

AEROSTAR S.A.

HALF-YEAR REPORT ON 30.06.2018

According to Appendix 14 from Regulation no. 5/2018
issued by the Financial Supervisory Authority (FSA)

Content

- **Report of Board of Directors for the first semester of 2018**
- **Financial Statements on 30 June 2018**
- **Declaration of AEROSTAR S.A. management**
- **Independent auditor's report**

Identification data

Date of the report: 30.06.2018

Name of the company: AEROSTAR S.A. Bacău

Registered headquarter: Condorilor Street no. 9, Bacău, România

Telephone number/fax: +40234575070/ +40234572023

Individual Identification Number: RO 950531

Trade number in Bacau Trade Register: J04/1137/1991

LEI Code of identification: 315700G9KRN3B7XDBB73

Registered capital, subscribed and paid: 48.728.784 lei

Number of shares issued: 152.277.450

Nominal value: 0,32 lei / per share

The regular market on which the securities are traded:

Bucharest Stock Exchange (“ARS” indicator) – Standard Category

Introduction

The report of the Board of Directors for the first 6 months of 2018 of AEROSTAR S.A. Bacau is prepared in accordance with Regulation no. 5 from 2018 regarding the issuers of financial statements and market operations, issued by the Financial Supervisory Authority on 10 May 2018 and entered into force on 11 June 2018.

According to this regulation, the report must present the analysis of the actual economic-financial statement of the AEROSTAR company, in comparison with the similar period of the previous year; an analysis of the activity, of the events, transactions and economical amendments which significantly affect the income from the basic activity, as well as the amendments which affect the equity, the company's administration and the significant transactions.

The financial statements established on 30 June 2018 are accompanied by the review report of the independent financial auditor of the company AEROSTAR.

Chapter 1

Review of AEROSTAR's activity in the first semester of 2018

In the first six months of 2018, AEROSTAR's activity was performed in conditions of continuity and predictability, fulfilling the economic-financial objectives established in the budget foreseen for this period.

AEROSTAR continued its process of consolidation regarding its position in the aeronautical and defence market, in its three main business lines:

- Manufacturing of aviation products
- Maintenance of commercial aircraft
- Defence systems

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

The main field of activity is production.

Starting with January 2018, AEROSTAR has operated organizational modifications for a better use and mobilization of the resources, to make better use of the market opportunities and to respond as much as possible to customer's requests.

The new organisational structure operates in accordance with the established objectives.

Key figures of the economic-financial data on 6 months 2018, in comparison with 6 months 2017

	UM	30.06.2018	30.06.2017
Registered capital	thousand lei	48.729	48.729
Turnover	thousand lei	160.081	162.706
- Export sales	thousand lei	135.097	136.726
The effective number of personnel, of which:	no.	2.044	2.128
- Own employees	no.	1.907	1.943
- Employees attracted through temporary labour agent	no.	137	185
Net profit	thousand lei	45.550	25.213
Cash - flow	thousand lei	159.938	145.932

General liquidity	-	5,44	4,89
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In the first semester of 2018 no events or other factors affected the liquidity of AEROSTAR.

Expenses for investments from company sources	thousand lei	12.352	8.031
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“AEROSTAR” shares (ARS)

The main characteristics of the shares issued:

152.277.450 shares, nominative, ordinary, of equal value, paid integrally, issued in dematerialized form and recorded by registration in the Register of Shareholders.

This is managed by the S.C. Depozitarul Central S.A. Bucharest.

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

Individual Identification Number 950531, ISIN ROAEROACNOR5 code, ARS stock exchange symbol, the issued shares being all in the standard category.

Evolution of ARS shares

	30.06.2018	30.06.2017	30.06.2016
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Equity (lei)	281.966.899	225.481.238	203.363.067
Price at the end of the period ¹ (lei)	4,90	3,43	2,87
Stock exchange capitalization ¹ (lei)	746.159.505	522.311.654	437.036.282
Maximum price ¹ (lei)	5,36	3,70	2,99
Minimum price ¹ (lei)	4,65	3,25	2,24
Result per share (lei)	0,299	0,166	0,227

MBR Indicator (market to book ratio) (Stock exchange capitalization / equity).	2,6	2,3	2,1
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¹⁾ Source: Monthly newsletter issued by the Bucharest Stock Exchange

The trading price of AEROSTAR shares highlights a significant increase during the last reporting periods.

A significant increase of the stock exchange capitalization and of the interest for the company's shares is outlined.

AEROSTAR monitors the activity related to the evolution of the AEROSTAR shares on the Bucharest Stock Exchange without interfering in its operations with this activity.

Events of the timeperiod

- **The Ordinary General Meeting of the Shareholders** of AEROSTAR S.A. from 19 April 2018 approved the Financial Auditor's Report regarding the Auditing of the Financial Statements of 2017, as well as the Financial Statements of 2017.

The activities performed by the Board of Directors and by the executive management from year 2017 were approved, as well as the discharge of accountability of the members of Board of Directors and of the executive management for the activity performed until 31 December 2017.

The distribution of the net result of the financial year (profit in the amount of 53.169.632,90 lei), was approved as follows:

- distribution to the legal reserve of the reinvested profit: 9.337.715,64 lei;
- distribution to the reserve: 29.517.837,26 lei;
- distribution as dividends: 14.314.080,00 lei.

The distribution of the dividends for the year 2017 shall be performed in accordance with the applicable legal provisions and the costs related to the distribution activity shall be supported from the value of the net dividend due to each shareholder.

The date of **9 May 2018** was approved as **Registration Date**, according to Article 86, paragraph 1, from Law no. 24/2017 regarding the issuers of the financial statements and market operations, for the resolutions adopted on 19 April 2018, with the exception of the decision referring to the payment of the dividend. Related to the registration date proposed, the **ex date** will be **8 May 2018**.

The date of **20 September 2018** was approved as the **Payment date** of the dividends of the financial year 2017.

The date of **31 August 2018** was approved as the **Registration date** of the shareholders who will benefit from dividends for the financial year 2017. Related to this registration date, the **ex date** will be **30 August 2017**.

The same Ordinary General Meeting of Shareholders, according to art. 65 from Law no. 162/2017 regarding the statutory audit of the annual financial statements and of the consolidated financial statements, appointed the Audit Committee formed by Prof. Dr. Mihai DEJU and Prof. Dr. Daniel BOTEZ.

The time period approved for the contracts signed with the members of the Audit Committee is for a period between 19 April 2018 and 10 July 2020.

The net compensation of the audit's Committee members were established at the level of 50% from the compensation of a BoD member.

The Ordinary General Meeting of AEROSTAR's shareholders, from 19 April 2018, approved the appointment of the company MAZARS ROMANIA SRL as financial auditor and the conclusion of the financial audit contract with MAZARS ROMANIA SRL for a period of minimum 2 (two) years, with the possibility of extension through an amendment approved by the Board of Directors.

In the category of the current reports

- On 16 January 2018 AEROSTAR S.A. communicated to the shareholders the opening of a secondary headquarter with no legal personality (work point) in Iasi, on Aeroportului Street, no. 25B as a result of the fact that in 15 January 2018 the Trade Register of Bacau had issued the Resolution no. 469/12.01.2018 regarding the admission of the registration application of a secondary headquarter.
- Aerostar communicated to the shareholders the signing of a construction service contract, in the date of 24.05.2018, with the scope of performing the works of authorization, design, building an aircraft MRO hangar and the technical annex, installations, urban layout arrangement works and fencing for the work point opened in Iasi. The duration of this contract is 18 months and its total value is 5.600.000 Euro, without VAT. The financing of this acquisition is assured from company own sources.

Other events of the timeperiod

The 65th anniversary since the establishment of the company highlighted the importance of the company for the development of the local community, of the Romanian aviation and defence industry and for Romania and hosted many activities and events.

- On 16 April 2018, the members of the County Council voted the granting of the title of an Honorary Citizen of Bacau county to Mihai Nicolae TONCEA, President – General Director IAROM S.A., the main shareholder of the company.
- On 17 April 2018 AEROSTAR celebrated 65 years from its establishment. Aerostar is a representative company for the Romanian and European aviation and defence industry and marked its 65th anniversary through a series of events. Most of them were organized and financed by the Cultural-Educational Association Aerostar Bacau.
- On 26 April 2018, the President of Romania, Mr. Klaus Werner JOHANNIS visited AEROSTAR. The management of the company presented a few of the production and maintenance centers from the civil aviation field, as well as the perspectives of the synergic development of the businesses from the civil aviation and defence industry, the existing potential and the advantages presented by AEROSTAR to realize competitive national solutions for the future programs of the Romanian Army.
- On 11 May 2018, a delegation led by the Ministry of Defence, mr. Mihai Fifor, accompanied by Mr. Nicolae Burnete, the Ministry of Research and Development, Mr. Hans Klemm, USA Ambassador and other parliamentary and local officials visited Aerostar. The management of the company presented the capabilities of the production and maintenance centers from the civil aviation field, as well as the perspectives of the synergic development of the businesses from the civil aviation and defence industry, the existing potential and the advantages presented by AEROSTAR to realize competitive national solutions for the future programs of the Romanian Army.

AEROSTAR market and business development

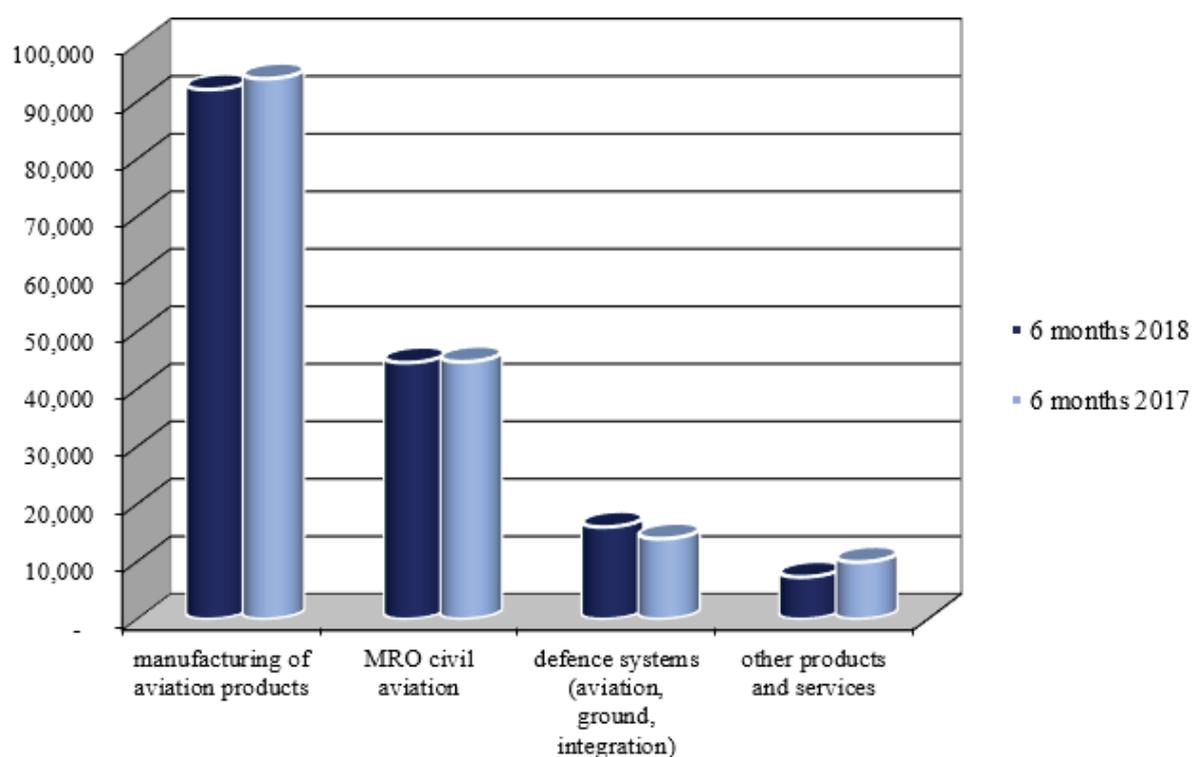
In the first six months of 2018, AEROSTAR continued the development of the three main business lines according to its mission, strategy and development directions presented:

- Manufacturing of aviation products;
- Maintenance of commercial aircraft;
- Defence systems- aero, ground and navy.

