

REPORT OF THE BOARD OF DIRECTORS

for the financial year 2015

AEROSTAR S.A. BACĂU

CONTENTS

REPORT OF THE BOARD OF DIRECTORS

Aviation and defence industry in 2015

AEROSTAR, a pole of aeronautical development

AEROSTAR, a great investor during the year 2015

Summary in figures

Important events of the year 2015

Declaration of the General Director

Year 2015 for AEROSTAR, the year of modernisation and investments

AEROSTAR and the shareholders

Important events after the end of the financial year 2015

AEROSTAR administration. Corporate Governance

AEROSTAR in relation with the capital market institutions

The mission, present and future

The future has already begun!

Value and competitiveness on the market

AEROSTAR Businesses

In the field of civil aviation

AEROSTAR Businesses

In the field of defence, expertise of tradition and new challenges

The Centre of Excellence for Airbus A320 and Boeing 737 maintenance

Commercial and logistics, more integrated

Investment and innovation, sustainable development

We deliver quality, we provide a cleaner environment

Aspects related to the Quality and Environmental Management System

SUSTAINABILITY.

From the workforce in the industry, to the growth of talents

Tangible Assets

Internal Control System

Risk Management

In the future, we will continue the modernization

Commitment for good practice in corporate governance

(The Statement on the Compliance with the Code of Corporate Governance)

Aviation and defence industry in 2015

The effects of declining oil prices impact on the aviation and defence industry.

The reviews for the year 2015 have highlighted the increasing geopolitical turbulences, the development of cross-border demographic phenomena and crises of a new type, difficult to anticipate.

The "Geography lesson" in the aerospace industry "taught" during the year 2015 shows paradigm shifts: Airbus began to build A320 aircraft in Alabama and Boeing announced plans to deliver B737 aircraft from China, even if the production systems of the two global players have not undergone significant changes.

The global supply chains are preparing to build a combined number as high as 120 aircraft, A320 and B737, per month, by the end of the decade.

Additional manufacturing capacities are needed to support the growth potential in commercial aviation and firm actions to ensure the infrastructure, stability and talents that the industry needs.

In the defence industry, the synergies with the aviation industry, security and cyber security raise to a new level the requirements for interoperability and cost effectiveness.

AEROSTAR, a pole of aeronautical development

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

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

The main field of activity is production.

Aerostar is number 1 in Romania for its object of activity.

- Number 1 in aviation manufacturing
- Number 1 in maintenance of civil aircraft
- Number 1 for the solutions supplied in the field of aero & ground defence systems

Aerostar is a regional leader in these market areas.

Aerostar's footprint in the global aeronautical manufacturing programmes is significant.

Since its establishment to date, AEROSTAR has operated in conditions of continuity in the aviation industry and defence.

During the year 2015 there was no merger or significant reorganization of AEROSTAR or the companies under AEROSTAR's control.

AEROSTAR, a great investor during the year 2015

Summary in figures

AEROSTAR SA has prepared and published the financial statements for the year 2015 according to the international financial reporting standards (IFRS).

	MU	31.12.2015	31.12.2014
Share Capital	thousand lei	48.729	48.729
Turnover	thousand lei	329.764	261.051
• export sales	thousand lei	253.084	183.846
Expenses for investments	thousand lei	33.396	12.144
Total employees, of which:	No.	2.012	1.868
• own employees	No.	1.792	1.738
• employees from temporary labour agent	No.	220	130
Total gross profit (before taxes)	thousand lei	55.554	25.001
Net profit	thousand lei	52.268	19.744
General liquidity	-	4,12	3,07

"AEROSTAR" (ARS) SHARE

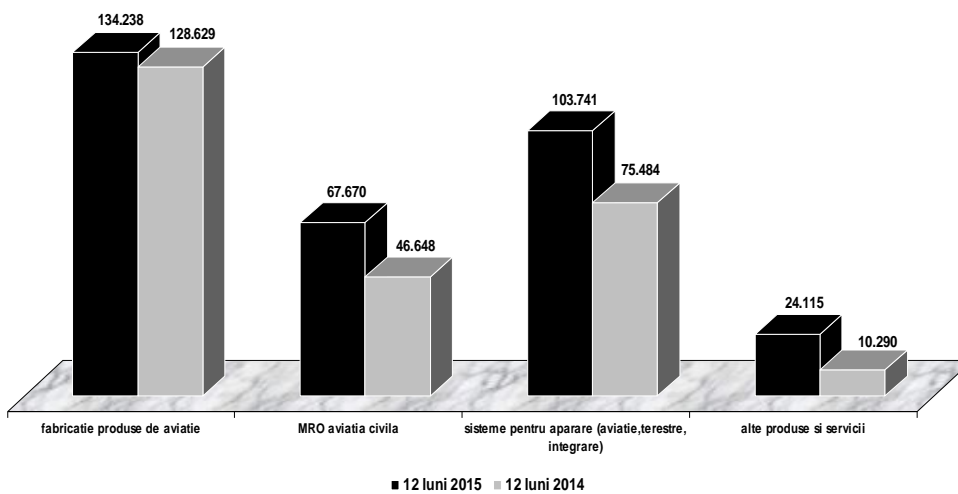
Stock Exchange symbol (<i>ticker symbol</i>) "ARS"		year 2015	year 2014
number of shares	No.	152.277.450	152.277.450
nominal value per share	lei	0,32	0,32
net profit per share (EPS report)	lei	0,343	0,147
market value per share at the end of the period	lei	2,720	1.850
stock exchange market capitalisation	lei	414.194.664	281.713.283

MACRO-ECONOMIC INDICATORS

	MU	2015	2014
inflation	%	0,99%	0,83%
Average exchange rate EURO/ 12 months	lei/EURO	4,4448	4,4446
Average exchange rate USD/ 12 months	lei/USD	4,0038	3,3475
Average exchange rate GBP/ 12 months	lei/GBP	6,1224	5,5115

Financial position (K lei)	31.12.2015	31.12.2014
• Immobilized assets (net values)	150.744	129.667
• Circulating assets	202.055	170.449
• Share Capital	48.729	48.729
• Company Own capital	181.519	142.799
• Total liabilities	67.564	67.855

Turnover distribution by main products and services in 2015 (thousand lei)



Important events of the year 2015

The ordinary general meeting of Aerostar shareholders held on April 23rd 2015 approved the distribution of the amount of 13.552.693 lei from the profit of the year 2014 for dividends, which corresponds to a gross dividend per share of 0,089 lei.

◀◀ In December 2015 the project “**Consolidation and sustainable development of the machining and painting sectors through performant investments**” was successfully completed, a project co-financed by the European Regional Development Fund, based on the financing contract signed with the Ministry of European Funds – the Management Authority for the Sectoral Operational Programme "Increase of Economic Competitiveness" - Priority Axis 1 "An innovative and eco-efficient production system", Operation 1.1.1 b) Support for consolidation and modernization of the production system by tangible and intangible investments in large enterprises.

The project was implemented during the timeframe 25.03.2015 – 24.12.2015, at the premises of AEROSTAR SA, 9 Condorilor street, Bacau city, Bacau county.

The total value of the project was of 22.607.246 lei, of which the financial non-reimbursable grant is 8.477.250 lei:

European Union contribution:	7.290.435 lei
Romanian Government contribution:	1.186.815 lei

◀◀ Start of delivery of parts and components for the BOEING supply chain.

Declaration of the General Director Year 2015 for AEROSTAR, the year of modernisation and investments

AEROSTAR has been building into a pole of aeronautical development.

The challenges encountered by Aerostar were multiple while going from the position of a supplier for the Romanian market to the development of an identity and significant footprint on the international market.

Currently, Aerostar is in a new stage of the competition game, which takes over the paradigm shifts occurring at global and regional scale, as well as the elements associated to the environment in which we operate.

All along this process, we have relied on the trust of our customers and business partners.

For Aerostar, 2015 was another year of modernisation and investments.

The results of the year 2015 demonstrate further on the success of the organic growth programmes, modernization, technological and organizational development.

The total revenues made in 2015 are 351.842 thousand lei.

The investment expenditure was a total of 33.396 thousand lei, that is 10% of the turnover achieved. The maturity test of these investments is to materialize in the successful bringing of fruits.

The exports represent over 77% of the turnover of the year 2015 and cover a market of great diversity and extent.

The net profit of over 52 million lei, in substantial increase compared to the previous year, by returning to the company, is going to provide most of the growth resources which the company needs.

<p>The growth strategy which we adopted in Aerostar, which has been successfully implemented in practice, in a consistent and predictable way, was reconfirmed this year and brings satisfaction to all the involved parties: customers, employees, shareholders.</p>

Aerostar is now a more competitive company, more cost effective, with modern technologies and improved maturity in terms of market opportunities capitalization.

Aerostar is a significant supplier in major programmes and holds the strength and competence to manage the risks associated with the business growth.

The objectives set for the present, as well as for the future, pursue the modernization of the production systems, of the management systems for production and business, for organizational development, aligned with the evolutions in the world industry.

We will continue the investment programmes and we will streamline our business flows to the highest standards of our Customers.

Grigore FILIP
President - General Director

AEROSTAR and the shareholders

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

Aerostar Shares are nominative, ordinary, of equal value, issued in dematerialized form and identified by registration in the Register of Shareholders. This is under the administration of Depozitarul Central S.A. Bucharest.

According to the records available at Depozitarul Central S.A., the share issuer AEROSTAR S.A. is registered with the following data:

Individual Identification Number 950531,

ISIN code ROAEROACNOR5, stock exchange symbol ARS.

The share capital of the company is 48.728.784 lei, a total number of 152.277.450 shares, with a nominal value of 0.32 lei.

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

There is a further large number of shareholders, natural and legal persons, holding stock below the significance threshold as defined in the regulations of the National Securities Exchange Commission - currently the Financial Supervisory Authority and of the Bucharest Stock Exchange.

The **General Meetings of Shareholders** were held in full compliance with the provisions of the Companies Act- Law no. 31/1990, the law no. 297/2004 regarding the capital market and the applicable regulations issued by the National Securities Exchange Commission- (currently the Financial Supervisory Authority), as well as with any other applicable legal provision.

The general meetings of the shareholders were held on 23 April and 10 December. They were convened and held according to the legal and statutory provisions.

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

The company did not buy its own shares and did not issue securities or other bonds during the year 2015.

The dividends distributed from the profit obtained in the financial year 2014 were paid to shareholders starting from **23.10.2015**, through Depozitarul Central.

Important event after the end of the financial year 2015

The Board of Directors of Aerostar S.A. decided to extend the timeframe for the payment of the dividends of the financial year 2014 until the date of 31.12.2016; the date initially set was until 23.04.2016.

Also, starting with the date of 10.02.2016 until 31.12.2016, Depozitarul Central will make the payment of the dividends not collected by the shareholders for the financial years 2012 and 2013.

AEROSTAR, mode of administration

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

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

Members of the Board of Directors

Item	Name	Position	Background
1.	FILIP GRIGORE	President of the Board of Directors	engineer
2.	DAMASCHIN DORU	Vice-president of the Board of Directors	economist
3.	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors	engineer
4.	NIJNIC MARIN - ILIE	Member of the Board of Directors	engineer
5.	VIRNA DANIEL	Member of the Board of Directors	legal adviser

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

There is no agreement, understanding or family tie in connection with the appointment of the company's Directors.

They delegate attributions to the executive management of the company.

In 2015 the executive management of the company was:

Item	Name	Position
1.	FILIP GRIGORE	General Director
2.	DAMASCHIN DORU	Director, Finance-Accounting
3.	POPA DAN PAUL MALIN	Director, HR & Industrial Engineering
4.	FILIP ALEXANDRU	Quality Director
5.	VLAD GABRIEL REMUS	Director, Logistic Division
6.	ARHIRE SILVIU EMANUEL	Director, Special Products Division
7.	BUHAI OVIDIU	Director, Aviation MRO & Upgrades Division
8.	IOSIPESCU SERBAN	Director, Aeronautical Products Division
9.	PLACINTA THEODOR	Director, Utilities & Infrastructure Division

The direct participation of the executive management members to the share capital of the company is also below 1%.

There were no act of resignation or dismissal among the members of the Board of Directors, of the executive management or of the auditor.

There is no litigation between the company and its Directors or persons of the executive management of the company in connection with their activity.

None of the Directors in the Board or the management members were involved in a litigation or other administrative proceedings with AEROSTAR over the last 5 years.

During the year 2015 the Constitutive Deed of the company was not modified.

Corporate Governance

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

At the same time, the Corporate Governance System of AEROSTAR S.A. is in accordance with the provisions of the Constitutive Deed of the company and complies with the provisions of the Laws no. 31/1990 and 297/2004, as amended and supplemented, Regulation no. 6/2009 of the National Securities Exchange Commission.

The Board of Directors of AEROSTAR S.A. pays special attention to the observance of corporate governance principles in order to ensure:

- To achieve Performance subject to the sustainable development of the company;
- Accuracy and transparency of the decision-making process of the company
- Respect for the rights and fair treatment of shareholders by protecting and implementing their prerogatives in practice;
- Transparency and access to information by regular publishing of the relevant financial and operational information.

The details regarding the conformity with the principles and recommendations provided in the Corporate Governance Code of the Bucharest Stock Exchange are shown in the "Comply or Explain" Statement, which is an integral part of this annual report.

Corporate Governance Structures

- 1. *The SHAREHOLDERS – the General Meetings of Shareholders***
- 2. *The Board of Directors***
- 3. *The Executive Management***

The shareholders exercise their rights in the General Meeting of Shareholders ("GMS" or "General Meeting"), which is the highest decision making body of AEROSTAR S.A.

