be distributed related to the financial year 2017, registered in the result carried forward until its distribution on the categories approved by the shareholders in the ordinary general meeting from 19 April 2018
 - **and has decreased with** the profit of the financial year 2017, distributed as follows:
 - to reserves in the amount of 29,518 thousand lei
 - for dividends in the amount of 14,314 thousand lei

The balance of the result carried-forward account on 31 December 2018, is of 58,324 thousand lei, comprising:

- the result carried forward coming from the use, on the date of the transition to IFRS, of the fair value as presumed cost = 34,559 thousand lei;
 - the result carried-forward representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets were amortized = 23,765 thousand lei.
- **The result of the period was of 79,921 thousand lei.**

During the period the amount of 43,832 thousand lei was registered, representing the distributable profit from the year 2017.

The amount of 10,054 thousand lei which influenced the company equity at 31.12.2018 represents the arithmetical difference between the result of the period (79,921 thousand lei) and the distributions of the period (69,867 thousand lei).

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NOTE 13 - PROVISIONS

	31 December 2017	Increases/ Set-up/ Reclassification of provisions	Reductions/ Resumed/ Reclassification of provisions	Differences from revaluation	31 December 2018
Total provisions	125,189	38,336	(51,955)	981	112,551
Provisions for bonds granted to customers	40,504	33,919	(35,783)	944	39,584
Provisions for decommissioning property, plant and equipment	16,116	0	(1)	0	16,115
Provisions for the employee benefits	5,754	4,408	(5,724)	0	4,438
Provisions for litigations	5,810	9	(700)	4	5,123
Other provisions	57,005	0	(9,747)	33	47,291
of which:					
Long-term provisions	75,825	25,035	(6,010)	946	95,796
Provisions for bonds granted to customers	6,913	25,026	(5,577)	905	27,267
Provisions for decommissioning property, plant and equipment	16,116	0	(1)	0	16,115
Provisions for litigations	5,110	9	0	4	5,123
Other provisions	47,686	0	(432)	37	47,291
Short-term provisions	49,364	13,301	(45,945)	35	16,755
Provisions for bonds granted to customers	33,591	8,893	(30,206)	39	12,317
Provisions for employee benefits	5,754	4,408	(5,724)	0	4,438
Provisions for litigations	700	0	(700)	0	0
Other provisions	9,319	0	(9,315)	(4)	0

Provisions set up for guaranties granted to customers

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

Provisions for decommissioning the Property, Plant and Equipment

Provision for decommissioning of property, especially buildings, are formed to cover the decommissioning costs, of removal of the elements and restoration of the locations in which are placed and included in their cost. The value was estimated using an update annual rate of 4,5%.

Provisions for benefits granted to employees

The provisions for benefits granted to employees are set for the bonus granted according to the clauses of the applicable Collective Labour Agreement (bonus for the end of the financial year, for the end of the production year, for performance) and for the annual holidays leave not taken by the employees in the previous year.

Provisions for litigations

Provisions for litigations are set for probable indemnities payable by the company to a former employee, or to a commercial partner respectively.

The provisions are reanalysed at the end of each reporting period and are adjusted in order to reflect the best estimation of the probable payments.

Other provisions

In *Other provisions* category are found the provisions set for:

- covering of risks specific to the aviation industry, such as: risk of hidden defects, risk of discovering quality incidents which can cause damage;
- coverage of some expenses regarding the Company's obligations towards A.J.O.F.M., based on O.U.G. 95/2002.

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NOTE 14 - SUBSIDIES**Subsidies related to the long-term assets**

AEROSTAR registers the subsidies regarding the long-term assets in the category of income in advance.

	31.12.2018	31.12.2017
Balance on 1 January	12,677	15,001
Subsidies registered as revenues related to calculated amortization	(2,445)	(2,343)
Property, Plant and Equipment	7	19
Balance on 31 December	10,239	12,677

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

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

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

The balance registered on 31 December 2018 in amount of 10,239 thousand lei represents the subsidies related to investments in immobilized assets which are to be recorded as income while the calculated amortization is registered as a cost, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 2,100 thousand lei
2. contract no. 229226/14.06.2012: 2,524 thousand lei
3. contract no. 5IM/013/24.03.2015: 5,590 thousand lei

NOTE 15 - COMMERCIAL DEBTS

	31 December 2018	31 December 2017
Advance payments received on customers account	2,264	4,896
Domestic customers-creditors	69	3,985
Foreign customers-creditors	2,195	911
Supplier, of which:	18,933	24,580
Domestic suppliers	5,545	9,269
Foreign suppliers	10,023	11,540
Suppliers-invoices not arrived	1,956	1,803
Suppliers of assets	1,409	1,968
Commercial effects to be paid	-	39
Total commercial debts	21,197	29,515

The advances collected from customers is for aircraft maintenance and repair, with settlement term in 2019.

No mortgage was set for the liabilities highlighted.