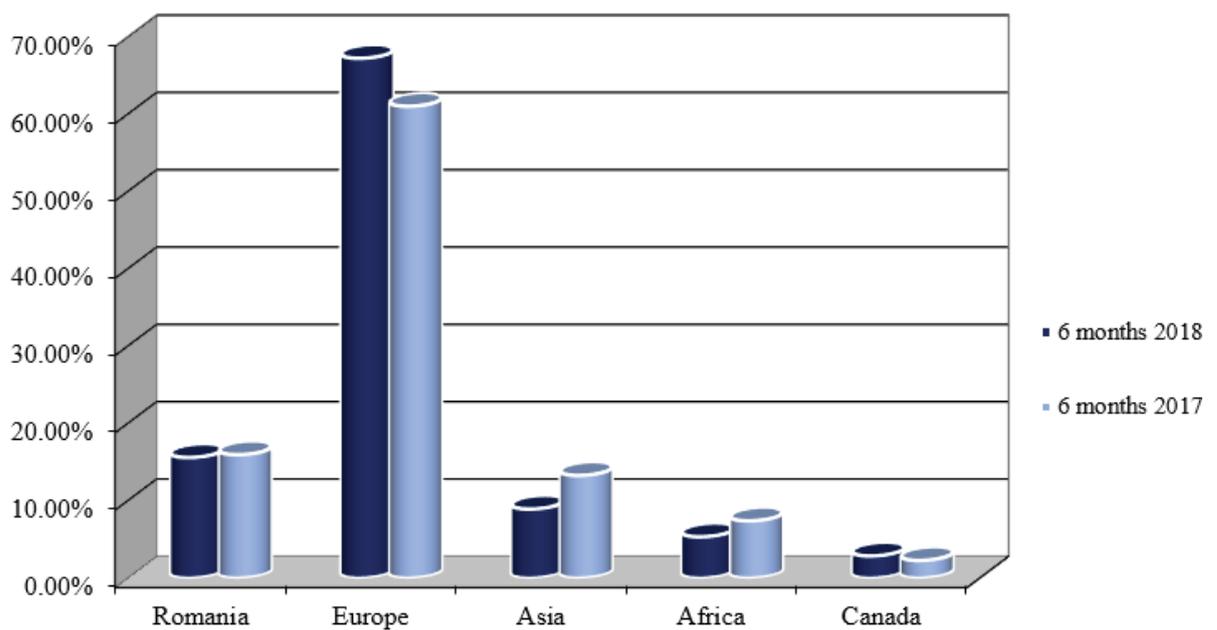
AEROSTAR maintained its top position on the Romanian and European market.

In the first semester of 2018, AEROSTAR had sales of 160.081 thousand lei, from which 135.097 thousand lei were export sales, with a high diversity of customers, in a large number of different production programs.

Comparative evolution of the sales on products and services:



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



Investments in equipment, infrastructure and IT

The expenses for the investments program in the first semester of 2018 recorded 12.352 thousand lei, representing 7,7% from the company's turnover in the reporting period.

From this amount, Aerostar invested 12.010 thousand lei for the acquisition and upgrade of the technological equipment, hardware equipment, CMM measuring and control equipment, plants, transport vehicles for facilities and transportation of products, the plating of constructions with heat-retaining panels etc., for the on-going business – civil aviation maintenance programs, aerostructures, manufacturing of parts and sub-assemblies, special processes – and 342 thousand lei for the acquisition of software licences and for the development of the production management IT system.

Investments in IT remain the main target for Aerostar's management.

The digital transformation plays an important role in the growth of the profitability through the way in which the IT technology influences the operational excellence.

The progresses related to the continuous digital transformation are taking into account the adaptation to the main digital transformation services and products, requirements of optimization of the operations and evolutions specific to the domain.

The main investment objectives commissioned in the first semester of 2018 were:

- a TFSAA automated line; and a semi-automated line for chemical milling
- a Zn-Ni line to replace the cadmium plating process with the zinc-nickel electrochemical coating process on stainless non-alloy steel, copper and other alloys;
- multi axis CNC machinery; a laser system to remove the chrome anodizing layer of the areas of aviation parts made with tartaric sulphur anodizing;
- measuring and control equipment (universal testing machine Zvik, axis length measuring machine) etc.

These investments use advanced new and ecological technologies.

On 24 May 2018, Aerostar signed a contract for construction services for authorization, design and building of the MRO civil aviation hangar and technical annex, plants, urban layout arrangement works and fencing of the area for the work point opened in Iasi.

At this secondary place of business, Aerostar will perform activities of MRO civil aviation for Boeing 737 and Airbus 320.

The contract was signed for a period of 18 months and the total value is 5.600.000 Euro excluding VAT.

The financing of these investments is assured from the company's own sources.

Until the end of 2018 the objectives which will be completed are: fencing and urban layout arrangement works on the surface where the constructions will be executed.

Aspects regarding the Quality and Environment Management System

During the first six months of 2018, Aerostar has maintained the certifications and approvals obtained either from the certification bodies, or from customers and other regulatory authorities.

As regards quality, surveillance audits were carried out both by the Romanian Civil Aeronautical Authority for the continued Part 21G and Part 145 approvals, by AEROQ for the Recertification Audits of Quality Management System according to the requirements of SR EN ISO 9001 Standard from 2015, according to the AQAP 2110 requirements with OMCAS, as well as by DQS according to the requirements of AS 9100 Standard Rev. D from 2016.

As regards the environment, a thematic control from the Environment Guard Authority was performed regarding the verification of compliance with the environment legislation, EUTR Regulation and of H.G. 845/2015, as well as the validation audit of the number of GHG certificates relating to 2017. Also, GHG certificates have been handed over by assuring the conformity with the legislation in force.

During this period, the water, air and noise have been monitored in the entire company, according to the requirements imposed by the Integrated Environmental Authorisation.

Aspects related to the employees of the company

On 30.06.2018 Aerostar S.A. has **1.907** employees, from which 179 employees in management positions, the number of employees reducing until 30.06.2018 with 46 compared to 31.12.2017.

With reference to the background and skills, on 30.06.2018 the figures are the following:

1) employees with university degree:	582
– Doctor's degree:	11
– doctorands:	8
– master studies graduates:	137
2) employees with post highschool studies	9
3) high school employees	630
4) employees, vocational studies	616
5) employees, on job training qualifications	42
6) employees, gymnasium background	28

The average union membership of the company on 6 months 2018 was 74,64%.

Other personnel indicators on 30.06.2018:

- the average age of the employees in AEROSTAR is 46 years and the number of temporary manpower is 137;
- the average employment years in AEROSTAR is 17 years;

Description of the reports between the manager and the employees as well as of any conflictual elements which characterize these reports.

In the first semester of 2018, in Aerostar, the preoccupations for the quality of the present and future work force of the company have intensified and actions were made for:

- professional development of the employees, by including them in programs of professional training and by implementing a process of annual evaluation of their individual performances;
- non-discrimination both at the employment and at the work place;
- the integration of new employees, especially of young people by including them in professional trainings and by meeting the executive management of the company;
- assuring optimal conditions regarding work security and health for all employees, as well how to act in case of emergency situations;
- performing 53 processes to select personnel in order to occupy 145 open positions, where 454 candidates were invited, 284 participated and 140 persons were hired;
- performing internships for 100 high-school students from “Anghel Saligny” and “N. V. Karpen” college from Bacau, as well as 42 students from “Vasile Alecsandri” University from Bacau, “Universitatea Politehnică București” and “Transilvania” University from Brașov.

During the first semester of 2018 were organized professional training courses for the employees of the company, targeting mainly the training for the production activities:

24 courses (training programs) with external suppliers – with a number of 217 attendants and 109 professional training courses / internal certification – with a number of 2.079 attendants.

The costs registered during this period on the annual budget for professional training were of: 197.385 lei;

- in April 2018, on the occasion of the 65 years anniversary from the establishment of AEROSTAR S.A., were organized two events “Open Doors Day”, one dedicated to the students from Bacau and the other one for the employees and their families.
- granting distinctions (nominal plaques of honour) and bonuses for the performance during 2017.

Risk Management

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

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

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

Operational Risk

The risk of loss occurrence or of failure to make estimated profits is determined by:

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

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

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

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

The management system performed in Aerostar associated with the digital transformation processes lead to a good control of the operational risk, confirmed by the operational indicators – supervised weekly, monthly, quarterly and annually.

In addition, AEROSTAR aims, through the establishment of provisions for risks and related expenses, to have its own funding to cover its risks of exposure.

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

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

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

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

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

However, there is a significant exposure towards the global market of Airbus programs, a high percentage from the company's products being incorporated in Airbus aircraft.

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

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

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

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

The management of this risk is realised through:

- diversification of the suppliers' portfolio, which offers increased negotiation leverage when certain suppliers of raw materials increase the price;
- long-term agreements, with fixed price provision.

AEROSTAR is exposed to the exchange rate risk because 84% from the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in LEI.

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

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

Description of the main risks and uncertainties for the next 6 months of 2018

For the following 6 months AEROSTAR does not foresee other significant risks than the ones managed in the current period and presented further on:

Operational risk: the risk of loss registration or the failure to meet the estimated profits

Legal risk: the loss registration, resulting the fines, penalties and sanctions of which AEROSTAR can incur in case of non-application or misapplication of dispositions, legal or contractual regulations.

Credit risk: the risk of AEROSTAR to bear a financial loss as a result of the failure to meet the contractual obligations by a customer.

