

**AEROSTAR S.A.** Half-year report at 30.06.2019



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**Identification Data**

**Date of report:** 30.06.2019

**Name of the company:** **AEROSTAR S.A. Bacău**

**Registered headquarter:** 9, Condorilor Street, 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

**Subscribed and paid-in registered capital:** 48.728.784 lei

**Number of shares issued:** 152.277.450

**Nominal value:** 0,32 lei / share

**The regular market on which the shares issued are traded:**

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

## INTRODUCTION

The current half-year report of AEROSTAR S.A. is prepared in accordance with Regulation no. 5/2018 of the Financial Supervisory Authority (FSA) regarding the issuers of financial instruments and market operations, entered into force from 11 June 2018 and Law 24/2017 from 21.03.2017 regarding the issuers of financial instruments and market operations.

The scope of this half-year report is to inform the investors regarding the modifications of the position and performance of the company, which took place between January-June 2019, as well as regarding the predictable evolutions on the aviation and defence market industry and regarding the growth and development opportunities of the company.

The report is based on the frame established in Annex 14 Regulation no. 5/2018 of the Financial Supervisory Authority (FSA) – Model half-year report for the first semester, and presents the review of the current economic-financial situation of AEROSTAR, in comparison with the similar period of the previous year; an analysis of the activity, of the events, transactions and economic changes which significantly affect the income from the basic activity, as well as the possible changes which can affect the equity, the company's administration, as well as the significant transactions.

The financial statements established on 30 June 2019 are accompanied by the revision report of the independent/statutory financial auditor.

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.

AEROSTAR prepares the financial statements in accordance with the international financial reporting standards (IFRS).

# **REPORT**

## **OF THE BOARD OF DIRECTORS ON 30.06.2019**

<b>KEY FIGURES</b>
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	UM	30.06.2019	30.06.2018
<b>Share capital</b>	thousand lei	<b>48.729</b>	<b>48.729</b>
<b>Turnover</b>	thousand lei	<b>176.779</b>	<b>160.081</b>
o Export sales	thousand lei	153.028	135.097
<b>Number of employees, from which:</b>	no.	<b>1.913</b>	<b>2.044</b>
-own employees	no.	1.815	1.907
- employees attracted through temporary labour agent	no.	98	137
<b>Net profit</b>	thousand lei	<b>28.473</b>	<b>45.550</b>
<b>Cash - flow</b>	thousand lei	<b>178.453</b>	<b>159.938</b>
<b>General liquidity</b>	-	<b>8,49</b>	<b>5,44</b>
<b>Investments expenses from own sources</b>	thousand lei	<b>7.393</b>	<b>12.352</b>

The exchange rates of the national currency for the first semester of 2019 were the following:

	UM	30.06.2019	30.06.2018
<b>Average exchange rate EURO/6 months</b>	lei/euro	<b>4,7408</b>	<b>4,6537</b>
<b>Average exchange rate USD/6 months</b>	lei/USD	<b>4,1949</b>	<b>3,8434</b>
<b>Average exchange rate GBP/6 months</b>	lei/GBP	<b>5,4280</b>	<b>5,2899</b>
<b>Inflation</b>	%	<b>2,98</b>	<b>2,42</b>

## AEROSTAR SHARES (,ARS')

**The main characteristics of the shares issued: 152.277.450** nominative shares, ordinary, of equal value, fully paid, issued in dematerialized form and recorded through registration in the Shareholders' Register. The register of AEROSTAR shares is under the administration by Depozitarul Central S.A. Bucharest.

AEROSTAR S.A. Bacau as an issuer is registered with the following data: Unique registration code 950531, code ISIN ROAEROACNOR5, ARS stock exchange symbol, the shares issued being in the standard category.

## ARS Shares

	30.06.2019	30.06.2018	30.06.2017
<b>Number of shares</b>	<b>152.277.450</b>	152.277.450	152.277.450
Nominal value per share (lei)	<b>0,32</b>	0,32	0,32
Equity (lei)	<b>327.032.447</b>	281.966.899	225.481.238
Price at the end of the period <sup>1</sup> (lei)	<b>5,05</b>	4,90	3,43
Stock exchange capitalization <sup>1</sup> (lei)	<b>769.001.123</b>	746.159.505	522.311.654
Maximum price <sup>1</sup> (lei)	<b>5.10</b>	5,36	3,70
Minimum price <sup>1</sup> (lei)	<b>4,78</b>	4,65	3,25
Result per share (lei)	<b>0,187</b>	0,299	0,166

<b>MBR Indicator</b> (market to book ratio) (stock exchange capitalization / equity).	<b>2,4</b>	2,6	2,3
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<sup>1)</sup> Source: Monthly Bulletin issued by the Bucharest Stock Exchange

**IMPORTANT EVENTS FROM THE FIRST SEMESTER OF 2019**

- **On 24 April 2019 the Ordinary General Meeting of the Shareholders was held in accordance with the applicable legal regulations.**

The General Meeting of the Shareholders from 24 April 2019 has approved the Report of the Board of Directors related to the financial year 2018, the Report of the financial auditor regarding the auditing of the financial statements of 2018, the Financial Statements of 2018, the Discharge of Accountability of the Board of Directors and executive management for 2018, Distribution of the net profit and the establishment of the dividend.

As regards to the distribution of the net profit and the establishment of the dividend related to the financial year 2018, the documents of the Ordinary General Meeting of the Shareholders were published in accordance with the applicable legal regulations and comprised three variants for the distribution of the net profit and the value of the gross dividend, as follows: a variant proposed by the Board of Directors and two alternative variants proposed by Societatea de Investitii Financiare Moldova S.A. as shareholder owning 15,05% from the share capital of AEROSTAR.

The variant proposed by the Board of Directors for the distribution of the profit realised in 2018 in amount of 79.920.849,23 lei has provided:

- distributions to the legal reserve of the reinvested profit: 26.034.996,79 lei
- distributions to statutory reserves: 37.436.793,44 lei
- distributions as dividends: 16.449.059,00 lei and establishing a gross dividend per share for 2018 of 0,108 lei.

The variant I proposed by SIF Moldova for the distribution of the profit realised in 2018 in the amount of 79.920.849,23 lei provided:

- distributions to the legal reserve of the reinvested profit: 26.034.996,79 lei
- distributions to the statutory reserves: 14.293.715,44 lei
- distributions as dividends 39.592.137,00 lei and establishing a new gross dividend per share related to 2018 is 0,26 lei.

As an alternative, the variant II proposed by SIF Moldova for the distribution of the profit realised in 2018 in the amount of 79.920.849,23 lei has provided:

- distributions to the legal reserve of the reinvested profit: 26.034.996,79 lei
- distributions to the statutory reserves: 37.436.793,44 lei, from which the amount of 23.143.078 lei to be used to perform a program to buy-back company's shares with the purpose to reduce the share capital.
- distributions as dividends according to the Board of Directors proposal (gross dividend per share: 0,108 lei): 16.449.059,00 lei and approval of a gross dividend/share is 0,108 lei.

This variant II proposed by SIF Moldova of distributing the net profit of 2018 provided the distribution of the net profit of 2018 and conducting a program to buy-back company's shares in order to reduce the share capital, and also the convening of the Extraordinary General Meeting of the Shareholders to approve the conduct of a program of buy-back company's shares.

**In the Ordinary General Meeting of the Shareholders from 24 April 2019, AEROSTAR shareholders approved the variant proposed by the Board of Directors for the distribution of the net profit related to the financial year 2018, respectively of the amount of 79.920.849,23 lei, as follows:**

- **distributions to the legal reserve of the reinvested profit in the amount of 26.034.996,79 lei;**
- **distributions to the statutory reserves in the amount of 37.436.793,44 lei;**
- **distributions for dividends of the amount of 16.449.059,00 lei and establishment of a gross dividend per share of 0,108 lei, corresponding to a share with the nominal value 0,32 lei.**

The date of 26 June 2019 was approved as **Payment Date** of the dividends related to the financial year 2018.

- **Starting with 26.06.2019 the dividends distributed from the profit realised in the financial year 2018 are being paid.**

The coordinates of the payment of the dividends due to the shareholders, distributed from the profit of year 2018 were made known to the shareholders of the company through a press release in 04.06.2019, as follows:

- a) the gross dividend per share is 0,108 lei, the amount from which the tax on dividends is retained at the source, in the quotas provided in the legislation entered into force at the payment date;
- b) the “ex date” was established for the date of 06.06.2019 according to the decision of the Ordinary Meeting of the Shareholders from 24.04.2019;
- c) the shareholders entitled to receive the dividends distributed from the net profit realised in the financial year 2018 are the ones registered in the consolidated register of the shareholders at the date of 07.06.2019 – The registration date (approved by the Ordinary General Meeting of the Shareholders from 24.04.2019);
- d) the dividends distributed from the profit realised from the financial year 2018 **were paid to the shareholders starting with 26.06.2019 – Payment date** (approved by the Ordinary General Meeting of the Shareholders from 24.04.2019).

The payment of the dividends is performed through Depozitarul Central by respecting the applicable legal provisions (art. 86 paragraph 5 from Law 24/2017 and art. 177 from ASF Regulation no. 5/2018), as it was detailed in the press release from 4 June 2019 and which can be found on the company website [www.aerostar.ro](http://www.aerostar.ro), at the section Investors Relation/Current Reports.

We remind the shareholders that any data modifications from the register of the shareholders (modifications of name, place of residence, legacies etc.) are performed only by the Depozitarul Central SA – with the headquarter in Bucharest, Sector 2, Carol I Boulevard, no. 34036, 3, 8 and 9 floors, telephone 021.408.58.66, 021.408.58.19 – at the request of the shareholder/person entitled.

Additional information regarding the payment of the dividends can be requested at:

- Depozitarul Central: e-mail: [dividende@depozitarulcentral.ro](mailto:dividende@depozitarulcentral.ro)

- AEROSTAR S.A.: tel. 0234.575.070 int. 1445 or 1647, fax 0234.572023, e-mail: [aerostar@aerostar.ro](mailto:aerostar@aerostar.ro).

**AEROSTAR BUSINESS FOR HALF YEAR 2019. ACTIVITY REVIEW**

In the first six months of 2019, AEROSTAR operated in conditions of continuity on the domestic and foreign market in the field of the aviation and defence industry.

**The main business lines of AEROSTAR are:**

- **Manufacture of aeronautical products;**
- **Civil aviation MRO;**
- **Defence systems, aviation, ground and naval.**

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

The successive names held were URA-1953, IRAv - Intreprinderea de Reparatii Avioane (Aircraft Repair Enterprise) - 1970, Intreprinderea de Avioane-IAv (Aircraft Enterprise)-1978.

AEROSTAR S.A. operates since 1991, when the company was registered as a shareholding company according to Law 15/1990 and of the HGR no. 242/29 March 1991 regarding the establishment of shareholding companies in the aircraft industry.

The company was registered in 10 July 1991 as a shareholding company with fully state-owned capital at the Bacau Trade Register under the number J04/1137/1991.

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

AEROSTAR is part of the national industry of defence in compliance with the law 232/2016 law and holds the Authorization no. 23/2016 and owns Authorization no. 23/2018 from the Direction of the Defence Industry from the Ministry of Economy.

## Context of the organization and interested parties for AEROSTAR

Achieving AEROSTAR objectives implies to be aware and to assume the factors from the decisional process, of certain multiple aspects which manifest both in the internal environment, as well as in the external environment of the company, as problems, situations, events which may occur in the future and which can have impact on obtaining the wanted results.

The elements of the risk-based management thinking, founded on the Aerostar agreement as an organisation and of the context in which it operates, as well as by understanding the necessities and expectations of the parties interested to obtain the predicted results of the organisation, establish the general frame to treat risks, to the extent that the risks are understood as uncertainties to satisfy the requests/expectations of the interested parties, under the effect of certain factors which derive from the context in which the organization operates.

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

**The aspects identified that are part of the internal context of AEROSTAR are from the following categories: human resource, infrastructure, capabilities and authorizations, from the field of governance, but also of the company's performance.**

**The relevant interested parties which were identified are: the customers, employees, investors, technical authorities and of applicable regulation, bodies of certifications, suppliers, educational establishments, union organizations, local and state community.**

**EVENTS AND EVOLUTIONS ON THE AVIATION AND DEFENCE MARKET**

The recent years of continuous growth are threatened by the changes on the aviation market. The analysts are warning about the slowing down of the global economy, the escalation of commercial tensions and of political uncertainties.

The development forecasted on the Asiatic markets, the Chinese ambitions in the aerospace field, the Brexit and the global geopolitical tensions have an impact on the aircraft industry, with economic effects potentially disruptive over the supply chains.

The excess of production capacities in Europe is estimated at approximately 25%, which determines an increased interest equally from the investors and the players from this industry.

While the forecasts are maintained solid for the next 20-30 years, the data available and the signals regarding the aircraft orders on short-term do not confirm the planned figures. The targets for the new aircraft orders are not achieved.

The long cycles of manufacturing of over 2 years for the commercial aircraft and the complexity of interconnections from this market are making these evolution less visible.

The “Airbus pact” signed 50 years ago between France and Germany was the act of birth of one of the two dominant players at a global scale. The aircraft with number 12.000 delivered by Airbus in May was an Airbus 220, the new brand of the ex-program Bombardier C series, assembled in Canada.

Bombardier has already taken a step back towards completely retreatment from the market industry of commercial aircraft. In 25 June it was announced the conclusion of the definitive agreement for the sale of the regional aircraft programme from CRJ serie towards the Japanese company Mitsubishi Heavy Industries, after Bombardier quitted in the last years also on other programmes, such as Q400 and the amphibious aircraft programme.

While consolidating the maintenance activities for the aircraft Falcon, Dassault Aviation is strengthening its footprint in Holland taking from RUAG the maintenance bases for business aircraft from Geneva and Lugano.

Embraer also celebrates 50 years in 2019; after half of century having the title of the

emblem of Brazilian industry, following in short time, to own more than 20% from the entity having the new name brand Boeing Brazil – Commercial, but will further be in control with 51%, through a separate association with Boeing for the KC-390 military aircraft programme.