The favourable and unfavourable differences of the exchange rate between the foreign exchange rate at which the liabilities in foreign currency are registered and the exchange rate communicated by the National Bank of Romania valid for the end of December 2018, were registered in the corresponding accounts of income or expense.

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NOTE 16 - OTHER LIABILITIES

	31 December 2018	31 December 2017
Other current liabilities , of which:	9,218	8,553
• <i>Liabilities related to manpower and similar accounts</i>	2,566	2,242
• <i>Liabilities related to social security budget and state budget</i> , of which:	4,709	4,503
– VAT payable	1,165	1,451
– social insurance	2,604	2,016
– labour safety contribution	166	-
– tax on salary type revenues	488	741
– contribution for disabled people, unemployed	128	102
• <i>Other liabilities</i> , of which:	1,943	1,808
– dividends	1,711	1,492
– diverse creditors	147	204
Other long-term liabilities	45	51

Dividends in balance at 31 December 2018, in amount of 1,711 thousand lei represent:

- 656 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2017 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 557 thousand lei, amount to be paid by AEROSTAR for the dividends from 2016 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 498 thousand lei, amount to be paid by AEROSTAR for the dividends from 2015 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR).

NOTE 17 - THE DEFERRED PROFIT TAX

The deferred tax is determined for the temporary differences which occur between the tax base of the assets and liabilities and their accounting basis. The deferred tax is calculated at a tax rate of 16% applicable to the temporary differences when resumed.

The Company estimated and registered liabilities regarding the deferred tax related to non-current assets (which results from differences between accounting and fiscal values, the different useful life, s.o.) and of the reserves and recognized receivables regarding the deferred tax related to the inventories, which were adjusted for depreciation, provisions for customer bonds, provisions for benefits granted to the employees and other provisions.

The structure of deferred income tax registered on 31.12.2018 is:

Liabilities from deferred tax

1. Liabilities related to deferred tax generated by the differences between accounting bases (bigger) and the fiscal ones (smaller) of the non-current assets	2,874
2. Liabilities related to the deferred tax concerning legal reserves	1,559
3. Liabilities on deferred tax related to reserves from the fiscal facility	11,561
4. Liabilities on deferred tax related to the reported result representing a surplus from revaluation reserves	61

Total liabilities from deferred tax	16,055
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Receivables on deferred tax

1. Receivables on deferred tax related to other provisions set in 2010	925
2. Receivables on deferred tax related to provisions for bonds granted to customers set between 2014-2018	6,333
3. Receivables on deferred tax related to provisions for manpower benefits	710
4. Receivables on deferred tax related to the adjustments for depreciation of the inventories	3,164

Total receivables on deferred tax	11,132
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The Company did not recognize receivables on deferred tax related to other provisions for the aviation industry risks due to an uncertainty regarding the fiscal deductibility of the expenses which may occur from the settlement of the obligations arising in the future periods. Therefore, the differences between the tax base and the accounting base would be null.

NOTE 18 - FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial liability or an equity instrument for another entity.

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

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

- financial instruments kept for making transactions (including derived instruments)
- financial instruments kept till due date
- financial instruments available for sale

The financial assets of AEROSTAR S.A. include:

- cash and cash equivalents
- trade receivables
- trade effects received
- immobilized receivables (bonds for third parties)
- loans granted with interest

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities
- trade effects payable

On the reporting date AEROSTAR does not have financial liabilities concerning financial leasing, overdrafts and long-term bank loans.

The main types of risks generated by the financial instruments held, to which AEROSTAR S.A is exposed are:

- a) credit risk
- b) liquidity risk,
- c) currency risk,
- d) interest rate risk.

a) Credit risk

The credit risk is the risk that one of the parties involved in a financial instrument generates a financial loss for the other party as a result of the failure to meet a contractual obligation, related mainly to cash, cash equivalents (bank deposits) and trade receivables.

The cash and cash equivalents are placed only at first-rank bank institutions considered to have a high solvency rate.

In some cases, specific instruments of commercial credit risk decrease (receipts in advance, letters of payment bank security, confirmed export credentials).

AEROSTAR has no significant exposure toward a single partner and records no significant concentration of receivables on a single geographical area.

Exposure to credit risk

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

The maximum exposure to the credit risk on the reporting date was:

	31.12.2018	31.12.2017
Cash and cash equivalents	167,545	163,886
Trade receivables, net of adjustments for depreciation	54,176	37,602
Trade effects received	161	0
Immobilized receivables	34	168
Loans granted with interest	0	87
Total	221,916	201,743

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

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

	31.12.2018	31.12.2017
Domestic market	9,735	4,470
Euro zone countries	18,785	19,029
Great Britain	14,667	9,308
Other European countries	3,991	1,147
Other regions	6,998	3,648
Total	54,176	37,602

Depreciation adjustments

The timeframe structure of gross trade receivables on the reporting date was:

	Gross value 31.12.2018	Adjustments for depreciation 31.12.2018	Gross value 31.12.2017	Adjustments for depreciation 31.12.2017
In due time	53,458		37,547	
Past due, total of which:	734	16	1,217	1,162
1-30 days	0	0	13	13
31-60 days	222	16	817	772
61-90 days	4	0	99	89
91-120 days	0	0	98	98
Over 120 days	508	0	189	189
Over 1 year	0	0	1	1
Total	54,192	16	38,764	1,162

The movement in the adjustments for the depreciation of the trade receivables during the year is presented in the following table:

	31.12.2018	31.12.2017
Balance on 1 January	1,162	1,024
Adjustments set for depreciation	2,193	6,040
Adjustments set for depreciations resumed as revenues	(3,339)	(5,902)
Balance on 31 December	16	1,162

On 31.12.2018, a percentage of 99,97% from the balance of trade receivables are related to customers which have a payment history.

b) Liquidity risk

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

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

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

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

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

The time intervals used to review the contractual due dates of the financial liabilities, with a view to show the timeframe for the cash flows in due time, are shown in the table below:

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

	Financial debts	Accounting value	Contractual cash flows	0-30 days	31-60 days	over 60 days
31.12.2018	Trade liabilities payable	16,977	(16,977)	(12,719)	(3,078)	(1,180)
	Trade effects	0	0	0	0	0
31.12.2017	Trade liabilities	22,776	(22,776)	(14,836)	(5,793)	(2,147)
	Trade effects	39	(39)	(39)	0	0

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

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

On 31.12.2018 AEROSTAR has no records of overdue financial liabilities.

c) Foreign currency risk

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

Exposure to the foreign currency risk

AEROSTAR is exposed to the foreign currency risks, as 76% from the turnover recorded in the reporting period is denominated in USD and EUR, while a significant part of the operating expenses is denominated in lei.

So, Aerostar is exposed to the risk that the currency exchange rate variations will affect both its net income and its financial position as expressed in lei.

The net exposure to the foreign currency risks of the financial assets and liabilities is presented on the basis of the accounting values denominated in foreign currency registered at the end of the reporting period:

31.12.2018	thousand EUR	thousand USD	thousand GBP
Cash and cash equivalents	1,681	1,304	17
Trade receivables	1,792	8,858	0
Trade liabilities	(770)	(1,513)	(64)
Net exposure in original currency	2,703	8,649	(47)

Sensitivity analysis

Taking into consideration the net exposure calculated in the above table it can be considered that AEROSTAR is exposed mainly to the foreign exchange risk generated by the variation of the foreign exchange rate USD/LEU.

Taking into consideration the evolution of USD/LEU exchange rate from the last 3 years (2016-2018), a relatively high volatility of (+/- 10%) can be observed.

Thus, a reasonably possible variation of the foreign exchange rate of +/- 10% may be envisaged to calculate at the end of the reporting period.

The effect of the reasonably possible variation of +/- 10% of the exchange rate USD/LEU over the financial result of AEROSTAR is calculated in the following table:

31.12.2018	
Net exposure in the currency of origin (thousand USD)	8,649
USD/LEU exchange rates	4.07
Net exposure in functional currency	35,201
Possible reasonable variation of exchange rate	+/- 10%
Effect of the variation on the financial result	+/- 3,520 thousand LEI

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
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d) Interest rate risk

For the reporting period AEROSTAR contracted a multi-product Credit Facility of 7,000 thousand USD, intended for financing the Company's operations, which includes:

- 1) Product A: in amount of 2,500 thousand USD, usable as an overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) Product B: in amount of 7,000 thousand USD (subject to the aggregate amount used from Product A and product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility of issuing bonds as instruments to ensure collateral for the commercial contractual obligations by issuing bank bond letters and import Letters of Credit.

The bank interest is applicable only for the overdraft utilized from Product A in amount of 2,500 thousand USD.

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

On 31.12.2018, the level of bonds granted by AEROSTAR under commercial agreements, by issue of bank bond letters amounts to 1,522 thousand USD (equivalent to 6.200 thousand lei).

On 31.12.2018 no mortgages are set on the property assets in AEROSTAR ownership.

NOTE 19 - OPERATING INCOME

	31 December 2018	31 December 2017
Revenues from sales, from which:	353,413	340,172
Revenues from product sales	189,964	187,880
Revenues from services supplied	157,560	145,632
Revenues from selling goods	3,298	4,086
Revenues from renting	2,156	2,024
Trade discounts granted	(18)	(2)
Revenues from other activities	453	552
Revenues related to inventories of products finished and in progress	12,528	10,420
Revenues from the production of fixed assets	1,645	1,287
Revenues from operating subsidies	186	-
Other revenues from operations	3,473	3,632
Total operating income	371,245	355,511

Starting with 1 January 2018 the company has adopted the new standard of IFRS 15 *Revenue from contracts with customers* for the accounting reports of the financial year 2018 without need of restating for the financial year 2017, due to the following considerations:

- The impact of the new standard over the key figures of the company was limited due to the fact that the revenues were already recognized at the moment of the transfer of control from the seller to the buyer;
- Exception: revenues from services performed evaluated according to IAS 18, depending on the stage of completion of the agreement, their value in 2017 being of 477 thousand lei, revenues which were derecognized at the end of the financial year, for the purposes of early applying IFRS 15.