However, additional risks and uncertainties can exist, currently unknown or considered insignificant, but which can affect in the future the business lines performed by AEROSTAR.

**The main transactions between the affiliated parties
which occurred during the reporting date, their value,
nature of relationship with the affiliated parties**

In the first semester of 2018 no modifications of AEROSTAR shareholdings were performed.

On 30.06.2018 AEROSTAR has the following holdings in the registered capital of other companies:

Subsidiary / affiliated company	Basic activity	No. of shares	Voting rights	Contribution held (thousand lei)	Financial information for the last financial year (2017) for which the financial statements of the affiliated companies were approved (thousands lei)		
					Sales	Equity	Net profit
SC Airpro Consult SRL	Basic activity according to CAEN code 7820	100	100,00%	10	9.138	171	106
SC Foar SRL	Basic activity according to CAEN code 7739	408	51,00%	4	479	1.966	219
SC Aerostar Transporturi Feroviare S.A.	Basic activity according to CAEN code 2822	9.150	45,75%	92	-	273	1
Total				106	9.617	2.410	326

The transactions between AEROSTAR and the affiliated parties in 01.01.2018 – 30.06.2018 consisted in:

- Services provided by SC Airpro Consult SRL Bacau to AEROSTAR SA Bacau for temporary manpower
- Machinery rental services provided by SC Foar SRL Bacau to AEROSTAR SA Bacau
- Services provided by AEROSTAR SA Bacau to SC Foar SRL Bacau for space rental and supply of utilities
- Dividends collected/to be collected by AEROSTAR SA Bacau from SC Airpro Consult SRL Bacau and from SC Foar SRL Bacau.

The value of the transactions between AEROSTAR and the affiliated parties which took place during the first semester of 2018 is presented as follows:

	Airpro Consult SRL Bacau	Foar SRL Bacau
Acquisition of goods and services (thousand lei)	3.872	270
Sales of goods and services (thousand lei)	-	1
TOTAL	3.872	271

During 01.01.2018 – 30.06.2018 no transactions were held with the company Aerostar Transporturi Feroviare SA Bacău, their activity being suspended since 2016.

Chapter 2 Economic & Financial Situation

a) Financial position

(thousand lei)	June 30 th 2018	Dec 31 st 2017
TOTAL ASSETS, of which:	473.482	443.192
Immobilized assets	153.633	153.686
Current assets - total, of which:	308.384	278.451
- inventories	91.603	67.925
- trade receivables and other receivables	56.843	46.640
- cash and cash equivalent	159.938	163.886
Other assets elements	11.465	11.055
TOTAL EQUITY, INCOME IN ADVANCE, LIABILITIES AND PROVISIONS, of which:	473.482	443.192
Total liabilities	71.665	52.331
Total provisions	108.369	125.189
Subsidies for investments	11.455	12.677
Total equity, of which:	281.968	252.967
- share capital	48.729	48.729
- result carried forward	57.931	57.524
- reserves	156.665	110.843
- other capital items (deferred income tax recognized on equity)	(10.603)	(7.961)
- profit distributed as legal reserve	(16.304)	(9.338)
- result of the period (profit)	45.550	53.170

b) Income and Expense Items

(thousand lei)	June 30 th 2018	June 30 th 2017
Total income	191.653	184.972
Operating income, of which:	187.074	182.676
~Turnover	160.081	162.706
~Income related to the inventories of finished goods and work in progress	25.186	17.630
Financial income	4.579	2.296
Total expenses	142.208	153.665
Operating expenses, of which:	(139.733)	(149.794)
~ Material expenses	(66.675)	(68.118)
~ Expenses with employees' benefits	(56.544)	(53.398)
~ Expenses regarding amortization of assets	(12.440)	(11.743)
~ Adjustments regarding current assets	(5.860)	(9.385)
~ Adjustments regarding provisions	16.820	8.104
~ Expenses regarding external services	(13.600)	(14.056)
~ Other expenses	(1.434)	(1.198)
Financial Expenses	(2.475)	(3.871)
Operating profit	47.341	32.882
Financial Profit / Loss	2.104	(1.575)
Profit before tax	49.445	31.307
Tax on current and deferred income	(3.895)	(6.094)
Net Profit of the period	45.550	25.213

c) Cash-flow items

(thousand lei)	June 30 th 2018	June 30 th 2017
Operating activities:		
- Collected amounts	160.119	154.503
- payments, of which:	150.696	161.206
- payments for suppliers and employees	(123.809)	(128.333)
- payments for dues and taxes to State Budget	(26.887)	(32.873)
<i>A. Cash from Operations</i>	9.423	(6.703)
Investments:		
-collected amounts, of which:	1.044	304
- instalments collected from loans granted	2	2
- interest received from bank deposits and loans granted	941	133
- amounts collected from sales of immobilizations	11	72
- dividends received from subsidiaries	90	97
- payments for acquisitions of immobilizations	(14.329)	(9.829)
<i>B. Cash from Investments</i>	(13.285)	(9.525)
Financing Operations:		
- Dividends paid but not collected, recovered	0	29
- Paid dividends	(34)	(32)
<i>C. Cash from Financing Operations</i>	(34)	(3)
<i>Net Cash Increase (A+B+C)</i>	(3.896)	(16.231)
Cash at the beginning of the period	163.886	163.153
Cash at the end of the period	159.938	145.932

Chapter 3

Aspects regarding the capital and the company's administration

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

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

There are no modifications regarding the rights of the shareholders. There were no major transactions completed by the company with the persons with whom the company is operating in a concerted manner or in which these persons were involved during the relevant period.

FINANCIAL CALENDAR 2018 – the following events which will be performed

The presentation of the financial results of the first semester of 2018.	16.08.2018
Meeting with the press and the investors interested for the presentation of the financial results of the first semester of 2018.	16.08.2018
The presentation of the financial results on September 30 th 2018.	09.11.2018

On behalf of the Board of Directors,

Grigore FILIP

President – General Director

AEROSTAR S.A. BACAU

INDIVIDUAL FINANCIAL STATEMENTS

ON JUNE 30th, 2018

REVIEWED

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AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	June 30 th , 2018	December 31 st , 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	145.077	144.613
Intangible assets	5	1.326	1.858
Investment property	6	7.008	6.987
Long-term financial assets	7	222	228
Total non-current assets		153.633	153.686
Current assets			
Inventories	10	91.603	67.925
Trade receivables and other receivables	8;9	56.843	46.640
Cash and cash equivalents	11	159.938	163.886
Total current assets		308.384	278.451
Receivables regarding deferred income tax	17	10.512	10.564
Prepaid expenses	31	953	491
Total assets		473.482	443.192
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	48.729	48.729
Current result	12	45.550	53.170
Retained earnings	12	57.931	57.524
Other reserves	12	156.665	110.843
Deferred income tax recognized based on own equity	17	(10.603)	(7.961)
Distribution of profit for legal reserve	12	(16.304)	(9.338)
Total equity	12	281.968	252.967
Income in advance			
Subsidies for investments	14	11.455	12.677
Income registered in advance	31	25	28
Total income in advance		11.480	12.705
Long-term liabilities			
Liabilities regarding deferred income tax	17	14.892	12.690
Other long-term liabilities	16	51	51
Total long-term liabilities		14.943	12.741
Long-term provisions	13	74.493	75.825
Current liabilities			
Trade liabilities	15	31.557	29.515
Liability with current income tax	23	1.899	1.522
Other current liabilities	16	23.266	8.553
Total current liabilities		56.722	39.590
Short-term provisions	13	33.876	49.364
Total provisions		108.369	125.189
Total liabilities		71.665	52.331
Total equity, income in advance, liabilities and provisions		473.482	443.192

General Director
Grigore Filip

Financial Director
Doru Damaschin

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	June 30 th 2018	June 30 th 2017
Operating income			
Income from sales	19	160.081	162.706
Other income	19	1.266	1.669
Income related to the inventories of finished goods and work in progress	19	25.186	17.630
Income from production of assets	19	541	671
Total operating income		187.074	182.676
Operating expenses			
Material expenses	20	(66.675)	(68.118)
Expenses with employees' benefits	20	(56.544)	(53.398)
Expenses regarding amortization of assets	20	(12.440)	(11.743)
Adjustments regarding current assets	20	(5.860)	(9.385)
Adjustments regarding provisions	20	16.820	8.104
Expenses regarding external services	20	(13.600)	(14.056)
Other expenses	20	(1.434)	(1.198)
Total operating expenses		(139.733)	(149.794)
Operating profit		47.341	32.882
Financial income	21	4.579	2.296
Financial expenses	22	(2.475)	(3.871)
Financial profit/loss		2.104	(1.575)
Profit before tax		49.445	31.307
Tax on current and deferred profit	17;23	(3.895)	(6.094)
Net profit of the period		45.550	25.213

General Director
Grigore Filip

Financial Director
Doru Damaschin

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	June 30th 2018	June 30th 2017
Net profit of the period	45.550	25.213
Deferred income tax recognized on equity	(2.235)	66
Other elements of the global result	(2.235)	66
Total global result of the period	43.315	25.279

General Director
Grigore Filip

Financial Director
Doru Damaschin

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE EQUITY MODIFICATIONS
ON JUNE 30th 2018

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

	Share capital	Reserves	Deferred income tax recognized on equity	Retained earnings	Result of the period	Total equity
Global result						
A. Balance on 1 January 2018	48.729	110.843	(7.961)	57.524	43.832	252.967
The profit of the period				45.550	45.550	45.550
Other elements of global result						
Deferred income tax recognized on the account of equity			(2.642)	407	-	(2.235)
Distribution of the profit of 2017 on the destinations decided by the shareholders in GMS from the 19 April 2018 (Note 12)				43.832	(43.832)	-
Distribution of the profit of the sem. 2018 for the legal reserves in gross amount		16.304			(16.304)	-
Total global result of the period		16.304	(2.642)	44.239	(14.586)	43.315
Reserves distributed from the profit of 2017		29.518		(29.518)		-
Dividends to be paid for 2017				(14.314)		(14.314)
Transactions with the shareholders directly recognized in equity		29.518		(43.832)		(14.314)
B. Balance on June 30th 2018	48.729	156.665	(10.603)	57.931	29.246	281.968
C. Modifications on own equity (NOTE 12)	0	45.822	(2.642)	407	(14.586)	29.001

General Director
Grigore Filip

Financial Director
Doru Damaschin

AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE CASH FLOWS (direct method)
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	June 30 th 2018	June 30 th 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
collected from customers		158.847	153.448
taxes and excises recovered from State Budget		1.272	1.055
payments to suppliers and employees		(123.809)	(128.333)
payment of taxes, contributions and dues to State Budget		(23.413)	(28.260)
payment of profit tax		(3.474)	(4.613)
NET CASH FROM OPERATING ACTIVITIES	27	9.423	(6.703)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
interest collected from bank deposits formed		938	130
dividends received from subsidiaries		90	97
collected from sales of property, plant and equipment		11	72
interest collected from loans granted		3	3
instalments collected from loans granted		2	2
payments for purchasing property, plant and equipment and intangible assets		(14.329)	(9.829)
NET CASH FROM INVESTMENT ACTIVITIES	27	(13.285)	(9.525)
CASH FLOWS FROM FINANCING ACTIVITIES			
dividends paid but unclaimed		0	29
gross dividends paid		(34)	(32)
NET CASH FROM IN FINANCING ACTIVITIES	27	(34)	(3)
Net decrease of the cash and of cash equivalents		(3.896)	(16.231)
Cash and cash equivalents at the beginning of the period		163.886	163.153
Effect of the exchange rate variation on the cash and cash equivalents	27	(52)	(990)
Cash and cash equivalents at the end of the period	11	159.938	145.932

General Director
GRIGORE FILIP

Financial Director
DORU DAMASCHIN

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 1 - DESCRIPTION OF THE COMPANY

AEROSTAR was established in 1953 and operates in accordance with the Romanian law. AEROSTAR S.A. operations take place at its registered headquarters located in Bacau, no.9 Condorilor Street, Code 600302. According to the Decision of the Board of Directors no.2/14.12.2017, it has been approved the establishment of a secondary headquarters without legal personality (working place) in Iasi, on 25B Aeroportului Street.