The market changes of the regional aircraft are strong: while Bombardier and Embraer are preparing to exit the market of commercial aircraft, the players from Asia are strengthening their positioning: Mitsubishi, COMAC from China a.o.

Due to the termination of certain programmes such as Airbus 380 and Falcon F5X, as well as due to the low demand for business aircraft or of helicopters, the volume of production activities is in decrease.

The same result has the extended grounding of 737 Max fleet.

### **The resilience of aviation industry**

The preoccupations for a sustainable future dominates the outlook: “a greener” aviation, new technologies, new collaboration models, launching the programmes of big development.

The demonstrator based on a turboprop Daher TBM series 900 aircraft modified is the proposal Daher, Airbus and Safran for a model of electric hybrid propulsion, applicable also at large aircraft.

Dassault Aviation presented the demonstrator for the future European combat aircraft system (FCAS). The agreement between France and Germany for this development is followed by the interest of Spain to participate financially and industrially to the future programme.

SSAB is interested to accede to the technological initiatives from the Britain’s TEMPEST next generation combat aircraft.

Turkey launches the 5th generation twin-engine aircraft which shall replace from 2030 the F-16 aircraft locally assembled.

The key movements of the main global players from the aviation and defence field continue in the field of associations, acquisitions and fusions, which shall better analyse the capabilities of the market requirements.

After Sikorsky Aircraft became part of Lockheed Martin, United Technologies, which includes the manufacture of engines Pratt & Whitney, is merging with Raytheon based on the aero spatial and defence technologies complementarities in a “transaction of equals” announced in June, forming a huge contractor in the defence field whose size is exceeded only by Boeing.

## **AEROSTAR’s BUSINESS MODEL**

The value realised by Aerostar in the chain of value is created in the basic business, in the field of aviation and defence.

In the first six months of 2019 there were no significant modifications of the business model adopted.

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

## Significant aspects of the investment activity

This year the most important investment is the **MRO Centre for civil aircraft at Iasi Airport**.

In terms of construction, important steps were completed and the construction of the investment objective is performed by respecting the obligations of Aerostar in accordance with the endorsements issued by various institutions to obtain the Plan of urbanistic area and with the ones which were required to obtain the Authorisation to Construct the hangar.

From the activities which are completed until this date, we mention the completion of the urbanistic area plan, issuing the construction authorisation, the elaboration of the Technical Project constructive documentation, works of organizing the construction site.

The embankments, the soil covering and the retaining wall on the north side were performed, the foundations of the support columns were casted and the grounding system of the hangar was executed.

The target of completing the construction is until the end of 2019.

As regards to the investment in the manpower for the future civil aircraft maintenance centre Boeing 737 and Airbus 320, the preparing of the technicians and engineers for the Iasi Centre is realised by coordinating the trainings from Bacau Centre.

The total value of the investment for the future MRO civil center from Iasi is 10 million Euro.

**The material investments and the manpower were also started in order to develop the operating activities of F-16 aircraft within the Romanian Army.**

Designated in December 2018 by the Romanian Government as a Maintenance Centre for F-16 from the Romanian Army, AEROSTAR took initiative and initiated the investments for setting up the capabilities required. The maintenance centre for F-16 aircraft shall be developed progressively by allocating and training the personnel, the manufacturing and purchasing the devices and testing benches and creating its own infrastructure for these aircrafts.

The investment of approximately 10 million Euro, on a period of 3 years, we estimate that it will be conducted without records of any financial risk from our own sources of this capability ment to develop the operating capacity of the Romanian F-16 aircraft.

In the first semester of 2019, the value of expenses with the investments realised in Aerostar were 7.393 thousand lei. From this volume, 14% were investments of replacement, meant to change the worn fixed-capital and 86% were investments of development meant to ensure the growth of the work productivity and to create a strong training effect.

All these investment efforts, in comparison with the ones from the previous years, were executed in order to determine certain long-term businesses which shall fulfil the requirements of adaptability and flexibility of the company, having in their structure specific measures for environment protection, and the targets consists in the minimisation of water, paper and energy consumption; limiting the carbon footprint of related activities; the preservation of the natural resources and recycle our own waste.

## **MARKET POSITIONING**

After the company's relaunching which happened in the first years after 2000, it has been operated consistently to reposition the company on the market, by focusing on the following fields:

- Manufacturing of aerostructures and landing gears
- Maintenance of industrial level for commercial aircraft, as well as
- continuing the development of specific technologies for the industry market from the military and defence field.

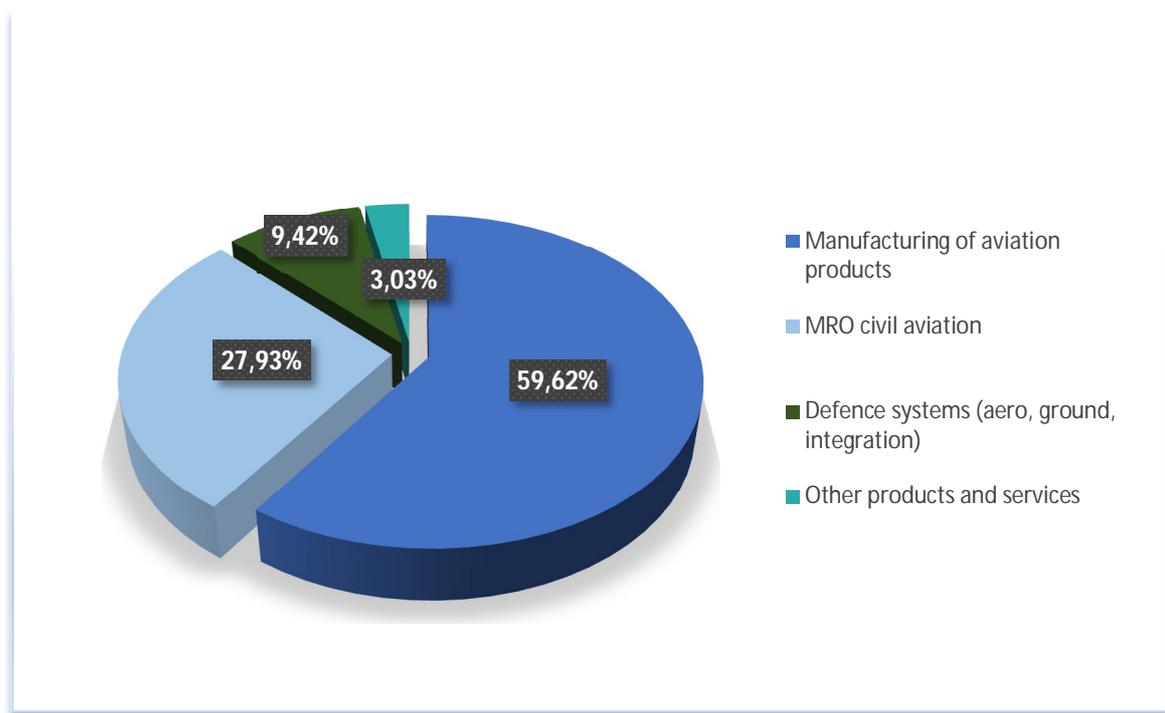
This continuous process presumed the upgrading of the production capabilities with modern equipment, the digitalisation of the processes (management, design), assimilation and qualification of the special processes of production after the western standards.

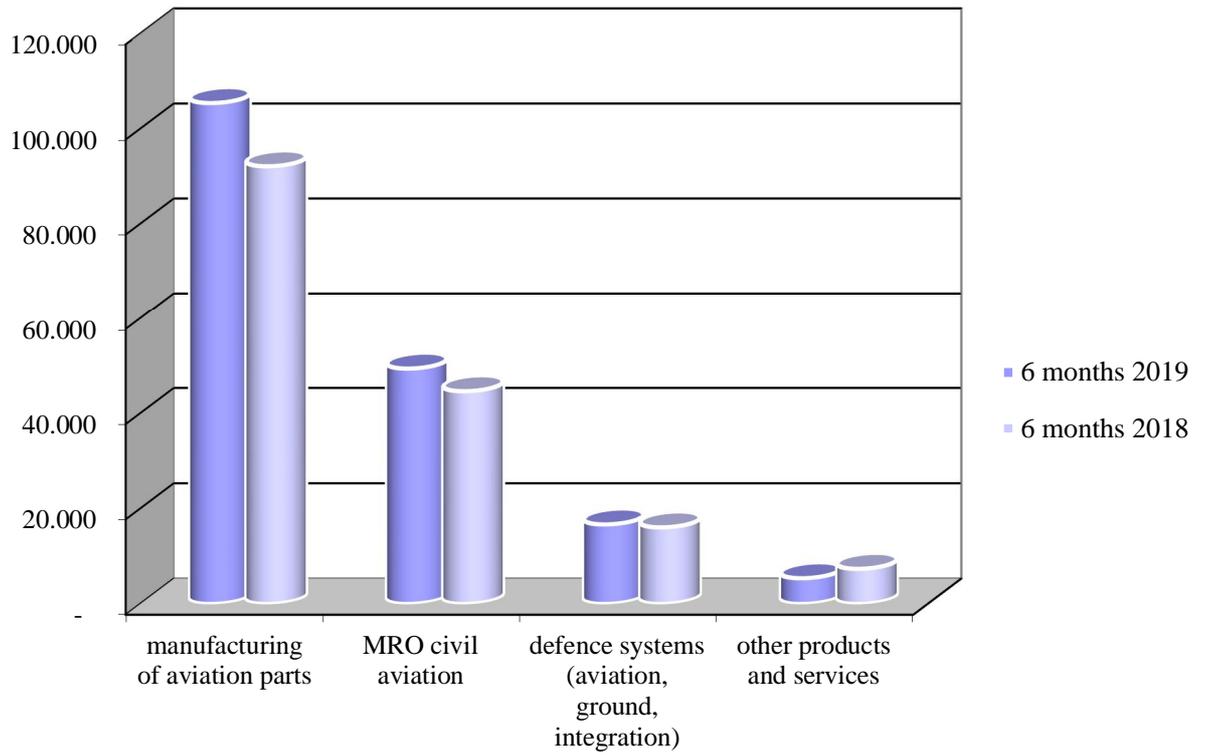
An essential component consists in the schooling and qualification of the personnel to adapt to the new technologies.

## AEROSTAR sales

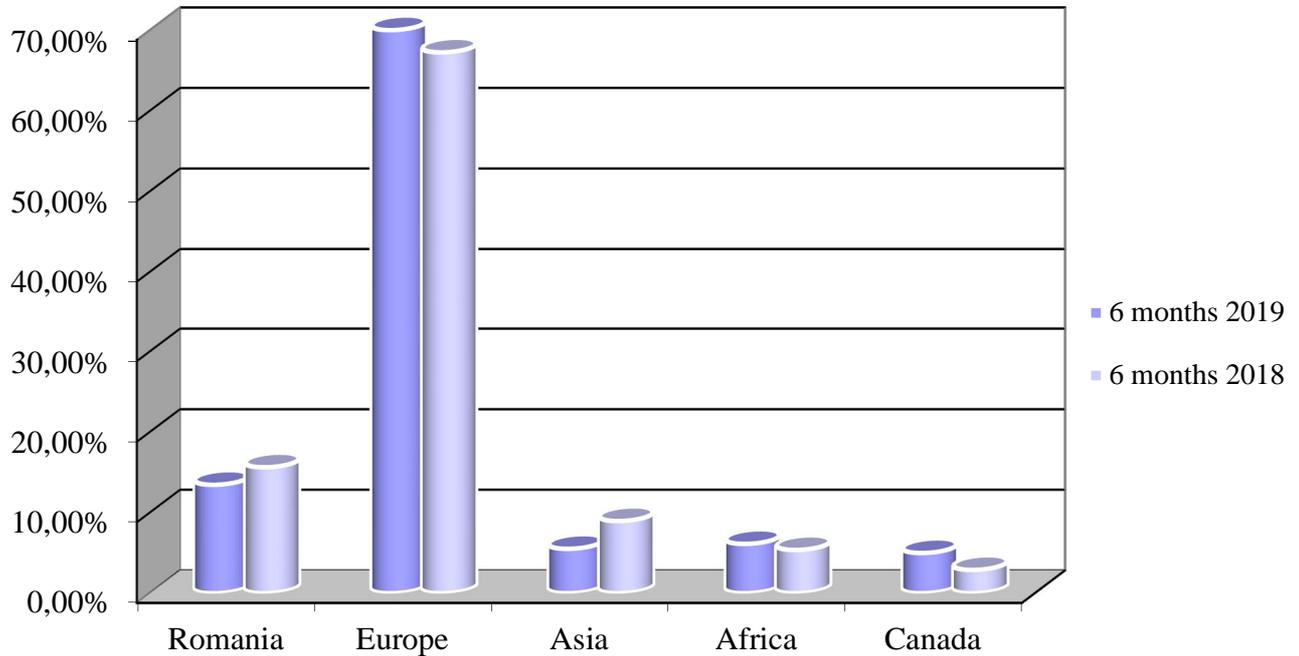
In the first semester of 2019, AEROSTAR had sales in the amount of 176.779 thousand lei, from which 153.016 equivalent in thousand lei were export sales (87%), with a high diversity of customers, in a high number of different production programmes.

The contribution of the main business lines at the sales on 6 months 2019 are illustrated below:



**Comparative evolution of sales on products and services:**

Aerostar sales were realised on a large global market both in civil field as well as in defence.



	6 months 2019	6 months 2018
<b>Romania</b>	13,44%	15,61%
<b>Europe</b>	70,00%	67,24%
<b>Asia</b>	5,49%	8,94%
<b>Africa</b>	6,10%	5,35%
<b>Canada</b>	4,97%	2,87%

## AEROSTAR'S FOOTPRINT ON THE AVIATION FIELD MARKET

AEROSTAR followed a strategy of development and growth in the field of the basic businesses from the aviation and defence industry.

97% from the production of AEROSTAR in the first semester is in the aeronautical field.

The average added value made by AEROSTAR is around 62%.