The company obtained in 2018 revenues from subsidies that represent participation expenses at fairs and international expositions financed from the state budget, in amount of 36 thousand lei, respectively subsidies received to conclude apprenticeship contracts, in the amount of 150 thousand lei.

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 20 - OPERATING EXPENSES

	31 December 2018	31 December 2017
Expenses with employee benefits , from which:	114,974	108,629
Salaries and allowances	103,827	83,419
Expenses with benefits in kind and expenses with ticket meals granted to employees	6,152	6,254
Expenses with social security	4,995	18,956
Expenses with raw materials and materials	103,587	106,717
Energy, water and gas	8,563	8,314
Other material expenses , from which:	11,974	12,971
Expenses with non-inventory materials	1,619	2,130
Expenses with goods	2,850	3,878
Expenses with packing	683	245
Expenses with other materials	6,822	6,718
Expenses with external services , from which:	26,659	30,629
Repairs	8,602	12,227
Transport costs	2,981	3,290
Commission and fees	3,377	3,272
Travels, deployments	998	1,069
Renting expenses	769	770
Other expenses with services supplied by third parties	7,930	7,810
Trade discounts received	(28)	(18)
Amortizations	25,307	24,275
Increase/decrease of adjustments regarding provisions	(12,638)	945
Increase/decrease of adjustments regarding depreciation of current assets	5,106	(1,337)
Other operational expenses	4,664	4,246
Total Operating expenses	288,168	295,371

NOTE 21 - FINANCIAL INCOME

	31 December 2018	31 December 2017
Income from foreign currency exchange differences	4,732	3,334
Income from interest	2,873	890
Income from shares held in subsidiaries	201	189
Total financial income	7,806	4,413

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 2018	31 December 2017
Expenses from exchange rate differences	3,463	5,766
Total financial expenses	3,463	5,766

In the financial expenses category the company only registers expenses from unfavourable exchange rates differences, it does not register expenses regarding financial investments assigned, with the interests or other financial expenses.

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 23 - TAX ON PROFIT**Tax on profit**

The tax on profit is recognized in the statement of the profit or loss.

The tax on profit is the tax payable relating to the profit made in the current period, determined in accordance with the fiscal regulations applicable at the reporting date.

The profit tax rate applicable for 31.12.2018 was of 16% (the same rate was applied also for the financial year 2017).

		31 December 2018		
Gross accounting profit		87,420		
Expenses with current tax on profit		8,085		
Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	376,241	Fiscal incomes	335,411	-40,830
Accounting expenses*	289,262	Fiscal expenses	247,962	-41,300
Gross accounting profit, restated*	86,979	Fiscal profit	87,449	470
Accounting tax (16%)	13,917	Fiscal tax (16%)	13,992	75
Tax reductions	-	Tax reductions, from which:	5,907	+5,907
		• related to investments made acc.to Art. 22 Fiscal Code	4,165	+4,165
		• sponsoring	1,742	+1,742
Tax on final profit	13,917	Tax on final profit	8,085	-5,832
Applicable legal rate	16.00%	Legal rate applicable	16.00%	
Actual average tax rate, calculated on gross accounting profit, restated			9.30%	

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

The main factors which have affected the actual tax rate:

- the non-taxable income obtained from the recovery of certain non-deductible expenses, from which the income from certain provisions resumed for bonds/ collateral and for other risks in amount of 31,578 thousand lei and income from certain adjustments of value, resumed, regarding current assets in amount of 9,603 thousand lei;
- fiscal facilities representing the tax exemption on profit corresponding to the investments performed in accordance with Art.22 of the Fiscal Code, in amount of 4,165 thousand lei and sponsoring in amount of 1,742 thousand lei;
- Non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions and value adjustments regarding the current assets, which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization).

The company has registered at 31 December 2018 a liability regarding tax on current profit in the amount of 2,357 thousand lei related to fourth quarter of 2018.

The tax specific to some activities

Starting with 01.01.2017 Aerostar S.A. became taxable for restaurant and public food supply activities. The specific tax related to the year 2018 was in the amount of 52 thousand lei.

NOTE 24 - RESULT PER SHARE

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

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

IN LEI	31.12.2018	31.12.2017
Profit distributable to ordinary shareholders	79,920,849	53,169,633
Number of ordinary shares	152,277,450	152,277,450
Profit per share	0.525	0.349

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

NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is 1,804 for the year 2018 and 1,834 for the year 2017.

To these is added an average number of employees attracted through the temporary employment agent and used in the production process of AEROSTAR.

