



The Message from the President & General Director



Report of the Board of Directors
for 1st Semester of 2021

REPORT FOR 1st SEMESTER

1 January - 30 June

2021



Financial Statements



Management Statement









Independent Audit Report






PERFORMANCE THROUGH PROFESSIONALISM!

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Report of the Board of Directors for Semester I January 1 – June 30, 2021

This Report of the Board of Directors was prepared in accordance with the provisions of Law 24/2017 regarding the issuers of financial instruments and market operations and Regulation A.S.F. no. 5/2018 of the Financial Supervisory Authority regarding the issuers of financial instruments and market operations, Appendices 12 and 14, respectively, for Semester I, 2021.

Message from the President & General Director

In 2020, the impact of the Covid-19 pandemic on the global economy was strongly felt by Aerostar, too, with a significant reduction of the sales volume compared to the sales volume achieved in 2019. The reduced volume of orders led to the use of all legal facilitation instruments, particularly the technical unemployment. Thus, we have identified various ways to limit the impact of the pandemic and the ensuing crisis on the manpower.

Since the situation continued in 2021, we have therefore focused on harmonizing the number of employees with the volume and number of orders from our customers, without resorting to collective redundancies, while maintaining our company's capabilities and authorizations.

At the same time, we have noticed a slight recovery trend in both the demand for manufactured products and the maintenance activity, but the pandemic does not allow for clear long-term visibility.

Currently, the major goal of Aerostar is to capitalize on the upcoming growth potential.

In spite of the many existing unknowns, such as the energy price or the raw material price, we rely on the proven abilities of Aerostar to operate in a competitive environment.

Grigore FILIP

President & General Director

The company AEROSTAR S.A. was established on 17th April 1953 by the Decision no. 1165 of the Council of Ministers.

The activities of the company are carried out at its registered office located in Bacau, 9 Condorilor Street, post code 600302. Since January 2018, AEROSTAR also has a secondary registered place of business (workplace) within the premises of the International Airport of Iași;

The European Unique Identifier of the company (EUID) is ROONRC.J04/1137/1991, and its LEI identification code as a legal entity is 315700G9KRN3B7XDBB73;

The main field of activity of the company is production. The main object of activity of the company is “Manufacture of aircraft and spaceships” – code CAEN 3030;

Subscribed and paid-up share capital: 48.728.784 RON;

Applicable accounting standards: The individual financial statements are prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) adopted by the European Union, the Accounting Law no. 82/1991, republished, with its subsequent amendments and supplements and they are presented in compliance with the requirements of IAS 1 (Note 3);

The individual financial statements prepared for semester I of 2021 are accompanied by the independent financial auditor’s report.

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

Telephone/fax number: 004-0234 575070/ 004-0234 572023;

Web/e-mail: www.aerostar.ro, aerostar@aerostar.ro;

Reporting period: I-st Semester, 1 January – 30 June 2021.

1. About AEROSTAR S.A.

Our company was successively named URA-1953, IRAv (Întreprinderea de Reparații Avioane)-1970, IAv (Întreprinderea de Avioane) -1978 and AEROSTAR S.A. since 1991, when it was registered as a fully state-owned shareholding company at the Bacău Trade Register. All along we have operated in a continuous manner. Currently, we are leaders in the aerospace & defence field in Romania, offering value to our customers, employees and to the community through performance, adaptability and sustainability.

We produce and provide services materialized in three **main business lines**:

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

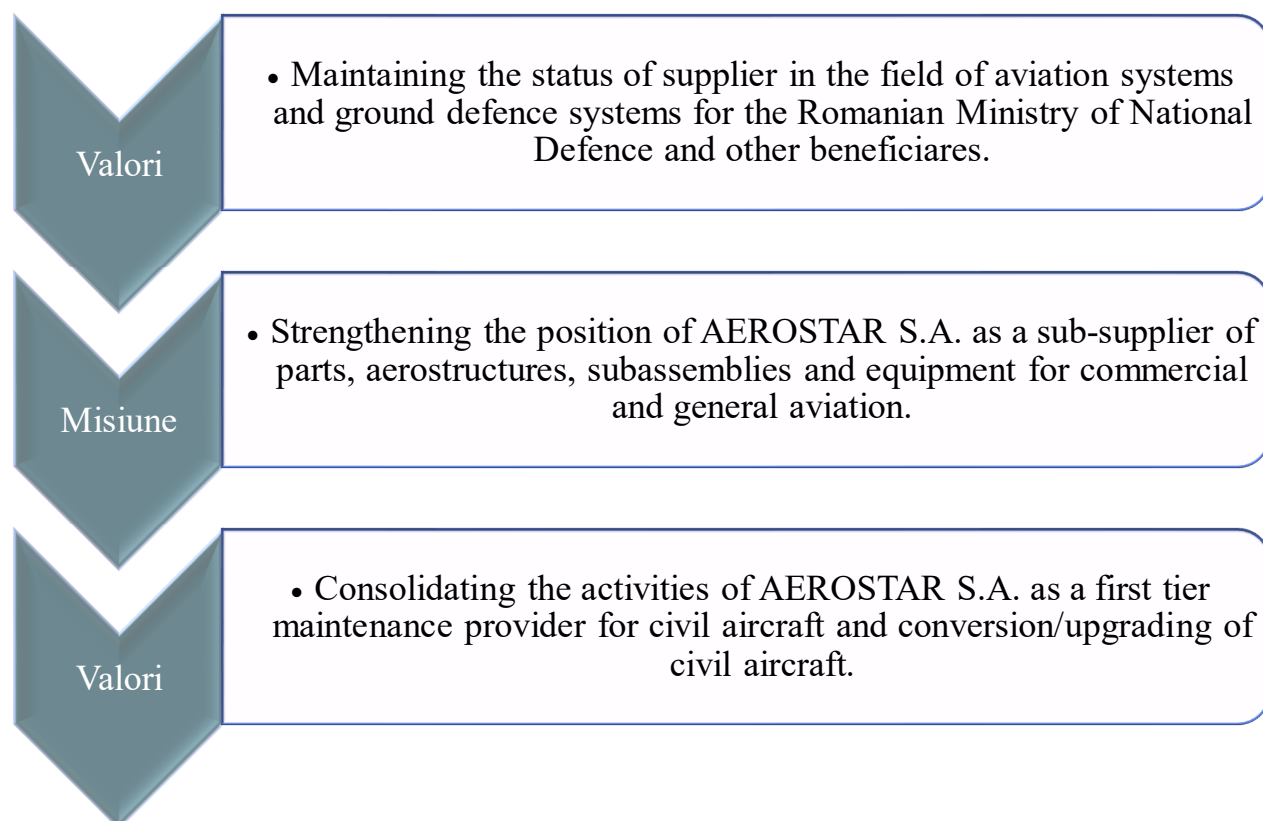
In the civil aviation field, we supply aerostructures, components and assemblies for the global aviation industry, having as end customers companies such as: Airbus, Ariane Group, Boeing, Bombardier, Dassault, GKN Aerospace, Gulfstream, Premium Aerotec, SAFRAN Landing Systems a.o.

We hold authorizations for commercial aircraft maintenance and are currently authorized to perform maintenance work on the aircraft type Boeing 737, series 300-900, the aircraft family Airbus 320, ceo & neo and components thereof.

We are part of the national defence industry in accordance with the law 232/2016. We are a maintenance centre for the aircraft F-16 owned by the Romanian Army and we are part of the Raytheon global supply chain for Patriot systems.

Our mission

With an experience of over 68 years, we have become a pole of sustainable action, focusing on accomplishing our mission and meeting our customers' requirements and expectations, through continuous improvement actions on all levels.



The business of the company AEROSTAR S.A. is focused on increasing the performance through the employees' continuous improvement and professional development in the spirit of integrity, innovation and initiative. The increase of our competitiveness and productivity are the coordinates by which the culture of the successful model in the productive economy is developed.

All the actions and steps taken to ensure long-term business sustainability fall under the company motto "PERFORMANCE through PROFESSIONALISM".



Key figures

AEROSTAR S.A. prepares its individual financial statements in accordance with the international financial reporting standards IFRS.

	UM	30.06.2021	30.06.2020
Share capital	thousand lei	48.729	48.729
Turnover	thousand lei	174.764	161.863
Export sales	thousand lei	113.100	130.762
Share of export in turnover	%	65	81
Total number of employees	no.	1.644	1.918
Cash – flow	thousand lei	239.535	200.426

General liquidity	-	9,44	9,72
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Expenses for investments from own sources	thousand lei	3.613	30.472
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Economic-financial indicators on 30.06.2021

Economic-financial indicators	Result
Current liquidity	9,44
Indebtedness rate	0
Receivables turnover ratio - customers	47
Fixed assets turnover ratio	0,97
General solvency rate	14,04
Financial rate of return	0,09
Net profit rate	20,60%
Net treasury	63.680 thousand lei

National currency exchange rates for semester I:

Monetary Indicators	UM	30.06.2021	30.06.2020
Average exchange rate EURO/3 months	lei/Euro	4,9004	4,8157
Average exchange rate USD/3 months	lei/USD	4,0647	4,3723
Average exchange rate GBP/3 months	lei/GBP	5,6443	5,5138
Inflation	%	3.42	1,55



Events in Semester I, 2021

- **On 31 March 2021**, AEROSTAR S.A. was granted by the National Military Aeronautical Authority (AAMN) a certificate regarding the authorized design of changes and repairs for the state-owned aircraft in Romania, as per the requirements of RMAR 21J (Romanian Military Airworthiness Requirements).
- **On 21 April 2021** the Extraordinary General and the Ordinary General Meeting of the Shareholders took place in accordance with the applicable legal regulations. A quorum of 87,7737% was met.

In the Ordinary General Meeting of the Shareholders, the shareholders of the company AEROSTAR S.A. approved:

- ✓ The distribution of the net profit corresponding to the financial year 2020, as follows:
 - Distributions to the legal reserve of reinvested profit: 12.081.875,81 lei;
 - Distributions to reserves in the amount of: 8.087.380,00 lei;
 - Distribution as dividends in the amount of: 18.273.294,50 lei;
- ✓ Setting up a gross dividend per share of 0,12 lei, corresponding to a share with the nominal value of 0,32 lei;
- ✓ The dividends for the financial year 2020 are to be paid on June 22, 2021. The dividends due to the shareholders of AEROSTAR S.A. for the year 2020 are distributed in accordance with the applicable legal provisions.
- ✓ The signing of a financial audit agreement with BDO Audit SRL for a minimum period of 3 (three) years, with the possibility to extend that period by an Addendum approved by the Board of Directors of the Company. The statements were posted on the Company website www.aerostar.ro under Investors Relation.
- **On 26 May** the negotiations between the Administration of the Company AEROSTAR S.A. and the Employees' Committee were finalized by signing

the addendum no. 6 to the Collective Labour Agreement for 2019-2021, referring the employees' benefits, valid until March 31, 2022.

❖ Health-related events for the company's employees

- **On 15 January 2021 the top management of AEROSTAR S.A. issued an informative note** regarding the vaccination opportunity and necessity for both the employees and their families. The anti-Covid-19 vaccination drive represents a sustainable way of fighting this pandemic.
- **On 02 June 2021 the top management of AEROSTAR S.A. issued an informative note** regarding the significant reduction of the number of infections, also calling on the responsibility of each employee to get vaccinated for their own safety as well as the safety of their families and of the collective.

All this time AEROSTAR S.A. has focused mainly on ensuring its employees' health and safety by adopting all necessary steps so that the company activity may be carried out in safety. The general plan of specific steps adopted for the employees' protection against contracting the new Covid-19 stipulates steps of permanent nature until the elimination of any specific risks.

- **On 30 June 2021** 36.5% of the company's employees were vaccinated.

❖ Significant external events

- In the years that preceded the pandemic, the OEM aircraft producers increased their production in anticipation of a continuous growth. This led to a saturation of the aircraft availability. Moreover, some transporters returned relatively new aircraft to locators such as Norwegian Air Shuttle when exiting the long-haul market. The prices for used aircraft leasing contracts have dropped and are likely to remain lower.
- The long-term effects of the pandemic on aviation begin to show. Some of them are obvious: the hygiene and safety standards will be stricter, and the digitalization trend will continue to transform the travelling experience.
- The freight transport represented a rescue point for the aeronautical industry during the COVID-19 pandemic. While before the pandemic, it represented about 12% of the total revenues in the field, last year this percentage tripled.
- As commercial flights are gradually resumed, the aircraft supply will increase, even though not to the pre-COVID-19 level for at least several years. The commercial aircraft market is expected to recover to the pre-commercial levels reached between 2023 and 2025, led by single-aisle aircraft with a regular 200-250 seating capacity that fly over shorter routes.

- Airbus intends to step up production, having declared that it foresees a recovery of the demand to the pre-pandemic level until 2025. Airbus declared that it would increase the production of A320neo by more than 10%, from 40 airplanes/month to 45/month by the end of this year. This step comes at a time when the airlines are still struggling to remain financially viable.
- Airbus has resumed the upgrading work at their industrial facilities for Family A320 of Toulouse. Thus, an enhanced flexibility is pursued in its entire global industrial production system, so as to respond promptly to the market recovery and future demand.
- The aircraft engine company Rolls-Royce opened the largest aerospace test facility in the world at Derby. The facility will allow the performance of future development work on the next generation of engines, UltraFan, which is expected to be 25% more effective than the current models.
- Boeing and Alaska Airlines announced a partnership in the latest program Boeing ecoDemonstrator, and they will test about 20 technologies on a new 737-9 aircraft, until the air travelling safety and sustainability is improved.