Aerostar S.A. is recognized in the European aviation industry and beyond, being one of the significant suppliers in Airbus programmes, but also in the maintenance field of industrial level for commercial aircraft.

**In the field of aircraft manufacturing, the AEROSTAR positioning in the global supply chain is „Tier 2” in the field of aerostructure manufacturing and „Tier 1” in the field of landing gears and components of hydropneumatic equipment for aircraft.**

AEROSTAR is well anchored in the global supply chain from the aviation field, being a significant partner in programmes of aircraft manufacturing with a solid perspective.

It is targeted to identify sustainable solutions of diminishing the lowering effect of the production volume after the suspension of F5X and A380 programmes.

Aerostar realizes a significant volume of small parts and sub-assemblies from aluminium alloy, in a high diversity of types and dimensions, manufacturing technologies and delivery methods.

**AEROSTAR is the main independent supplier of maintenance services at an industrial level in this region for the commercial aircraft from Airbus 320 and Boeing 737 family.**

The MRO civil centre from Aerostar has extended its customer base in regards to the portfolio of capabilities from the category of upgrades and modifications type STC (supplemental type certificates).

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

Starting with the Part-145 approval, Aerostar's maintenance base developed its market position by obtaining a large range of approvals from civil aviation authorities of many countries in the European Union and beyond.

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

In equal measure, the profile of Regional Centre of Excellence in the field of MRO commercial aircraft has been consolidated and it is a pole of sustainable development with a significant growth.

## From MiG-21 Lancer to F-16

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

In the field of the defence systems, AEROSTAR operates in upgrading programmes, integration and maintenance of military and defence aviation systems.

Designated by the Romanian Government as a maintenance centre for F-16 aircraft from the Romanian Army, AEROSTAR took initiative and initiated the investments to set up the capabilities for the maintenance centre which shall develop progressively by allocating and training the personnel, manufacturing and purchasing the devices and testing benches and creating its own maintenance infrastructure for these aircraft.

**AEROSTAR has the capability to fully or partially upgrade the metric gamma radars (Eastern manufacturing).**

Nominated and agreed as a sole supplier for the IFF systems installed on operational platforms within the army, AEROSTAR has successfully implemented the IFF Mode 4 equipment on different types of platforms (aircraft, helicopters, spaceships, ground systems of air-defence) being prepared to proceed to Mode 5 implementation, in accordance with the requirements of Ministry of Romanian Defence.

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

**This way, AEROSTAR became part of the Raytheon's global supply chain for Patriot systems and operates to develop and consolidate this position.**

## QUALITY, A COMPETITIVE ADVANTAGE

In the first six months 2019, in order to achieve the strategic objectives defined through the policy referring to quality and environment, Aerostar actioned to maintain its certifications – both on quality and on environment and respectively to maintain the authorizations obtained from the part of regulatory authorities in field.

Satisfying the customer requirements is one of the main objectives of Aerostar. In this sense, within the company, the key performance indicators referring to on time delivery and the manufacturing of products and performing services in accordance with the requirements are permanently monitored, and actiones shall be established if the risk or their unfulfilment is identified.

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

Aerostar fulfilled all its obligations resulted from the Greenhouse Gas Emissions Authorization.

Also, the current monitorizations of the indicators for waste water and ground water have been performed (indicators specified in the Environment Integrated Authorization) and the actions required for the Environment Integrated Authorization and of the Water Management Authorization were commenced.

## OUR EMPLOYEES

On 30.06.2019 AEROSTAR had a total number of **1.913** employees, from which an effective number of 1.815 employees, with 176 employees in position of management.

To these, a number of 98 employees are added, manpower employed through the temporary work agent AIRPRO CONSULT S.R.L.

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

employees, university degree:	572,	from which:
- doctorate graduates:	11	
- doctorate studies under way:	6	
- master studies graduates:	210	
employees, post high school studies:	13	
high school employees:	605	
employees, vocational studies:	562	
employees, on job training qualifications:	40	
employees, gymnasium background:	23	

The average union membership of the company on the first 6 months from 2019 is 68,34%.

The average work duration is of 17 years and the average age of AEROSTAR employees is 46 years.

In the first semester of 2019, in AEROSTAR was negotiated a new collective agreement for the period 01.04.2019 – 31.03.2021.

The professional development of the employees is realised by including them in training programmes, including the professional training programmes dedicated for the new employees.

As regards to the costs registered in this period on the annual budget for professional training, the ones from the external services from the training field alone have increased with over 38% in comparison with the same period from the previous year.

The company ensures optimal conditions regarding security and health at work for all

the employees, regarding the mode of action in case of emergencies.

**AEROSTAR is authorized as supplier for professional training by the Ministry of Education and Ministry of Work for aviation specific skills: fitters, aviation mechanic, aviation electromechanic and mechanic of aircraft engines.**

## TANGIBLE ASSETS

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

AEROSTAR has a second site without legal personality, a secondary place of business, in Iasi, 25B Aeroportului Street. Currently, AEROSTAR does not perform economic activities at this secondary place of business.

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

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

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

At the registered headquarter are build all the facilities required to execute the activities of production, according to the object of activity.

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

All these areas are maintained in good condition.

The total surface of buildings is approximately 13,47 ha.

AEROSTAR assets are compliant with provisions imposed by the health, safety and

environment management system, respecting the applicable legislation and occupational safety regulations, as well as the requirements for protection and security of the company.

At 30 June 2019 the tangible assets held in property by AEROSTAR to perform the activities are in gross value of 250.124 thousand lei, which comprise the land, buildings, special constructions, installations, technological equipment, transport vehicles:

Category of tangible assets	Gross value (thousand lei)	Degree of wear (%)	Estimated useful life (years)
<b>Land</b>	<b>28.401</b>	N/A	N/A
<b>Constructions</b>	<b>55.954</b>	<b>34,4%</b>	<b>30-50 years</b>
<b>Investment property</b>	<b>10.629</b>	<b>25,0%</b>	<b>25-50 years</b>
<b>Technical installations, of which:</b>	<b>153.577</b>	<b>52,4%</b>	
• technological equipment	148.519	52,0%	4-25 years
• transport vehicles	5.058	61,3%	4-18 years
<b>Other tangible assets</b>	<b>1.563</b>	<b>34,8%</b>	<b>2-18 years</b>
<b>TOTAL</b>	<b>250.124</b>	<b>41,1%</b>	<b>N/A</b>

There were no issues related to the ownership right over the tangible assets of the company.

## MAIN SHAREHOLDERS

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

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

According to the data from the Bucharest Stock Exchange, the shareholding structure at 30 June 2019 is presented below:

Shareholder	Number of shares held	Participation owned (% of the share capital)
IAROM S.A. București	108.585.664	71,3078
SIF MOLDOVA Bacău	22.919.887	15,0514
Other shareholders	20.771.899	13,6408
<b>Total</b>	<b>152.277.450</b>	<b>100,0</b>

There are no litigations with the persons mentioned earlier.

In 2019, there were no subscriptions of new shares, nor participation certificates, convertible bonds, options or similar rights.

**RELATION WITH THE SHAREHOLDERS AND THE CAPITAL MARKET**

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

In the relation with the shareholders, AEROSTAR took into account in 2019 as well, to protect and secure the rights of the shareholders, that is:

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

In the relation with the capital market, AEROSTAR fulfilled in 2019 as well, all the reporting obligations arising from the legal provisions by publishing the mandatory current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the internet page of the company and by press releases.

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

The shareholders can obtain information about AEROSTAR and its main events on the internet page [www.aerostar.ro](http://www.aerostar.ro).

Also, annual reports, as well as half-year and quarterly reports can be downloaded for the last five years, as well as the current reports and other useful information for the shareholders.

**Aspects regarding the capital and administration of the company**

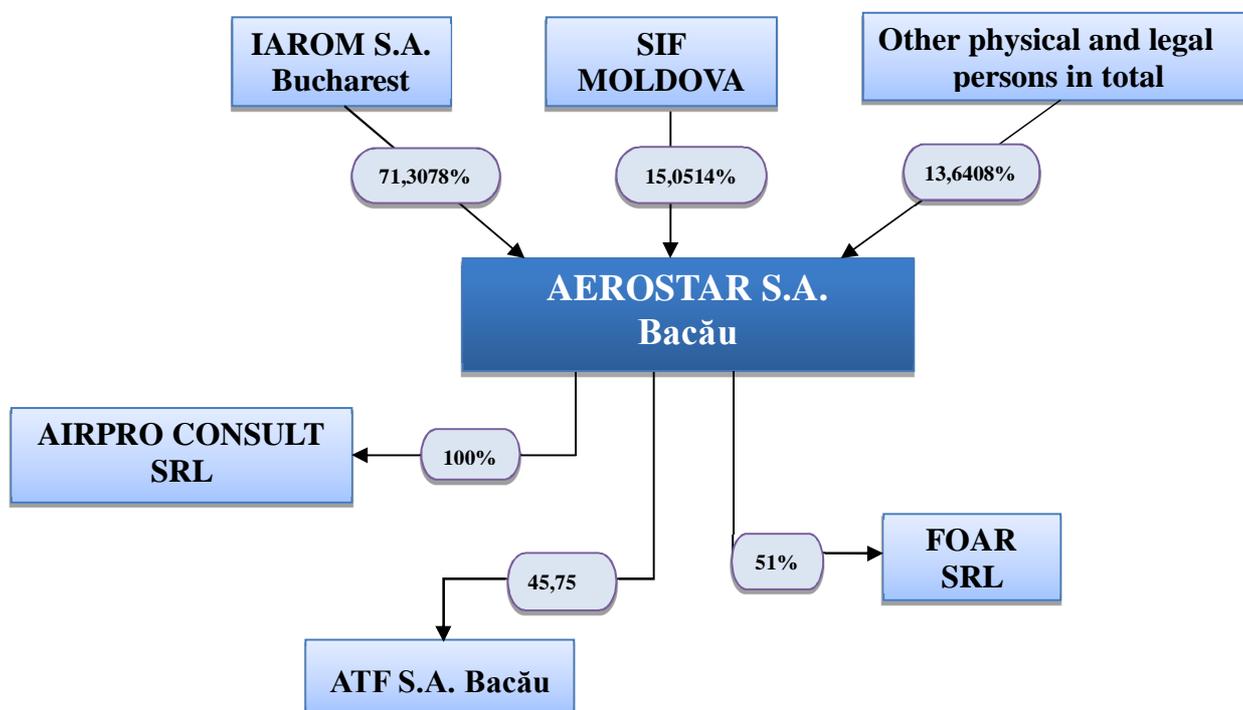
There were no modifications which affect the capital and administration of the company.

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

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

No data or information or any prospect for a public offer for sale, documents of public offer for purchasing, voluntary take-over or of any other nature is available. No notifications are available regarding reaching or exceeding the thresholds for holding the voting rights of AEROSTAR's shareholders are available.

## AEROSTAR'S RELATION with the parent company and with the related companies



During the first semester of 2019 there was no merger or significant reorganization, neither in AEROSTAR nor of the companies controlled by AEROSTAR.

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

## RELATED PARTIES

On 30.06.2019, AEROSTAR participations in other companies are the following:

Name of the subsidiary/related company	Basic activity	No. of shares held	Voting rights	Value of the holding (thousand lei)	Financial information for the last financial year (for 2018) for which the financial statements of the related companies were approved			
					Sales (thousand lei)	Company capitals (thousand lei)	Net profit (thousand lei)	
<b>Airpro Consult S.R.L.</b>	Basic activity according to CAEN code 7820	100	100%	10	7.840	147	66	
<b>Foar S.R.L.</b>	Basic activity according to CAEN code 7739	408	51%	4	434	1.919	171	
<b>ATF S.A.</b>	Basic activity according to CAEN code 2822	9150	45,75%	92	-	274	1	
				<b>Total</b>	<b>106</b>	<b>8.274</b>	<b>2.340</b>	<b>238</b>

The transactions with the related parties between 01.01.2019 – 30.06.2019 consisted in:

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

- Dividends collected/ to be collected by AEROSTAR S.A. from Airpro Consult S.R.L. Bacău and Foar S.R.L. Bacău.

Between 01.01.2019 – 30.06.2019 no transactions were made with the company ATF S.A.

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

During the first semester of 2019, AEROSTAR S.A. did not register modifications such as increase/decrease of the contribution percentage, AEROSTAR maintaining the same influence as in 2018.

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

## AEROSTAR MANAGEMENT

AEROSTAR's Board of Directors was elected for a period of four years during the Ordinary General Meeting of the Shareholders from 5 July 2016 and has the following members:

<b>Numele si prenumele</b>	<b>Funcția</b>	<b>Profesia</b>
<b>FILIP GRIGORE</b>	President of the Board of Directors	Aviation Engineer
<b>DAMASCHIN DORU</b>	Vicepresident of the Board of Directors	Economist
<b>TONCEA MIHAIL- NICOLAE</b>	Member of the Board of Directors	Aviation Engineer
<b>DOROȘ LIVIU-CLAUDIU</b>	Member of the Board of Directors	Economist
<b>VÎRNĂ DANIEL</b>	Member of the Board of Directors	Legal advisor

The attributions and responsibilities of the Board of Directors are provided in the Constitutive Act.

The direct participation of the administrators to the registered capital of the company is lower than 1%.

There is no agreement, understanding or family tie in connection with the nomination of the administrators of the company. There were no resignations or dismissals from among the members of the Board of Directors, or in connection with the auditor.

There is no litigation between the company and the administrators with reference to their activity.

None of the administrators was involved in a litigation or administrative procedure with AEROSTAR during the last 5 years.

**BUSINESS MANAGEMENT**

AEROSTAR is under unitary administration.

AEROSTAR management is delegated to the General Director, Mr. Grigore FILIP, and to the Financial Director, Mr. Doru DAMASCHIN.