The total personnel employed in the activity of AEROSTAR was:

	year 2018	year 2017
Total employees	1,936	2,031

NOTE 26 - TRANSACTIONS WITH RELATED PARTIES

Acquisitions of goods and services	year 2018	year 2017
Airpro Consult SRL Bacău	7,593	9,252
Foar SRL Bacău	516	571
TOTAL	8.109	9.823

Sales of goods and services	year 2018	year 2017
Airpro Consult SRL Bacău	-	16
Foar SRL Bacău	2	4
TOTAL	2	20

Liabilities	Balance at 31.12.2018	Balance at 01.01.2017
Airpro Consult SRL Bacău	592	765
Foar SRL Bacău	30	33
TOTAL	622	798

Dividends collected by Aerostar	year 2018	year 2017
Airpro Consult SRL Bacău	90	97
Foar SRL Bacău	112	92
TOTAL	202	189

The transactions with the affiliated parties in 2018 consisted in:

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

In the period January – December 2018 no transactions were made with the company Aerostar Transporturi Feroviare SA Bacău, its activity being suspended from the year 2016. Starting with November 2018 the company changed its name in ATF SA.

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)**

NOTE 27 - INFORMATION REGARDING CASH FLOW

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

The cash flows situation represents the cash flows and cash equivalents classified on operating activities, of investment and financing, thus indicating how AEROSTAR generates and uses the cash and cash equivalents.

In the context of the Cash Flows Statement:

- the cash flows are the amounts collected and paid in cash and cash equivalents;
- the cash means the amounts available in banks and cashier's desk.
- the cash equivalents comprise the deposits formed in banks, bills and promissory notes filed in banks to be collected.

The treasury cash flows from the transactions performed in foreign currency are registered in the functional currency by applying over this value the exchange rate between the functional currency (LEU) and the foreign currency as on the date when the treasury cash flow was generated (date of making payments and collections).

The earnings and losses coming from the exchange rate variation are not treasury cash flows. Nevertheless, the effect of the exchange rate variation over the cash and equivalent held or due in foreign currency is reported in the treasury cash flows statement, but separately from the treasury cash flows coming from operations, investments and financing, with the purpose to reconcile the cash and cash equivalents at the beginning and at the end of the reporting period.

The operating activities are AEROSTAR's main cash-generating activities.

Therefore in 2018 the amounts collected from the customers were 352,279 thousand lei, from which 31,532 thousand lei represent the prepaid amounts from the customers, while the payments to the suppliers and employees were in the amount of 253,029 thousand lei.

The operating activity generated a net cash of 46,453 thousand lei.

To increase the operational capacity, through the acquisition of tangible and intangible immobilizations, an amount of 32,669 thousand lei was used from company's own sources.

The value of the treasury cash flows allocated in 2018 to increase the operating capacity represents 9% from the aggregate value of the cash used in the framework of operating, investment and financing activities.

As part of the financing activity, the amount of 13,658 thousand lei was paid, representing the dividends granted to the shareholders.

NOTE 28 - LIABILITIES AND OTHER OFF-BALANCE ITEMS

Aerostar registers as off-balance items, the rights, liabilities and goods which are not recognized in the company assets and liabilities, i.e.:

	31 December 2018	31 December 2017
• Liabilities		
○ Bonds granted to customers as letters of bank bonds	1,520	11,809
○ Bonds received from suppliers – as letters of bank bonds	11,636	43,311
• Goods, from which:		
○ inventories of other materials released for use (tooling, jigs, fixtures, protection equipment, measuring and control eqpt, technical library etc.)	26,552	25,026
○ material values received in consignment	1,826	1,799
○ tangible and intangible assets –obtained or purchased as a result of co-financed activity	4,151	4,151
○ material values received for processing/repairs	2,116	1,016
• Other values off-balance		
○ Liabilities for covering certain future obligations to A.J.O.F.M. based on OUG 95/2002 regarding the defence industry	5,782	6,215
○ Royalties, tenant activities, rents and other similar liabilities	2,335	2,382
○ debtors removed from accounts, yet still monitored	586	579
• Greenhouse Gas Emission Certificates	1,678	498

At the date of 31 December 2018, AEROSTAR had a number of 14.604 greenhouse gas emission certificates.

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The market value from the last transaction day of a GES certificate was of 24.63 Euro, according to the TDR Energy market journal (in December 2018: 8.18 Euro).

NOTE 29 - REMUNERATION OF THE DIRECTORS

On the date of 31 December 2018, the structure of AEROSTAR's Board of Directors remained unchanged in comparison with the one from 31 December 2017.

The Board of Directors of AEROSTAR S.A.:

Numele și prenumele	Funcția	Profesia
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
VÎRNA DANIEL	Member of the Board of Directors	Legal Advisor

In 2018 AEROSTAR did not grant advance payments or credits to the members of the Board of Directors and did not make any liabilities on their account as a collateral of any kind.

The compensations of the Directors are approved by the General Meeting of the Shareholders.