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

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

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

In order to provide equal treatment and full and fair exercise of the rights of the shareholders, the Company makes available all the relevant information with reference to the GMS and the resolutions adopted both in the regular media (national newspaper, reports by FSA and BSE) and in the special section "Investors Relations" opened on company's website, easily identifiable and accessible.

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

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

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

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

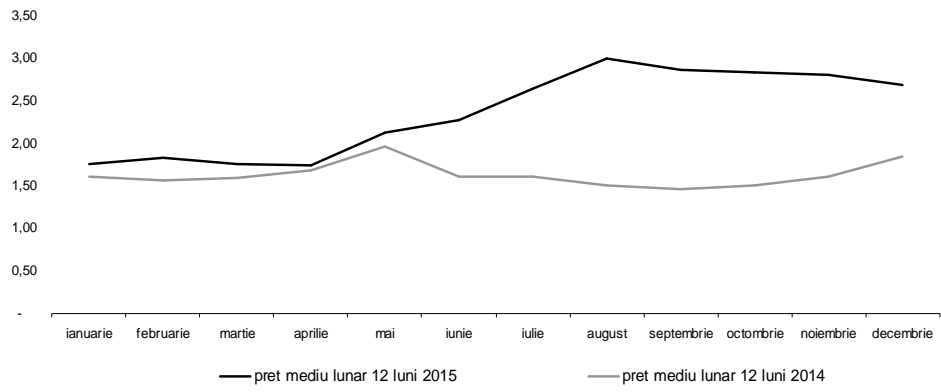
AEROSTAR in relation with the capital market institutions

In 2015 as well, AEROSTAR fulfilled all its reporting obligations arising from the legal provisions by publication of the current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the company webpage and by press releases.

The shareholders can obtain information on AEROSTAR from the company's webpage www.aerostar.ro such as the main events; also, the annual, 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.

The trading price of an AEROSTAR share fluctuated in 2015 between a minimum level of 1,67 lei and a maximum level of 3.25 lei.

Evolutia comparativa a pretului mediu lunar de tranzactionare a actiunilor Aerostar pe 12 luni 2015-simbol "ARS"



AEROSTAR's mission, present and future

The economic enterprise "Uzina de Reparatii Avioane" (Aircraft Repair Factory), is the forerunner of today's AEROSTAR S.A.

It had the successive names: URA-1953, IRAv (Intreprinderea de Reparatii Avioane)- Aircraft Repair Enterprise- 1970, IAv (Intreprinderea de Avioane)- Aircraft Enterprise- 1978 and since 1991 is registered as a shareholding company with fully state-owned capital, under the present name AEROSTAR S.A.

Since the year 2000 the company is fully private, with the shares traded at Bucharest Stock Exchange, stock symbol ARS.

In the conditions generated by Romania's accession to NATO and European Union, Aerostar's mission ensures the company's development in the global economic environment.

The present mission continues the mission set at the foundation of the company and focuses on three business lines, all in aeronautics and defence:

- Maintain the status of supplier in the field of aviation and ground defence systems for the Romanian Ministry of National Defence and for other beneficiaries, a field of activity whereof to generate over 20% of the turnover.
- Consolidation of AEROSTAR's position as supplier of parts, aerostructures, subassemblies and equipment for the commercial and general aviation, such as to become a major subcontractor for the globalized aviation industry and to generate from these activities over 55% of the turnover.
- Consolidation of AEROSTAR's activities as a prime supplier of maintenance for civil aircraft and for conversion/ upgrade of civil aircraft, a field of activity whereof to generate over 20% of the turnover.

The future has already begun!

In 2015 AEROSTAR's main lines of business are:

- Manufacturing of aeronautical products
- Maintenance of commercial aircraft
- Aero & Ground Defence Systems, production and integrations

AEROSTAR has developed the capabilities and technologies required by the market and achieved increased performance indicators on the line of competitiveness and reactivity to market demands.

This positioning is based on AEROSTAR's growing contribution in the supply chains of the two dominant global players AIRBUS and, since late 2015, also BOEING, alongside intensive investments stages and organizational development.

AEROSTAR's present market profile is characterized by a degree of replacement of the old, traditional programmes with new programs, of over 85%.

Regarding the production of aviation parts, subassemblies and components, all the manufacturing programmes are new, from the category of global standing programmes, of volume, on medium and long term.

Aerostar's capability offer, structured in a balanced manner in relation to the market needs and requirements ensures the company's growing strength in the competitive environment and a sustainable competitive advantage.

Aerostar successfully capitalizes the investments made in technology, in facilities, but also in organization and planning.

The business model followed by the company is determined by the Customers' requirements and the evolutions on the aviation and defence industry market.

Value and competitiveness on the market

Aerostar holds advanced capabilities, equipment and technologies, operational in programmes with a high degree of vertical integration.

The force as a supplier, the adherence to improvement programmes and the reactivity to opportunities position Aerostar with an important competitive advantage. The development of the agility in the context of the current global market, is an important gain for the company's success.

Another component of AEROSTAR's competitive advantage is the synergy between the development of technologies in civil aviation with the development of solutions in technologies as requested today on the defence market.

93% of the sales made in 2015 are in the aeronautical field.

AEROSTAR Business

In the field of civil aviation

Number 1 in Romania for aviation manufacturing

Aerostar manufactures aviation parts, subassemblies and systems in the category of aerostructures and hydraulic systems and landing gears, using advanced technologies specific to metal processing: aluminum, titanium, steels, etc.

The increase of the competitiveness is achieved through integrated investments implemented to modernize and expand the production capacities, as well as by establishing a partnership of trust with the customers to improve the agility at reduced production time and at minimal risks.

A pillar of the competitive advantage is the **centre for special processes** and the introduction of state-of-the-art practices and standards related to environment protection.

AEROSTAR's supply capacity is to remark.

The company produces an annual volume exceeding 4-5 million aluminum parts, achieves over 50-60% of the total production of subassemblies of aerostructures or hydraulic systems, in certain programmes, while for other programmes being sole source.

Aerostar develops an identity footprint on the jigs and tooling market for the aeronautical industry. This covers the production of a range from small to medium-size, from ground support equipment (GSE) to assembly and calibration fixtures and jigs. The plan is to increase the complexity and manufacture devices with complex hydraulic or electrical actuation.

In the field of defence, expertise of tradition and new challenges

Aerostar provides solutions for products and integrations in the category of aero and ground defence systems, for the Romanian and foreign market.

Aerostar is a first rank supplier for the Romanian Ministry of National Defence, achieving continuously the mission and objectives set out at the moment of company's foundation and updated according to the current requirements.

The products and services provided in the field of defence are from the traditional portfolio of repairs and upgrades for the categories of MiG-21 and L-39 platforms, systems and equipment.

Also, Aerostar has built a significant position in the field of IFF radar systems and professional systems for communications, control and data & information transfer, with various applications. The expertise in the production and equipment integration of equipment in advanced technologies places Aerostar's know-how in the area growth for these new state-of-the-art programmes.

The Centre of Excellence for Airbus A320 and Boeing 737 maintenance

Number 1 in Romania, AEROSTAR is the main independent MRO supplier for commercial aircraft in this geographical area.

Aerostar provides base and heavy maintenance for commercial aircraft AIRBUS 320 family, Boeing 737 and BAe-146/ RJ aircraft, as well as for aircraft components.

The dedicated Centre of Excellence supplies routine and complex checks, including structural modifications for these aircraft types, for a large number of customers residing mainly in the geographical area of competitiveness for the company.

Starting from the Part-145 approval from the Romanian CivilAeronautical Authority (AACR), recognised by the European Aviation Safety Agency (EASA), AEROSTAR's MRO base has developed its position on the market by getting an extended range of approvals from the civil aviation authorities in several EU and non-EU countries.

Aerostar is among the first independent MROs to supply „Split Scimitar Winglet Retrofits” on Boeing 737 NG aircraft. The competitive advantage is based on the flexibility and effective solutions to incorporate these modifications in the C-check work packs and the minimization of the aircraft turn-around-time.

Commercial and logistics, more integrated

In 2015 AEROSTAR maintained and developed a solid business base, the new programmes representing most of the sales volume achieved in 2015.

AEROSTAR runs its business and commercial transactions on its own, the same as for obtaining the licences and authorisations for the activities undertaken.

In the field of import and export operations, AEROSTAR is an Authorised Economic Agent to perform custom clearance, security and safety proceedings as approved by the Romanian Customs Authorities.

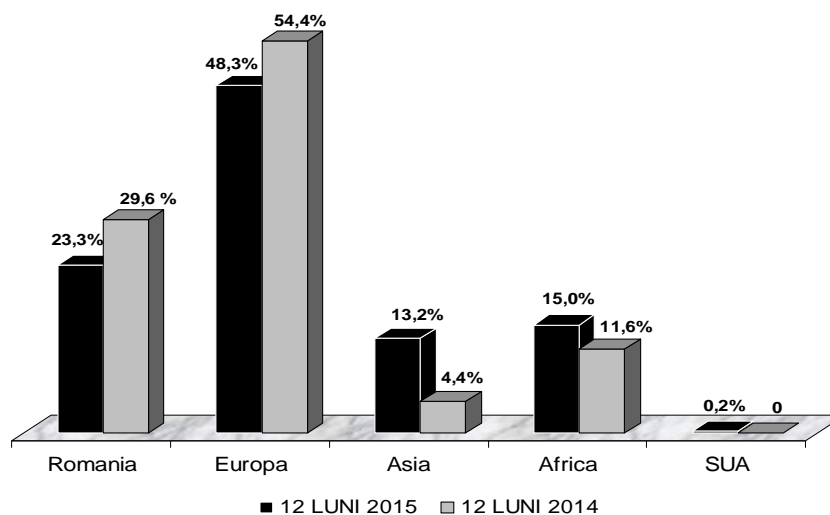
The company is registered by the Ministry of Foreign Affairs – Exports Control Department to perform import and export operations with military products.

Aerostar sales are operated on a global market of large geographic area in both the civil and defence field.

AEROSTAR sales in 2015 were 329.764 thousand lei, with 253.084 thousand lei from exports, covering a wide span of customers, in a large number of different production programmes.

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

The main markets for AEROSTAR sales are:



Investment and innovation, sustainable development, continuous digital change

The largest part of the production capacities operate with modern technologies and equipment and this process is ongoing to strengthen the areas of expertise and the existing capabilities.

The market dynamics determines the technological development directions to follow.

The expenses for the investment programme made in 2015 were in total of 33.396 thousand lei, representing 10% of the company's turnover in 2015.

The main objectives of the investments made in 2015 were:

- the set-up of a new production facility, for which:
 - An automatic line was acquired for surface coating of aviation using an ecological process of tartaric and sulphuric anodizing (TSA) - a new electroplating line which does not use substances containing hexavalent chromium.
 - An automatic painting and drying line, of high productivity, was acquired, which uses water based paint, the advantages of this process being the low percentage of volatile organic compounds (about 5 times less than in case of oil based paints, the paint does not sediment and the coverage power is high).

- the purchasing of CNC multi-axes machine tools

These investments involve the implementation of modern, ecological state-of-the-art technologies.

- the investment in information technology and infrastructure, investments which have been and remain a priority for AEROSTAR management.

In the context of the digital economy, where the digitization plays a major role in increasing the profitability of the company to the extent in which the IT technologies influence the operational excellence, AEROSTAR management considers that the digital transformation is part of the business decisions which reflect the current needs to adapt to the main digitization services and products.

We deliver quality, we provide a cleaner environment

Aspects related to the Quality and Environment Management System

For our Customers the safety of delivery means to deliver quality, on time and at competitive price.

The Quality and Environment Management System of Aerostar has the role to provide for meeting the and ensure compliance with legal requirements and applicable regulations.

In the year 2015, with regard to quality, AEROSTAR maintained the certifications and approvals obtained from the certification/ accreditation bodies, from the customers or other regulatory authorities.

In December 2015 the Quality and Environment Programme was approved for 2016, which specifies measurable objectives for 2016, actions to maintain the performances achieved in the field of quality and environment protection, actions for the continuous improvement of the Quality Management System and of the environmental performance.

With reference to the environment protection, the specific authorizations were maintained, namely the Integrated Environmental Authorisation and the Water Management Authorisation. The number of greenhouse effect gas certificates consumed during 2014 was valid and the allocated certificates were handed-in, while the authorization was renewed for greenhouse effect gas.

As to the continued compliance with the requirements of the European REACH regulation, a dedicated committee was set-up in Aerostar with synergic actions all along the entire chain of processes in order to follow and implement these requirements.

A transition process was initiated in Aerostar for the new revisions of the standards SR EN ISO 9001: 2015 and SR EN ISO 14001: 2015 in relation to the integrated quality and environment management system, a process which will run until the year 2018.

SUSTAINABILITY.

From the workforce in the industry, to growing of talents

Aerostar is one of the main employers on the labour market in the North-East region of Romania and the largest industrial employer in Bacau county.

At the end of 2015 AEROSTAR had an effective number of 2012 employees, of whom 220 recruited and made available through the temporary labour agent.

The company has a rejuvenated employees structure, balanced in terms of socio-professional categories, education background and accumulated experience.

The union membership was an average of 81.22% of the employees in the year 2015.