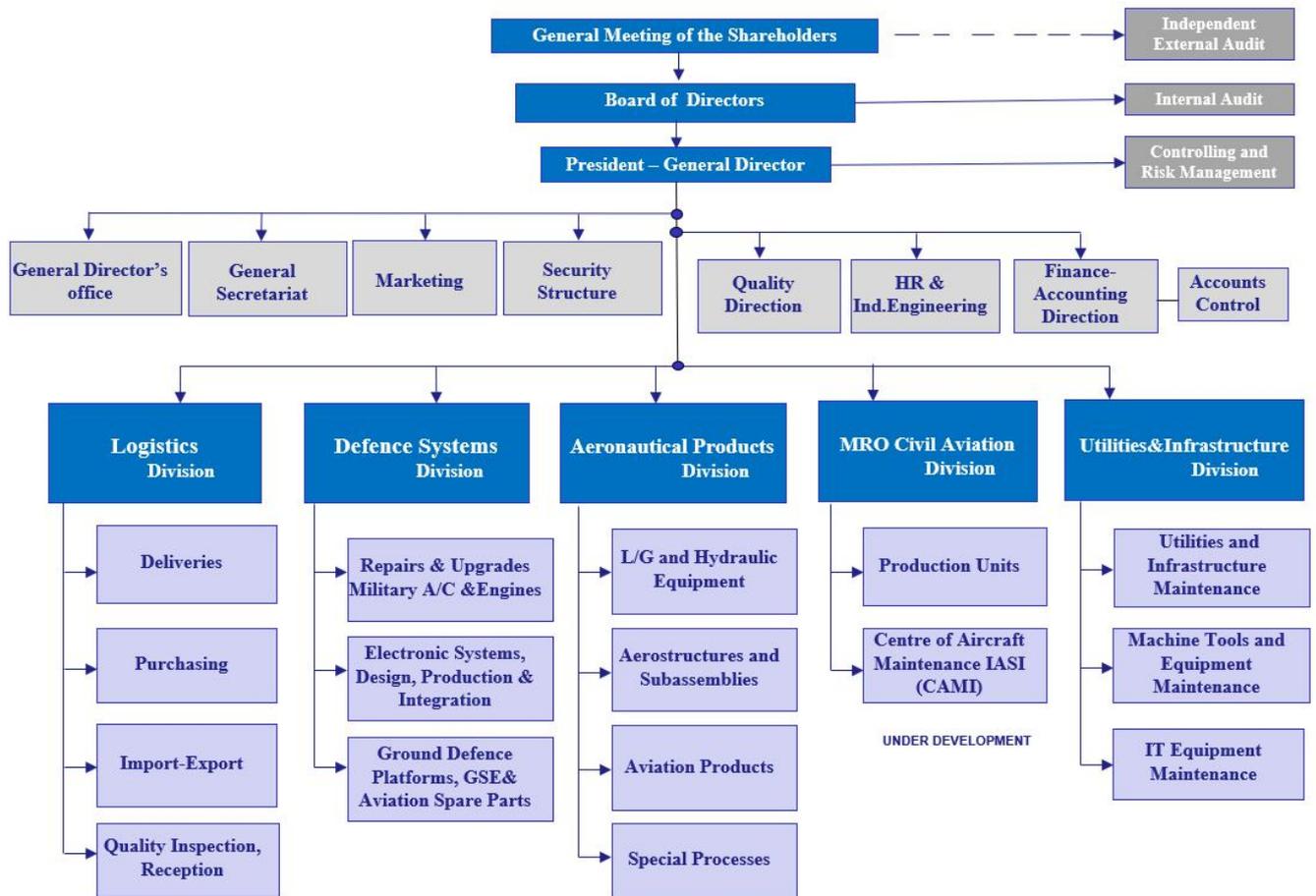
As for the organization and management system in Aerostar, the management structure at operational level provides the activities based on a divisional type organization, with accounts management centres in the areas of operations, auxiliary and functional activities.

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

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

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

The organizational structure implemented is represented as follows:



At 30.06.2019 the management structure which provides the management of the company functions subject to the division type organisation is:

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

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

There are no litigations with the persons mentioned above.

## CORPORATE GOVERNANCE

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

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

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

The administration of the company is in unitary system.

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

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

## THE CORPORATE GOVERNANCE STRUCTURES

The corporate governance structures are:

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

### The General Meeting of the Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the first semester of 2019 the company did not purchase its own shares and did not issue bonds or other securities as receivables.

No data or notices are available regarding the percentage of the voting rights held by the shareholders in relation to reaching or exceeding the shareholding thresholds provided by law.

## The Board of Directors

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

The attributes and responsibilities of the Board of Directors are provided in the Constitutive Deed and in the Internal Regulation of the Board of Directors on [www.aerostar.ro/Investors Relation](http://www.aerostar.ro/Investors Relation).

The direct participation of the administrators to the share capital of the company is under 1%.

There is no agreement, understanding or family tie in connection with the nomination of the administrators of the company. There were no resignations or dismissals from among the members of the Board of Directors, or in connection with the auditor.

There is no litigation between the company and the Directors (administrators) with reference to their activity.

None of the administrators was involved in a litigation or administrative procedure with AEROSTAR during the last 5 years.

## Audit committee

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

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

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

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

The Audit Committee has the purpose to:

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

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

- a) monitors the financial reporting process and transmits recommendations or proposals to ensure its integrity;
- b) monitors the effectiveness of the internal quality control system and of the risk management systems of the entity and, as applicable, of the internal audit regarding the financial reporting of the audited entity, without infringement of its independence;

c) monitors the statutory audit of the annual financial statements and of the consolidated annual financial statements, especially its execution, taking into consideration the findings and conclusions of the competent bodies, in accordance with art. 26 paragraph (6) from ( EU) Regulation no. 537/2014;

d) evaluates and monitors the independence of the financial auditors or of the audit companies in accordance with art. 21-25, 28 and 29 and Law no. 162/2017 and with art. 6 from the (EU) Regulation no. 537/2014 and, especially, the opportunity to perform certain non-audit services to the entity audited in accordance with art. 5 from such regulation.

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

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

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

## AEROSTAR's Code of business conduct & ethics

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

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

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

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

The details about the compliance with the principles and recommendations provided in the Corporate Governance Code of the Bucharest Stock Exchange are provided as integral part of the current report.

## Management of the conflict of interest

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

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

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

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

## Executive management

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

## The internal control system

**The internal control system** of AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

## Accounts control

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

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

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

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

No significant deviations were found compared to the scriptic records.

## Budgetary control

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

From the budgeting perspective, the company is organised in:

- profit centres
- cost centres

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

The budgetary control provides:

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

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

## **Controlling**

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

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

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

## **Internal Audit**

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

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

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

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

The internal audit activity is structured in:

- effectiveness audit ;
- management audit;
- operational audit;
- conformance audit;
- financial audit.

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

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

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

## RISK MANAGEMENT

**AEROSTAR** is exposed to multiple risks and uncertainties which may affect its financial performances.

The business lines followed by **AEROSTAR**, the operational results or the financial situation of the company, could be affected by the materialization of the risks presented as follows.

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

The risk management processes provide the identification, analysis, evaluation and treatment of risks to minimize its effects to an agreed level.

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

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

By adopting an integrated approach for the risk management, **AEROSTAR** has in place a robust risk management system and the risks are structured as follows:

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

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

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

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

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

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

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

The highly varied spectrum of AEROSTAR's suppliers and customers, at multicontinental level, makes the **Legal risk** extremely important, detailed and outlined by:

- **Risks regarding the geopolitical changes/ uncertainties due to the actions of the major global actors** (changes in the US Administration position in the field of economic trade and related commercial taxes, the Brexit Agreement execution and

completion between Great Britain and the European Union with potential impact on the sales volume to UK companies, a.s.o.);

- **Risks regarding the commercial competitiveness**, in the competition contractual landscape in aviation, including the concentration of the customers;

- **Risks regarding the changes of the laws/ regulations regarding the legislation in force** (including anti-trust, anti-corruption, embargo/ sanctions legislation etc).

Also, within the **Legal risk** enters the **Risk related to the strict compliance of the contractual standards** within the business lines fields in accordance with the requirements related to Environment.

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

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

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

In addition, **AEROSTAR** seeks to have available adequate capital, by setting provisions for risks and related expenses, company funds to cover its risks of exposure, also taking into account the possible **association/ partnerships risk**.

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

Also, by allocating adequate resources, the monitoring is focused on the mitigation of the possible dangers specific to cyber-attacks, including to minimize the **Risk of the computer system to operate in security and safety terms** (system comprising an additional volume of data, information, knowledge, including experience/know-how).

With a strong and proactive organisational culture in the human resources area, with adequately budgeted programmes, AEROSTAR mitigates the **Risk related to the**

**increased mobility of the manpower**, which leads to additional costs for the identification of skills and competences and for professional adaptation.

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

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

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

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

### **The Credit Risk (comercial)**

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

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

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

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

AEROSTAR has no significant exposure to a single partner and does not record a significant concentration of the turnover on a single geographic area. However, there is a significant exposure to the global market of the Airbus programmes, a large share of the company's products being embedded in Airbus aircraft.

### **The Liquidity Risk**

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

For the administration of the **liquidity risk**, the cash flows are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash.

Such reviews provide the basis for the financing decisions and for the capital undertakings. For the administration of the **liquidity**, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line usable as a bank overdraft in amount of 2.500.000 USD.

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

### **The Market Risk**

The market risk is relevant subject to the **price risk**, **currency risk** and **interest rate risk**.

AEROSTAR is mainly exposed to the **price risk** determined by the fluctuations of the price of raw materials and materials used in the production processes, due to some extraordinary events (the Brexit Agreement with an impact on the purchasing of materials from Great Britain, implementation of certain international sanctions with consequences on the limitation of the possibility to provide the necessary parts and materials, etc.), as well as the increase of the costs of specific duties for the import/export of metallic products (steel and/ or aluminium) to and from USA.

The management of this risk is made by:

- diversification of the range of suppliers, which provides increased negotiation levers in case of price increase for the materials from certain suppliers.

- long term contracts, with fixed price clauses.

AEROSTAR is exposed to the **currency risk** as **87% of the turnover is related to the first semester of 2019** is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency in LEI.

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

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

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

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

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

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

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

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

**EVENTS AFTER THE REPORTING PERIOD**

**The Financial Calendar 2019 – the following events which will take place:**

Presenting the financial results of the first semester of 2019	16.08.2019
Meeting with the press and the investors interested to present the financial results of the first semester of 2019	16.08.2019
Presenting the financial results on 30 September 2019	08.11.2019

## FINANCIAL STATEMENT - SUMMARY

## Elements of financial statement

(thousand lei)	30.06.2019	31.12.2018
<b>TOTAL ASSETS, from which:</b>	<b>498.273</b>	<b>486.801</b>
<b>Total non-current assets</b>	<b>151.221</b>	<b>156.876</b>
<b>Current assets – total, from which:</b>	<b>334.367</b>	<b>318.289</b>
- inventories	92.283	82.368
- trade receivables and other receivables	63.631	68.376
- cash and cash equivalents	178.453	167.545
<b>Other elements of assets</b>	<b>12.685</b>	<b>11.636</b>
<b>TOTAL EQUITY, SUBVENTIONS FOR INVESTMENTS, LIABILITIES AND PROVISIONS, from which:</b>	<b>498.273</b>	<b>486.801</b>
<b>Total liabilities</b>	<b>55.603</b>	<b>48.872</b>
<b>Total provisions</b>	<b>106.572</b>	<b>112.551</b>
<b>Subventions for investments</b>	<b>9.065</b>	<b>10.239</b>
<b>Total equity, from which:</b>	<b>327.033</b>	<b>315.139</b>
- share capital	48.729	48.729
- result carried-forward	58.679	58.324
- reserves	206.632	166.395
- other capital elements (tax on deferred profit recognized on equity)	(12.681)	(12.195)
- distribution of the profit to legal reserves	(2.799)	(26.035)
- result of the period (profit)	28.473	79.921

## Income and expenses elements

(thousand lei)	30.06.2019	30.06.2018
<b>TOTAL INCOME</b>	<b>193.092</b>	<b>191.661</b>
<b>Operating income</b> , from which:	<b>187.975</b>	<b>187.082</b>
– Turnover	176.779	160.081
– Income related to inventories of finite products and in progress of execution	8.907	25.186
<b>Financial income</b>	<b>5.117</b>	<b>4.579</b>
<b>TOTAL INCOME</b>	<b>(159.023)</b>	<b>(142.216)</b>
<b>Operating expenses</b> , from which:	<b>(156.725)</b>	<b>(139.741)</b>
– Material expenses	(64.579)	(66.675)
– Expenses with employees' benefits	(60.660)	(56.552)
– Expenses with the assets' depreciation	(13.066)	(12.440)
– Influence of adjustments regarding current assets	(10.551)	(5.860)
– Influence of adjustments regarding provisions	5.978	16.820
– Expenses regarding external benefits	(12.280)	(13.600)
– Other expenses	(1.567)	(1.434)
<b>Financial expenses</b>	<b>(2.298)</b>	<b>(2.475)</b>
<b>Operating Profit/Loss</b>	<b>31.250</b>	<b>47.341</b>
<b>Financial Profit / Loss</b>	<b>2.819</b>	<b>2.104</b>
<b>PROFIT BEFORE TAX</b>	<b>34.069</b>	<b>49.445</b>
<b>TAX ON CURRENT AND DEFERRED PROFIT</b>	<b>(5.596)</b>	<b>(3.895)</b>
<b>NET PROFIT OF THE PERIOD</b>	<b>28.473</b>	<b>45.550</b>

## Cash-flow elements

(thousand lei)	30.06.2019	30.06.2018
<b>Operating activities:</b>		
• collected	197.249	160.118
• payments, from which:	165.043	150.695
~ payments for suppliers and employees	(131.627)	(123.808)
~ tax and duties payments to Budget state	(33.416)	(26.887)
<b>A. Cash from operational activities</b>	<b>32.206</b>	<b>9.423</b>
<b>Investments activities:</b>		
• collected, from which:	1.940	1.044
~ rates collected from loans granted	0	2
~ interest collected from bank and loans granted	1.877	941
~ collected from sales of intangible assets	13	11
~ dividends collected from affiliated entities	50	90
• payments for purchasing property, plant and equipment	(8.248)	(14.329)
<b>B. Net cash from investment activities</b>	<b>(6.308)</b>	<b>(13.285)</b>
<b>Financing activities:</b>		
~ dividends paid but unclaimed	99	0
~ dividends paid	(15.437)	(34)
<b>C. Net cash used in financing activities</b>	<b>(15.338)</b>	<b>(34)</b>
<b>Net increase of the cash and of cash equivalents (A+B+C)</b>	<b>10.560</b>	<b>(3.896)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>167.545</b>	<b>163.886</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>178.453</b>	<b>159.938</b>