In the Ordinary General Meeting from 13 December 2018 the shareholders of the company approved, to freeze the administrators's compensation for the year 2019 at the level agreed in the Ordinary General Meeting of Shareholders from 14 December 2017, namely:

- a net compensation for the BOD members of 4,500 lei
- a maximum level of the additional compensations for the executive members of the Board of Directors, of maximum 10 (ten)times the net remuneration, inclusively;
- empower the Board of Directors to negotiate the additional compensation with the executive members, within the maximum limit approved by the Ordinary General Meeting.

The amount of the gross compensations for the members of the Board of Directors in 2018, by virtue of their responsibilities, was of 461.52 thousand lei.

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

NOTE 30 - RISK MANAGEMENT

AEROSTAR is exposed to multiple risks and uncertainties which can affect its financial performance. The business lines performed by AEROSTAR, the operational results or the financial statements, may be affected by the materialization of the risk presented further.

AEROSTAR pursues to secure the average and long-term sustainability and the reduction of uncertainty associated with its strategic and financial objectives.

Carrying out the risk management processes provides the identification, analysis, evaluation and management of risks in order to minimize their effects down to an agreed level.

However, risks and uncertainties can exist additional to the elements presented further on, which are currently unknown or considered insignificant, but which may affect in the future the business lines performed by AEROSTAR.

Operational Risk

It is the risk to incur losses or of failure to make the estimated profits determined by:

- performance of certain inadequate processes, systems and manpower or which failed to execute their function properly
- external events and actions: deterioration of the global economic conditions, natural catastrophies or other events which can affect AEROSTAR's assets.

To the **Operational Risk** it is also assimilated the **Legal Risk**, defined as the risk of loss, resulting from the fines, penalties and sanctions which can be in charge of AEROSTAR in case of non-application or misapplication of dispositions, legal or contractual regulations, as well as the fact that the rights and contractual obligations of AEROSTAR and/or of the business partner are not properly established.

Monitoring and disposal of the legal risk's effects is realised through a permanent information system regarding the legislative modifications, as well as by organizing a review, endorsement and approval system of the terms and conditions included in the commercial agreements.

AEROSTAR allocates and will continue to allocate investment funds and other operational expenses in order to prevent and manage the operational risk. In addition, AEROSTAR aims, by setting provisions for risks and related expenses, to have its own funding to cover its risks of exposure.

Also, in order to minimize the operational risk, AEROSTAR annually renews, with companies of 1st tier insurance-reinsurance, a civil liability insurance contract related to the main business lines (manufacturing of aircraft products and maintenance for commercial aircraft).

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

Cash and cash equivalents are placed only in 1st tier bank institutions, considered as having a high solvency rating.

The credit risk, including the risk of the country in which the customer operates its activity, is managed on each business partner. When necessary, specific instruments of credit risk mitigation are requested (advance payments, letters of bank guarantee, confirmed letters of credit).

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

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

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

To manage the liquidity risk, the cash flows are monitored and analysed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash. Such reviews provide the basis for the financing decisions and for the capital expenditures.

In order to reduce the liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line usable under the form of an overdraft granted by banks of 2.500.000 USD. During the reporting period, AEROSTAR did not use the Credit Line, all the activities of the Company being financed from its own sources.

The **Market Risk** is the risk that the fair value or future cash flows of a financial statement will fluctuate due to the modifications of the market price.

The market risk comprises the price risk, exchange rate risk and the risk of the interest's rate.

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

The management of this risk is realised through:

- diversification of the portfolio of suppliers, which offers a larger leverage in negotiations in case the price of raw materials is increased by certain suppliers.
- long-term contract agreements, with provisions on fixed prices.

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)**

AEROSTAR is exposed to the exchange rate risk because 76% from the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in lei.

Thus, AEROSTAR is exposed to the risk that the exchange rate variations shall affect both its net income, as well as its financial position, as they are expressed in lei.

A sensitivity analysis of AEROSTAR to the foreign exchange rate's variations is detailed in Note 18 (Financial Instruments) in the Financial Statements.

In the reporting period Aerostar did not register financial losses.

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

NOTE 31 - EXPENSES AND INCOME IN ADVANCE

	31 December 2018	31 December 2017
Prepaid Expenses	504	491
Incomes registered in advance	0	28

The expenses made and income realized in the current period, but which relate to the future periods or financial exercises, are recorded distinctively in accounts, as prepaid expenses or income in advance, as applicable.

In the category **prepaid expenses**, the Company registered the amounts related to the periods or financial years to follow, representing: subscriptions, insurance policies, commissions, trade fairs and conferences participations, taxes and duties, on-line services, IT maintenance, etc., which are allocated on expenses, according to the due.

In the category **Income in advance**, the company registered during 2018 income related to the following periods for elements of financial fixed assets or operating subsidies, but which were fully recognized as income of the current period afterwards.

Therefore, on 31 December 2018 no income in advance is registered in accounts.

NOTE 32 - EVENTS AFTER THE REPORTING PERIOD

AEROSTAR S.A did not identify events after the reporting period which may impact the financial statements related to the financial year ended on 31 December 2018.