Other HR indicators as recorded on 31.12.2015 are:

- the average period of employment at AEROSTAR is 17 years
- the average age of the employees is 47

The main objectives related to Human Resource management during 2015 were achieved, as follows:

1. The negotiation of a new collective labour agreement with validity up to 31.03.2017.
The social dialogue, as provided in the Collective Labour Agreement, consists in frequent meetings between the company management and representatives of the representative Union and/or representatives of the employees, as well as joint committees, such as:
 - Joint Social Committee
 - Health and Labour Safety Committee
 - Management and Employees' Committees for negotiation and follow-up for the implementation of the Collective Labour Agreement.
2. Training and professional development of the employees in accordance with the Annual Plan for Professional Training for the year 2015.
3. The implementation of the project "AEROCALIFICARE - Competitiveness and Sustainability in the Aeronautical sector through Innovative Professional Qualification" in which AEROSTAR was the beneficiary of training.
The POSDRU (Sectoral Operational Programme for the Development of Human Resources) funded project was completed on 15.12.2015.
4. The implementation of the project "Active occupational measures in the aeronautical sector by innovative professional training (AEROTRAINING)" funded by POSDRU (Sectoral Operational Programme for the Development of Human Resources), in which AEROSTAR had the role of National Partner 1 and coordinator of the project implementation in the North East Region, Bacau.
5. The recruitment, selection and hiring of over 360 persons to increase the manpower numbers of the company in order to cover the needs arising as a result of the development

of the ongoing business or newly identified ones, to replace natural leaves of manpower fluctuation.

TANGIBLE ASSETS

The production facilities are located at the headquarters of Aerostar in Bacau, Romania.

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

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

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

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

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

All these facilities are properly maintained.

The effective built area is approximately 13,47 hectares.

All the buildings and special facilities are in the company’s ownership.

In 2015, the value of tangible assets increased by 33.385 thousand lei compared to 2014, on the account of the set-up of a new production facility, the acquisition of multi-axis CNC machines and the acquisition of hardware equipment and software licenses.

The degree of amortization, on the categories- constructions and equipment -, such categories having a significant contribution in the immobilized assets (84%), is presented as:

Fixed asset category	Gross value (lei)	Amortized value (lei)	Degree of amortization
Constructions and investment immobilizations	54.802.808	6.237.086	11%
Technological equipment and transport vehicles	92.775.026	23,517,947	25%

During 2015 there were no problems related to the ownership upon the tangible assets of the company.

During December 2015 the company acquired a new land surface situated in Republicii Street, in Bacau, which may provide, in the future, a new access road.

INTERNAL CONTROL SYSTEM

The internal control system of AEROSTAR SA includes the following components:

- Control of accounts
- Budgetary control
- Controlling
- Internal audit

CONTROL OF ACCOUNTS

AEROSTAR has a department responsible for the control of accounts. This provides the inventory of all the assets, liabilities and company capitals under record.

The inventory was conducted throughout the year 2015 respecting the law and internal regulations.

The results of the inventories were submitted for approval by the Board of Directors and recorded in the accounts.

No significant deviations were found compared to the records.

BUDGETARY CONTROL

The budgetary control is performed by the budget managers.

In terms of budgets, the company is organized in:

- profit centres
- cost centres

There are 19 budgets defined in the company which support programmes of activities corresponding to the functions of the company.

The budgetary control ensures:

- observe the planned values of each budgetary indicator
- substantiation of possible corrective actions

Quarterly, both the profit centres and the cost centres report to the executive management the performance of the budgetary provisions and the necessary, timely, efficient, effective and legal character of the costs undergone by the company.

CONTROLLING

The concept of controlling was implemented and is under continuous development as a higher level of the budgetary control in Aerostar.

Controlling also ensures compliance with the mission and strategic objectives of the company. The controlling ensures also compliance with the planned cash flows, periodically analysing the necessity, appropriateness and legality of the receipts and payments made by the company.

INTERNAL AUDIT

The internal audit activity in AEROSTAR is organized according to the law, in a separate department as provided in the organizational chart.

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

The company management pursues, by internal auditing, to ascertain that the internal control function operates efficiently, effectively and sufficient to mitigate or to eliminate the identified risks.

The internal audit activity is structured as follows:

- auditing as to effectiveness
- management audit
- operational audit
- conformity audit
- financial audit

The internal auditing activity is performed according to the Annual Programme approved by the Board of Directors.

The internal audit submits regular internal audit reports in the meetings of the Board of Directors.

RISK MANAGEMENT

The Risk Management system of AEROSTAR is complete, integrated into the activity of the company and the entire personnel has a general responsibility to identify and report the risks.

The objective of the risk management system in AEROSTAR is to secure the added, positive economic value on an average time horizon, by managing the company's exposure in terms of the cash flow.

The strategic risks and the risks of the type of high potential events are separately monitored.

Part of the specific objectives of the system are to closely monitor and protect the company exposure to the liquidity risk, market risk, credit risk and cash flow risk and to apply adequate counter measures in order to contain their effects.

The risk management in AEROSTAR is a continuous cycle along which all risks (existing and new) are reviewed, assessed and managed.

AEROSTAR continuously reassesses the portfolio of existing risks, identifying new exposures and adding value to the company by appropriately applying, when necessary, the best and most effective countermeasures.

The risks currently managed by the system of AEROSTAR are classified by risk categories, in:

- financial risks
- strategic and operational risks, including:
 - process risks
 - project risks
- risks related to health, safety and security including cybersecurity
- fiscal risks
- conformity risks
- manpower risks
- risks related to litigations
- risks related to regulations
- reputational risks

All risks are analysed based on their historical trends and viability.

The risk awareness, the understanding the risk profile of the company and the ability in the risk management ability have improved considerably across throughout the company.

The risk management consists in the implementation of practical countermeasures to reduce the probability of a risk occurrence, but also of reactive countermeasures to mitigate the impact of risk.

These measures are done either by transfer (insurance policies) or by containing the effects of the risk and retain only the residual risk.

In order to provide an effective process, the risk management system in AEROSTAR uses a built-in test process and is audited on a regular basis by the internal auditor of the company.

The risks which are specific to the aviation industry:

- aviation products
- grounding
- premises
- hangars

and which cannot be eliminated or prevented, are covered by the company through insurance policies, of proper value.

Regarding the:

The **Operational Risk** is the risk of loss occurrence or of failure to make profits at the budgeted level, a risk which can be determined by internal factors (inadequate performance of certain activities, or engineering processes, HR related issues) or external factors (economic conditions, changes in the business environment, legislative changes).

The operational risk management is targeted to achieve a balance between the prevention of financial loss and company image impairment, on the one hand, and increasing the cost structure efficiency, on the other hand.

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

The **Credit Risk** is the risk of AEROSTAR bearing a financial loss as a result of the failure to meet the contractual business obligations by a customer.

The credit risk is assessed and administered for each business partner based on the credit rating reviews, which also includes the country risk for the country where the customer operates.

Based on the creditworthiness, the customers are allocated a maximum level of commercial credit (in terms of value and duration), while revaluations of allocated creditworthiness and credit limits are monitored and reviewed on a regular basis.

In certain cases, specific mitigation tools will be required (advance payments, letters of bank guarantee, confirmed letters of credit).

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

A presentation of the quantitative information regarding AEROSTAR SA exposure to credit risk is detailed in Note 9 (Financial Instruments) of the Financial Statements.

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

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

In order to reduce liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line (used as overdraft) granted by banks.

During the reporting period, AEROSTAR did not use the contracted credit line granted 2.500.000 USD, all the Company's activities being financed from own sources.

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

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

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

The avoidance or mitigation of the price risk is made by including in the commercial agreements of provisions for the annual price update or by including of a safety margin in the contract price against the risk of changing price for the raw materials.

AEROSTAR S.A. is exposed to currency risk as 77% of the turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency (LEI).

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

An analysis of AEROSTAR's sensitivity to the currency fluctuations is detailed in Note 9 (Financial Instruments) of the Financial Statements.

During the reporting period AEROSTAR S.A. did not incur any financial loss.

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

In the future, we will continue the modernization

Further on AEROSTAR will be an organization focused on its Customers and on growing the value we bring in the value chain of the industry.

AEROSTAR is adequately positioned to continue the growth and modernisation and our actions are focused on fulfilling in optimal conditions the objectives set in the development strategy of the company.

This means the development and expansion of Aerostar's market footprint in the manufacture of aviation products and the development of the Centre of Excellence for civil aircraft maintenance.

At the same time, we are firmly acting to maintain our position on the defence systems market in the present conditions, in more and more new programmes.

We will act more intensively to capitalize the market potential for products and services in the areas of professional electronics and jigs & tooling manufacturing for the aviation industry.

We will continue the thorough processes of modernization, which means the development of the centres of excellence through investments and continuous improvement programmes, we will focus on harmonizing the development both in relation to the specific values of the aviation industry and the expectations of our Customers.

In these efforts, we will allocate the necessary resources, at the necessary level and structure, to be sure that AEROSTAR is a strong company which delivers Value to the Customers, which ensures the sustainability of the investments and its business, and which is competitive and profitable, bringing satisfaction for all parties alike, associated to AEROSTAR BUSINESS, customers, shareholders, employees, the community to which we belong.

President of the Board of Directors and General Director

Grigore FILIP

Commitment for good practice in Corporate Governance
Statement on the compliance with the Corporate Governance Code

Code Provision	Comply	Do not comply, or partially comply	Reason for non-compliance
A.1	x		
A.2	x		
A.3	x		
A.4		x	Three of the five members of the Board of Directors 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 2015 there were a total of 8 meetings, of which: <ul style="list-style-type: none"> - 6 meetings were attended by all the Board members; - In one meeting three members were present (One meeting was physically attended by three members), the other two participated in teleconference mode; - In one meeting were present two members (One meeting was physically attended by two members), the other three participated in teleconference mode.
B.1		x	Currently the audit is performed by an internal auditor, certified as financial auditor, who reports directly to the Board of Directors.
B.2		x	Compliance will be considered together with the election of the new Board of Directors, in July 2016.
B.3		x	Compliance will be considered together with the election of the new Board of Directors, in July 2016.
B.4		x	This activity is currently provided by by the President of the Board of Directors.
B.5		x	This assessment is currently performed by the external auditor and the internal audit dept.
B.6		x	This function is ensured by the President and the Vice President of the Board of Directors.
B.7		x	This function is provided by the Board of Directors. The internal auditor's reports are presented in the Board of Directors meetings, being subject to review and approval by the latter.
B.8		x	Compliance will be considered together with the election of the new Board of Directors, in July 2016, and the organisation of the Audit Committee.

B.9	x		
B.10	x		
B.11	x		
B.12		x	The reporting of the internal audit dept. is made directly to the Board of Directors.
C.1	x		All the GSM resolutions regarding the remuneration of the BoD members were published. Currently there is a separate section in the BoD Regulation.
D.1	x		
D.1.1	x		
D.1.2		x	The information in this section are available upon 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		

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

S.C. H.M. AUDIT CONTAB S.R.L.
Accounting, accounting expertise, financial audit and fiscal consultancy company
A member of CAFR, CECCAR and CCF
Registered head office: Bacau, I.L. Caragiale Street, No. 1, 1/D/12
Palce of business : Bacau, Pasajul Revolutiei, No. 3
County of Bacau
Fiscal Reg. (CIF) : 16175653, Trade Register No: J04/334/2004
Account: RO83TREZ0615069XXX011808 Treasury of Bacau
Account: RO76BRDE040SV44003180400 Bank: BRD - Bacovia
Phone: 0744101545 Fax: 0334405346
E-mail: hmauditcontab@yahoo.com

INDEPENDENT AUDITOR'S REPORT

BENEFICIARY:

- S.C. AEROSTAR S.A.

HEAD OFFICE:

- 9, Condorilor Street, Bacau

MANAGERS:

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

STATUTORY AUDITOR:

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

REGISTERED HEAD OFFICE:

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

Place of Business:

- Bacau, Pasajul Revolutiei Street, No. 3

MANAGEMENT:

- Financial auditor – Ec. MONICA HUSANU

CONTRACT NO. 129 DATED 15.12.2015

INDEPENDENT AUDITOR'S REPORT

REGARDING THE INDIVIDUAL FINANCIAL STATEMENTS ON 31.12.2015

1.Introduction:

We have audited the individual financial statements prepared by S.C. AEROSTAR S.A. („The Company”), on 31.12.2015, in accordance with the International Financial Reporting Standards adopted by the European Union, which comprise: Statement of Financial Position, Statement of Profit of Loss, Other Elements of the Global Result, the Statement of Company Capital Modifications, Statement of Treasury Cash Flows, Notes to the Individual Financial Statements. Also attached to this report are the following documents: the Report of the Board of Directors, the Declaration of the Company Management in accordance with the provisions of art. 30 of the Accounting Law No. 82/1991 and the Regulation no. 1/2006 issued by CNVM, currently named the Financial Supervisory Authority (“ASF”), the Proposal for the Distribution of the Net Profit Achieved in the Financial Year 2015, comprising the information determined in accordance with the IFRS provisions.

The above-mentioned financial statements refer to:

- Total company capitals 181,518,081 lei;
- Net turnover 329,763,579 lei;
- Total net profit 52,268,445 lei.

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

2.Management responsibility for the individual financial statements

The Company management is responsible for preparing and presenting adequately these annual financial statements as per the requirements of the Romanian accounting norms, i.e. The Accounting Law no. 82/1991 (republished), the Order of PFM no. 1286/2012 concerning the approval of the accounting regulations in accordance with the International Financial Reporting Standards, applicable to the companies listed on a regular stock exchange market and the Order of the Public Finance Ministry no. 123/04.02.2016, on the main aspects related to the preparation and filing of the annual financial

statements and annual accounting reports reports of the economic agents at the territorial units of the Public Finance Ministry.

This responsibility includes: design, implementation and maintaining of an internal control relevant for the adequate preparation and presentation of the annual financial statements free of significant misrepresentations due to fraud or error, the selection and application of adequate accounting policies, the preparation of reasonable accounting estimates, in the given circumstances.