## MAIN ECONOMIC-FINANCIAL INDICATORS ON 6 MONTHS 2019

<b>Name of the indicator</b>	<b>Calculation mode</b>	<b>Result</b>
Indicator of the current liquidity	Current assets/ Current liabilities	8,49
Indebtedness indicator	Loan capital /Equity x 100	0
Rotation speed of debits-customers	Average balances of customers/Turnover x 180	58
Rotation speed of non-current assets	Turnover /Noncurrent assets	1,17

**On behalf of the Board of Directors,  
Grigore FILIP  
President-General Director**

**AEROSTAR S.A. BACĂU**  
**INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR 30 JUNE 2019**  
**REVIEWED**

# **CONTENT**

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**AEROSTAR S.A. BACAU**  
**INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION ON 30 JUNE 2019**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

	Note	30 June 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	142.128	147.763
Intangible assets	5	980	1.043
Investment property	6	7.973	7.930
Long-term financial assets	7	140	140
<b>Total non-current assets</b>		<b>151.221</b>	<b>156.876</b>
<b>Current assets</b>			
Inventories	10	92.283	82.368
Trade receivables and other receivables	8;9	63.631	68.376
Cash and cash equivalents	11	178.453	167.545
<b>Total current assets</b>		<b>334.367</b>	<b>318.289</b>
<b>Receivables regarding deferred profit tax</b>	<b>17</b>	<b>11.611</b>	<b>11.132</b>
<b>Prepaid expenses</b>	<b>31</b>	<b>1.074</b>	<b>504</b>
<b>Total assets</b>		<b>498.273</b>	<b>486.801</b>
<b>COMPANY EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	12	48.729	48.729
Current result	12	28.473	79.921
Result carried-forward	12	58.679	58.324
Other reserves	12	206.632	166.395
Deferred income tax recognized based on own equity	17	(12.681)	(12.195)
Distribution of profit for legal reserve	12	(2.799)	(26.035)
<b>Total company equity</b>	<b>12</b>	<b>327.033</b>	<b>315.139</b>
<b>Subsidies for investments</b>	<b>14</b>	<b>9.065</b>	<b>10.239</b>
<b>Long-term liabilities</b>			
Liabilities regarding deferred income tax	17	16.149	16.055
Other long-term liabilities	16	50	45
<b>Total long-term liabilities</b>		<b>16.199</b>	<b>16.100</b>
<b>Long-term provisions</b>	<b>13</b>	<b>97.031</b>	<b>95.796</b>
<b>Current liabilities</b>			
Trade liabilities	15	25.495	21.197
Liability with current income tax	23	2.405	2.357
Other current liabilities	16	11.504	9.218
<b>Total current liabilities</b>		<b>39.404</b>	<b>32.772</b>
<b>Short-term provisions</b>	<b>13</b>	<b>9.541</b>	<b>16.755</b>
<b>Total provisions</b>		<b>106.572</b>	<b>112.551</b>
<b>Total liabilities</b>		<b>55.603</b>	<b>48.872</b>
<b>Total company equity, prepaid income, liabilities and provisions</b>		<b>498.273</b>	<b>486.801</b>

**General Director,  
Grigore Filip**

**Financial Director,  
Doru Damaschin**

**AEROSTAR S.A. BACĂU**  
**INDIVIDUAL STATEMENT OF PROFIT OR LOSS**  
**ON 30 JUNE 2019**  
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	30 June 2019	30 June 2018
<b>Operating income</b>			
Income from sales	19	176.779	160.081
Other income	19	1.646	1.266
Income related to the inventories of finished goods and work in progress	19	8.907	25.186
Income from production of assets	19	520	541
Income from operating subsidies	19	123	8
<b>Total operating income</b>		<b>187.975</b>	<b>187.082</b>
<b>Operating expenses</b>			
Material expenses	20	(64.579)	(66.675)
Expenses with employees' benefits	20	(60.660)	(56.552)
Expenses regarding amortization of assets	20	(13.066)	(12.440)
Adjustments regarding current assets	20	(10.551)	(5.860)
Adjustments regarding provisions	20	5.978	16.820
Expenses regarding external services	20	(12.280)	(13.600)
Other expenses	20	(1.567)	(1.434)
<b>Total operating expenses</b>		<b>(156.725)</b>	<b>(139.741)</b>
<b>Profit/loss from operating activity</b>		<b>31.250</b>	<b>47.341</b>
Financial income	21	5.117	4.579
Financial expenses	22	(2.298)	(2.475)
<b>Financial profit/loss</b>		<b>2.819</b>	<b>2.104</b>
<b>Profit before tax</b>		<b>34.069</b>	<b>49.445</b>
Tax on current and deferred profit	17;23	(5.596)	(3.895)
<b>Net profit of the period</b>		<b>28.473</b>	<b>45.550</b>

**General Director,  
Grigore Filip**

**Financial Director,  
Doru Damaschin**

**AEROSTAR S.A. BACĂU**  
**INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF**  
**GLOBAL RESULT ON 30 JUNE 2019**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Net profit of the financial year</b>	<b>28.473</b>	<b>45.550</b>
Deferred income tax recognized on company equity	(130)	(2.235)
<b>Other elements on the global result</b>	<b>(130)</b>	<b>(2.235)</b>
<b>Total global result of the period</b>	<b>28.343</b>	<b>43.315</b>

**General Director,  
Grigore Filip**

**Financial Director,  
Doru Damaschin**

**AEROSTAR S.A. BACĂU**  
**INDIVIDUAL STATEMENT OF THE MODIFICATION OF COMPANY EQUITY**  
**FOR THE FINANCIAL YEAR ENDED ON 30 JUNE 2019**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

	Share capital	Reserves	Deferred income tax recognized on equity	Result carried forward	Result of the period	Total equity
<b>Global result</b>						
<b>A. Balance on 1 January 2019</b>	<b>48.729</b>	<b>166.396</b>	<b>(12.196)</b>	<b>58.324</b>	<b>53.886*</b>	<b>315.139</b>
<b>Profitul perioadei</b>					28.473	28.473
<b>Other elements of global result</b>						
Deferred income tax recognized on the account of equity			(485)	355	-	(130)
Distribution of the profit of 2018 on the destinations decided by the shareholders in OGMS from the 24 April 2019 (Note 12)				53.886	(53.886)	-
Distribution of the profit of the first semester of 2019 for the legal reserves in gross amount		2.799			(2.799)	-
<b>Total global result relating to the period</b>		<b>2.799</b>	<b>(485)</b>	<b>54.241</b>	<b>(28.212)</b>	<b>28.343</b>
Reserves distributed from the profit of 2018		37.437		(37.437)		-
Dividends related to 2018, paid to the shareholders				(16.449)		<b>(16.449)</b>
<b>Transactions with the shareholders directly recognized in equity</b>		<b>37.437</b>		<b>(53.886)</b>		<b>(16.449)</b>
<b>B. Balance on 30 June 2019</b>	<b>48.729</b>	<b>206.632</b>	<b>(12.681)</b>	<b>58.679</b>	<b>25.674</b>	<b>327.033</b>
<b>C. Modifications on own equity (NOTE 12)</b>	<b>0</b>	<b>40.236</b>	<b>(485)</b>	<b>355</b>	<b>(28.212)</b>	<b>11.894</b>

\* Note: The result of the prior period is 79.921 thousand lei and is influenced by allocation of the profit on the legal reserves in amount of 26.035 thousand lei.

\*\*\*) The result on 30.06.2019 of 28.473 thousand lei is influenced by the distribution of the profit on legal reserves in the amount of 2.799 thousand lei.

**General Director,  
Grigore Filip**

**Financial Director,  
Doru Damaschin**

**AEROSTAR S.A. BACĂU**  
**INDIVIDUAL STATEMENT OF CASH FLOWS (direct method)**  
**FOR THE FINANCIAL YEAR ENDED ON 30 JUNE 2018**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

	Note	30 June 2019	30 June 2018
<b>CASH FLOWS FROM OPERATIONS</b>			
collected from customers		193.291	158.846
taxes and excises recovered from State Budget		3.958	1.272
payments to suppliers and employees		(131.627)	(123.808)
payment of taxes, contributions and dues to State Budget		(27.352)	(23.413)
payment of profit tax		(6.064)	(3.474)
<b>NET CASH FROM OPERATIONS</b>	27	<b>32.206</b>	<b>9.423</b>
<b>CASH FLOWS FROM INVESTMENTS</b>			
interest collected from bank deposits formed		1.877	938
dividends received from subsidiaries		50	90
collected from sales of property, plant and equipment		13	11
interest collected from loans granted		0	2
instalments collected from loans granted		0	3
payments for purchasing property, plant and equipment and intangible assets		(8.248)	(14.329)
<b>NET CASH FROM INVESTMENTS</b>	27	<b>(6.308)</b>	<b>(13.285)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
dividends paid but unclaimed		99	0
gross dividends paid		(15.437)	(34)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	27	<b>(15.338)</b>	<b>(34)</b>
<b>Net increase of cash and cash equivalents</b>		<b>10.560</b>	<b>(3.896)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>167.545</b>	<b>163.886</b>
Effect of the exchange rate variation over the cash and cash equivalents	27	348	(52)
<b>Cash and cash equivalents at the end of the period</b>	11	<b>178.453</b>	<b>159.938</b>

General Director,  
Grigore Filip

Financial Director,  
Doru Damaschin

**AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED AT 30 JUNE 2019**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

**NOTE 1 - DESCRIPTION OF THE COMPANY**

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

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

The main activity field of AEROSTAR is production.

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

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

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

During the first semester of 2019, there was no subscription of new shares, nor of any participation certificates, convertible bonds, warranties, options or similar rights.

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

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

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

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

**AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED AT 30 JUNE 2019**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

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

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

During the first semester of 2019, the company did not use loan capital and neither equity contribution from the shareholders.

**S.C. AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR 30 JUNE 2019**  
(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 information***

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

### **2.2. Errors**

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

**S.C. AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR 30 JUNE 2019**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

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

**S.C. AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR 30 JUNE 2019**  
**(unless specified otherwise, all amounts are stated in thousand lei)**

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

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

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

**AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED AT 30 JUNE 2019**  
**(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. 881/1991 regarding the appliance by the commercial companies whose real estates are admitted at trading on a regulated market of the International Financial Reporting Standards;
- O.M.F.P. no. 2.844/2016 on the approval of the accounting Regulations compliant with 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. nr. 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. nr. 2.634/2015 regarding the financial accounting documents, including subsequent amendments and additions.

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

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

The financial year is the calendar year.

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

The financial statements are prepared based on historical cost.

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

#### **3.2. Applied Accounting Policies**

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

The most significant accounting policies are presented below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- *The research phase.* The research costs are treated as expenses of the period
- *The development phase.* The development costs are registered as an intangible asset, if the following conditions are demonstrated:

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- the technical feasibility of completing the asset, so that it is available for use or sell;
- the availability of adequate resources - financial, human, financial - to complete the development;
- the intention to complete and use or sell the intangible asset;
- the ability to use or sell the asset;
- how the asset will generate future economic value;
- the ability to assess costs.

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

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

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

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

The transfers between categories do not change the accounting value of transferred property and do not change the cost of that property for the purpose of evaluation or presenting the information. The investment property is amortized according to the same rules as for the property, plant and equipment.

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

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

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

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

- **Accounting policies on inventory items**

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

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

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

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

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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 management of the business modules, for the presentation of assets at the lowest value between cost and net achievable value.

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

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

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

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

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

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

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

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

All other liabilities are classified as long-term liabilities.

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

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

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

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

Receivables include:

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

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

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

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

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

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

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

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

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

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

- **Accounting Policies for Revenue Recognition**

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

Revenues are classified as follows:

- ✓ revenues from operations;
- ✓ financial revenues.

The revenue is recognized on an accrual basis.

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

Revenues from operations include:

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

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

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

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

**Revenues from rendering of services**

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

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

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

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

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

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

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

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

- **Accounting policies for provisions**

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

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

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

**Provisions for 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.

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**Provisions for the decommissioning of property, plant and equipment**

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

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

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

**Provisions for the employees' benefits**

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

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

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

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

The subsidies are distinctly reflected:

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

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

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

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

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

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

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

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

The management accounting consists of:

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

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

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

a) material losses, labour or other production costs related to scrap and under capacity load work costs;

b) general administration expenses.

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

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

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

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

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

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

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

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**NOTE 4 – TRANSACTIONS IN FOREIGN CURRENCIES**

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

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

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

<b>Currency</b>	<b>30.06.2019</b>
EUR (Euro)	4.7351
USD (American Dollar)	4.1587
GBP (British pound)	5.2735

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

Considering that 87% from the turnover registered in the reporting period is denominated in USD and EUR, while a significant part of the operating costs is denominated in LEI, the foreign exchange rates variations will affect both its net incomes as well as the financial position as expressed in the functional currency.

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

<b>Semester I 2019</b>	<b>thousand EUR</b>	<b>thousand MII USD</b>	<b>thousand MII GBP</b>
Collected from financial assets	10.199	26.496	0
Payments of financial liabilities	(5.869)	(9.241)	(278)
<b>Foreign Currency Net Exposure</b>	<b>4.330</b>	<b>17.255</b>	<b>(278)</b>

In the reporting period, the quarterly variation of the foreign exchange rate:

USD/LEU with +2,25% in the first quarter 2019 in comparison with 31.12.2018 and with (0,40%) in the second quarter 2019 in comparison with 31.03.2019

and

EUR/LEU with +1.50% in the first quarter 2019 in comparison with 31.12.2018 and with (0,30%) second quarter 2019 in comparison with 31.03.2019

has determined the registration of a financial profit from favourable exchange rate differences of 865 thousand LEI.