These individual financial statements which comprise: the statement of the financial position, the statement of the profit or loss, other elements of the global result, the statement of the company equity's modifications, the statement of the cash flows and the explicative notes of the financial statements were approved by the Board of Directors on 21 March 2018 and signed on the behalf of the Board of Directors by:

GRIGORE FILIP
President and General Director

DORU DAMASCHIN
Vice-president and Financial Director

DECLARATION

The undersigned, GRIGORE FILIP, as President of the Board of Directors and General Director of AEROSTAR S.A. and DORU DAMASCHIN, as Vicepresident of the Board of Directors and Financial Director of AEROSTAR S.A., hereby undertake the responsibility for the preparation of the individual financial statements as on 31.12.2018, and we confirm hereby that:

- a) The accounting-financial statements for 2018, prepared in accordance with the applicable accounting standards, offer a fair image conforming with the reality of the assets, obligations, financial position, of the profit and loss account of Aerostar S.A. Bacău.
- b) The report of the Board of Directors on the financial year 2018, prepared in accordance with the provisions of the Regulation no. 5/2018 issued by the Financial Supervisory Authority – Annex no 15 provides a correct review of the company's development and performances as well as a description of the main risks and uncertainties specific to the activity of Aerostar S.A. Bacău.

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

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



Independent Auditor's Report*

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

To the shareholders of AEROSTAR S.A.

Report on the Audit of the Financial Statements

Opinion

1. We have audited the accompanying financial statements of **AEROSTAR S.A.** ("the Company"), with registered office in 9 Condorilor Street, Bacau, Romania, registered with the Trade Registry under no. J4/1137/1991 and having fiscal identification code RO950531, which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss, statement of other elements of the global result, statement of changes in equity and statement of cash flows for the financial year then ended, and explanatory notes to the financial statements, including a summary of significant accounting policies, presenting the following:

- Net Assets / Total equity and reserves: RON 315,139 thousand,
- Net result of the year: RON 79,921 thousand (profit)

2. In our opinion, the accompanying financial statements of the Company present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended, in accordance with the provisions of the Order of the Ministry of Public Finance 2844/2016 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards, as subsequently amended ("OMFP 2844/2016") and as described in the accounting policies presented in the notes to the financial statements.

Basis for Opinion

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

Key Audit Matters

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



Key audit matter	Audit procedures performed to address the key audit matter
Correction of accounting errors	
<p>As disclosed in Note 13 to the financial statements, the Company has in balance at 31 December 2018 total provisions in amount of RON 112,551 thousand, out of which long-term provisions in amount of RON 95,796 thousand.</p> <p>Estimating a provision involves significant professional judgment from the Company's management with regard to the probable outcome of the relevant events and the quantification of the related probable liability.</p> <p>Due to the importance of the amounts reported in the Provisions and the fact that, by their nature, the provisions imply a significant degree of professional judgment, we consider that Provisions represent a key audit matter for the 2018 audit.</p>	<p>In order to obtain reasonable assurance we have performed the following procedures:</p> <ul style="list-style-type: none"> • We have reviewed the Company's current obligations under which provisions were recognized; • We have reviewed the professional judgment used by the management of the Company in order to determine the probable outcome of the relevant events and the quantification of the related probable liability; • We have obtained, where appropriate, the point of view of the legal department of the Company regarding the probability of settling disputes in progress, as well as the best estimate of the consideration necessary to settle the probable liability arising from these disputes; • We have analyzed the maturity of the obligations that have generated the provisions and their classification in the short and long term.

Other matters

5. The financial statements prepared as at 31 December 2017 in accordance with OMFP 2844/2016 have been audited by another auditor, who issued an unmodified audit report thereon on 30 March 2018.

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

9. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

10. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

11. As part of the audit process, we communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



12. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

13. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

The Administrators' Report is presented as an Annual Report and is not part of the Company's financial statements.

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

In connection with our audit of the financial statements of the Company as at 31 December 2018, we have read the Administrators' Report attached to the financial statements and we report the following:

- a) we have not identified in the Administrators' Report any information which is not consistent, in all material respects, with the information presented in the accompanying financial statements;
- b) the Administrators' Report identified above includes, in all material respects, the information required by articles 15-19 from the Accounting Regulations approved by OMFP 2844/2016;
- c) based on our knowledge and understanding acquired during the audit of the financial statements for the year ended 31 December 2018 regarding the Company and its environment, we have not identified in the Administrators' Report any information that would be significantly misstated.