3. Auditor's responsibility

Our responsibility is, based on the audit conducted, to express an opinion on these annual financial statements based on the statutory audit conducted. We conducted the audit in accordance with the Auditing Standards issued by the Romanian Chamber of Auditors and the International Auditing Standards. These standards require that we comply with the ethical requirements, and that we plan and conduct the audit with a view to obtaining a reasonable assurance that the annual financial statements are free of significant misrepresentations.

A statutory audit consists in carrying out procedures in order to obtain the auditing evidence with reference to the amounts and information presented in the annual financial statements examined. The selected procedures are subject to the auditor's professional judgement , including the assessment of the risks either of significant misrepresentation of the annual financial statements or due to fraud or error. In the assessment of these risks, the auditor takes into consideration the internal control relevant for the correct preparation and presentation of the annual financial statements, with a view to establishing auditing procedures adequate to the circumstances, but not intended to express an opinion on the efficiency of the company's internal control.

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

4. Opinion

The auditing of the annual financial statements as on 31.12.2015 was conducted with a view to expressing a pertinent opinion on the compliance of both the annual accounts with the accounting references in force, and of the latter with the International Financial Reporting Standards.

No significant deviations from the general accounting principles were found, while the data and information registered in the annual accounts provide a fair image and meet the requirements of all categories of financial-accounting information users, and the rules established by the institutions or bodies in Romania, as well as the provisions of the International Financial Reporting Standards are complied with.

Subject to the above, the auditor's opinion is without reserve, that the financial statements of S.C. AEROSTAR S.A. Bacau for the financial year 2015 provide a fair image of the assets, liabilities, company capitals, revenues and expenses and information data of this entity. In other words, the individual financial statements for 31 December 2015, in accordance with IFRS, present accurately, in all significant aspects, the financial position, the global result and the other information related to the activity performed by S.C. AEROSTAR S.A. Bacau, in accordance with the Accounting Law No. 82/1991, as republished, the Regulations no. 1/2006 issued by the National Securities Exchange Commission, currently named the Financial Supervisory Authority ("ASF"), and, most important, with the International Financial Reporting Standards.

5. Other considerations

This report is addressed exclusively to the shareholders of the company as a whole. Our audit was conducted with a view to being able to report to the shareholders of the company those aspects which we must report in a financial auditing report, and not in other purposes. To the extent permitted by law, we do not accept or assume any responsibility for our auditing, our report or the opinion expressed herein, other than towards the company and its shareholders, as a whole.

The annual individual financial statements attached hereto are not intended to present the financial position, the result of operations and a complete set of annual explanatory notes to the annual financial statements in accordance with the accounting regulations and accepted in countries and jurisdictions other than Romania. Therefore, the annual individual financial statements attached hereto are not prepared for the use of persons unaware of the accounting and legal regulations in Romania, namely the Accounting Law No. 82/1991 (republished), the Order of PFM no. 1286/2012 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards, applicable to the companies listed on a regular stock exchange market and the Order No. 65/2015 of the Public Finance Ministry regarding the main aspects related to the preparation and filing of the annual financial results and annual accounting reports of the economic agents at the territorial offices of the Public Finance Ministry.

6. Report on the conformity of the Report of the Board of Directors with the individual financial statements concluded on 31.12.2015

In accordance with the requirements of the Financial Supervisory Authority (FSA), we have read the report of the board of directors. This report is attached to the annual individual financial statements. Our opinion on the individual financial statements does not cover the directors' report.

In relation to our audit on the individual financial accounts, we have read the board of directors' report attached hereto, and found out as follows:

- a) in the board of directors' report we did not identify any information inconsistent in all significant aspects with the information presented in the attached individual financial statements;
- b) the board of directors' report identified above includes, in all significant aspects the information requested by the accounting regulations regarding the annual individual financial statements;
- c) based on our knowledge and undersandings obtained during auditing the individual financial statements for the financial year ended on 31.12.2015, regarding S.C. AEROSTAR S.A., and the environment thereof, we did not identify misleading information included in the report of the board of directors.

Bacau, 16.03.2016

HUSANU MONICA

FINANCIAL AUDITOR, registered with the Financial Auditors' Chamber under no. 2401/2008

On behalf of

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

Registered with the Financial Auditors' Chamber under no. 1019/2010



Str. Condorilor nr.9, Bacau 600302; Inmatriculat cu nr: J04/1137/1991-R.C.Bacau;
Cod Unic de Inregistrare: RO 950531; Capital social: 48.728.784 lei
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e-mail:aerostar@aerostar.ro; Website:http://www.aerostar.ro

INDIVIDUAL FINANCIAL STATEMENTS ON 31 DECEMBER 2015

PREPARED IN ACCORDANCE WITH THE

**INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

ADOPTED BY THE EUROPEAN UNION



CONTENTS

STATEMENT OF FINANCIAL POSITION

PROFIT OR LOSS STATEMENT

OTHER ELEMENTS OF GLOBAL RESULT

STATEMENT OF CHANGES IN EQUITY

STATEMENT OF TREASURY CASH FLOWS

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF FINANCIAL POSITION
FOR FINANCIAL YEAR ENDED DECEMBER 31, 2015
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	December 31, 2015	December 31, 2014
ASSETS			
Immobilized assets			
Tangible immobilizations	4; 3	142,278	119,987
Intangible immobilizations	5; 3	2,006	1,561
Real estate immobilizations	4; 3	6,248	7,642
Financial immobilizations	6; 3	212	477
Total immobilized assets		150,744	129,667
Circulating assets			
Inventories	8; 3	43,562	37,380
Commercial receivables and other receivables	9;10	57,194	40,643
Cash and cash equivalents	12;3	101,299	92,426
Total circulating assets		202,055	170,449
Receivables related to tax on deferred profit	7; 3	6,546	4,588
Expenses in advance		434	408
Total assets		359,779	305,112
COMPANY CAPITALS AND DEBTS			
Capital and reserves			
Share capital	13	48,729	48,729
Current Result		52,268	19,744
Result carried forward	13	57,382	57,295
Other reserves	13; 3	34,773	13,829
Debts regarding the tax on deferred profit recognized on account of company capitals	7	9,884	6,524
Distribution of profit for legal reserve		(21,517)	(3,322)
Total company capitals		181,519	142,799
Long-term debts			
Subsidies for investments	20 ;3	16,875	9,902
Revenues registered in advance	11	0	1,012
Total long-term debts		16,875	10,914
Long-term provisions	17; 3	70,086	67,044
Current debts			
Commercial debts	11	34,497	39,727
Debt with tax on current profit	11	1,970	4,231
Other current debts	11	14,222	12,983
Total current debts		50,689	56,941
Short-term provisions	17;3	40,610	27,414
Total provisions		110,696	94,458
Total debts		67,564	67,855
Total company capitals, debts and provisions		359,779	305,112

General Director
Grigore Filip

Financial Director
Doru Damaschin

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBRIE 2015
(all amounts are in thousand lei, if unless specified otherwise)

	Note	31-Dec 2015	31-Dec 2014
Revenues from sales	14	329,764	261,051
Other revenues	14	1,697	1,263
Revenues related to inventories of products and production in progress	14	7,710	5,758
Revenues from production of immobilizations	14	854	848
Total Revenues from Operations		340,025	268,920
Expenses			
Expenses with materials	15	(120,553)	(95,399)
Expenses with employee benefits	15	(89,049)	(82,422)
Expenses with amortization of immobilizations	15	(12,477)	(11,009)
Influence of adjustments on current assets		(7,428)	(1,521)
Influence of adjustments on provisions	15	(16,238)	(27,329)
Expenses related to thid party services	15	(32,672)	(22,578)
Other expenses	15	(3,042)	(4,615)
Total Expenses for Operations		(281,459)	(244,873)
Profit from Operations		58,566	24,047
Financial Revenues	16	11,817	7,414
Financial Expenses	16	(10,829)	(6,460)
Financial Profit		988	954
Profit before tax		59,554	25,001
Tax on current profit and deferred	7	(7,286)	(5,257)
Net Profit of the financial year		52,268	19,744

General Director
Grigore Filip

Finance Director
Doru Damaschin

S.C. AEROSTAR S.A. BACAU
OTHER ELEMENTS OF THE GLOBAL RESULT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Net Profit of financial year	52,268	19,744
Increase of share capital by incorporation of statutory reserves	-	11,245
Statutory reserves used to increase the share capital	-	(11,245)
Result carried forward, from transition to IFRS	-	1,100
Other earnings	4	-
<u>Other elements of global result</u>	<u>4</u>	<u>1,100</u>
<u>Total Global Result of financial year</u>	<u>52,272</u>	<u>20,844</u>

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN

S.C. AEROSTAR S.A.
STATEMENT OF TREASURY CASH FLOWS (direct method)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

	Nota	31.12.2015	31.12.2014
TREASURY CASH FLOWS FROM OPERATIONS			
received from customers	9	322,843	291,433
taxes and excises recovered from State Budget		7,998	7,056
payments to suppliers and employees		(227,976)	(182,092)
payment of taxes, contributions and dues to State Budget		(42,643)	(37,975)
payment of profit tax		(11,505)	(5,073)
NET CASH FROM OPERATIONS		48,717	73,349
TREASURY CASH FLOWS FROM INVESTMENT ACTIVITIES			
collected from non-reimbursable funds	20	5,090	2,278
interest collected from loans granted		13	57
interest collected from bank deposits		1,216	1,097
collected dividends		154	86
collected from sales of tangible immobilizations		-	63
instalments collected from loans granted		303	528
payments for purchase of tangible and intangible immobilizations		(34,151)	(11,302)
NET CASH USED IN INVESTMENT ACTIVITIES		(27,375)	(7,193)
TREASURY CASH FLOWS FROM FINANCING ACTIVITIES			
paid dividends		(12,897)	(10,336)
NET CASH USED IN FINANCING ACTIVITIES		(12,897)	(10,336)
Net increase of cash and cash equivalents		8,445	55,820
Cash and cash equivalents at beginning of period		92,426	36,727
Effect of foreign currency variation on cash and cash equivalents		428	(121)
Cash and cash equivalents at end of period	12	101,299	92,426

General Director
GRIGORE FILIP

Financial Director
DORU DAMASCHIN

S.C. AEROSTAR S.A. BACAU
INDIVIDUAL FINANCIAL STATEMENTS OF COMPANY CAPITALS MODIFICATIONS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

	Share Capital	Reserves	Other elements of company capital	Result carried forward	Result of year	Total company capitals
Global result						
A. Balance on January 1, 2015	48,729	13,829	6,524	57,295	16,422	142,799
Profit of the year					52,268	52,268
Other elements of global result						
Tax on deferred profit recognized on account of company capitals	-	-	3,360	84	-	3,444
Distribution of profit for year 2014 to allocations decided by shareholders in GMS in April 2015 (NOTE 24)	-	-	-	16,422	(16,422)	-
Net legal reserve	-	18,073	-	-	(21,517)	(3,444)
Other earnings	-	-	-	4	-	4
Total global result of the year	-	18,073	3,360	16,510	14,329	52,272
Statutory reserves		2,869		(2,869)		-
Dividends to pay for year 2014				(13,552)		(13,552)
B. Balance on December 31, 2015	48,729	34,771	9,884	57,384	30,751	181,519
C. Modifications of company capital	0	20,942	3,360	89	14,329	38,720

General Director
GRIGORE FILIP

Financial Director
DORU DAMASCHIN

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless stated otherwise, all amounts are expressed in thousand lei)

NOTE 1- GENERAL INFORMATION

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

S.C. AEROSTAR S.A. operations take place at its registered headquarters located in Bacau, 9, Condorilor Street, Code 600302.

The main field of activity 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 Trade Register of Bacau (under number J04/1137/1991), with the current name S.C. "AEROSTAR S.A." and the individual identification code 950531.

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

NOTE 2 - FINANCIAL REPORTING BASES – APPLICATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The individual financial statements were prepared by the company in accordance with the International Financial Reporting Standards adopted by the European Union. These financial statements were authorized for release by the Board of Directors on the date of 17.03.2016.

2.1 Evaluation basis used

The financial statements were prepared based on the historic cost.

2.2. Currency for operations and presentation

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

2.3 Use of estimates and professional judgement

The preparation and presentation of the individual financial statements in accordance with IFRS requires the use of estimates, judgement and assumptions affecting the implementation of the accounting policies as well as the reported value of the assets, liabilities, revenues and expenditures. The actual results may differ from the estimates. Such estimates and reasoning are made based on the historic experience as well as on a series of factors considered adequate and reasonable.

The reported accounting values of the assets, the debts that cannot be determined or obtained from other sources are based on these estimates considered adequate by the company management. Such estimates, as well as the reasoning and assumptions behind them are reviewed on a regular basis and the result thereof is recognized in the timeperiod when the estimate was reviewed.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless stated otherwise, all amounts are expressed in thousand lei)

2.4 Sources of uncertainty in estimations and the management of significant risks

In the risk management processes the company pursues to secure its mid and long-term sustainability and reduce the uncertainties associated to its strategic objectives, under strict compliance with the law.

The risk management processes taking place at various company levels ensure the identification, analysis, evaluation and management of all risks with a view to mitigate their effects down to an agreed level.

The company has implemented proactive countermeasures meant to reduce the probability of a risk occurrence, as well as reactive countermeasures meant to mitigate the impact of the risks.

2.4.1 Risks currently managed by the company:

Operational risk

The operational risk is the risk to incur losses or the failure to obtain the profits at the budgeted level, a risk that is determined by internal factors (inadequate performance of certain activities, manpower related factors or the existence of inadequate technological processes), or by external factors (economic conditions, changes in the business environment, law modifications etc.).

The main responsibility to develop and implement the controls applicable to the operational risk pertains to the executive management of each division; the support for such responsibility is the development of general standards at company level for the management of the operational risk.