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**NOTE 5 - INTANGIBLE ASSETS**

	30 June 2019			01 January 2019		
	Gross values	Depreciation/ Impairment	Net accounting value	Gross value	Depreciation/ Impairment	Net accounting value
Capitalized development costs	19	(19)	0	152	(152)	0
Licences /Trade marks	5.041	(4.279)	762	4.902	(3.926)	976
Other intangible assets	1.664	(1.446)	218	1.413	(1.346)	67
<b>Total</b>	<b>6.724</b>	<b>(5.744)</b>	<b>980</b>	<b>6.467</b>	<b>(5.424)</b>	<b>1.043</b>

**Net accounting value**

	Balance on 1 January 2019	Increase	Reclassification	Disposals	Depreciation/ Impairment during the period	Balance on 30 June 2019
Capitalized development costs	0	19	0	0	(19)	0
Licenses	976	139	0	0	(353)	762
Other intangible assets	67	252	0	0	(101)	218
<b>Total</b>	<b>1.043</b>	<b>410</b>	<b>0</b>	<b>0</b>	<b>(473)</b>	<b>980</b>

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În categoria imobilizările necorporale sunt cuprinse următoarele clase de active de natură și utilizare similară:

- Cheltuieli de dezvoltare
- Licențe
- Alte active intangibile

În cadrul altor active intangibile sunt înregistrate programele informatice.

Duratele de viață utilă estimate pentru imobilizările necorporale sunt determinate în ani. Duratele de viață utilă sunt stabilite de comisii formate din specialiștii societății.

Duratele fiscale de funcționare ale imobilizărilor necorporale sunt reglementate de legislația fiscală pentru active.

Cheltuielile cu amortizarea sunt recunoscute în contul de profit și pierdere utilizând metoda liniară de calcul.

Imobilizările necorporale aflate în sold la 30.06.2019 nu sunt depreciate și nu s-au constituit ajustări pentru deprecierea acestora.

La determinarea valorii contabile brute a imobilizărilor necorporale societatea folosește metoda costului istoric.

Valoarea licențelor software amortizate complet la data de 30 iunie 2019 și care sunt încă utilizate este de 2.030 mii lei.

Toate imobilizările necorporale aflate în sold la 30 iunie 2019 sunt proprietatea AEROSTAR.

Creșterile de valori ale imobilizărilor necorporale au fost de 410 mii lei, din care:

- dezvoltarea sistemului informatic de gestionare a producției: 252 mii lei
- achiziția de licențe software 139 mii lei.

În perioada de raportare nu au fost intrări de licențe generate intern și nici dobândite prin combinări de întreprinderi.

În perioada de raportare nu au fost active clasificate drept deținute în vederea vânzării în conformitate cu IFRS 5.

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**NOTE 6 – PROPERTY, PLANT AND EQUIPMENT**

The Property, plant and equipment on 30 June 2019 and 01 January 2019 comprise the following:

	30 Iunie 2019			01 Ianuarie 2019		
	Gross values	Depreciation	Net accounting value	Gross values	Depreciation	Net accounting value
<b>Land</b>	28.401	0	28.401	28.401	0	28.401
<b>Constructions</b>	55.954	(19.239)	36.715	55.736	(16.922)	38.814
<b>Technological equipment and transport</b>	153.577	(80.441)	73.136	149.601	(70.623)	78.978
<b>Other equipment and office equipment</b>	1.563	(544)	1.019	1.348	(466)	882
<b>Investment property</b>	10.629	(2.656)	7.973	10.260	(2.330)	7.930
<b>Property, plant and equipment under construction</b>	2.857	0	2.857	687	-	687
<b>Total</b>	<b>252.981</b>	<b>(102.880)</b>	<b>150.101</b>	<b>246.033</b>	<b>(90.341)</b>	<b>155.692</b>

**Net accounting value**

	Balanta la 1 Ianuarie 2019	Cresteri	Reclasificari	Cedari/Transfer	Amortizare	Balanta la 30 Iunie 2019
<b>Land</b>	28.401	0	0	0	0	28.401
<b>Constructions</b>	38.814	326	(108)	0	(2.317)	36.715
<b>Technological equipment and vehicles</b>	78.978	4.030	0	0	(9.872)	73.136
<b>Other equipment and office equipment</b>	882	215	0	0	(78)	1.019

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<b>Investment property</b>	7.930	261	108	0	(326)	7.973
<b>Property, plant and equipment under construction</b>	687	7.002	0	(4.832)	0	2.857
<b>Total</b>	<b>155.692</b>	<b>11.834</b>	<b>0</b>	<b>(4.832)</b>	<b>(12.593)</b>	<b>150.101</b>

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

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

Depreciation expenses are recognised in the profit and loss statement.

The following useful lives are assumed:

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

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

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

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

The investment property contains a number of 12 real estate – buildings and related lands which are rented to third parties based on renting contracts.

The value of renting incomes in the first semester of 2019 was of 1.083 thousand lei (first semester of 2018: 989thousand lei).

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

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

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

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

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

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

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

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External source of information

Market value (market capitalization) has registered a growth of 4 % on 30 June 2019 (769.001 thousand lei) compared to 31 December 2018 (738.546 thousand lei).

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

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

<u>MBR-Market indicator to book ratio</u>	<u>30.06.2019</u>	<u>31.12.2018</u>
Stock exchange capitalization/ company equity	2,4	2,3

Internal source of information:

- the economic performance of the assets is good, all the immobilizations in operation bring benefits to the company

- in the reporting period no changes occurred with adverse effects on the extent and manner in which the assets are used. The rotation of immobilizations (Turnover/Property, Plant and Equipment – indicator monthly monitored) has been at 1,17 rotations, slightly over the level registered in the similar prior period (1,04 rotations).

In conclusion, the Property, Plant and Equipment in the balance sheet on 30.06.2019 are not depreciated and no significant depreciation indicators were identified.

The gross accounting value of the fully depreciated Property, Plant and Equipment which were still in operation on 30 June 2019 is of 7.768 thousand lei.

On 30.06.2019 no mortgages were set on tangible real estate assets in the property of AEROSTAR S.A.

<b>Increases in gross values of the Property, Plant and Equipment, achieved by:</b>	<b><u>11.834</u></b>
• acquisition on technical equipment, hardware equipment, equipment of measuring and control, modernization of buildings	4.832
• investments performed in the first semester of 2019	7.002

**Reclassifications, through:**

- |  |     |
|--|-----|
| • transferul unei cladiri din imobilizari corporale in investitii imobiliare | 108 |
|--|-----|

<b>Decreases in gross values of Property, Plant and Equipment, achieved by:</b>	<b><u>4.832</u></b>
• the transfer of the immobilizations in progress under Property, Plant and Equipment following their placing in service	4.832

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**NOTE 7- FINANCIAL ASSETS**

	Shares held in affiliated entities	Other immobilized securities	Other receivables - supply bonds	Total
<b>On 1 January 2019</b>	<b>14</b>	<b>92</b>	<b>34</b>	<b>140</b>
<b>Increases/Decreases</b>	-	-	-	-
<b>On 30 June 2019</b>	<b>14</b>	<b>92</b>	<b>34</b>	<b>140</b>

Details of the entity's investments on 30.06.2019 in other companies are the following:

Subsidiary name/ Registered headquarter	CAEN code	No. of shares/ shares issued	Voting rights (%) held	Value of shares held by Aerostar (thousand lei)	Company's Share capital	Financial Information related to 2018			
						Reserve	Net profit	Nominal value/ share	Net asset/ share
<b>Airpro Consult SRL Bacau Condorilor Street no.9</b>	<b>- main activity according to CAEN code 7820</b>	<b>100</b>	<b>100%</b>	10	10	71	66	0,10	1,5
<b>Foar SRL Bacau Condorilor Street no.9</b>	<b>- main activity according to CAEN code 7739</b>	<b>800</b>	<b>51%</b>	4	8	1.739	171	0,01	2,4
<b>ATF S.A Bacau Condorilor Street no.9</b>	<b>- main activity according to CAEN code 2822</b>	<b>20.000</b>	<b>45,75%</b>	92	200	38	1	0,01	0,014
<b>TOTAL</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>106</b>	<b>218</b>	<b>1.848</b>	<b>238</b>	<b>x</b>	<b>x</b>

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

In the first semester of 2019, the company recorded no modifications i.e. no increases/decreases as to the shareholding percentage, maintaining the same influence as in 2018.

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

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**NOTE 8 - TRADE RECEIVABLES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>TRADE RECEIVABLES OF WHICH:</b>		
<b>Customers, of which:</b>	<b>45.934</b>	<b>54.909</b>
Domestic customers	5.134	9.735
Foreign customers	40.800	45.174
<b>Uncertain customers</b>	<b>1.733</b>	<b>32</b>
<b>Adjustments for impairment of receivables - customers</b>	<b>(871)</b>	<b>(16)</b>
<b>Suppliers – debtors</b>	<b>13.388</b>	<b>10.559</b>
<b>Effects to receive from customers</b>	<b>-</b>	<b>161</b>
<b>TOTAL TRADE RECEIVABLES</b>	<b>60.184</b>	<b>65.645</b>

In accordance with the provisions from the Accounting Policies Manual, to cover the non-recovery risk of the amounts that represent the uncertain trade receivables, the company registers adjustments for the depreciation of the uncertain customers, as follows:

- in percentage of 50% from the from the value of the receivables not collected on time if the due date is between 30 days and 180 days. On June 2019, the company has registered adjustments for depreciation of this nature in value of 861 thousand lei;
- in percentage of 100% from the value of receivables uncollected on time, if the period of delay is bigger than 180 days. On 30 June 2019, the company has registered adjustments for depreciation of this nature in the amount of 10 thousand lei.

When determining the recoverability of a trade receivable, the changes considered were those occurred in the customer's credit rating from the time when the credit was granted till the time of reporting.

Debtors-suppliers have a discount limit in the year 2019.

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania to close the month of June 2019.

The favourable and unfavourable exchange rates differences between the exchange market rate, to which are accounted the receivables in currency, and the market exchange rate communicated by the National Bank of Romania available for the end of June 2019, were recorded in the related income or expense account.

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**NOTE 9 - OTHER RECEIVABLES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Receivables relating to manpower and similar accounts</b>	<b>44</b>	<b>8</b>
<b>Receivables related to the budget of social insurance and the state budget, of which:</b>	<b>3.125</b>	<b>2.416</b>
– VAT to be recovered	1923	958
– Non-chargeable VAT	61	49
– amounts to be recovered from the National Health System (allowances on medical leaves)	857	488
– Excise duty to be recovered related to the fuel used	218	826
– Operating subsidies to be collected	44	72
<b>Interest to receive from bank deposits</b>	<b>96</b>	<b>156</b>
<b>Diverse debtors</b>	<b>223</b>	<b>252</b>
<b>Adjustments for the depreciation of the receivables – diverse debtors</b>	<b>(128)</b>	<b>(102)</b>
<b>Other receivables</b>	<b>87</b>	<b>1</b>
<b>TOTAL, OTHER RECEIVABLES</b>	<b>3.447</b>	<b>2.731</b>

To cover the risk of non-recovery of the amounts representing certain categories of receivables–diverse debtors, the company registered adjustments for impairment of diverse debtors in amount of 128 thousand lei.

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<b>NOTE 10 – INVENTORIES</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>of which:</b>		
Raw materials*	26.897	18.446
Consumables**	34.587	32.621
Other materials	178	78
Semi-finished/ Forgings	1.907	1.907
Packaging	1	19
Finished products	19.025	25.624
Products and services in progress	39.131	23.446
Goods	-	-
Adjustments for impairment of inventories	(29.443)	(19.774)
<b>TOTAL</b>	<b>92.283</b>	<b>82.367</b>
<i>Gross value of the inventory (unadjusted)</i>	<i>121.726</i>	<i>102.141</i>

Note:

\*The raw materials directly participate to the manufacturing of the products and are found in the integrally or semi-finished product, either in their initial state, or transformed (bars, pipes, tables, profiles, wiring etc.);

\*\*The consumables participate or help in the process of manufacturing or operating, without being found usually, in the finished product (auxiliary materials, exchange parts, tools, jigs, fixtures, tooling and other consumables).

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

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

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

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

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

For the production inventories in progress, related to the products and services which are not contracted, are constituted adjustments. Their amount on 30.06.2019 is of 7.491 thousand lei.

The total value of inventories recognized as an expense during the period is of 58.234 thousand lei.

AEROSTAR holds inventories of finished products (buffer) at the levels contractually agreed with the customers.

AEROSTAR has no pledged inventories.

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**NOTE 11 - CASH AND CASH EQUIVALENTS**

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

	<b>30.06.2019</b>	<b>30.06.2018</b>
Cash	4.221	10.945
Bank deposits	174.225	148.993
Exchange bills and trade effects to collect	7	0
<b>Cash and cash equivalents in the cash-flow statement</b>	<b>178.453</b>	<b>159.938</b>

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

The cash equivalents comprise:

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

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

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

The value of bank Credit facilities, usable as an overdraft, available for future operations, is of 2.500 thousand USD (10.397 thousand lei).

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## **NOTE 12 – COMPANY EQUITY**

The company equity on 30 June 2019 is 327.033 thousand lei.

The net increase of the equity in the first semester of 2019 in comparison with 2018 was 11.894 thousand lei.

**The modifications of the main elements of the company equity incurred in the first semester of 2019 in comparison with 2018 are the following:**

- **The share capital remained unchanged**

On 30 June 2019, the share capital of AEROSTAR SA is 48.728.784 lei, divided in 152.277.450 shares having each a nominal value of 0,32 lei.