The main activity field of AEROSTAR is production.

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

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

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

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

In terms of accounting regulations, AEROSTAR S.A. is the subsidiary of the 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 2016 were submitted to ANAF (National Agency for Tax Administration) under registration number 123171305/25.08.2017. Copies of the consolidated financial statements can be obtained from the headquarters of the parent company, IAROM S.A. The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended 31.12.2017.

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

The policy is focused on maintaining a solid capital basis in order to support the continuous development and accomplishment of own strategic objectives.

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

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

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

During the first semester of 2018, the company did not use loan capital or equity contribution from the shareholders.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 2 -ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

2.1. Estimates

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

The estimates and judgements are made based on the historic experience as well as on a series of factors considered adequate and reasonable. The accounting estimates and judgements are continuously updated and are based on reasonable expectations with respect to future probable events.

The reported accounting values of the assets, the liabilities that cannot be determined or obtained from other sources are based on these estimates considered adequate by the company's management.

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

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

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

The Company uses estimates in order to determine:

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

Presentation of the information

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018

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

2.2. Errors

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

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

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

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

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

2.3. Changes in the accounting policies

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

The company modifies an accounting policy only if such change:

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

Applying changes in Accounting Policies:

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

Presentation of the information

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

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

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018

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

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

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 3 - ACCOUNTING AND EVALUATION PRINCIPLES

3.1. Basis for the preparation and presentation of financial statements

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

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

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

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

The financial year is the calendar year.

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

The financial statements are prepared based on historical cost.

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

3.2. Applied Accounting Policies

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

The most significant accounting policies are presented below:

- **Accounting Policies regarding property, plant and equipment**

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

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

Taking into account the specific activity and the types of property, plant and equipment in the patrimony of the company, it was considered that the residual values of the property, plant and

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

equipment are insignificant. Practically, the residual value was calculated at the level of metal waste that may be valued after deduction of dismantling, disassembly and sales expenses.

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

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

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

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

All other repair and maintenance expenses performed to ensure the continued use of the property, plant and equipment are recognized in profit or loss when they are carried out. These are performed in order to keep the initial technical parameters. The spare parts are generally accounted for as inventories and recognized as expense when consumed. If the spare parts and service equipment, with significant values, may only be used in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment if the initial acquisition cost (upon commissioning) of the replaced part can be determined.

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

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

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

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

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

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

- how the asset will generate future economic value;
- the ability to assess costs.

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

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

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

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

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

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

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

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

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

The financial assets are presented in the statement of the financial position at the incoming value, except any recognized impairment losses.

- **Accounting policies on inventory items**

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

The material goods received for processing, custody or consignment are incoming received and recorded distinctly as inventory entries.

In the accounting, the value of these goods is recorded in off-balance sheet accounts.

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

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

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

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

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

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

Company's liabilities are highlighted in the accounting based on third parties accounts. Suppliers and other liabilities accounts are kept by category, as well as by each individual or legal entity. Income tax to be paid is recognized as a liability within the limit of the unpaid amount. The registration in the accounting of the excise duties and special funds included in prices or tariffs is made based on the corresponding debt accounts, without transferring through the revenue accounts.

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

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

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

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

All other liabilities are classified as long-term liabilities.

Debts that are payable over a term longer than 12 months are long-term debts.

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

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

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

Receivables include:

- commercial receivables, which are amounts owed by customers for goods sold or services rendered in the normal course of the activity;
- commercial revenue (effects) to be collected, third party instruments;
- amounts owed by the employees or affiliated companies
- advance payments to the suppliers of property, plant and equipment, of goods and services;
- receivables related to personnel and state budget.

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

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

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

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

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

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

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

- **Accounting Policies for Revenue Recognition**

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

Revenues are classified as follows:

- ✓ revenues from operations;
- ✓ financial revenues.

The revenue is recognized on an accrual basis.

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

Revenues from operations include:

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

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

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

Specifically, the proceeds from the sale of goods are recognized when the goods are delivered and the legal title is transferred.

Revenues from rendering of services

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

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

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

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

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th 2018
(unless specified otherwise, all amounts are stated in thousand lei)

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

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

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

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

- **Accounting policies for provisions**

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

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

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

Provisions for collateral

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

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

Provisions for Risk and Expense

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

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

Provisions for the decommissioning of property, plant and equipment

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

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

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

AEROSTAR S.A. BACAU
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Provisions for the employees' benefits

Are recognised as employees' benefits, granted according to the applicable Collective Labour Agreement, only if:

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

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

- **Accounting Policies on grants and other non-refundable funds**

The subsidies are distinctly reflected:

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

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

Government grants are initially recorded as deferred revenue at fair value when there is reasonable assurance that it will be received and the Company will respect the conditions associated with the grant. Grants that compensate the Company for the expenditures incurred are systematically recorded in the income statement, in the same periods in which expenses are recorded. Grants that compensate the company for the cost of an asset are recorded on a systematic basis in the income statement over the entire lifetime of the asset.

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

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

- **Accounting policies for the production of goods and services**

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

The management accounting object consists of:

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

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

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

- a) material losses, labour or other production costs related to the scrap and the sub-activity costs;
- b) general administration expenses.

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

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This method is suitable for individual and serial production. The object of highlighting and calculate the cost within this method is the order launched for a certain quantity (batch) of products. The production costs are collected directly on each order (those that are direct) or by distribution (the indirect ones).

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

The orders are launched at a planned price, as the case may be.

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

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

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NOTE 4 – TRANSACTIONS IN FOREIGN CURRENCIES

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

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

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

Currency	30.06.2018
EUR (Euro)	4,6611
USD (American Dollar)	4,0033
GBP (British pound)	5,2626

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

Considering that 84% from the turnover registered in the reporting period is denominated in USD and EUR, while a significant part of the operating costs is denominated in LEI, the foreign exchange rates variations will affect both its net incomes as well as the financial position as it is expressed in the functional currency.

In the reporting period the net currency exposure resulting as difference between the receipts of the financial assets and the payment of the financial liabilities denominated in that currency are presented like this:

Ist semester 2018	Thousand EUR	Thousand USD	Thousand GBP
Collected from financial assets	6.662	21.512	0
Payments of financial liabilities	3.799	7.449	262
Currency net exposure	2.863	14.063	(262)

In the first semester, the trimestral variation of the medium appreciation of the USD/LEU currency exchange (with - 2,60% in the Ist quarter of 2018 compared to 31.12.2017 and with + 3,20% in IInd quarter of 2018 compared to 31.03.2018) has determined the reporting of a financial profit from favourable differences of exchange rate the amount of 789 thousand LEI.

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NOTE 5 - INTANGIBLE ASSETS

	June 30 th 2018		January 1 st 2018			
	Gross values	Amortization/ Depreciation	Net accounting value	Gross values	Depreciation	Net accounting value
Capitalised development costs	110	(110)	0	89	(89)	0
Licences /Trade marks	4.803	(3.558)	1.245	4.602	(3.122)	1.480
Other intangible assets	1.311	(1.230)	81	1.196	(818)	378
Total	6.224	4.898	1.326	5.887	4.029	1.858

Net accounting value

	Balance on January 1 st 2018	Increase	Reclasification	Disposals	Amortization/ Depreciation during the period	Balance on June 30 th 2018
Capitalised development costs	0	110	0	0	(110)	0
Licences	1.480	227	0	0	(462)	1.245
Other intangible assets	378	116	0	0	(413)	81
Total	1.858	453	0	0	(985)	1.326

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

- Development expenses
- Licenses
- Other intangible assets

The IT programmes are registered in other intangible assets.

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

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

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

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

The intangible assets in the balance sheet account as on 30.06.2018 are not depreciated and no adjustments were made for the depreciation thereof.

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

The value of the completely amortized software licenses on June 30th, 2018 and which are still in use is 1.496 thousand LEI.

All the intangible assets recorded in the balance sheet as on June 30th, 2018 are property of AEROSTAR.

Increases in gross values of intangible assets were obtained by:	<u>452</u>
• capitalization of the development expenses fully financed by Aerostar	110
• development of the IT management system of production-AEROPROD	116
• purchasing of software licenses	227

In the first semester of 2018 there were no enterings of licenses generated internally or acquired through business combinations.

In the first semester of 2018 there were no assets classified as held for sale in accordance with IFRS 5.

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NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment on June 30th 2018 and January 1st 2018 include the following:

	June 30 th , 2018		January 1 st , 2018			
	Gross values	Amortization/ Depreciation	Net accounting value	Gross values	Amortization/ Depreciation	Net accounting value
Land	28.401	-	28.401	28.433	-	28.433
Constructions	54.326	14.571	39.755	54.160	12.256	41.904
Technological equipment and vehicles	136.168	61.136	75.032	119.436	52.550	66.886
Other equipment and office equipment	963	409	554	937	353	584
Investment property	9.084	2.076	7.008	8.810	1.823	6.987
Property, plant and equipment under construction	1.335	0	1.335	6.806	0	6.806
Total	230.277	78.192	152.085	218.582	66.982	151.600

Net accounting value

	Balance on January 1 st 2018	Increase	Reclassification	Disposal/Transfer	Amortization/ Depreciation	Balance on June 30 th 2018
Land	28.433	0	0	(32)	0	28.401
Constructions	41.904	169	0	0	(2.318)	39.755
Technological equipment and vehicles	66.886	17.010	0	(37)	(8.827)	75.032
Other equipment and office equipment	584	27	0	0	(57)	554
Investment property	6.987	274	0	0	(253)	7.008
Property, plant and equipment under construction	6.806	12.009	0	(17.480)	0	1.335
Total	151.600	29.489	0	(17.549)	(11.455)	152.085

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

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

Depreciation expenses are recognised in the profit and loss statement.