Market risk

The market risk is the risk that the fair value or the future cash flows of a financial instrument fluctuate due to the modifications of the market prices.

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

The price risk is determined by the possibility to incur a loss or the failure to obtain the expected profits as a result of the variations in the market prices, especially in the case of commercial agreements over longer timeperiods (over 1 year);

To avoid or mitigate the price risk is made by including in the commercial agreements of certain clauses on the yearly price update or by including in the contract price a safety margin against the price changes of the raw material.

AEROSTAR S.A. is exposed to the currency exchange risk as 77% of the company turnover is reported to USD and EUR while a significant portion of the operating expenses relates to the currency for operations (LEI).

Thus the company is exposed to the risk that the currency variations could affect both its net revenues and its financial position, as they are expressed in LEI.

An analysis of AEROSTAR S.A. sensitivity to the currency exchange variations is detailed in Note 9 (Financial Instruments) to the Financial Statements.

During the reported period AEROSTAR S.A. did not record financial losses.

As for the interest rate risk, due to the fact that AEROSTAR S.A. did not use the contracted Credit Line during the reported timeperiod, the revenues and cash flow are independent of the variation of the interest rate risk on the banking market.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless stated otherwise, all amounts are expressed in thousand lei)

Credit risk

The credit risk is the risk that AEROSTAR incurs a financial loss as a result of a customer's failure to comply with the commercial contract obligations.

The credit risk is evaluated and managed for each business partner based on the ratings reviews including the country risk for the country where the customer operates.

Based on the rating review, a maximum commercial credit level is allocated to each customer (value and duration), and the rating and the credit limits granted are monitored and reviewed on a regular basis.

In certain cases, specific instruments for risk mitigation are requested (downpayments, letters of credit, confirmed export letters of credit).

AEROSTAR holds no significant exposure toward a single partner and no significant concentration of the turnover on a single geographical area.

A detailed presentation of the quantitative information regarding AEROSTAR exposure to the credit risk is presented in Note 9 (Financial Instruments) to the Financial Statements.

Liquidity risk

The liquidity risk is the risk AEROSTAR may encounter difficulties to fulfill the related obligations as they become due.

To evaluate the liquidity risk, the treasury flows from operation, investments and financing are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the expected level of net changes to liquidities. These reviews provide a base for the financing decisions and capital liabilities.

In order to evaluate the liquidity risk, the cash flows from operations, from investments and from financing operations are monitored and reviewed on a regular basis: weekly, monthly, quarterly and yearly, in order to determine the estimated level of the net modifications of the liquidity. The review provides the basis for the financing and capital engagement decisions.

In order to mitigate the liquidity risk, AEROSTAR maintains annually a cash flow reserve as a Credit Line (usable as an account overdraft) granted by the banks.

In the reported period AEROSTAR did not use the contracted Credit Line of 2,500,000 USD, all Company activities being funded from company generated sources.

2.5 Adequacy of capitals

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 93% of the turnover. The general objective is the annual growth of the company turnover. The specific objectives which sustain the general objective comprise the continued organic development of the company: the development of the centers of excellence by continuing the modernizations, investments and continuous improvement programmes.

2.6 Presentation of information in the financial statements

The financial statements are presented in accordance with the requirements of IAS 1 "Presentation of Financial Statements". The company has opted for a presentation by nature and liquidity in the statement of the financial position and a presentation of the revenues and expenditures by their

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless stated otherwise, all amounts are expressed in thousand lei)

nature in the profit or loss statement, considering that these presentation methods provide relevant information for the position of the company.

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 2014 were submitted to ANAF under registration number 77590709/28.08.2015. 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 31.12.2015.

The amount of dividends proposed before the approval for release of the financial statements (not recognized as distribution to the owners during the timeperiod) is 12,791,305.8 lei, corresponding to a gross dividend per share of 0.084 lei.

2.7 Reporting on segments

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.

2.8 Standards and interpretations in force

2.8.1 Standards and interpretations in force in the current timeperiod

The following standards issued by the Committee for International Accounting Standards and adopted by the European Union are in force in the current timeperiod:

- IFRS 2 "Share-based Payment" - modifications in force for periods as of or after 01 February, 2015.
- IFRS 3 "Business Combinations" – modifications in force for periods as of or after 01 February, 2015.
- IFRS 8 "Operating Segments" – modifications in force for periods as of or after 01 February, 2015.
- IAS 16 "Property, Plant and Equipment" – modifications in force for periods as of or after 01 February, 2015. Since the modifications refer to the re-evaluation model, the Financial Statements of the company are not affected.
- IAS 24 "Related Party Disclosures" – modifications in force for periods as of or after 01 February, 2015.
- Amendments to IAS 38 "Intangible Assets" (applicable for yearly periods as of or after 01 February, 2015). Since the modifications refer to the re-evaluation model, the Financial Statements of the company are not affected.
- Amendments to IFRS 9 "Financial Instruments" – applicable to the yearly periods as of 01 January, 2015.
- Supplements to IFRS 9 "Financial Instruments" (applicable to the yearly periods as of or after 01 January 2015).
- IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 39 "Financial Instruments: Recognition and Measurement" – modifications in accordance with IFRS 3, in force as of or after 01 February, 2015.
- Amendments to IAS 19 "Employee Benefits" – (in force as of or after 01 February, 2015).
- Modifications to IFRS 13 "Fair Value Measurement", IFRS 3 "Business Combinations" and IAS 40 "Investment Property" (in force for periods as of or after 01 February, 2015).

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless stated otherwise, all amounts are expressed in thousand lei)

The company considers that these modifications are irrelevant for its financial statements and their adoption has not lead to any change of the company's accounting policies.

2.8.2 New standards and interpretations

Standards (Modifications to Standards) and interpretations adopted by the Committee for International Accounting Standards and the European Union, but not entered in force.

- Amendments to the International Accounting Standard IAS 1 *Presentation of Financial Statements*, applied as of January 01, 2016;
- Modification of IAS 34 *Interim Financial Reporting* and of IFRS 7 *Financial Instruments: Disclosures*, modified in accordance with the amendments to IAS in force as of 01 January, 2016;
- IAS 16 *Property, Plant and Equipment*– modifications in force for periods as of or after 01 January, 2016;
- Amendments to IAS 38 *Intangible Assets* (applicable to annual periods as of or after 01 January, 2016);
- Amendments to IAS 41, *Agriculture*; IAS 17 *Leases*, IAS 23 *Borrowing Costs*, IAS 40 *Investment Property*, in force for periods as of 01 January, 2016;
- Modifications to IFRS 11 *Joint Arrangements* and IFRS 9 *Financial Instruments* in force for periods as of or after 01 January, 2016;
- Additionally, as part of the Annual Improvement Cycle 2012-2014, modifications of the following standards:
 - IFRS 5 *Non-current Assets Held for Sale and Discontinued Activities*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits*, IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

The company evaluates the potential effects of the amendments to the International Financial Reporting Standards and, in accordance with the initial estimates, their adoption will have no significant impact on the financial statements of the company.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 3 – ACCOUNTING POLICIES

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

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

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

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

Modifications in the accounting policies

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

The company modifies an accounting policy only if such modification:

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

How the modifications are applied in the accounting policies:

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

General accounting policies

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

The principle of continuity. The company continues its operations normally, without entering into liquidation or without reducing significantly its activity.

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

The principle of prudence, according to which the assets and revenues must not be overrated, while the liabilities and expenses must not be underrated.

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

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

The principle of independence

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

The principle of accrual accounting

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

The principle of separate evaluation of assets and liabilities elements, according to which the components of the assets and liabilities must be evaluated separately.

The principle of non-compensation – The assets and liabilities, the revenues and expenses, respectively, are not compensated, except for the cases when the compensation is requested or allowed by a standard or by an interpretation thereof.

The principle of prevalence of economic aspects over legal aspects, according to which when presenting the values in the balance sheet and in the profit and loss account, the economic basis of the reported transaction or operation is considered, not only the legal form thereof.

The principle of significance and aggregation threshold

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

Accounting policies on estimates and errors

Estimates

The preparation and presentation of the yearly and interim individual financial statements, in accordance with the IFRS suppose the use of estimates, judgements and assumptions affecting the application of the accounting policies as well as the reported value of assets, debts, revenues and expenses. Such estimates and judgments are made based on the historic experience, as well as on a series of factors considered adequate and reasonable. The reported accounting values of the assets and liabilities which cannot be determined or obtained from other sources are based on such estimates considered adequate by the company management.

The estimates, as well as the judgements and assumptions behind them are reviewed on a regular basis, and the result thereof is recognized during the time period when such estimate was reviewed.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Any modification of the accounting estimates will be recognized prospectively by including it in the result:

- Of the timeperiod when the modification occurs, if it affects only the respective time period; or
- Of the period when the modification occurs and of the subsequent periods, if the modification also affects such periods.

The company uses estimates in order to determine:

- Uncertain customers and adjustments for the depreciation of the 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 tangible immobilizations, for restructuring, for warranties granted to customers, for obligations towards manpower and other obligations;
- The adjustments for the depreciation of tangible and intangible immobilizations;

At the end of each reporting period, the company must estimate whether there are any signs of depreciation. If any such signs are identified, the recoverable value of the asset is estimated in order to determine the extent of depreciation (if any). The recoverable value is the maximum between the fair value minus the sale expenses and the value during operation. When establishing the value in operation, the management estimates a future cash flow reduced to the current value, using a discount rate which reflects the current market value of the money value in time and the specific risks of the assets for which the cash flow estimates have not been adjusted.

- The lifetimes of the tangible and intangible immobilized assets;

The company reviews the estimated lifetime of the immobilized tangible and intangible assets at least at the end of each financial year, in order to establish the degree of adequacy.

- The stocks of raw materials and materials requiring the creation of adjustments for depreciation.
- Deferred taxes.

Presentation of information

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

Errors

Errors can arise regarding the recognition, evaluation, presentation or description of the items in the financial statements.

The financial statements are not compliant with the IFRS standards if they contain either significant or insignificant errors made intentionally in order to obtain a certain presentation of the financial position of the financial performance or of the treasury cash flows of an entity.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Accounting policies on immobilizations

TANGIBLE IMMOBILIZATIONS

Recognition

The company recognizes the tangible immobilizations when:

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

The tangible immobilizations are tangible assets which:

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

The following are not capitalized:

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

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

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

De-recognition

The accounting value of a tangible immobilization element is derecognized:

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Evaluation at recognition

The costs at which a tangible immobilization is accounted comprise:

- the purchasing price, including customs taxes and non-reimbursable purchasing fees net of any discount and commercial deductions;
- costs which can be attributed directly to bringing the assets to the location and condition needed to operate as desired by the company management;

The initial estimate of the costs to dismantle and restore the site where it is located. For such costs to be accounted, the provisions set forth in IAS 37 "Provisions, contingent liabilities and contingent assets" apply.

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

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

Assessment after recognition

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

Any surplus from reevaluation corresponding to the tangible immobilizations, earning obtained as this category of immobilizations is amortized, is capitalized through direct transfer in the result carried forward representing the surplus obtained from reevaluation reserves.

Reclassification in investment property and immobilized assets held for sale

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

Amortization of tangible immobilizations

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

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

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

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

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

Depreciation

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

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

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

INTANGIBLE IMMOBILIZATIONS

Recognition

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

Criteria for recognition of intangible immobilizations:

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

De-recognition

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

Evaluation at recognition

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

In case of purchase, the cost comprises:

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

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

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

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

Items not capitalized by the company:

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

Evaluation after recognition

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Any surplus from reevaluation corresponding to the intangible immobilizations, earning obtained along the amortization of this category of immobilizations, is capitalized through direct transfer in the result carried forward representing the surplus obtained from reevaluation reserves.

Amortization of intangible immobilizations

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

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

The amortization of an intangible immobilization starts when such asset is available for use and ends when the asset is reclassified into another category or on the date when the asset is de-recognized. The factors relevant for determining the useful lifetime are provided in IAS 38 "Intangible assets".

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

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

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

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

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

Depreciation

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

INVESTMENT PROPERTY

Recognition

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

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

De-recognition

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

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

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

Classification

The category of investment property comprises:

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

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

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

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

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

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Evaluation upon recognition

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

Evaluation after recognition

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

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

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

Amortization

The investment properties are amortized in accordance with the provisions set forth in IAS 16 "Property, Plant and Equipment".

ASSETS PURCHASED BASED ON LEASES

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

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

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

The other leases are classified as operational leases.

FINANCIAL IMMOBILIZATIONS

The financial immobilizations account:

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Evaluation upon recognition

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

Evaluation after recognition

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

Accounting policies on inventories

The inventories are assets:

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

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

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

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

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

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

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

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

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

Borrowing Cost

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

The inventories category comprises:

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

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

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

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

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

Evaluation upon recognition

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

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

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

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

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

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

- the goods sold and not delivered are distinctly recorded in the company accounts, while in the company accounts they are registered as off-balanced sheet, in the account 8039 – Other values off balance-sheet;
- the goods delivered but not invoiced yet are recorded as outflows from the company inventory, both at the store and in the accounts, based on the documents confirming the outflow from the inventory.
- the goods purchased or sold with clauses as to the ownership title are recorded in accordance with the agreements concluded.

Evaluation after recognition

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

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

Accounting policies on the company liabilities

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

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

Monthly evaluation

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

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

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

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

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

Short-term liabilities

A debt must be classified as short-term debt, also called current debt, when:

- it is expected to be cleared during the normal operating cycle of the company, or
- it is exigible within 12 months from date of the balance sheet.
- All other debts must be classified as long-term debts.