- **The reserves increased with 40.236 thousand lei on the account of:**

- the distribution to reserves of the reinvested profit related to the first semester 2019 in gross amount of 2.799 thousand lei
- the distribution for reserves of the amount of 37.437 thousand lei from the profit related to the financial year 2018

- **Other capital elements have increased with the amount of 485 thousand lei** on the account of the deferred income tax recognized in company equity.

- **Result carried-forward:**

- **has increased with:**

- 355 thousand lei on the account of the deferred profit tax recognized on the account of the company equity
- 53.886 thousand lei representing the profit to be distributed related to the financial year 2018, registered in the result carried forward until its distribution on the categories approved by the shareholders in the ordinary general meeting from 24 April 2019.

- **and has decreased with** the profit of the financial year 2018, distributed as follows:

- to reserves in the amount of 37.437 thousand lei;
- for dividends in the amount of 16.449 thousand lei.

Soldul contului de rezultat reportat la 30 iunie 2019, este de 58.679 mii lei, compus din:

- rezultatul reportat provenit din utilizarea, la data trecerii la aplicarea IFRS, a valorii juste drept cost prezumat = 34.914 mii lei;
- rezultatul reportat reprezentând câștigul realizat din rezerve din reevaluare, capitalizat pe măsura amortizării imobilizărilor corporale și necorporale = 23.765 mii lei;

The balance of the result carried-forward account on 30 June 2019, is of 58.679 thousand lei, comprising:

- the result carried forward coming from the use, on the date of the transition to IFRS, of the fair value as presumed cost = 34.559 thousand lei;

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- the result carried-forward representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets were amortized = 23.765 thousand lei;

- **The result of the period was of 28.473 thousand lei.**

The amount of 28.212 thousand lei which influenced the result line of the period from the company equity at 30.06.2019 represents the arithmetical difference between the result of the period (28.473 thousand lei) and the distributions of the period (56.685 thousand lei).

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**NOTE 13 - PROVISIONS**

	<b>31 December 2018</b>	<b>Increases/ Set-up/ Reclassification of provisions</b>	<b>Reductions/ Resumed/ Reclassification of provisions</b>	<b>Differences from revaluation</b>	<b>30 June 2019</b>
<b>Total provisions</b>	<b>112.551</b>	<b>4.338</b>	<b>(11.480)</b>	<b>1.163</b>	<b>106.572</b>
Provisions for bonds granted to customers	39.584	4.338	(7.002)	458	37.378
Provisions for decommissioning property, plant and equipment	16.115	0	0	0	16.115
Provisions for the employee benefits	4.438	0	(4.237)	0	201
Provisions for litigations	5.123	0	(9)	71	5.185
Other provisions	47.291	0	(232)	634	47.693
<b>- of which:</b>					
<b>Long-term provisions</b>	<b>95.796</b>	<b>1.944</b>	<b>(1.838)</b>	<b>1.129</b>	<b>97.031</b>
Provisions for bonds granted to customers	27.267	1.944	(1.597)	424	28.038
Provisions for decommissioning property, plant and equipment	16.115	0	0	0	16.115
Provisions for litigations	5.123	0	(9)	71	5.185
Other provisions	47.291	0	(232)	634	47.693
<b>Short-term provisions</b>	<b>16.755</b>	<b>2.394</b>	<b>(9.642)</b>	<b>34</b>	<b>9.541</b>
Provisions for bonds granted to customers	12.317	2.394	(5.405)	34	9.340
Provisions for employee benefits	4.438	0	(4.237)	0	201

**Provisions set up for bonds granted to customers**

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

**Provisions for decommissioning the Property, Plant and Equipment**

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

**Provisions for benefits granted to employees**

The provisions for benefits granted to employees are set for the bonus granted according to the clauses of the applicable Collective Labour Agreement (bonus for the end of the financial year, for the end of the production year, for performance) and for the annual holidays leave not taken by the employees in the previous year. Due to the fact that according to the Collective Labour Agreement, the modalities and criteria of the bonuses shall be negotiated with the Committees of Negotiation

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and Tracking, at the end of 2019, the value of the provision for these bonuses cannot be estimated on 30.06.2019. In the balance are found only the provisions related to the annual leaves not taken by the employees in 2018.

**Provisions for litigations**

Provisions for litigations being in evidence on 30.06.2019 are set for probable indemnities payable by the company to a former employee, or to a commercial partner respectively.

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

**Other provisions**

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

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

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**NOTE 14 - SUBSIDIES**

AEROSTAR recognizes as deferred income the subsidies regarding assets.

	<b>30.06.2019</b>	<b>30.06.2018</b>
<b>Balance on 1 January, from which:</b>	<b>10.239</b>	<b>12.677</b>
Subsidies regarding the assets received	10.214	12.649
Inventory surplus of immobilizations	25	28
<b>Subsidies registered on income corresponding to the calculated amortization</b>	<b>(1.172)</b>	<b>(1.222)</b>
<b>Balance on 30 June, from which:</b>	<b>9.065</b>	<b>11.455</b>
Subsidies regarding the assets received	9.042	11.432
Inventory surplus of immobilizations	23	23

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

1. Contract no. 210304/22.04.2010: "Extension of the manufacturing and assembly capacities for aerostructures for civil aviation", performed between April 2010 – 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: "Consolidarea și dezvoltarea durabilă a sectoarelor de prelucrări mecanice și vopsitorie prin investiții performante", derulat în perioada martie – decembrie 2015, valoarea subvenției primite de la Ministerul Fondurilor Europene (MFE) fiind de 8.299 thousand lei;

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

The balance registered on 30 June 2019 in amount of 10.239 thousand lei represents the subsidies related to investments in immobilized assets which are to be recorded as income while the calculated amortization is registered as a cost, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 1.790 thousand lei
2. contract no. 229226/14.06.2012: 2.104 thousand lei
3. contract no. 5IM/013/24.03.2015: 5.148 thousand lei

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**NOTE 15 - COMMERCIAL DEBTS**

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Prepaid amounts collected on customers' account</b>	<b>5.072</b>	<b>2.264</b>
Domestic customers-creditors	102	69
Foreign customers-creditors	4.970	2.195
<b>Supplier, of which:</b>	<b>20.418</b>	<b>18.933</b>
Domestic suppliers	6.818	5.545
Foreign suppliers	10.929	10.023
Suppliers-invoices not arrived	747	1.956
Suppliers of non-current assets	1.924	1.409
<b>Commercial effects to pay</b>	<b>5</b>	<b>-</b>
<b>Total commercial debts</b>	<b>25.495</b>	<b>21.197</b>

The payments in advance collected from the customers are for maintenance and aircraft work, with settlement date in 2019.

For the debts registered no mortgages were established.

The favourable or unfavourable exchange rate differences between the market exchange rate to which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for closing the month of June 2019, were registered in the corresponding accounts of revenues or expenses.

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**NOTE 16 - OTHER LIABILITIES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Other current liabilities, of which:</b>	<b>11.504</b>	<b>9.218</b>
• <i>Liabilities related to manpower and similar accounts</i>	<i>3.625</i>	<i>2.566</i>
• <i>Liabilities related to social security budget and state budget, of which:</i>	<i>4.357</i>	<i>4.709</i>
- VAT payable	-	1.165
- social insurance	3.214	2.604
- Labour safety contribution	205	166
- tax on salary type revenues	623	488
- contribution for disabled people, unemployed	137	128
• <i>Other liabilities, of which:</i>	<i>3.522</i>	<i>1.943</i>
- dividends	2.762	1.711
- diverse creditors	671	147
<b>Other long-term liabilities</b>	<b>50</b>	<b>45</b>

Dividendele aflate în sold la 30 iunie 2019, în sumă de 2.762 mii lei reprezintă:

- 1.052 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2018 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 642 thousand lei, amount to be paid by AEROSTAR for the dividends from 2017 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 565 thousand lei, amount to be paid by AEROSTAR for the dividends from 2016 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 503 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).

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**NOTE 17 - THE DEFERRED PROFIT TAX**

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

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

**The structure of deferred income tax registered on 30.06.2019 is:**

**Liabilities from deferred tax**

1. Liabilities related to deferred tax generated by the differences between accounting bases (bigger) and the fiscal ones (smaller) of the non-current assets	2.520
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities on deferred tax related to reserves from the fiscal facility	12.009
4. Liabilities on deferred tax related to the reported result representing a surplus from revaluation reserves	61
<b>Total liabilities from deferred tax</b>	<b>16.149</b>

**Creanțe privind impozitul amânat**

1. Receivables on deferred tax related to other provisions set in 2010	888
2. Receivables on deferred tax related to provisions for bonds granted to customers set between 2014-2019	5.980
3. Receivables on deferred tax related to provisions for manpower benefits	32
4. Receivables on deferred tax related to the adjustments for depreciation of the inventories	4.711
<b>Total receivables on deferred tax</b>	<b>11.611</b>

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

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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 (bonds for third parties)
- loans granted with interest

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities
- trade effects payable

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

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

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

**a) Credit risk**

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

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

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

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

**Exposure to credit risk**

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

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

	<b>30.06.2019</b>	<b>30.06.2018</b>
Cash and cash equivalents	178.453	159.938
Trade receivables, net of adjustments for depreciation	45.520	45.056
Trade effects received	0	19
Immobilized receivables	51	167
Loans granted with interest	0	82
<b>Total</b>	<b>224.024</b>	<b>205.262</b>

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

	<b>30.06.2019</b>	<b>30.06.2018</b>
Domestic market	5.245	5.937
Euro zone countries	13.643	19.088
Great Britain	17.582	12.340
Other European countries	259	576
Other regions	8.791	7.115
<b>Total</b>	<b>45.520</b>	<b>45.056</b>

**Depreciation adjustments**

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

	<b>Gross value 30.06.2019</b>	<b>Adjustments for depreciation 30.06.2019</b>	<b>Gross value 30.06.2018</b>	<b>Adjustments for depreciation 30.06.2018</b>
In due time	44.658		43.832	
Past due, total of which:	1.733	871	1.745	521
1-30 days	5	5	0	0
31-60 days	1.431	715	213	134
61-90 days	40	20	1.518	373
91-120 days	0	0	5	5
Over 120 days	257	131	9	9
Over 1 year	0	0	0	0
<b>Total</b>	<b>46.391</b>	<b>871</b>	<b>45.577</b>	<b>521</b>

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

	<b>30.06.2019</b>	<b>30.06.2018</b>
<b>Balance on 1 January</b>	<b>16</b>	<b>1.162</b>
Adjustments set for depreciation	1.651	607
Adjustments for depreciations resumed as revenues	(796)	(1.248)
<b>Balance on 30 June</b>	<b>871</b>	<b>521</b>

On 30.06.2019, a percentage of 98% from the balance of trade receivables are related to customers which have a payment history.

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**b) Liquidity risk**

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

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

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

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

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

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

	<b>Financial debts</b>	<b>Accounting value</b>	<b>Contractual cash flows</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>over 60 days</b>
30.06. 2019	Datorii comerciale	19.627	(19.627)	(15.845)	(3.298)	(484)
	Efecte comerciale	5	(5)	(5)	0	0
30.06. 2018	Datorii comerciale	25.853	(25.853)	(20.326)	(3.822)	(1.705)
	Efecte comerciale	0	0	0	0	0

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

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

On 30.06.2019 AEROSTAR has no records of overdue financial liabilities.

**c) Foreign currency risk**

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

Exposure to the foreign currency risk

AEROSTAR is exposed to the foreign currency risks, as 87% from the turnover recorded in the reporting period is denominated in USD and EUR, while a significant part of the operating expenses is denominated in lei.

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

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

<b>30.06.2019</b>	<b>MII EUR</b>	<b>MII USD</b>	<b>MII GBP</b>
Cash and cash equivalents	628	1.469	8
Trade receivables	1.287	8.219	0
Trade liabilities	(726)	(1.751)	(68)
<b>Net exposure in original currency</b>	<b>1.189</b>	<b>7.937</b>	<b>(60)</b>

Sensitivity analysis

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

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

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

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

<b>30.06.2019</b>	
Net exposure in the currency of origin (thousand USD)	7.937
USD/LEU exchange rates	4,16
Net exposure in functional currency	33.018
Possible reasonable variation of exchange rate	+/- 10%
<b>Effect of the variation on the financial result</b>	<b>+/- 3.302 thousand lei</b>

**d) Interest rate risk**

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

- 1) Product A: in amount of 2.500 thousand USD, usable as an overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) Product B: in amount of 7.000 thousand USD (subject to the aggregate amount used from Product A and product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility of issuing bonds as instruments to ensure collateral for the commercial contractual obligations by issuing bank bond letters and import Letters of Credit.

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

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

On 30.06.2019, the level of bonds granted by AEROSTAR under commercial agreements, by issue of bank bond letters amounts to 514 thousand USD (equivalent to 6.200 thousand lei).

On 30.06.2019 no mortgages are set on the property assets in AEROSTAR ownership.

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**NOTE 19 - OPERATING INCOME**

	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Revenues from sales, from which:</b>	<b>176.779</b>	<b>160.081</b>
Revenues from product sales	105.774	96.750
Revenues from services supplied	68.647	60.283
Revenues from selling goods	977	1.749
Revenues from renting	1.172	1.063
Trade discounts granted	(38)	(1)
Revenues from other activities	247	237
<b>Revenues related to inventories of products finished and in progress</b>	<b>8.907</b>	<b>25.186</b>
<b>Revenues from the production of fixed assets</b>	<b>520</b>	<b>541</b>
<b>Revenues from operating subsidies</b>	<b>123</b>	<b>8</b>
<b>Other revenues from operations</b>	<b>1.646</b>	<b>1.266</b>
<b>Total operating income</b>	<b>187.975</b>	<b>187.082</b>

The company obtained in the first semester of 2019 revenues from subsidies that represent participation expenses at fairs and international expositions financed from the state budget, in amount of 119 thousand lei, respectively subsidies received to conclude apprenticeship contracts, in the amount of 4 thousand lei.