Report on Other Legal and Regulatory Requirements

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

*Appointment of the Auditor and the Period of Engagement*

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

Consistency with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 19 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services, as referred to in Article 5(1) of Regulation (EU) No. 537/2014, were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

Bucharest, 21 March 2019

Vasile Andrian

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

On behalf of **MAZARS ROMANIA SRL**

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

THE PROFIT DISTRIBUTION* FOR THE YEAR 2018

Net profit of the financial year 2018	79,920,849.23 lei
• Distribution to the legal reserve of the reinvested profit	26,034,996.79 lei
• Distribution to statutory reserves	37,436,793.44 lei
• Distributions as dividends (gross dividend per share : 0.108 lei)	16,449,059.00 lei

* Agreed in the General Meeting of the Shareholders held on 24 April 2019

**President of the Board of Directors & General Director,
GRIGORE FILIP**

**Vice-president of the Board of Directors & Financial Director,
DORU DAMASCHIN**

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2018

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Consiliul de Miniștri
al
Republicii Populare Române

HOTARARE Nr. 1465
pentru

înființarea Intreprinderii Economice "Atelierul Central de Aviație"

Consiliul de Miniștri în ședința dela 17 Aprilie 1953
Văzând referatul Ministrului Forțelor Armate Nr.

In temeiul art. 2, 5, 6 și 9 din Decretul Nr. 199 din 14 Mai 1949 și art. 3 din Decretul Nr. 59 din 27 Aprilie 1951;

HOTARASTE

Art. 1.- In scopul asigurării, reparării, fabricării pieselor de schimb, agregatelor avioanelor și motoarelor de avion, producerii aparatelor de bord, precum și fabricării sculelor speciale de aviație, necesare Forțelor Armate ale R.P.R., se înființează pe data de 1 Ianuarie 1953, sub îndrumarea și controlul Ministerului Forțelor Armate, Intreprinderea Economică "Uzina de Reparații Avioane" cu sediul în comuna Vasile Roaită raionul Bacău.

Art. 2.- Intreprinderea prevăzută la art. 1 se organizează ca întreprindere economică de gradul I și se va conduce după principiile gospodăririi chibzuite, numindu-se imediat persoana- lul de conducere.

Art. 3.- Fondul de bază al Intreprinderii Economice "Uzina de Reparații Avioane" constă din clădirile, mașinile unelte și sculele care se pun la dispoziție de Ministerul Forțelor Armate la începutul anului 1953 se va prezenta în proiectul tehnic al atelierului tehnic din

Art. 4.- Finanțarea cheltuielilor pentru anul 1953 se va asigura din fondul de investiții al Ministerului Forțelor Armate, iar pentru colectarea și distribuția materialelor necesare se va înainta propuneri de plan forțe de muncii.

Art. 5.- Ministrul Forțelor Armate, Ministrul Făcării și Președintele Comitetului de Stat al Planificării și îndeplinire dispozițiunile prezentei Hotărâri.

București la 17 Aprilie 1953

TOVARAȘI MINISTRI,

Desvoltarea continuă a Forțelor Aeriene Militare impune mărirea capacității de lucru a atelierelor pentru reparația avioanelor și motoarelor de avion, precum și fabricarea pieselor de schimb, agregatelor pentru motoare și aparatelor de bord.

Actualele ateliere sunt insuficiente pentru a face față nevoilor menționate mai sus și în special cerințelor reparației avioanelor și motoarelor cu piston și cu reacție din tehnica nouă planurile pe anul 1951, 1952 și 1953 creșterea unui atelier central de aviație în comuna Vasile Roaită Raionul Bacău.

In prezent parte din clădiri sunt terminate și gata a fi date în folosință, iar altele vor fi terminate în cursul anului 1953.

Deasemenea au început să sosească și mașinile unelte d import, astfel încât se prevede că în cursul anului 1953 se va livra totalitatea utilajului necesar înființării atelierului.

Realizarea sarcinilor ce se impun a fi executate de atelier, necesită în cursul anului 1953 o serie de operațiuni de amenajare, de confecționare a utilajelor și dispozitivelor, pentru fabricație și reparație.

Față de această situație urmează a se înființa și organiza atelierul ca întreprindere economică gospodărită chibzuit și a se trece la numirea conducerii acestuia, angajarea personalului tehnic-administrativ, întocmirea planului de organizare tehnica a unității și instruirea cadrelor și muncitorilor.

Atelierul astfel organizat și utilat va intra în producție la data de 1 Ianuarie 1954, va avea o capacitate de lucru în prima sa fază de dezvoltare de cca. 1.200.000 ore anual și un număr de circa 700 angajați, dintre care 500 muncitori de bază.

Dat fiind înes volumul mare al lucrărilor, gradul ridicat de tehnicitate și importanța atelierului, se impune organizarea acestuia ca întreprindere de gradul I.

Pentru finanțarea operațiunilor necesare intrării în producție a acestei întreprinderi, în perioada neproductivă, Ministerul Forțelor Armate a prevăzut suma necesară în planul său de cheltuieli, fondul investițiilor pe anul 1953, ce pot fi efectuate, potrivit dispozițiilor art. 3 din Decretul Nr. 59 din 27 Aprilie 1951.

In scopul organizării atelierului de mai sus ca unitate gospodărită chibzuit, s-a întocmit și înaintat proiect de Hotărâre pe care, dacă sunteți de acord cu dispozițiunile lui, rog a-l semnifica.

MINISTRUL FORTELOR ARMATE

General de Armata

Smil Rodnarag

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