Long-term liabilities

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

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

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

The long-term liabilities comprise:

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

Certificates for greenhouse effect gas emissions

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

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

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

Accounting policies on Receivables

Such receivables include:

- commercial receivables, which are amounts owed by the customers for goods sold and services supplied in the normal course of activity;
- commercial effects to receive, as instruments from third parties;
- amounts owed by the employees or affiliated companies;
- advances given to the suppliers of immobilizations, goods and services;
- receivables related to manpower and state budget
- The receivables are registered based on accrual accounting in accordance with law or subject to the agreements in place.

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

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

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

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

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

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

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

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

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

The accounting of uncertain receivables is kept directly in the account 4118 – Uncertain customers or customers in dispute at law.

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

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

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

Accounting policies on short-term liquidities and investments

Liquidities in foreign currency and in lei

The current bank accounts are kept in analytical accounts for each bank.

The interest to receive in relation to the liquidities in the bank accounts is recorded distinctly in the accounts.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

The interest to pay and to receive for the financial year underway is recorded as financial revenues or expenses, as applicable.

The accounting of liquidities in bank accounts/cashier's desk and their movement as a result of payments made and received is kept distinctly in lei and in foreign currency.

The operations related to the payments received and made in foreign currency are kept in the accounting at the exchange rate valid on the day of performing the operation, as notified by the National Bank of Romania.

The foreign currency selling-purchasing operations, including the ones performed as part of agreements with clearance on due date are recorded in the accounts at the exchange rate used by the commercial bank where the currency bid is performed, without generating exchange rate differences in the accounts.

At the end of each month, the liquidities in foreign currency and other treasury values are evaluated at the exchange rate on the currency market valid on the last banking day of that particular month, as notified by the National Bank of Romania.

All variations occurring in the exchange rate are recognized in the accounts as revenues or expenses from changes in the exchange rate.

Treasury advances

For certain payments in cash the company grants treasury down payments to its employees and third parties.

Such down payments are justified based on a settlement report prepared by the down payment beneficiary, with attached support documents except for the daily allowance, which requires no attachment of support documents.

In case of payments in foreign currency made from treasury down payments, the related expenses are recognized in the accounts at the exchange rate in force on the date of performing the related financial operations, or at the exchange rate in force on the day of settlement of the down payment, for those expenses that are not accompanied by supporting documents, e.g. for the daily allowance granted for travels.

On the date of the balance sheet the amounts representing treasury down payments, granted and not settled yet, are recorded in the accounts of miscellaneous debtors or receivables related to manpower, depending on the type of receivable.

Accounting policies on the recognition of expenses

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

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

- Consumptions of inventories;
- work performed and services supplied for the benefit of the company;

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

- expenses for employee benefits;
- execution of legal or contractual obligations;
- provisions;
- amortizations;
- adjustments for depreciation or loss of value.

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

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

The operational expenses comprise:

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

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

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

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

Employee Benefits

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

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

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

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

- short-term benefits such as salaries and contributions to social security, paid yearly vacation and paid medical leave and bonuses (if paid within 12 months from the end of the period), meal tickets and other benefits provided in the collective labour agreement: post-employment benefits, such as the benefits related to retirement;

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

- benefits for termination of the labour agreement – negotiated periodically, as provided in the collective labour agreement.

The financial expenses are:

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

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

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

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

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

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

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

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

Accounting policies on the recognition of revenues

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

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

The revenues are classified as follows:

Revenues from operations;

Financial revenues;

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Extraordinary revenues

Revenues are recognized based on accrual accounting.

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

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

Sales of goods

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

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

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

Supply of services

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

Revenues from rent

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

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

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

The revenues from dividends generated by investments are recognized when the shareholder's right to receive the payment is established (provided that the economic benefits are likely to be directed towards the Group and the value of the revenues can be measured precisely). The

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

company records the revenues from dividends at their gross value which includes the tax on dividends (when applicable), which is recognized as current expense with the profit tax.

Accounting policies on provisions

Provisions

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

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

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

Warranty Accounting

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

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

Provisions for risks and expenses

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

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

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

Provisions for decommissioning of tangible immobilizations

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

Accounting policies on profit taxation

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Current tax

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

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

Deferred tax

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

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

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

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

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

Accounting policies on subsidies and other non-reimbursable funds

The category of subsidies distinctly comprises:

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

Recognition

The subsidies are recognized at their approved value.

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Government subsidies

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

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

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

Subsidies for investments

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

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

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

Subsidies related to revenues

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

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

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

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

Accounting policies on establishing the result per share

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

Accounting policies on financial instruments

A financial instrument is a contract generating simultaneously:

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

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

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

- it has the legal right to proceed as such

and

- it intends to settle it on a net basis

or

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

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

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

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

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 4 - TANGIBLE IMMOBILIZATIONS

<u>Gross values</u>	<u>Land</u>	<u>Constructions</u>	<u>Technical equipment and transport vehicles</u>	<u>Other tangible immobilizations</u>	<u>Tangible immobilizations in progress</u>	<u>Real estate investments</u>	<u>Total</u>
On 1 January 2015	27,966	43,341	65,592	258	76	8,526	145,759
entries, of which:	380	2,955	27,268	141	32,258	14	63,016
-by institutionalized subsidies	-	-	17,271	-	-	-	17,271
transfer	-	1,175	3	-	-	(1,175)	3
exits	-	(32)	(88)	-	(30,378)	-	(30,498)
On 31 December 2015	28,346	47,439	92,775	399	1,956	7,365	178,280

<u>Amortization</u>	<u>Land</u>	<u>Constructions</u>	<u>Technical equipment and transport vehicles</u>	<u>Other tangible immobilizations</u>	<u>Tangible immobilizations in progress</u>	<u>Real estate investments</u>	<u>Total</u>
On 1 January 2015	-	3,278	13,918	52	-	884	18,132
entries, of which:	-	1,849	9,536	73	-	233	11,691
-by institutionalized subsidies	-	262	2,648	20	-	-	2,930
transfer	-	-	-	-	-	-	-
exits	-	(6)	(61)	-	-	-	(67)
On 31 December 2015	-	5,121	23,393	125	-	1,117	29,756

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NET ACCOUNTING VALUE OF TANGIBLE IMMOBILIZATIONS on 31 December 2015

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Land	28,346	-	-	28,346
2. Constructions	47,439	5,121	-	42,318
3. Technical equipment and transport vehicles	92,775	23,393	-	69,382
4. Other tangible immobilizations	399	125	-	274
5. Real estate investments	7,365	1,117	-	6,248
6. Tangible immobilizations in progress	1,956	-	-	1,956
Total (1+2+3+4+5+6)	178,280	29,756	-	148,524

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

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

When determining the gross accounting value of the tangible immobilizations, the company used the historical cost method. No reevaluations of the tangible immobilizations were made.

On 31.12.2015, the fair value of the tangible immobilizations was not significantly different from the accounting value.

The tangible immobilizations are amortized by the company using the linear method throughout the estimated useful life, as follows:

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

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

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

The useful lifetimes of the tangible immobilizations were revised at the end of the financial year 2015.

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

As on the date of transition to IFRS, the company estimated and included in the cost of tangible immobilizations the estimated costs for dismantling and relocating the assets, as well as costs for site restoration at the end of the useful lifetime. These costs were reflected in the set-up of a provision, which is recorded in the profit and loss account throughout the lifetime of the tangible immobilizations, by inclusion in the amortization expense.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

To estimate the amount of this provision, a value update rate of 5% was used (reflecting the value estimates of money over time), a level recommended by the European Union for the construction of EU financed projects.

The revision of the estimates for the decommissioning and restoration provision is determined by the annual revision of the dismantling costs. The company's board of specialists designated to review yearly any changes to the estimates analyzed at the end of the financial year 2015 if the initial estimates of the dismantling costs were adequate.

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

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

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

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

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

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

This analysis revealed that:

- the economic performance of the assets is good, compared to the forecasted performance, all the immobilizations in operation bring benefits to the company
- in 2015 no changes occurred with adverse effects on the extent and manner in which the assets are used, nor such modifications are expected in the near future.

To conclude, the tangible immobilizations in the balance sheet account on 31.12.2015 are not depreciated, and no adjustments were made for the depreciation thereof.

The surplus from reevaluation corresponding to tangible immobilizations, in the amount of 7,350 thousand lei, earning obtained while this category of immobilizations was amortized, was capitalized by direct transfer in the result carried forward, representing the surplus obtained from reevaluation reserves.

The gross accounting value of the fully amortized tangible immobilizations which were still in operation on 31 December 2015 is 1.030 thousand lei.

As on 31.12.2015 no mortgages were set on tangible real estate assets in the property of AEROSTAR S.A.

In December 2015, seven buildings with a gross accounting value of 1,175 thousand lei, were transferred from the category *Real estate investments* into the category *Tangible immobilizations* as a result of their use being modified by AEROSTAR, that is the purpose for which they were classified into real estate investments came to an end on the date of transition to IFRS – into rental to third parties.

a) Increases in gross values of the tangible immobilizations, achieved by:	<u>63,016</u>
• acquisition of land	380
• acquisition of technical equipment, CNC machinery, modernization of buildings	30,378
• capitalization of expenses related to investments in progress, of which:	32,258
- capitalization of expenses incurred for investments fully covered from own sources	14,987
- capitalization of expenses made to the "Aerotrainig" project	121
- capitalization of expenses made for the project "Consolidation and sustainable development of the mechanical processing and painting sectors by performative investments"	17,150

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

b) Decreases in gross values of tangible immobilizations, achieved by:	<u>30,498</u>
• completion of investments in progress	30,378
• derecognition of certain tangible immobilizations, due to the fact that the company no longer expects future economic benefits from their use.	120

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 5 – INTANGIBLE IMMOBILIZATIONS

<u>Gross values</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other intangible immobilizations</u>	<u>Total</u>
On 1 January 2015	-	2,478	177	2,655
Inputs, of which:	95	949	189	1,233
-by institutionalized subsidies	-	869	-	869
Outputs	95	9	-	104
On 31 December 2015	-	3,418	366	3,784

<u>Amortization</u>	<u>Development expenses</u>	<u>Licenses</u>	<u>Other intangible immobilizations</u>	<u>Total</u>
On January 1, 2015	-	1,033	61	1,094
Inputs, of which:	95	635	57	787
-corresponding to inputs by institutionalized subsidies	-	132	-	132
Exits	95	8	-	103
On December 31, 2015	-	1,660	118	1,778

NET ACCOUNTING VALUE OF INTANGIBLE IMMOBILIZATIONS ON 31 DECEMBER 2015

	<u>Gross value</u>	<u>Amortization</u>	<u>Adjustments for loss of value</u>	<u>Net accounting value</u>
1. Development expenses	95	95	-	-
2. Licenses	3,418	1,660	-	1,758
3. Other intangible immobilizations	366	118	-	248
Total (1+2+3)	3,879	1,873	-	2,006

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

- Development expenses
- Licenses
- Other intangible immobilizations

The IT programmes are registered in other intangible immobilizations.

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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

The expenses with amortization are recognized in the profit or loss account using the linear method of calculation for an estimated duration of maximum 3 years.

The intangible immobilizations in the balance sheet account as on 31.12.2015 are not depreciated and no adjustments were made for the depreciation thereof.

When determining the gross accounting value of the intangible immobilizations, the company uses the historical cost method. No reevaluations of the intangible immobilizations were made.

On 31.12.2015, the fair value of the intangible immobilizations is not different from the accounting value.

The value of the completely amortized software licenses on December 31, 2015 and which are still in use is 271 thousand lei.

The surplus from reevaluation corresponding to the software licenses, in the amount of 711 thousand lei, an earning obtained as this category of immobilizations was amortized, was capitalized by direct transfer in the result carried forward, representing the surplus obtained from reevaluation reserves.

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

a) Increases in gross values of intangible immobilizations were obtained by:	<u>1,233</u>
• Capitalization of the development expenses made for the completion of tasks provided in the development programme, fully financed by Aerostar, which consisted in the qualification of new special processes, intended to meet the manufacturing requirements for aviation products	95
• Acquisition of software licenses , of which:	949
-acquisition of licenses for the integral management of tooling, design, programming (in projects with European financing).	869
• Development of the IT production management system.	189

In 2015 no internally generated licenses were registered, nor acquired by business combinations. The software licenses acquired by institutionalized subsidies were evaluated after recognition in accordance with the cost-based model.

b) Decreases in gross values of intangible immobilizations were obtained by:	<u>104</u>
• settlement and amortization of the tasks in the development programme, made and finalized in the analyzed period	95
• derecognition of certain intangible immobilizations as the company no longer expects future benefits from their use	9

In 2015 no assets were classified as held for sale in accordance with IFRS 5.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 6- FINANCIAL IMMOBILIZATIONS

	Shares held by affiliated entities	Other immobilized securities	Long-term loans	Total
On January 1, 2015	14	92	371	477
Increases/Decreases	-	-	(265)	(265)
On December 31, 2015	14	92	106*)	212

*) The company registers in financial immobilizations the remaining balance (106 thousand lei) from the loans granted by AEROSTAR to an employee, with due date in over 12 months, for which AEROSTAR charges interest.

The details on the entity's investments in other companies as on 31.12.2015 are the following:

Subsidiary name/ Registered headquarter	Main activity	No. of shares	Voting rights (%)	Value of shares held by Aerostar (thousand lei)	Financial information for the last financial year (2014) with approved financial statements of the subsidiaries		
					Registered capital of the company	Reserve	Net profit
SC Airpro Consult SRL Bacau Str. Condorilor nr.9	- activities of contracting manpower on a temporary basis	100	100%	10	10	45	51
SC Foar SRL Bacau Str. Condorilor nr.9	- rental and leasing with other machinery, eqpt and tangible goods	408	51%	4	8	1,639	320
SC Aerostar Transporturi Feroviare S.A Bacau **) Str. Condorilor nr.9	- manufacturing of hoisting and handling equipment	9,150	45,75%	92	200	38	4
TOTAL				106	218	1,722	375

***) the activity of the company is suspended until December 31, 2015.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

The contribution of AEROSTAR in these companies is recorded depending on cost; there is no active market for such securities, nor other information on recent market transactions

In 2015, the company recorded no modifications i.e. no increases/decreases as to the stake-holding percentage, maintaining the same influence as in 2014.