Overview

- The Covid-19 pandemic has disrupted the aviation industry by the restrictions imposed, leading to a global economic downturn that only raised controversy about its actual extent.
- There are still uncertainties about the pandemic, and the vaccination campaigns will not put an end to the recession immediately, nor will they bring about an instantaneous change in the industry, which is why the full recovery forecasts are uncertain.
- In spite of the discouraging situation, the aviation industry has proven to be resilient in the past and is expected to turn around in 2021, provided that no new pandemic waves will rise and through a collective effort to increase the vaccination rate.



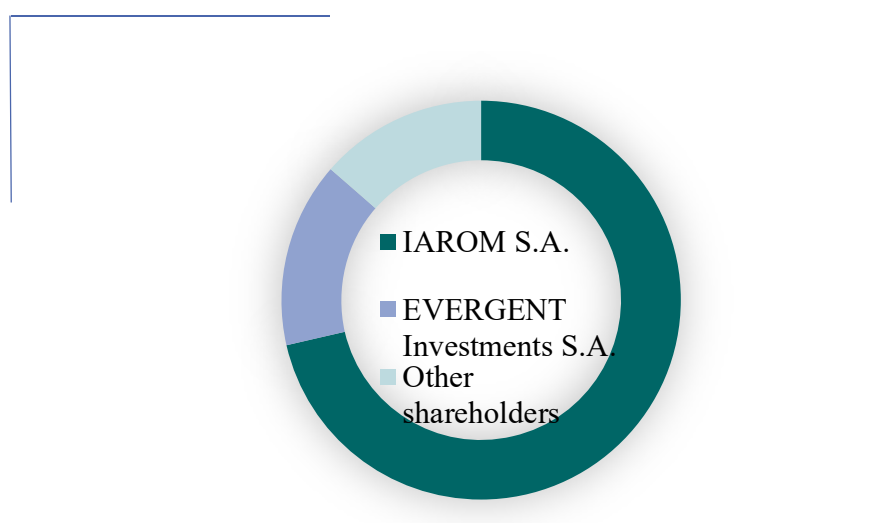
Events after the reporting period

- No events were recorded after the reporting period.

2. Shareholding structure

The main shareholders of the company AEROSTAR S.A. are IAROM S.A. Bucharest and EVERGENT Investments S.A. Bacău.

The synthetic shareholding structure of the company on 30 June 2021 is shown below:



Shareholders	Number of shares held	Participation held %
IAROM S.A.	108,854,869	71.4846%
Evergent Investments S.A	23,050,427	15.1371%
Other shareholders	20,372,154	13.3783%
Total	152,277,450	100.00%

There are no litigations with the above-mentioned persons. This year there have been no subscriptions of new shares and no issues of participation certificates, convertible bonds, options or similar rights.



“AEROSTAR” shares (ARS)

The shares of AEROSTAR S.A. Bacău have been traded since 1998 on the regular market administered by the Bucharest Stock Exchange.

The main characteristics of the issued securities: 152.277.450 shares are nominative, ordinary, of equal value, fully paid, issued in dematerialized form and recorded by registration in the Shareholders’ Register that is administered by Depozitarul Central S.A. Bucuresti.

The issuer AEROSTAR S.A. Bacău is registered with the following data: Unique Registration Code 950531, code ISIN ROAEROACNOR5, ARS stock exchange symbol, all the issued share belonging to the Standard category.

AEROSTAR S.A. shares in figures	30.06.2021	30.06.2020	30.06.2019
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Price at the end of the period (lei) *)	5,90	3,80	5,05
Stock exchange capitalization (lei)	898.436.955	578.654.310	769.001.123
Maximum price (lei)*)	6,00	5,70	5,10
Minimum price (lei) *)	4,00	3,00	4,78
Result per share (lei)	0,236	0,209	0,187