The following useful lives are assumed:

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

The useful lives are established by committees formed by Company's specialists. The useful lifetimes of the Property, Plant and Equipment will be reviewed at the end of the financial year 2018.

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

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

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

The values from lease incomes in the first semester of 2018 was of 989 thousand LEI (1st semester of 2017: 870 thousand LEI).

At the date of transition to IFRS, the Company has estimated and included in the cost of the Property, Plant and Equipment the costs estimated with their decommissioning at the end of a useful lifetime.

These costs were reflected in the set-up of a provision, which is recorded in the profit and loss account throughout the lifetime of the Property, Plant and Equipment, by inclusion in the amortization expense.

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

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

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

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

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

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External information source

Market value (market capitalization) has registered a growth of 4 % on June 30th 2018 compared to 31st December 2017.

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

For AEROSTAR the evolution of this indicator is presented as follows:

<u>MBR-Market indicator to book ratio</u>	<u>30.06.2018</u>	<u>30.06.2017</u>
Stock exchange capitalization/ equity	2,6	2,3

Internal information sources:

- the economic performance of the assets is good, all the immobilizations in operation bring benefits to the company
- in the first semester of 2018 no changes occurred with adverse effects on the extent and manner in which the assets are used. The rotation of Property, Plant and Equipment (turnover/Property, Plant and Equipment – indicator monthly monitored) has been approximatively at the same level in the first semester of 2018 compared to the former period (1,05 rotations).

In conclusion, the Property, Plant and Equipment in the balance sheet on 30.06.2018 are not depreciated and no adjustments were made for the depreciation thereof.

The gross accounting value of the fully amortized Property, Plant and Equipment which were still in operation on June30th, 2018 is of 5.896 thousand LEI.

On 30.06.2018 no mortgages were set on tangible real estate assets in the property of AEROSTAR S.A.

Increases in gross values of the Property, Plant and Equipment, achieved by: 29.489

- acquisition on technical equipment, hardware equipment, equipment of measuring and control, modernization of buildings, etc. 17.480
- investments performed in the first quarter of 2018 12.009

Decreases in gross values of Property, Plant and Equipment, achieved by: 17.549

- the transfer of the investments in progress in Property, Plant and Equipment following their placing in service 17.480
- derecognition of certain Property, Plant and Equipment, due to the fact that the company no longer expects future economic benefits from their use 37
- expropriation, for a public use cause, of a land surface of 452 m² owned by AEROSTAR – to realize the objective of local interest investments „Rehabilitation of the Aeroportului Street” 32

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NOTE 7- LONG-TERM FINANCIAL ASSETS

	Shares held in affiliated entities	Other immobilized securities	Long-term loans	Other receivables-supplier warranties	Total
On 1 January 2018	14	92	87	35	228
Increases/Decreases	-	-	(5)	(1)	(6)
On June 30th, 2018	14	92	82*	34	222

*) The company registers in financial immobilizations the remaining balance (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 30.06.2018 are the following:

Subsidiary name/ Registered headquarter	CAEN Code	No. of shares/ shares issued	Voting rights (%)	Value of shares held by Aerostar (thousand LEI)	Financial information related to 2017				
					Shared capital of the company	Reserve	Net Profit	Nominal value/share	
SC Airpro Consult SRL Bacau	- main activity according to CAEN code 7820	100	100%	10	10	55	106	0,1	1,7
Condorilor Street, no .9									
SC Foar SRL Bacau Condorilor Street, no .9	- main activity according to 7739 CAEN code	800	51%	4	8	1.739	219	0,01	2,5
SC Aerostar Transporturi Feroviare S.A Bacau Condorilor Street, no. 9	- main activity according to 2822 CAEN code	20.000	45,75 %	92	200	38	1	0,01	0,013
TOTAL	x	x	x	106	218	1.832	326	x	x

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The contribution of AEROSTAR in these companies is recorded depending on cost.

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

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

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NOTE 8 - TRADE RECEIVABLES

	June 30th 2018	December 31st 2017
TRADE RECEIVABLES OF WHICH:		
Customers, of which:	44.656	38.050
Domestic customers	5.914	4.470
Foreign customers	38.742	33.580
Uncertain customers	1.032	1.162
Adjustments for depreciation of customer receivables	(521)	(1.162)
Suppliers – debtors	7.866	6.371
Customers – invoices to draw up	-	-
Effects to receive from the customers	18	-
Other immobilized receivables with due date less than 12 months	132	132
Total of trade receivables	53.183	44.553

To cover the risk of non-recovery of the amounts representing uncertain receivables, the company recorded adjustments for depreciation of uncertain customers in the value of 521 thousand LEI.

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

Debtors-suppliers have a discount limit in year 2018.

In the category of Other immobilized receivables, with a due date less than 12 months, are to be found the warranties of proper performance of some agreements signed with commercial partners.

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania to close the month of June 30th, 2018.

The favourable and unfavourable 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 available for June 30th, 2018 were recorded in the related revenue or expense account from the exchange rate differences, as applicable.

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NOTE 9 - OTHER RECEIVABLES

	June 30th, 2018	December 31st, 2017
Receivables relating to manpower and assimilated accounts	33	30
Receivables related to the budget of social insurance and the state budget, of which:	2.972	1.573
– VAT to be recovered	2.119	768
– non-chargeable VAT	72	154
– excises to recover related to fuel consumption	287	504
Receivables from subsidiaries	112	-
Interest to receive from bank deposits	510	346
Diverse debtors	141	233
Adjustments for the depreciation of the receivables – diverse debtors	(108)	(113)
Other receivables	-	18
Total other receivables	3.660	2.087

To cover the risk of non-recovery of the amounts representing uncertain receivables – diverse debtors, the company recorded adjustments for depreciation of uncertain debtors in the amount of 108 thousand LEI.

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NOTE 10 – INVENTORIES

	June 30th 2018	December 31st 2017
of which:		
Raw materials	16.396	14.789
Consumables	30.310	25.444
Other materials	126	146
Semi-finished products	1.917	-
Packaging	12	34
Finished products	26.423	17.796
Products under execution	36.464	23.271
Goods	0	0.6
Adjustments for impairment of inventories	(20.045)	(13.556)
TOTAL	91.603	67.925
Gross inventory (unadjusted)	111.648	81.481

The inventories are assessed at the lowest value between the cost and the net realizable value. The net realizable value is the estimated sale price for inventories minus all estimated costs for completion and the estimated costs required for the sale.

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

Adjustments are made on a periodic basis based on the findings of the inventory commissions and/or the managers of the modules in order to present them at the lowest value between the cost and the net realizable value.

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

The total value of inventories recognized as an expense during the period is of 61.058 thousand LEI.

AEROSTAR S.A. holds inventories of Finished Products (for safety reasons) at the levels agreed through the contracts with the customers.

AEROSTAR S.A. has no pledged inventories.

Starting with January 1, 2018, with the approval of the Board of Directors, it was decided to voluntarily change the accounting policy of the output inventory valuation, from the CMP (Weighted Average Cost) to the FIFO method. The reasons for this change are:

- the new policy provides reliable and more relevant information on the effects of transactions on the financial position and financial performance of the Company;
- the change of the initial terms (characterized by significant inflation and the volatility of the exchange rate) from the application of the Weighted Average Cost method;
- better inventory record keeping and traceability, by batches;
- better performance in operating the production and inventories management information systems.

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From the data analysis, results the impossibility of accurately determining the effects of the change of this policy over the previous presented periods.

The estimated value of the material inventories on June 30th, 2017 recalculated assuming the FIFO method is 55.316 thousand LEI, as follows:

INVENTORIES	June 2017 FIFO Inventory value	June 2017 CMP Inventory value
of which:		
Raw materials	13.011	14.723
Consumables	18.137	23.998
Other materials	143	145
Semi-finished products	48	48
Packaging	3	5
Finished products	11.975	11.975
Products under execution	36.639	36.639
Goods	0	0
Adjustments for impairment of inventories	(24.640)	(24.640)
TOTAL	55.316	62.893
Gross inventory (unadjusted)	79.956	87.533

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NOTE 11 - CASH AND CASH EQUIVALENTS

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

	30.06.2018	30.06.2017
Cash	10.945	2.861
Bank deposits	148.993	143.021
CECs and trade effects receivable	0	50
Cash and cash equivalents in the cash-flow statement	159.938	145.932

The cash equivalents comprise:

- short-terms bank deposits
- cheques and trade effects (promissory notes) submitted at banks for collection.

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

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

The value of Credit facilities, usable under the form of an overdrawn, available for the future operating activity, is of 10.000 thousand LEI (2.500 thousand USD).

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NOTE 12 - EQUITY

The equity at the date of June 30th, 2018 are of 281.968 thousand LEI.

The net increase of the equity in the first semester of 2018 in comparison with 2017 was of 29.001 thousand lei.

The modifications of the main elements of the equity incurred in the first semester of 2018 compared with 2017 are the following:

- **The share capital remained unchanged**

At the date of June 30th, 2018, the share capital of SC AEROSTAR SA Bacau is 48.728.784 LEI, divided in 152.277.450 shares with a nominal value of de 0,32 LEI.

- **The reserves increased 45.822 thousand LEI on the account of:**

- the reinvested profit related to the first semester of 2018 in the gross amount of 16.304 thousand LEI.
- the distribution for reserves of the amount of 29.518 thousand LEI from the profit of 2017.

- **Other capital elements have increased with the amount of 2.642 thousand LEI** on the account of the deferred income tax recognized in equity.

- **Result carried forward:**

- **increased with:**

- 407 thousand LEI on the account of the deferred profit tax recognized on the account of the equity
- 43.832 thousand LEI representing the profit to be distributed related to the financial year 2017, taken over the reported result until its distribution on the destinations approved by the shareholders in the ordinary general meeting from April 19th, 2018.

- **and decreased** with the profit of the financial year 2017, distributed as follows:

- for reserves the amount of 29.518 thousand LEI
- for dividends the amount of 14.314 thousand LEI

The balance of the result reported on June 30th 2018, is of 57.931 thousand LEI, constituted by:

- the retained earnings obtained from the use, on the date of the transition to IFRS, of the fair value as presumed cost = 37.618 thousand LEI;
- the retained earnings representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets amortized = 20.313 thousand LEI;

- **The result of the period was of 45.550 thousand LEI.**

During the period the amount of 43.832 thousand LEI was registered representing the distributable profit from 2017.

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The amount of 14.586 thousand LEI which has influenced the equity on 30.06.2018 represent the arithmetical difference between the result of the period (45.550 thousand LEI) and the distributions of the period (60.136 thousand LEI).