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 7- TAX ON PROFIT

The profit tax corresponding to the reported time period comprises the current tax and the deferred tax. The profit tax is recognized in the statement of the profit or loss, or directly in the company capitals if the tax relates to the capital items.

Current tax on profit

The current tax is the tax payable in relation to the profit achieved in the current period, as determined based on the applicable fiscal regulations at the reporting date. The profit tax rate applicable on 31.12.2015 was 16% (the same rate that applied for the financial year 2014).

December 31,
2015

Gross accounting profit	59,554
Expenses with current tax on profit	9,243

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues	351.842	Fiscal revenues	332,420	-19,422
Accounting expenses	292.288	Fiscal expenses	247,910	-44,378
Gross accounting profit	59.554	Fiscal profit	84,510	+24,956
Tax (16%)	9.529	Fiscal tax (16%)	13,522	+3,993
Tax reductions	-		4,279	+4,279
Tax on final profit	9.529		9,243	-286
Actual average tax rate, calculated on gross accounting profit	16%		15.52%	

The main factors which affected the rate of taxation were:

- Non-taxable revenues from the recovery of non-deductible expenses (where the revenues from resuming certain provisions for guaranties and of other provisions represented a significant part);
- Fiscal facilities representing the tax exemption on profit corresponding to the investments made in accordance with Art.19⁴ of the Fiscal Code;
- Non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization; losses from receivables a.o.)

The deferred tax is determined for the temporary differences arising between the fiscal basis of calculation for the tax on assets and liabilities and their accounting value. The deferred tax is calculated using the tax rates expected to apply to the temporary differences when they are resumed, under the law applicable at the reporting date. The company estimated and recorded liabilities from deferred tax related to the immobilized assets and reserves and recognized receivables regarding the deferred tax related to the provision for guaranties granted to customers, other provisions for risks and expenses, as well as to adjustments for depreciation of customer receivables.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Deferred tax recognized on account of the result

Receivables related to deferred tax, balance as on 01.01.2015	4,588
Revenues from tax on deferred profit	2,790
Expenses with tax on deferred profit	(832)
Receivables related to tax on deferred profit balance as on 31.12.2015	6,546

Tax on deferred profit recognized on account of company capitals

Debts related to the tax on deferred profit recognized on account of company capitals, balance as on 01.01.2015	6,524
Set-up of debts from deferred tax/ Decrease of receivables from deferred tax	3,529
Decrease of debts from deferred tax	(169)
Debts related to tax on deferred profit recognized on account of company capitals, balance as on 31.12.2015	9,884

S.C. AEROSTAR S.A. BACAU
NOTES ON INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless stated otherwise, all the amounts are expressed in thousands of lei)

NOTE 8- INVENTORIES	<u>31.12.2015</u>	<u>31.12.2014</u>
Raw materials	10.981	6.732
Consumables	17.458	14.108
Other materials	19	7
Packings	6	3
Finished Products	11.564	11.441
Products in process	19.912	14.120
Goods	4	6
Adjustments for depreciation of inventories	<u>(16.382)</u>	<u>(9.037)</u>
TOTAL	<u>43.562</u>	<u>37.380</u>

The inventories are evaluated at cost value or net achievable value, whichever is lower. The net achievable value is the estimated sale price of inventories minus all estimated costs of completion and the necessary costs for sale.

The cost of the inventories includes: purchase costs, conversion costs as well as other costs incurred to bring the inventories in their current condition and in the present location. At the release from accounts, the inventories are evaluated and recorded in the accounting system by applying the Average Weighted Cost method.

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

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

During the reported period, the following adjustments for stock depreciation were made:

The total value of the inventories recognized as expense during the reported timeperiod is 104.658 thousand lei.

The company has no pledge on inventories.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 9- FINANCIAL INSTRUMENTS

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

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

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

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

The financial assets of AEROSTAR S.A. include:

- cash and cash equivalents
- commercial receivables
- commercial effects received
- immobilized receivables (customer-guaranties)
- loans granted with interest

The financial debts of AEROSTAR S.A. include:

- commercial debts
- commercial effects to pay

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

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

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

a) Credit risk

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

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

The commercial credit risk is evaluated and managed for each business partner based on their credit rating review, including the country risk for the country where the customer operates.

Based on the credit rating analysis, the customers are assigned a maximum commercial credit level (as value and duration), and the credit rating re-evaluations and credit limits granted are monitored and reviewed on a regular basis.

In certain cases, specific instruments will be requested for credit risk mitigation (down payments, letters of bank guarantee for customers with good payment records, confirmed letters of credit for export).

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

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:

	31.12.2015	31.12.2014
Cash and cash equivalents	101,299	92,426
Commercial receivables net of depreciation adjustments	47,879	31,879
Commercial effects received	28	-
Immobilized receivables (customer-guaranties)	439	642
Loans granted with interest	107	371
Total	149,752	125,318

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

	31.12.2015	31.12.2014
Domestic market	2,385	4,378
Euro zone countries	19,589	18,368
Great Britain	10,523	7,434
Other European countries	4,824	642
Other regions	10,558	1,057
Total	47,879	31,879

Depreciation adjustments

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

	Gross value 31.12.2015	Adjustments for depreciation 31.12.2015	Gross value 31.12.2014	Adjustments for depreciation 31.12.2014
In due time	47,141	-	31,407	-
Past due, total of which:	992	254	1,092	620
0-30 days	630	-	471	-
31-60 days	12	-	-	-
61-90 days	-	-	-	-
91-120 days	96	-	-	-
Over 120 days	4	4	3	3
Over 1 year	250	250	618	617
Total	48,133	254	32,499	620

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

	31.12.2015	31.12.2014
Balance on January, 1	620	741
Adjustments set for depreciation	34	41
Adjustments for depreciations resumed as revenues	(400)	(162)
Balance on December, 31	254	620

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

Based on historical data for non-payment, AEROSTAR considers that, except the above, no recognition of depreciation adjustments is necessary for the commercial receivables which are past due.

On 31.12.2015, 99.50% of the commercial receivable in balance are related to customers with good payment records.

b) Liquidity risk

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

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

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

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

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

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

	Financial debts	Accounting value	Contractual cash flows	0-30 days	31-60 days	Over 60 days
31.12.2015	Commercial debts	22,215	(22,215)	(17,801)	(3,969)	(445)
	Commercial effects	38	(38)	(38)	-	-
31.12.2014	Commercial debts	15,186	(15,186)	(11,589)	(2,404)	(1,193)
	Commercial effects		-	-	-	-

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

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

On 31.12.2015 AEROSTAR has in its records no overdue financial debts.

c) Foreign currency risk

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

Exposure to the foreign exchange currency risk

AEROSTAR is exposed to the foreign currency risks, as 77% of its turnover recorded in 2015 related to USD and EUR, while a significant part of the operating expenses relates to LEI.

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

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

31.12.2015	thousand EUR	thousand USD	thousand GBPP
Commercial receivables	2,537	8,201	-
Commercial debts	(893)	(1,919)	(38)
Net exposure in original currency	1,644	6,282	(38)
01.01 – 31.12.2015	thousand EUR	thousand USD	thousand GBP
Received from customers	14,531	39,208	-
Payments to suppliers	(10,794)	(15,520)	(420)
Net exposure, in original currency	3,737	23,688	(420)

Sensitivity analysis

AEROSTAR is exposed mainly to the USD/RON exchange rate variations, taking into consideration the total net exposure of 29,970 thousand USD recorded in 2015 and the 9% variation of the USD/RON average exchange rate compared to the beginning of the year. The table below contains a detailed presentation of the Company's sensitivity to an average reasonable variation of 5% of the Romanian Leu versus the USD, EUR and GBP currencies.

YEAR 2015	K EUR	K USD	KGBP
Total net exposure in the currency of origin	5,381	29.970	(458)
Average exchange rates	4.44	4.00	6.12
Total net exposure in functional currency	24,347	124,307	(2,818)
Possible reasonable variation of exchange rate	+/- 5%	+/- 5%	+/- 5%
Effect of variation in profit and loss account		+/- 7,048 MII LEI	

d) Interest rate risk

For the reporting period AEROSTAR has contracted a Credit Facility of 5,000 thousand USD, intended for financing the company's operations, which includes:

- 1) A cash sub-limit in the 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) A non-cash sub-limit in the amount of 2,500 thousand USD, usable to guarantee for the contractual commercial obligations by issuing letters of bank guarantee and import letters of credit.

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

As during the reporting period AEROSTAR did not use the cash sub-limit of 2.500 thousand USD, the company revenues and cash flows are independent from the interest rate variations on the banking market.

On 31.12.2015, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 2,424 thousand USD (equivalent to 10,054 thousand LEI).

On 31.12.2015 no mortgages are set on the property assets owned by AEROSTAR.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 10- COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

RECEIVABLES	Balance on December 31, 2015	Balance on January 01, 2015
Commercial receivables	50,085	36,596
Domestic customers	2,385	4,378
Foreign customers	46,686	31,726
Uncertain customers ¹⁾	254	620
Adjustments for depreciation of customer receivables	(254)	(620)
Suppliers-debtors	855	405
Customers – invoices to draw up	131	87
Effects to receive from the customers	28	-
Immobilized receivables	439	642
Other receivables, of which:	13,216	7,993
• Receivables related to manpower and assimilated accounts, of which:	28	26
- <i>salary advance payments granted to employees</i>	11	17
• Receivables related to social security budget and state budget, of which:	1,470	1,589
- <i>excises to recover related to fuel consumption</i>	841	1,182
• Amounts to receive, of subsidy type		
• Receivables from deferred profit tax	4,671	1,667
• Interest to receive from bank deposits	6,546	4,588
• Other receivables	70	42
		81
	431	
TOTAL	63,740	45,231

¹⁾ Uncertain customers are recorded in a distinctive mode in the company accounts.

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

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

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 2015.

The favorable and unfavorable differences between the market exchange rate used for accounts of the receivables in foreign currency and the market exchange rate communicated by the National Bank of Romania for the end of December 2015 were recorded in the related revenue or expense account from the exchange rate differences, as applicable.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 11 – STATEMENT OF LIABILITIES

Short-term debts

DEBTS	Balance on December 31, 2015	Balance on January 01, 2015
Advance payments received on customers account	10,434	24,540
Domestic customers-creditors	3,847	146
Foreign customers-creditors	6,587	24,394
Suppliers	24,025	15,187
Domestic suppliers	8,115	6,524
Foreign suppliers	11,484	6,792
Suppliers-invoices not arrived	1,802	1,148
Suppliers of immobilizations	2,624	723
Commercial effects to pay	38	-
Debt with current profit tax	1,970	4,231
Other current debts, of which	14,222	12,983
• Debts related to manpower and similar accounts	1,884	1,558
• Debts related to social security budget and state budget	11,186	10,923
• Other debts, of which:		
-dividends:	1,152	502
o from 2014	804	333
o from previous years	571	-
	233	333
TOTAL	50,689	56,941

The advance payments received on customers' account, amounting to 10,434 thousand lei are for aircraft maintenance and repair work, due to be settled in 2016.

For the accounted debts no mortgages were set.

AEROSTAR has no debts past due to the State Budget.

At the end of December 2015 the company made undertakings as bank guarantee letters in amount of 2,424,000 USD issued in favour of the business partners in accordance with the contractual requirements. AEROSTAR registered provisions for these undertakings.

The exchange rate differences, favourable or unfavourable, between the market exchange rate at which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for the end of December 2015, were registered in the corresponding account – revenues or expenses – from the exchange rate differences, as applicable.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

The dividends in balance as on December 31, 2015, in amount of 804 thousand lei represent:

- 571 thousand lei- the amount to be transferred by AEROSTAR for the payment of dividends corresponding to 2014, for the shareholders who did not collect them from CEC Bank S.A. desks (the paying agent designated by AEROSTAR).

On February 8, 2016, AEROSTAR informed the company shareholders, by a news release, the decision of the Board of Directors to extend the deadline for the payment of dividends corresponding the financial year 2014, established initially for the date 23.04.2016, until 31.12.2016.

- dividends from the years 2012 and 2013, in amount of 233 thousand Lei, paid by Aerostar, but not collected by the shareholders, for reasons pertaining to them.

By the same news release, AEROSTAR informed the shareholders that as of 10.02.2016 until 31.12.2016, the payment of dividends not collected, related to the financial years 2012 and 2013 will also be made via Depozitarul Central.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 12- CASH AND CASH FLOW EQUIVALENTS

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

	31.12.2015	31.12.2014
Cash	19,353	41,825
Bank deposits	81,888	50,580
Cheques to cash	37	-
Collateral deposits	21	21
Cash and cash equivalents in treasury cash flow statements	101,299	92,426

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

The cash equivalents comprise:

- short-terms bank deposits
- cheques deposited in banks to collect
- collateral deposits set up in accordance with the legal requirements with the Local Customs Department in Bacau with a view to securing the payment of current customs obligations (customs taxes and VAT).

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

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

The value of the credit facilities not used as on 31.12.2015 and available for future operations is 10.369 thousand LEI (2,500 thousand USD).