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**NOTE 20 – OPERATING EXPENSES**

	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Expenses with employee benefits</b> , from which:	<b>60.660</b>	<b>56.552</b>
Salaries and allowances	54.638	50.624
Expenses with benefits in kind and expenses with ticket meals granted to employees	3.364	3.531
Expenses with social security	2.658	2.397
<b>Expenses with raw materials and materials</b>	<b>53.252</b>	<b>55.629</b>
<b>Energy, water and gas</b>	<b>5.396</b>	<b>4.774</b>
<b>Other material expenses</b> , of which:	<b>5.931</b>	<b>6.272</b>
Expenses with non-inventory materials	949	843
Expenses with goods	842	1.370
Expenses with packing	257	353
Expenses with other materials	3.883	3.706
<b>Expenses with external services</b> , from which:	<b>12.280</b>	<b>13.600</b>
Repairs	4.799	4.682
Transport costs	1.560	1.522
Commissions and fees	796	1.885
Travels, deployments	532	525
Renting expenses	422	388
Other expenses with services supplied by third parties	3.407	3.855
<b>Trade discounts received</b>	<b>(16)</b>	<b>(18)</b>
<b>Amortizations</b>	<b>13.066</b>	<b>12.440</b>
<b>Increase/decrease of adjustments regarding provisions</b>	<b>(5.978)</b>	<b>(16.820)</b>
<b>Increase/decrease of adjustments regarding depreciation of current assets</b>	<b>10.551</b>	<b>5.860</b>
<b>Other operational expenses</b>	<b>1.583</b>	<b>1.452</b>
<b>Total operating expenses</b>	<b>156.725</b>	<b>139.741</b>

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**NOTE 21 - FINANCIAL INCOME**

	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Income from foreign currency exchange differences</b>	<b>3.164</b>	<b>3.273</b>
<b>Income from interest</b>	<b>1.816</b>	<b>1.105</b>
<b>Income from shares held in subsidiaries</b>	<b>137</b>	<b>201</b>
<b>Total financial income</b>	<b>5.117</b>	<b>4.579</b>

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**

	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Expenses from exchange rate differences</b>	<b>2.298</b>	<b>2.475</b>
<b>Total financial expenses</b>	<b>2.298</b>	<b>2.475</b>

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

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

The profit tax rate applicable for 30.06.2019 was of 16% the same rate was applied also for the financial year 2018).

**30 June 2019**

<b>Gross accounting profit</b>	<b>34.069</b>
<b>Expenses with current tax on profit</b>	<b>6.086</b>

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	192.060	Fiscal incomes	178.410	-13.650
Accounting expenses*	157.992	Fiscal expenses	137.151	-20.841
Gross accounting profit, restated*	34.068	Fiscal profit	41.259	+7.191
Accounting tax (16%)	5.451	Fiscal tax (16%)	6.601	+1.150
Tax reductions	-	<i>Tax reductions, from which:</i>	515	+515
		• related to investments made acc.to Art. 22 Fiscal Code	448	+448
		• sponsoring	67	+67
Tax on final profit	5.451	Tax on final profit	6.086	+635
Applicable legal rate	16,00%	Legal rate applicable	16,00%	
Actual average tax rate, calculated on gross accounting profit, restated		17,87%		

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

The main factors which have affected the actual tax rate:

- Non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions and value adjustments regarding the current assets , which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization a.o.).
- fiscal facilities representing the tax exemption on profit corresponding to the investments performed in accordance with Art.22 of the Fiscal Code and sponsoring;
- the non-taxable income obtained from the recovery of certain non-deductible expenses;

The company has registered at 30 June 2019 a liability regarding tax on current profit in the amount of 2.405 thousand lei related to the second quarter of 2019.

**The tax specific to some activities**

Starting with 01.01.2017 Aerostar S.A. became taxable for restaurant and public food supply activities. The specific tax related to the first semester of 2019 was in the amount of 26 thousand lei.

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**NOTE 24 – RESULT PER SHARE**

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

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

<b>IN LEI</b>	<u><b>30.06.2019</b></u>	<u><b>30.06.2018</b></u>
Profit distributable to ordinary shareholders	28.473.018	45.549.986
Number of ordinary shares	152.277.450	152.277.450
	<hr/>	<hr/>
<b>Profit per share</b>	<u><b>0,187</b></u>	<u><b>0,299</b></u>

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**NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES**

The average number of employees is 1.741 for the first semester 2019 and 1.832 for the first semester of 2018.

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

The total personnel employed in the activity of AEROSTAR was:

	<b>semester I</b> <b>2019</b>	<b>semester I</b> <b>2018</b>
Total employees	1.913	2.044

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**NOTE 26 - TRANSACTIONS WITH RELATED PARTIES**

<u>Acquisitions of goods and services</u>	<u>6 months 2019</u>	<u>6 months 2018</u>
Airpro Consult SRL Bacău	3.677	3.872
Foar SRL Bacău	296	270
<b>TOTAL</b>	<b>3.973</b>	<b>4.142</b>
<u>Sales of goods and services</u>	<u>6 months 2019</u>	<u>6 months 2018</u>
Airpro Consult SRL Bacău	-	-
Foar SRL Bacău	1	1
<b>TOTAL</b>	<b>1</b>	<b>1</b>
<u>Liabilities</u>	<u>Balance at 30.06.2019</u>	<u>Balance at 30.06.2018</u>
Airpro Consult SRL Bacău	510	637
Foar SRL Bacău	93	96
<b>TOTAL</b>	<b>603</b>	<b>733</b>
<u>Dividends collected/to collect by Aerostar</u>	<u>6 months 2019</u>	<u>6 months 2018</u>
<i>Dividends collected by Aerostar</i>		
Airpro Consult SRL Bacău	50	90
<i>Dividends to collect by Aerostar</i>		
Foar SRL Bacău	87	112
<b>TOTAL</b>	<b>137</b>	<b>202</b>

The transactions with the affiliated parties in the first semester of 2019 consisted in:

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

In the first semester of 2019 no transactions were made with the company ATF SA.

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**NOTE 27 – INFORMATION REGARDING CASH FLOW**

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

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

In the context of the Cash Flows Statement:

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

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

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

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

Therefore in the first semester of 2019 the amounts collected from the customers were 193.291 thousand lei, from which 21.631 thousand lei represent the prepaid amounts from the customers, while the payments to the suppliers and employees were in the amount of 131.627 thousand lei.

The operating activity generated a net cash of 32.206 thousand lei.

To increase the operational capacity, through the acquisition of tangible and intangible immobilizations, an amount of 8.248 thousand lei was used from company's own sources.

The value of the treasury cash flows allocated in the first semester of 2019 to increase the operating capacity represents 4% from the aggregate value of the cash used in the framework of operating, investment and financing activities.

As part of the financing activity, the amount of 15.437 thousand lei was paid, representing the dividends granted to the shareholders.

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**NOTE 28 – LIABILITIES AND OTHER OFF-BALANCE ITEMS**

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

	<b>30 June 2019</b>	<b>31 December 2018</b>
• <b>Liabilities:</b>		
○ Bonds granted to customers as letters of bank bonds	0	1.520
○ Bonds received from suppliers – as letters of bank bonds	22.148	11.636
• <b>Goods, from which:</b>		
○ inventories of other materials released for use (tooling, jigs, fixtures, protection equipment, measuring and control eqpt, technical library etc.)	29.034	26.552
○ material values received in consignment	1.826	1.826
○ tangible and intangible assets –obtained or purchased as a result of co-financed activity	4.151	4.151
○ material values received for processing/repairs	2.504	2.116
• <b>Other values off-balance</b>		
○ Liabilities for covering certain future obligations to A.J.O.F.M. based on OUG 95/2002 regarding the defence industry	5.550	5.782
○ Royalties, tenant activities, rents and other similar liabilities	2.321	2.335
○ debtors removed from accounts, yet still monitored	586	586
• <b>Certificate de emisii gaze cu efect de seră</b>	2.047	1.678

At the date of 30 June 2019, AEROSTAR had a number of 16.342 greenhouse gas emission certificates.

The market value from the last transaction day of a GES certificate was of 26,45 Euro, according to the TDR Energy market journal (in December 2018: 24,63 euro).

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**NOTE 29 – REMUNERATION OF THE DIRECTORS**

On the date of 30 December 2019, the structure of AEROSTAR’s Board of Directors remained unchanged in comparison with the one from 31 December 2018.

The Board of Directors of AEROSTAR S.A.:

	<b>Surname and first name</b>	<b>Position</b>	<b>Profession</b>
▪	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 Advisor

In the first semester of 2019 AEROSTAR did not grant advance payments or credits to the members of the Board of Directors and did not make any liabilities on their account as a collateral of any kind.

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

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

- a net compensation for the BOD members of 4.500 lei
- a maximum level of the additional compensations for the executive members of the Board of Directors, of maximum 10 (ten)times the net remuneration, inclusively;
- empower the Board of Directors to negotiate the additional compensation with the executive members, within the maximum limit approved by the Ordinary General Meeting.

The amount of the gross compensations for the members of the Board of Directors in the first semester of 2019, by virtue of their responsibilities, was of 817 thousand lei.

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**NOTE 30 –RISK MANAGEMENT**

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

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

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

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

**Operational Risk**

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

- performance of certain inadequate processes, systems and manpower or which failed to execute their function properly
- external events and actions: deterioration of the global economic conditions, natural 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 the fines, penalties and sanctions which can be in charge of AEROSTAR in case of non-application or misapplication of dispositions, legal or contractual regulations, as well as the fact that the rights and contractual obligations of AEROSTAR and/or of the business partner are not properly established.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The management of this risk is realised through:

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

AEROSTAR is exposed to the exchange rate risk because 87% from the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in lei.

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

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

In the reporting period Aerostar did not register financial losses.

**S.C. AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR 30 JUNE 2019**  
**(unless specified otherwise, all amounts are stated in thousand 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 income and cash flows are independent from the interest rate variation on the banking market.

**S.C. AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
**FOR 30 JUNE 2019**  
(unless specified otherwise, all amounts are stated in thousand lei)

**NOTE 31- EXPENSES AND INCOME IN ADVANCE**

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Incomes registered in advance</b>	<b>1.074</b>	<b>504</b>

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

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

The company did not register **income in advance** during the first semester of 2019.

**S.C. AEROSTAR S.A. BACAU**  
**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**  
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(unless specified otherwise, all amounts are stated in thousand lei)

**NOTE 32- EVENTS AFTER THE REPORTING PERIOD**

**The financial calendar 2019 – the following events which will take place:**

Presenting the financial statements of the first semester of 2019	16.08.2019
Meeting the press and investors interested for first semester financial results of 2019	16.08.2019
Presenting the financial results on 30 September 2019	08.11.2019

AEROSTAR S.A did not identify events after the reporting period which may impact the financial statements related to the financial statements for the first semester of 2019.

These individual financial statements which comprise: the statement of the financial position, the statement of the profit or loss, other elements of the global result, the statement of the company equity's modifications, the statement of the cash flows and the explicative notes of the financial statements were approved by the Board of Directors on 14 August 2019 and signed on the behalf of the Board of Directors by:

**Grigore FILIP**  
**President and General Director**

**Doru DAMASCHIN**  
**Vicepresident and Financial Director**



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**, as President of the Board of Directors and General Director of **AEROSTAR S.A.** and **DORU DAMASCHIN**, as Vicepresident of the Board of Directors and Financial Director of **AEROSTAR S.A.**, hereby undertake the responsibility for the preparation of the individual financial statements as on **30.06.2019** and we confirm hereby that:

- a) The accounting-financial statements for the first semester of 2019, prepared in accordance with the applicable accounting standards, offer a fair image conforming with the reality of the assets, obligations, financial position, of the profit and loss account of Aerostar S.A. Bacău;
- b) The report of the Board of Directors for the first semester of 2019, prepared in accordance with the provisions of the Regulation no. 5/2018 issued by the Financial Supervisory Authority – Annex no. 14 provides a correct review of the company's development and performances as well as a description of the main risks and uncertainties specific to the activity of Aerostar S.A. Bacău.

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

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



## REVIEW REPORT\*

(\* This represents a non-official English translation of the original limited assurance report issued in Romanian language.)

### To the shareholders of AEROSTAR S.A.

#### *Introduction*

1. We have reviewed the accompanying statutory individual interim financial statements of AEROSTAR S.A. (the "Company"), which comprise the individual statement of financial position as at 30 June 2019, the individual statement of profit or loss account and other elements of the global result, the individual statement of changes in shareholders' equity, and the individual cash flow statement for the six months period then ended, as well as a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the statutory individual interim financial statements*

2. The Company's management is responsible for the preparation and fair presentation of these statutory individual interim financial statements in accordance with the Order of the Ministry of Public Finance no. 2844/2016 for the approval of the accounting regulations in accordance with the International Financial Reporting Standards, as subsequently amended ("OMFP 2844/2016"), and for such an internal control as management determines is necessary to enable the preparation of individual financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

3. Our responsibility is to express a conclusion on these statutory individual interim financial statements based on our review.

#### *Scope of review*

4. We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". This standard requires that we plan and perform the review to obtain moderate assurance whether the financial statements are free from material misstatement. A review of interim financial statements is limited mainly to conducting interviews with Company's employees, primarily of those persons responsible for financial and accounting matters, and applying analytical procedures to the financial information, and, as a result, a review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

5. Based on our review, nothing has come to our attention that causes us to believe that the accompanying statutory individual interim financial statements of AEROSTAR S.A. as at 30 June 2019 are not prepared, in all material respects, in accordance with the OMFP no.



2844/2016 for the approval of the accounting regulations in accordance with the International Financial Reporting Standards, as subsequently amended.

6. This review report has been prepared and is intended solely for the information and use of the Company's shareholders. To the fullest extent permitted by the law, we do not accept or assume responsibility towards any other person to whose knowledge this report may come to. Our review work has been undertaken so that we report those matters that are required to be reported in a financial auditor Review Report and not for any other purposes. We do not accept or assume responsibility for its use for any other purposes.

Bucharest, 14 August 2019

Vasile Andrian

Auditor registered in the Public Electronic Register under no. 1554 / 2004

On behalf of **MAZARS ROMANIA S.R.L.**

Audit firm registered in the Public Electronic Register under no. 699 / 2007.