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NOTE 13 – PROVISIONS

	December 31st 2017	Increases/ Set provisions	Reductions /Provisions resumed	Differences from revaluation	June 30th 2018
Total provisions	125.189	4.872	(22.281)	589	108.369
Provisions for warranties granted to customers	40.504	4.872	(7.125)	579	38.830
Provisions for decommissioning property, plant and equipment	16.116	0	(1)	0	16.115
Provisions for the employee benefits	5.754	0	(4.927)	0	827
Provisions for litigations	5.810	0	(700)	1	5.111
Other provisions	57.005	0	(9.528)	9	47.486
- of which:					
Long-term provisions	75.825	1.280	(2.622)	10	74.493
Provisions for guarantees granted to customers	6.913	1.280	(2.412)	0	5.781
Provisions for decommissioning property, plant and equipment	16.116	0	(1)	0	16.115
Provisions for litigations	5.110	0	0	1	5.111
Other provisions	47.686	0	(209)	9	47.486
Short-term provisions	49.364	3.592	(19.659)	579	33.876
Provisions for guarantees granted to customers	33.591	3.592	(4.713)	579	33.049
Provisions for employee benefits	5.754	0	(4.927)	0	827
Provisions for litigations	700	0	(700)	0	0
Other provisions	9.319	0	(9.319)	0	0

Provisions set up for guarantees granted to customers

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

Provisions for decommissioning the tangible immobilizations

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

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Provisions for benefits granted to employees

The provisions for benefits granted to employees are formed for the clauses granted according to the clauses of the applicable Collective Labour Agreement (clauses for the end of the financial year, the end of the year of production, performance).

Provisions for litigations

Provisions for litigations are set up for any indemnities owed to the company's ex-employees. The provisions are reanalysed at the end of each reporting period and are updated in order to reflect the best estimation of the probable payments.

Other provisions

In other provisions category are to be found the provisions made for:

- the coverage of the risks specific to aviation industry;
- the coverage of the potential customers of the Company, according to the specific clauses from the contracts concluded with them;
- coverage of the potential obligations towards third parties and for obligations derived from contracts for valuable consideration;
- coverage of some expenses regarding the Company's obligations towards A.J.O.F.M., in O.U.G. 95/2002 base.

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NOTA 14 - SUBSIDIES

Subsidies related to assets

AEROSTAR recognizes as deferred revenue the assets-related subsidiaries.

	30.06.2018	30.06.2017
Balance on January 1st	12.649	14.972
Subsidies related to assets	0	0
Subsidies registered as revenues related to calculated amortization	(1.217)	(1.139)
Balance on June 30th	11.432	13.833

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

1. Contract no. 210304/22.04.2010: 'Extension of the manufacturing and assembly capacities for aerostructures for civil aviation', performed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 5.468 thousand Lei;
2. Contract no. 229226/14.06.2012: 'Set-up of a new manufacturing capacity for diversifying production and export growth', performed between June 2012 and May 2014, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 6.011 thousand Lei;
3. Contract no. 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;

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

The balance of 11.432 thousand LEI represents the subsidies related to investments in immobilized assets which are to be recorded at the incomes while the costs of the calculated amortization are registered, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 2.459 thousand LEI
2. contract no. 229226/14.06.2012: 2.940 thousand LEI
3. contract no. 5IM/013/24.03.2015: 6.033 thousand LEI

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NOTE 15 - COMMERCIAL DEBTS

	June 30th 2018	December 31st 2017
Advance payments received on customers account	4.312	4.896
Domestic customers-creditors	3.976	3.985
Foreign customers-creditors	336	911
Supplier, of which:	27.245	24.580
Domestic suppliers	8.210	9.269
Foreign suppliers	17.542	11.540
Suppliers-invoices not arrived	553	1.803
Suppliers of assets	940	1.968
Commercial effects to be paid	-	39
Total commercial debts	31.557	29.515

The advance payments received from the foreign customers are for works of aircraft maintenance and reparation, with settlement time in the year 2018.

For the highlighted debts no mortgages were established.

At the end of June 2018, the Company has commitments under letters of bank guarantee for the amount of 2.183 thousand USD issued in favour to the trade business partners according to the contractual requirements.

The favourable or unfavourable exchange rate differences between the market exchange rate to which are registered the debts in foreign currencies and the market exchange rate communicated by the National Bank of Romania for the June 30th 2018, were registered in the corresponding accounts of revenues or expenses.

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NOTE 16 – OTHER DEBTS

	June 30th 2018	December 31st 2017
Other current liabilities, of which:	23.266	8.553
Liabilities related to manpower and assimilated accounts	3.257	2.242
Liabilities related to social security budget and state budget, of which:	3.999	4.503
– VAT payable	0	1.451
– social insurance	2.947	2.016
– assurance contribution for work	190	-
– tax on revenues of the nature of the wages	577	741
– contribution for unemployed people with disabilities	134	102
Other liabilities, of which:	16.010	1.808
– dividends	15.806	1.492
– diverse creditors	153	204
Other long-term liabilities	51	51

Dividends in balance on June 30th, 2018, with the amount of 15.806 thousand LEI represent:

- 14.314 thousand LEI, dividends distributed from the profit of the financial year 2017, to be paid on September 20th, 2018 (payment date set by the Ordinary General Meeting organised on April 19th 2018);
- 557 thousand LEI, amount to be paid by AEROSTAR for the dividends from 2016 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR);
- 508 thousand LEI, amount to be paid by AEROSTAR for the dividends from 2015 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR);
- 427 thousand LEI, amount to be paid by AEROSTAR for the dividends from 2014 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR).

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NOTE 17 - THE DEFERRED PROFIT TAX

The deferred tax is determined for the temporary differences which occur between tax base of the assets and liabilities and their accounting basis. The deferred tax is calculated by the income tax of 16% applicable to the temporary differences at their resumption.

The Company has estimated and registered liabilities regarding the deferred tax related to non-current assets (which results from differences between accounting amounts and fiscal values, the different useful lifespan, and so on) and of the reserves, and recognised receivables regarding the deferred tax related to the inventories which supported adjustments for depreciation, provisions for warranties to the customers, provisions for benefits granted to the employees and other provisions.

The structure of deferred income tax registered on June 30th, 2018 is:

Liabilities relating to deferred tax

1. Liabilities related to deferred tax generated by the differences between accounting bases (greater than) and the fiscal ones (lower than) of the non-current assets	3.267
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities on deferred tax related to reserves from the fiscal facility	10.005
4. Liabilities on deferred tax related to the reported result representing a surplus realised from revaluation reserves	61
Total liabilities regarding deferred tax	14.892

Receivables regarding deferred tax

1. Receivables on deferred tax related to other provisions established in 2010	960
2. Receivables on deferred tax related to provisions for warranties granted to customers established between 2014-2018	6.213
3. Receivables on deferred tax related to provisions for manpower benefits	132
4. Receivables on deferred tax related to the adjustments for depreciation of the inventories	3.207
Total receivables regarding deferred tax	10.512

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

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NOTE 18 - FINANCIAL INSTRUMENTS

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

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

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

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

The financial assets of AEROSTAR S.A. include:

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

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities
- trade effects to pay

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

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

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

a) Credit risk

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

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

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

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

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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:

	30.06.2018	30.06.2017
Cash and cash equivalents	159.938	145.932
Net trade receivables of adjustments for depreciation	45.056	42.728
Trade effects received	19	76
Immobilized receivables	167	0
Loans granted with interest	82	92
Total	205.262	188.828

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

	30.06.2018	30.06.2017
Domestic market	5.937	9.247
Euro zone countries	19.088	15.785
Great Britain	12.340	13.496
Other European countries	576	0
Other regions	7.115	4.200
Total	45.056	42.728

Depreciation adjustments

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

	Gross value 30.06.2018	Adjustments for depreciation 30.06.2018	Gross value 30.06.2017	Adjustments for depreciation 30.06.2017
In due time	43.832		42.728	
Past due, total of which:	1.745	521	1.157	1.157
1-30 days	0	0	0	0
31-60 days	213	134	0	0
61-90 days	1.518	373	285	285
91-120 days	5	5	143	143
Over 120 days	9	9	490	490
Over 1 year	0	0	239	239
Total	45.577	521	43.885	1.157

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

	30.06.2018	30.06.2017
Balance on 1st January	1.162	1.024
Adjustments set for depreciation	607	4.777
Adjustments for depreciations resumed as revenues	(1.248)	(4.644)
Balance on 30 June	521	1.157

On June 30th 2018, 98,86% from the balance of trade receivables are related customers which have a payment history.

b) Liquidity risk

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

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

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

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

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

The time intervals used to analyse the contractual due dates of the financial liabilities, 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
30.06.2018	Trade liabilities	25.853	(25.853)	(20.326)	(3.822)	(1.705)
	Trade effects	0	0	0	0	0
30.06.2017	Trade liabilities	24.864	(24.864)	(18.169)	(4.673)	(2.022)
	Trade effects	2	(2)	(2)	0	0

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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 liabilities related to financial leasing, bank account overdraft and long-term bank accounts.

On June 30th 2018, AEROSTAR has no records of overdue financial liabilities.

c) Foreign currency risk

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

Exposure to the foreign exchange currency risk

AEROSTAR is exposed to the foreign currency risks, as 84% from the turnover recorded in the reporting period is denominated in USD and EUR, while a significant part of the operating expenses is denominated in LEI.

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

30.06.2018	thousand EUR	thousand USD	thousand GBP
Cash and cash equivalents	1.858	1.088	4
Trade receivables	1.275	8.287	0
Trade liabilities	(1.505)	(2.525)	(65)
Net exposure in original currency	1.628	6.850	(61)

Sensitivity analysis

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

Taking into consideration the evolution of USD/LEU exchange rate from 2015, 2016, and 2017, a highly volatility of (+/- 10%) can be observed.

Thus, a possible reasonable variation of 10% can be observed at the end of the reporting period.

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

30.06.2018	
Net exposure in the currency of origin (thousand USD)	6.850
USD/LEU exchange rates	4,00
Net exposure in functional currency	27.400
Possible reasonable variation of exchange rate	+/- 10%
	+/- 2.740
Effect of variation in profit and loss account	thousand LEI

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d) Interest rate risk

For the reporting period AEROSTAR has contracted a multi-product Credit Facility of 7.000 thousand USD, destined to financing the Company's operations, which includes:

- 1) Product A: in the amount of 2.500 thousand USD, usable as overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) Product B: in the amount of 7.000 thousand USD (with the condition that the sum of the use from Product A and Product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility by issuing warranties instruments to ensure the commercial contractual obligations by issuing bank warranties letters and import credentials.

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

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

On June 30th 2018, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 2.183 MII USD (equivalent to 8.732 thousand LEI).

On June 30th 2018 no mortgages are set on the property assets owned by AEROSTAR.