The value of treasury flows allocated for increasing the operating capacity is 10% of the aggregate value of the treasury cash flows.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 13- COMPANY CAPITALS

The company capitals in 2015 increased by the amount of 38,720 thousand Lei, representing the difference between the result of the financial year 2015, in amount of 52,268 thousand Lei and the dividends granted to the company's shareholders for the financial year 2014, in amount of 13,552 thousand Lei.

The changes occurred in 2015 in the main elements of the company capitals compared to the year 2014 are:

- **The registered capital remained unchanged throughout the year 2015**

On 31 December 2015, the registered capital of SC AEROSTAR SA Bacau is 48,728,784 Lei, divided into 152,277,450 shares with a nominal value of 0.32 Lei.

The company's shareholding on 31.12.2015 is structured as follows:

SHAREHOLDER	NO. OF SHARES	HOLDING PERCENTAGE %
SC IAROM SA BUCHAREST	108,382,523	71.1744
SIF MOLDOVA BACAU	22,538,040	14.8006
OTHER SHAREHOLDERS, Of which	21,356.887	14.0250
<i>Natural persons</i>	<i>14,786,660</i>	<i>9.7103</i>
<i>Legal persons</i>	<i>6,570,227</i>	<i>4.3147</i>
TOTAL	152,277,450	100.0

- **The reserves increased with 20,942 thousand lei on the account of:**
 - The allocation of the amount of 2,869 thousand Lei from the profit of year 2014 for statutory reserves
 - The distribution to reserves of the reinvested profit related to the year 2015, in the net amount of 18,073 thousand Lei
- **Other capital elements increased with the amount of 3,360 thousand Lei,** on the account of the deferred profit tax, on account of company capitals
- **The result carried forward:**
 - **Increased** with 6,510 thousand lei on the account of the deferred profit tax recognized on the account of company capitals and the distribution of the profit for 2014 at the beginning of 2015 and of other earnings
 - **Diminished** with the amounts allocated in 2015 from the profit of 2014 for statutory reserves in amount of 2,869 thousand Lei and for dividends in amount of 13,552 thousand Lei

the net increase of the result carried forward in 2015 being of 89 thousand Lei.

The structure of the result account balance carried forward on December 31, 2015, in amount of 57,384 thousand Lei is:

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

- 47,902 thousand Lei- result carried forward obtained from the use, on the date of transition to IFRS, of the fair value as presumed cost
- 1,162 thousand Lei- result carried forward obtained from the registration of the deferred tax liabilities, on the date of transition to IFRS
- 8,320 thousand Lei- result carried forward, representing a surplus obtained from reevaluation reserves as the tangible and intangible immobilizations are amortized
- **The result of the financial year 2015 (profit)** was 52,268 thousand Lei, of which a gross amount of 21,517 thousand Lei was distributed to reserves, as reinvested profit.

S.C. AEROSTAR S.A.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 14- REVENUES

	<u>31.12.2015</u>	<u>31.12.2014</u>
Revenues from sales , of which:	329,764	261,051
Revenues from sale of products	169,930	129,482
Revenues from services supplied	156,211	124,156
Revenues from selling goods	2,980	2,830
Revenues from renting	1,969	1,981
Commercial discounts granted	(2,828)	(724)
Revenues from other activities	1,502	3,326
Revenues related to inventories of finished products and production in progress	7,710	5,758
Other revenues from operations	1,697	1,263
Revenues from the production of immobilizations	854	848
Total revenues from Operations	340,025	268,920

NOTE 15- EXPENSES

	<u>31.12.2015</u>	<u>31.12.2014</u>
Expenses with employee benefits	89,049	82,422
Expenses with raw materials and consumables	98,859	75,564
Power supply, water and gas	9,162	9,552
Other material expenses	12,523	10,267
Expenses with external services , of which:	32,672	22,578
Transportation costs	2,770	3,008
Repairs	14,962	6,735
Expenses with renting	1,026	1,106
Other expenses with services supplied by third parties	5,602	6,120
Amortizations	12,477	11,009
Increase/decrease of adjustments referring provisions	16,238	27,329
Increase/decrease of adjustments for depreciation of inventories	7,428	1,521
Other operational expenses	3,051	4,631
Total Expenses with Operations	281,459	244,873

NOTE 16- FINANCIAL RESULT

	<u>31.12.2015</u>	<u>31.12.2014</u>
Revenues from currency exchange variations	10,366	6,184
Revenues from interest	1,297	1,144
Revenues from shares held in subsidiaries	154	86
Expenses from currency exchange variations	(10,829)	(6,460)
<u>Financial Profit</u>	<u>988</u>	<u>954</u>

S.C. AEROSTAR S.A.
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand Lei)

NOTE 17 - PROVISIONS

	31 December, 2014	Increases/ Set Provisions	Reductions/ Provisions resumed	31 December, 2015
Total provisions	94,458	33,728	17,490	110,696
Provisions for guarantees granted to customers	25,554	18,587	5,728	38,413
Other provisions for risks and expenses	48,261	11,423	8,094	51,590
Provisions for litigations	700	9	0	709
Provisions for the employee benefits	3,764	3,709	3,642	3,831
Provisions for decommissioning of tangible immobilizations	16,179	0	26	16,153
of which:				
Long-term provisions	67,044	13,272	10,230	70,086
Provisions for guarantees granted to customers	4,167	5,800	3,673	6,294
Other provisions for risks and expenses	46,698	7,472	6,531	47,639
Provisions for decommissioning of tangible immobilizations	16,179	0	26	16,153
Short-term provisions	27,414	20,447	7,260	40,610
Provisions for guarantees granted to customers	21,387	12,787	2,055	32,119
Other provisions for risks and expenses	1,563	3,951	1,563	3,951
Provisions for litigations	700	9	0	709
Provisions for employee benefits	3,764	3,709	3,642	3,831

The categories of provisions in balance on 31.12.2015 are:

1. Provisions set up for guarantees granted to customers, as provided in the agreements concluded with the customers;
2. Provisions for risks and expenses, intended for covering potential obligations to company customers, in accordance with the specific clauses of the agreements concluded with them;
3. Other provisions for risks and expenses set up for potential obligations to third parties;
4. Provision for covering expenses related to the company obligations to AJOFM (Manpower Occupancy Agency), as per Gov. Ord. 95/2002;
5. Provision for decommissioning of tangible immobilizations, included in the cost thereof, the value of which was estimated using an update rate of 5%
6. Provisions for benefits granted to employees as per the clauses of the applicable Collective Labour Agreement;
7. Provisions for litigations, set up for any indemnities owed to the company's ex-employees;

The provisions set up in foreign currency were reevaluated in accordance with the applicable regulations, resulting in a net increase from exchange rate differences in amount of 2,990 thousand Lei.

The company registers contingent debts related to granted letters of bank guarantee in a total amount of 5,310 thousand Lei.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 18- TRANSACTIONS WITH AFFILIATED PARTIES

Acquisitions of goods and services	year 2015	year 2014
S.C Airpro Consult SRL Bacau	7.732	7.076
S.C Foar SRL Bacau	855	859
TOTAL	8.587	7.935
Sales of goods and services	year 2015	year 2014
S.C Airpro Consult SRL Bacau	21	18
S.C Foar SRL Bacau	4	5
TOTAL	25	23
Debts	Balance at 31.12.2015	Balance at 31.12.2014
S.C Airpro Consult SRL Bacau	790	647
S.C Foar SRL Bacau	51	54
TOTAL	841	701
Dividends collected by Aerostar	year 2015	year 201
S.C. Airpro Consult SRL Bacau	42	86
S.C Foar SRL Bacau	112	-
TOTAL	154	86

The transactions with the affiliated parties in 2015 consisted in:

- Services provided by SC AIRPRO CONSULT SRL Bacau to SC AEROSTAR SA Bacau for temporary manpower
- Machinery rental services provided by SC FOAR SRL Bacau to SC AEROSTAR SA Bacau
- Services provided by SC AEROSTAR SA Bacau to SC AIRPRO CONSULT SRL Bacau and SC FOAR SRL Bacau for space rental and supply of utilities
- Dividends collected by SC AEROSTAR SA Bacau from SC AIRPRO CONSULT SRL Bacau, a company in which AEROSTAR holds the entire joint stock and from SC FOAR SRL Bacau, a company in which SC AEROSTAR holds 51% of the registered capital (NOTE 6).

There were no transactions with the company S.C. Aerostar Transporturi Feroviare SA Bacau as this company's activity was suspended from November 2012 until December 2015.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 19 - PROFIT PER SHARE

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

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

IN LEI	<u>31.12.2015</u>	<u>31.12.2014</u>
Profit distributable to ordinary shareholders	52,268,445	19,743,624
Number of ordinary shares	152,277,450	152,277,450
Profit per share	<u>0.343</u>	<u>0.129</u>

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 20- SUBSIDIES

The subsidies received by Aerostar S.A. comprise:

- a) subsidies related to assets
- b) subsidies related to revenues

	31.12.2015	31.12.2014
Balance on January, 1	10,843	8,330
Subsidies related to assets	8,459	2,435
Subsidies related to revenues	(287)	1,432
Subsidies registered as revenues	(2,187)	(1,354)
Balance on December, 31	16,828	10,843

a) Subsidies related to assets

The method of presentation of the asset-related subsidies in the financial statements recognizes the subsidy as a deferred revenue recognized systematically in the profit or loss throughout the useful lifetime of the asset.

	31.12.2015	31.12.2014
Balance on January, 1	9,831	8,330
Subsidies related to assets	8,459	2,435
Subsidies registered as revenues related to calculated amortization	(1,462)	(934)
Balance on December, 31	16,828	9,831

The balance of 16,828 thousand Lei represents subsidies related to investments in immobilized assets, to be registered under revenues corresponding to the calculated amortization.

The subsidies related to the immobilized assets were received for the implementation of 4 investment projects under 4 non-reimbursable financing agreements:

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

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

4. Contract no. 129302/28.03.2014: "Active occupational steps in the aeronautical sector by innovative professional training", performed between April 2014 and November 2015, the value of the subsidy received from the Regional Intermediate Body as part of the Sectorial Operational Program Development of Human Resources in North-Eastern Region (OIR POSDRU) being of 458 thousand Lei.

b) Subsidies related to revenues

The method of presentation of the revenue-related subsidies in the financial statements recognizes the subsidy while expenses are made for the current period.

	31.12.2015	31.12.2014
Balance on January, 1	1,012	0
Subsidies related to revenues	(287)	1,432
Subsidies registered as revenues while expenses are made for the current period	(725)	(420)
Balance on December, 31	0	1,012

The revenue-related subsidies were received for the implementation of the project "Active occupational steps in the aeronautical sector by innovative professional training" under the non-reimbursable financing contract no. 129302/28.03.2014, performed between April 2014 and November 2015, the value of the subsidy received from the Regional Intermediate Body as part of the Sectorial Operational Programme Development of Human Resources in North-Eastern Region (OIR POSDRU) being of 1,145 THOUSAND LEI.

All investment projects in immobilized assets and professional training were implemented and finalized in accordance with the contractual provisions assumed in the non-reimbursable financing contacts.

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 21 – LIABILITIES AND OTHER OFF-BALANCE ITEMS

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

	December 31, 2015	December 31, 2014
• Liabilities:		
○ guaranties granted to customers as letters of bank guarantee	5,310	904
○ guarantees received from suppliers – as letters of bank guarantee	7,754	2
• Goods		
○ Inventories such as materials released for use (tooling & jigs, personal protective equipment, measuring and control instruments, technical library, etc.)	18,855	16,666
○ material values received in custody	1,796	1,796
○ tangible and intangible immobilizations – result of research & development, purchased through projects in cofinancing	1,155	1,124
○ material values received for processing/repairs	265	265
○ other goods off-balance sheet	169	169
• Other values off-balance sheet		
○ debtors cleared from assets, yet still monitored	353	22
○ material guarantees	163	132

S.C. AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 22 –PAY OF THE DIRECTORS

As on December 31, 2015, the members of the Board of Directors of S.C. AEROSTAR S.A. are:

Item	Surname and first name	Position
1.	FILIP GRIGORE	President of the Board of Directors
2.	DAMASCHIN DORU	Vice-president of the Board of Directors
3.	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors
4.	NIJNIC MARIN - ILIE	Member of the Board of Directors
5.	VIRNA DANIEL	Member of the Board of Directors

In 2015, AEROSTAR did not grant advance payments or credits to the members of the Board of Directors, neither did it undertake any liabilities on their account as a guarantee of any type.

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

The amount of the fees granted to the members of the Board of Directors in the financial year 2015, on account of their responsibilities was 270 thousand Lei.

The company's shareholders decided in the Ordinary General Meeting held on 10 December 2015 to freeze the fees of the Directors for the financial year 2016 at the level decided by the ordinary general meeting of 6 July 2012.

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN

DECLARATION

The undersigned, GRIGORE FILIP, as President of the Board of Directors and General Director of SC AEROSTAR S.A. and DORU DAMASCHIN, as Vice-president of the Board of Directors and Financial Director of S.C AEROSTAR S.A., hereby undertake responsibility for the preparation of the individual financial statements as on 31.12.2015, and we confirm hereby that:

- a) All the accounting policies used to draw up the individual financial statements as on 31.12.2015 are in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.
- b) The individual financial statements as on 31.12.2015 provide a fair image and compliant with the reality of the related assets, liabilities, financial position, of the global result and the other information related to the activity carried out.
- c) The Report of the Board of Directors for the financial year 2015 comprises an accurate review of the development and performance of S.C. AEROSTAR S.A., as well as a description of the main risks and uncertainties specific to the activity performed.
- d) S.C. AEROSTAR S.A. BACAU performs its activity in conditions of continuity.

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

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