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NOTE 19 - OPERATING INCOME

	June 30th 2018	June 30th 2017
Revenues from sales, from which:	160.081	162.706
Revenues from product sales	96.750	97.979
Revenues from services supplied	60.283	61.101
Revenues from selling goods	1.749	2.420
Revenues from renting	1.063	939
Trade discounts granted	(1)	-
Revenues from other activities	237	267
Revenues related to inventories of products finished and in progress of execution	25.186	17.630
Other revenues from operations	1.266	1.669
Revenues from the production of assets	541	671
Total operating income	187.074	182.676

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

- The impact of the new standard over the key figures of the Company is limited due to the fact that the revenues are already recognized at the delivery of the goods and/or services;
- Exception: revenues from services performed evaluated according to IAS 18, depending on the stage of completion of the agreement, their value in 2017 being of 477 thousand LEI, revenues which were derecognized at the end of the financial year, for the purposes of early applying IFRS 15.

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NOTE 20 – OPERATING EXPENSES

	June 30 th 2018	June 30 th 2017
Expenses with employee benefits, from which:	56.544	53.398
Wages and salaries	50.616	40.923
Expenses with benefits in kind and expenses with ticket meals granted to employees	3.531	3.450
Expenses with social security	2.397	9.025
Expenses with raw materials and materials	55.629	56.398
Power supply, water and gas	4.774	5.030
Other material expenses, of which:	6.272	6.690
Expenses with non-stored materials	843	1.132
Expenses with goods	1.370	1.971
Expenses with packages	353	20
Expenses with other materials	3.706	3.567
Expenses with external services, from which:	13.600	14.056
Repairs	4.682	5.699
Transport costs	1.522	1.798
Commission and honours	1.885	1.118
Movements, deployments	525	506
Renting expenses	388	414
Other expenses with services supplied by third parties	3.855	3.561
Trade discounts received	(18)	-
Amortizations	12.440	11.743
Increase/decrease of adjustments regarding provisions	(16.820)	(8.104)
Increase/decrease of adjustments regarding depreciation on current assets	5.860	9.385
Other operational expenses	1.452	1.198
Total operating expenses	139.733	149.794

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NOTE 21 - FINANCIAL INCOMES

	June 30th 2018	June 30th 2017
Incomes from exchange rate differences	3.273	1.739
Incomes from interest	1.105	368
Incomes from shares held by subsidiaries	201	189
Total financial incomes	4.579	2.296

The company is exposed to the currency risk generated mainly by the exchange differences USD/RON, with significant influences over the financial result. Aspects regarding the Company's exposure to the risks generated by the financial instruments held are presented in *Note 18 Financial instruments*.

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NOTE 22 - FINANCIAL EXPENSES

	June 30th, 2018	June 30th 2017
Expenses from exchange rate differences	2.475	3.871
Total financial expenses	2.475	3.871

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

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NOTE 23 - TAX ON PROFIT

Tax on profit

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

The tax on profit is the tax to be paid relating to the profit realized in the current period determined in accordance with the fiscal regulations applicable at the reporting date.

The rate of the tax on profit applicable for June 30th 2018 was of 16% (the same rate was applied also for the financial year 2017).

June 30th 2018

Gross accounting profit	49.445
Expenses with current tax on profit	3.851

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	190.831	Fiscal incomes	164.965	-25.866
Accounting expenses*	141.435	Fiscal expenses	123.694	-17.741
Restated Gross accounting profit*	49.396	Fiscal profit	41.271	-8.125
Accounting tax (16%)	7.903	Fiscal tax (16%)	6.603	-1.300
Tax reductions	-	Tax reductions	2.752	+2.752
Tax on final profit	7.903	Tax on final profit	3.851	-4.052
Applicable legal rate	16,00%	The legal rate applicable	16,00%	
The effective medium rate, calculated on restated accounting gross profit	7,80%			

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

The main factors which have affected the effective tax rate:

- the non-taxable incomes obtained from the recovery of some non-deductible expenses, from which the highest percentage was that of the incomes from the rerun of certain provisions for the warranties and for other risks, in the amount of 22.899 thousand LEI.
- fiscal facilities representing the tax exemption on profit corresponding to the investments performed in accordance with Art.22 of the Fiscal Code, in the amount of 2.609 thousand LEI;
- Non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization; losses from receivables and so on).

The company has registered on June 30th 2018 a liability regarding the current income tax in the amount of 1.899 thousand LEI related to the second quarter of 2018.

The tax specific to some activities

Starting with January 1st 2017 Aerostar S.A. became taxable for the restaurant and public alimentation activities. The specific tax related to the first semester of 2018 was in the amount of 26 thousand LEI.

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NOTE 24 - PROFIT PER SHARE

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

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

IN LEI	30.06.2018	30.06.2017
Profit distributable to ordinary shareholders	45.549.986	25.212.551
Number of ordinary shares	152.277.450	152.277.450
Profit per share	0,299	0,166

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NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is 1.832 for the first semester of 2018 and 1.815 for the first semester of 2017.

To these is added a medium number of manpower attracted through temporary employment business and used in the production process of AEROSTAR.

The total personnel employed in the activity of company AEROSTAR was:

	semester I 2018	semester I 2017
Total personnel	2.044	2.128

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NOTE 26 - TRANSACTIONS WITH AFFILIATED PARTIES

<u>Acquisitions of goods and services</u>	<u>6 months 2018</u>	<u>6 months 2017</u>
SC Airpro Consult SRL Bacău	3.872	4.498
SC Foar SRL Bacău	270	256
TOTAL	4.142	4.754
<u>Sales of goods and services</u>	<u>6 months 2018</u>	<u>6 months 2017</u>
SC Airpro Consult SRL Bacău	-	4
SC Foar SRL Bacău	1	1
TOTAL	1	5
<u>Liabilities</u>	<u>Balance at 30.06.2018</u>	<u>Balance at 30.06.2017</u>
SC Airpro Consult SRL Bacău	637	752
SC Foar SRL Bacău	96	102
TOTAL	733	854
<u>Dividends collected/to collect by Aerostar</u>	<u>6 months 2018</u>	<u>6 months 2017</u>
<i>Dividends collected by Aerostar</i>		
SC Airpro Consult SRL Bacău	90	97
<i>Dividends to collect by Aerostar</i>		
SC Foar SRL Bacău	112	92
TOTAL	202	189

The transactions with the affiliated parties in the first semester of 2018 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 FOAR SRL Bacau for space rental and supply of utilities
- Dividends collected/to collect by SC AEROSTAR SA from SC Airpro Consult SRL Bacău and from SC Foar SRL Bacău (NOTE 7).

In the period 01.01.2018 – 30.06.2018 no transactions were made with the company Aerostar Transporturi Feroviare SA Bacau, its activity being suspended from year 2016.

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NOTE 27 – INFORMATION REGARDING CASH FLOW

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

The cash flows situation represents the cash flows and cash equivalents classified on operating activities, of investment and financing, thus highlighting the mode in which AEROSTAR generates and uses the cash and cash equivalents.

In the context of Cash Flows Situation:

- the cash flows are the receipts and cash payments and cash equivalents;
- the cash contains the money availability from banks and register.
- the cash flows contain the deposits formed in banks and CEC-s and order tickets deposited on banks to be collected.

The cash flows provided from the transactions performed in currency are registered in the functional currency by applying over the value in the exchange currency between the functional currency (LEU) and the currency from the date of the cash flow (date of making payments and receipts).

The gains and losses which come from the exchange rate variation are not cash flows. Nevertheless, the effect of the exchange rate variation over the cash and equivalent flows detained or due in foreign currency is reported in the cash flows situation, but separately from the cash flows provided from operations, investments and financings, with the purpose to reconcile the cash and cash equivalents at the beginning and at the end of the reporting period.

The operating activities are the main cash-generating activities of AEROSTAR. Therefore, in the first semester of 2018, the receipts from the customers were 158.847 thousand LEI, from which 17.131 thousand LEI represent the receipts in advance from the customers, and the payment to the suppliers and employees were in the amount of 123.809 thousand LEI.

The activity of operating has generated a net cash of 9.423 thousand LEI

To increase the operating capacity, through the acquisition of Property, Plant and Equipment, 14.329 thousand LEI were used from own sources.

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

As for the financing activity, the amount of 34 thousand LEI was paid, representing the tax on the dividends owed to State Budget.

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NOTE 28 – LIABILITIES AND OTHER OFF-BALANCE ITEMS

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

	June 30th 2018	December 31st 2017
• Liabilities:		
○ guaranties granted to customers as letters of bank guarantee	5.374	11.809
○ guarantees received from suppliers – as letters of bank guarantee	24.757	43.311
• Goods		
○ inventories of other materials released for use (tooling, devices, verifiers, protection equipment, equipment of measuring and control, technical library etc.)	25.586	25.026
○ material values received in custody	2.004	1.799
○ Property, Plant and Equipment, intangible assets –obtained or purchased as result of the co-financed activity	4.151	4.151
○ material values received for processing/repairs	2.018	1.016
○ other goods off-balance sheet from third parties	178	178
• Other values off-balance sheet		
○ commitments on the covering of some future obligations to A.JO.F.M. under O.U.G. 95/2002 regarding the defence industry	6.002	6.215
○ debtors cleared from assets, yet still monitored	579	579
○ material guarantees	199	185
	1.018	498
• Greenhouse Gas Emission Certificate		

At the date of June 30th 2018, AEROSTAR owned a number of 14604 greenhouse gas emission certificates.

The market value from the last transaction day from the first semester of 2018 of a GES certificate was of 14,95 Euro, according to the TDR Energy market journal (in December 2017: 8,18 Euro).

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NOTE 29 – REMUNERATION OF THE DIRECTORS

On the date of June 30th 2018, the structure of AEROSTAR’s Board of Directors remained unchanged in comparison with the one from December 31st 2017.

The Board of Directors of AEROSTAR S.A.:

	Surname and first name	Position	Profession
▪	FILIP GRIGORE	President of the Board of Directors	Aviation engineer
▪	DAMASCHIN DORU	Vice-president of the Board of Directors	Economist
▪	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors	Aviation engineer
▪	LIVIU-CLAUDIU DOROȘ	Member of the Board of Directors	Economist
▪	VÎRNĂ DANIEL	Member of the Board of Directors	Legal Adviser

In the first semester of 2018, AEROSTAR has not granted advance payments or credits to the members of the Board of Directors and has not taken any commitments into their account with any type of guarantee title.

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

The shareholders of the company have decided in the Ordinary General Assembly from December 14th 2017, the following remunerations for the members of the Board of Directors:

- a net remuneration of the members for the financial year 2018 of 4.500 LEI;
- a maximum level of additional remunerations for the executive members of the Board of Directors, of not more than 10 (ten) times (including) the net remuneration;
- the empowering of the Board of Directors to negotiate the additional remuneration, with the executive members, within the limit approved by the Ordinary General Assembly.

The amount of the gross remunerations accorded to the members of the Board of Directors in the first semester of 2018, by virtue of their responsibilities, was of 230,76 thousand LEI.

AEROSTAR S.A. BACAU
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NOTE 30 –RISK MANAGEMENT

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

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

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

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

Operational Risk

It is the risk of loss occurrence or of failure to make estimated profits determined by:

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

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

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

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

In addition, AEROSTAR aims, through the establishment of provisions for risks and related expenses, to have its own funding to cover its risks of exposure.

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

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

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

The credit risk, including the risk of the country in which the customer operates its activity, is managed on each business partner. When necessary, specific instruments of credit risk

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mitigation are requested (advance payments, letters of bank guarantee, confirmed letters of credit).

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

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

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

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

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

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

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

The management of this risk is realised through:

- diversification of the suppliers' portfolio, which offers a large palette of suppliers to negotiate the prices when they increase
- long-term contract agreements, with provision of fixed price.

AEROSTAR is exposed to the exchange rate risk because 84% from the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in LEI.

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

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

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

NOTE 31- EXPENSES AND INCOME IN ADVANCE

	30 June 2018	31 December 2017
Expenses registered in advance	953	491
Incomes registered in advance	25	28

The expenses effectuated and incomes realized in the current period, but which concern the periods or the next financial exercises, are recorded distinctively in accountability, at expenses registered in advance or incomes registered in advance, where appropriate.

In **advance expenses** category, the Company has registered the amounts related to the periods or to the next financial years, representing: subscriptions, assurance policies, commissions, trade fairs and conferences participations, taxes and duties, on-line services, IT maintenance, etc., which shall be allocated on expenses, according to the due.

In the **deferred income** category, the Company has registered incomes related to the periods or of the future financial years for the following elements of long-term financial assets.

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

NOTE 32- EVENTS AFTER THE REPORTING PERIOD

The Agreements of the Ordinary General Meeting of the Shareholders from April 19th 2018

In the Ordinary General Meeting of the Shareholders from April 19th 2018 the shareholders from AEROSTAR have approved the following:

- Distribution of the net profit relating to the financial year 2017, the amount of 53.169.632,90 lei, as follows:
 - distribution to the legal reserve of the reinvested profit in the amount of 9.337.715,64 lei;
 - distribution to the reserves in the amount of 29.517.837,26 lei;
 - distribution for dividends the amount of 14.314.080 lei and the establishment of the gross dividend per share of 0,094 lei, corresponding to a share with the nominal value of 0,32 lei;
 - **establishing the payment date of the dividends for September 20th 2018.**

Distribution of the dividends rightful to the shareholders of AEROSTAR related to 2017 will be performed in accordance with legal provisions applicable.

The costs related to the activity of distribution will be incurred from the net value of the dividend rightful to each shareholder.

Financial Calendar for 2018 – the following events which will take place:

Presenting the financial results on September 30 th 2018	09.11.2018
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AEROSTAR S.A. has not identified events after the reporting date which may have an impact over the financial statements related to the first semester of 2018.

The individual financial statements comprise: statement of the financial position, the statement of profit or loss, other elements of the global result, the statement of the equity's modifications, the statement of the cash flows and the explicative notes of the financial statements were approved by the Board of Directors at the date of August 14th 2018 and signed on the behalf of:

**President and General Director,
Grigore FILIP**

**Vice-president and Financial Director,
Doru DAMASCHIN**



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

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
Tel:+40234.575070; Fax:+40234.572023; 572259
e-mail:aerostar@aerostar.ro; Website:http://www.aerostar.ro

DECLARATION

The undersigned GRIGORE FILIP, acting as President of the Board of Directors and General Director of AEROSTAR S.A. and DORU DAMASCHIN, as Vice-President of the Board of Directors and Financial Director of AEROSTAR S.A., assume the responsibility for the preparation of the individual financial statements on 30.06.2018 and confirm that:

- a) The financial and accounting statements for the first semester of 2018, which was prepared according to the applicable accounting regulations, provides a fair and consistent view on the assets, liabilities, financial position, profit and loss account of Aerostar S.A. Bacau;
- b) The Report of the Board of Directors on the first semester of 2018, prepared according to the provisions of the Regulation no. 5/ 2018 issued by the Financial Supervisory Authority – Appendix no. 14, presents correctly and completely the information regarding Aerostar S.A. Bacau.

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

**Vice-President of the Board of Directors and Financial Director,
DORU DAMASCHIN**



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

Company specialized in accounting, accounting expertise, financial auditing and fiscal consultancy

Member of CAFR, CECCAR and CCF

Registered office: Bacau, no.1 I.L. Caragiale Street, 1/D/12

Head office: Bacau, PasajulRevolutiei, No. 3, Bacau County

Unique Registration Code: 16175653; Order number in the Trade Register:
J04/334/2004

Account: RO83TREZ0615069XXX011808 Bacau Treasury

Account: RO76BRDE040SV44003180400 Bank: BRD - Bacovia

Phone: 0744101545 Fax: 0334405346

E-mail: hmauditcontab@yahoo.com

REVIEW REPORT OF THE INDEPENDENT FINANCIAL AUDITOR

BENEFICIARY:

- AEROSTAR S.A.

HEAD OFFICE:

- Condorilor Street, no. 9, Bacau County

MANAGEMENT:

- 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 OFFICE:

- Bacau, Ion Luca Caragiale Street, No. 1, 1/D/12

HEAD OFFICE:

- Bacau, PasajulRevolutiei, No. 3

MANAGEMENT:

- Financial Auditor - Ec. MONICA HUSANU

CONTRACT no 129 / 15.12.2015

**REPORT REGARDING THE REVIEW
OF THE INTERIM INDIVIDUAL FINANCIAL STATEMENTS
ON JUNE 30th, 2018**

To the Shareholders of AEROSTAR S.A.

Introduction

We have audited the interim individual financial statements prepared by AEROSTAR S.A. („The Company”) as on June 30th, 2018, which comprise: the individual Statement of the Financial Position, the individual Statement of Profit or Loss, Other Elements of the Global Result, the individual Statement of Equity Modifications, the individual Statement of Treasury Cash Flows and Notes to the Individual Financial Statements. The six months accounting reporting is accompanied by the Report of the Board of Directors, the Declaration of the Company Management according to the Accounting Law No. 82/1991 republished and the Regulation no. 5/2018 regarding the issuers of financial instruments and market operations, issued by the Financial Supervisory Authority (“ASF”).

The responsibility of the company’s management for the preparation of the interim Financial Statements

It is the responsibility of the company’s management to prepare and adequately present the interim individual financial information according to the Order of the Public Finance Minister no 2844/2016 for the approval of the accounting Regulations according to the International Financial Reporting Standards, with subsequent amendments, applicable to companies whose securities are admitted for trading on a regulated market, the Law no 24/2017 regarding the issuers of financial instruments and market operations, IAS 34 “Interim Financial Reporting” and the general frame for the accounting reporting applicable as on June 30th, 2018. This responsibility includes: the design, implementation and maintenance of a relevant internal control with respect to the preparation and faithful presentation of the individual accounting reports, which are free of significant misrepresentations due to error or fraud; the selection and application of adequate accounting policies; the elaboration of reasonable accounting estimates under the given circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on these interim individual financial statements based on our review performed according to the International Auditing Standards. Such standards require that we comply with the ethical requirements, to plan and make our review with a view to obtain reasonable assurance that the accounting reports are free of significant misrepresentations.

Scope of review

We performed our review according to the Auditing Standards adopted by the Chamber of Financial Auditors of Romania and more precisely to the International Standard for the Review Missions 2410 "Review of the interim individual financial statements made by an independent auditor of the entity". (ISRE 2410). This standard requires us to plan and to perform the review so as to obtain a reasonable assurance that the financial statements are free of significant misrepresentations. The review of the interim financial information consists of performing interview and investigation activities specially with the personnel of the company in charge with the financial and accounting activities and apply the analytical procedures, as well as other review procedures. The scope of the review is substantially reduced compared to an audit made according to the International Auditing Standards, as adopted by the Chamber of Financial Auditors of Romania, and therefore we cannot obtain the assurance that we will be aware of all the significant aspects which may be identified during an auditing process. So, we do not express an audit opinion.

Conclusion

Based on the review made, nothing has come to our attention that causes us to believe that the interim half year individual financial reporting as on June 30th, 2018, attached herewith, identified with the following elements:

➤ Equity	281.968 thousand lei
➤ Total income	191.653 thousand lei
➤ Net result of the reporting period	45.550 thousand lei

does not give a fair and true view of the financial position of the entity on the date of June 30th, 2018, of its financial performance and cash flows for the six months period ended on the respective date, according to the general accounting reporting

framework applicable on June 30th, 2018, i.e. the Order of Public Finance Minister no 2531/2018 for the approval of the accounting reporting system on June 30th, 2018 for the economic operators, as well as for setting certain accounting aspects, with the Order of Public Finance Minister no 2844/2016 on the approval of the accounting regulations compliant with the International Financial Reporting Standards applicable to the companies whose securities are admitted to trading on a regulated market, and IAS 34 “Interim Financial Reporting”.

Other aspects

This report is addressed exclusively to the company’s shareholders as a whole. Our review was performed in order to be able to report to the company’s shareholders those aspects which must be reported in a review report, and in no other purpose. To the extent permitted by law, we do not accept and do not assume responsibility for our review, for this report or for conclusions made except solely towards the company and its shareholders as a whole.

The individual half year accounting reports attached are not meant to present the financial position, the result of the operations and a set of annual explanatory notes according to the regulations and accounting principles accepted in countries and jurisdictions other than Romania. Therefore, the individual half year accounting reports are not prepared for the use of the persons who do not know the accounting and legal regulations of Romania inclusively the general accounting reporting frame applicable on June 30th, 2018, as well as the MFP Order no. 2844/2016 for the approval of the accounting regulations according to the International Financial Reporting Standards, applicable in companies whose shares are admitted for trading on a regulated market.

Report on the conformance of the Report of the Board of Directors with the interim individual financial statements on June 30th, 2018

According to the requirements of the Financial Supervisory Authority („ASF”) we read the Report of the Board of Directors. This is attached to the interim individual financial statements. Our opinion on the interim individual financial statements does not cover the Report of the Board of Directors.

With reference to our review regarding the interim individual financial statements we read the attached Report of the Board of Directors and we found out the following:

- a) we did not identify information in the Report of the Board of Directors which is not consistent, in all the material aspects, with the information presented in the attached interim individual financial statements
- b) the Report of the Board of Directors above includes, in all material aspects, the information required by the legal accounting regulations regarding the interim individual financial statements;
- c) based on our knowledge and understanding, as obtained during the auditing of the individual annual financial statements, for the period January 1st, 2018 – June 30th, 2018, with reference to AEROSTAR S.A., and to its environment, we did not identify misleading information included in the Report of the Board of Directors.

July 27th, 2018

BACAU

I.L. Caragiale nr. 1/D/12

HUSANU MONICA

FINANCIAL AUDITOR, chartered with the Chamber of Financial Auditors of Romania under no. 2401/2008

On behalf of

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

Authorization CAFR 1019/2010