*) source: Monthly bulletin issued by the Bucharest Stock Exchange

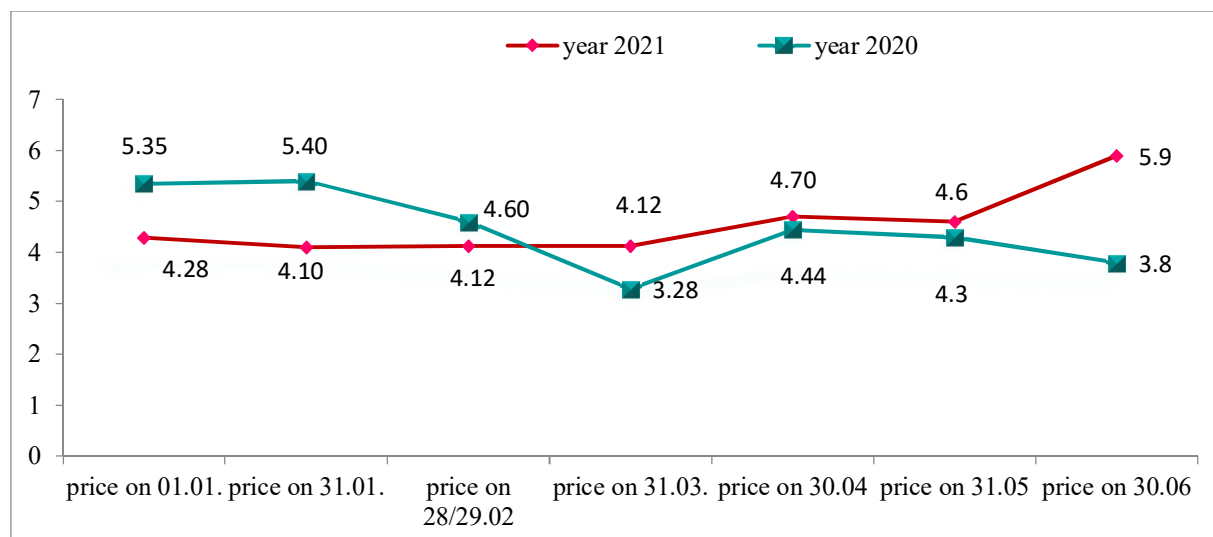
MBR indicator (market to book ratio) (stock exchange capitalization/own capital)	2,3	1,5	2,4
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During the first semester of 2021, no programme to buy the company’s own shares was underway.

During the first semester of 2021 the company AEROSTAR S.A. did not issue bonds or other similar securities.

In the first semester of 2021 there were no subscriptions of new shares and no issue of participation certificates, convertible bonds, options or similar rights.

Comparative monthly evolution of the reference price of the ARS shares in semester I 2021 versus semester I 2020 (lei/share):



In June 2021 the company AEROSTAR S.A. Bacau ranked 3 in the Top 15 of the listed companies based on the variation of the reference price, as per the monthly bulletin issued by the Bucharest Stock Exchange, with a +28,26 % variation of the reference price.

E.4. Top 15 companii listate in functie de variatia pretului de referinta / Top 15 by the reference price variation

E.4.1. Top cresteri / Top by increases

Simbol / Symbol	Pret la inceputul lunii / Price at beginning of month	Pret la finele lunii / Price at end of month	Variatie / Variation (%)
	RON	RON	
SIF4	1,0350	1,3800	33,33 %
MECE	21,0000	27,4000	30,47 %
ARS	4,6000	5,9000	28,26 %
ELJ	0,1010	0,1260	24,75 %
PPL	4,3800	5,4500	24,42 %
M	13,5500	16,7000	23,24 %
RTRA	12,1000	14,9000	23,14 %
TRP	0,8340	0,9770	17,14 %
ELMA	0,1300	0,1480	13,84 %
WINE	28,3000	32,1000	13,42 %
SIF1	2,4400	2,7400	12,29 %
BRD	15,9000	17,5000	10,06 %
PREH	2,4000	2,6200	9,16 %
FP	1,7300	1,8500	6,93 %
CBC	11,9000	12,7000	6,72 %



Relation with the shareholders and the capital market

In its relation with the shareholders, the company AEROSTAR S.A. has aimed at protecting and securing the shareholders' rights, namely:

- The right to participate in the General Meetings, directly or by representation – by making available to them special proxy forms, voting bulletins by correspondence or other relevant information;
- The right to a fair treatment, regardless of shareholdings;
- The right to receive dividends proportionally to each shareholder's holdings.

In relation with the capital market, the company AEROSTAR S.A. fulfilled all its reporting obligations resulting 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 company website and by means of press releases.

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

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

Annual and half-yearly reports for the last ten years, quarterly reports for the last five years can also be downloaded from the company website, as well as current reports and other relevant information for the shareholders.

There are no changes regarding the shareholders' rights. No major transactions were concluded by the company with persons with whom the company operates concertedly, or in which such persons were involved during the relevant period of time.



Aspects regarding the company capital and administration

There were no changes with impact on the capital and administration of the company AEROSTAR S.A.

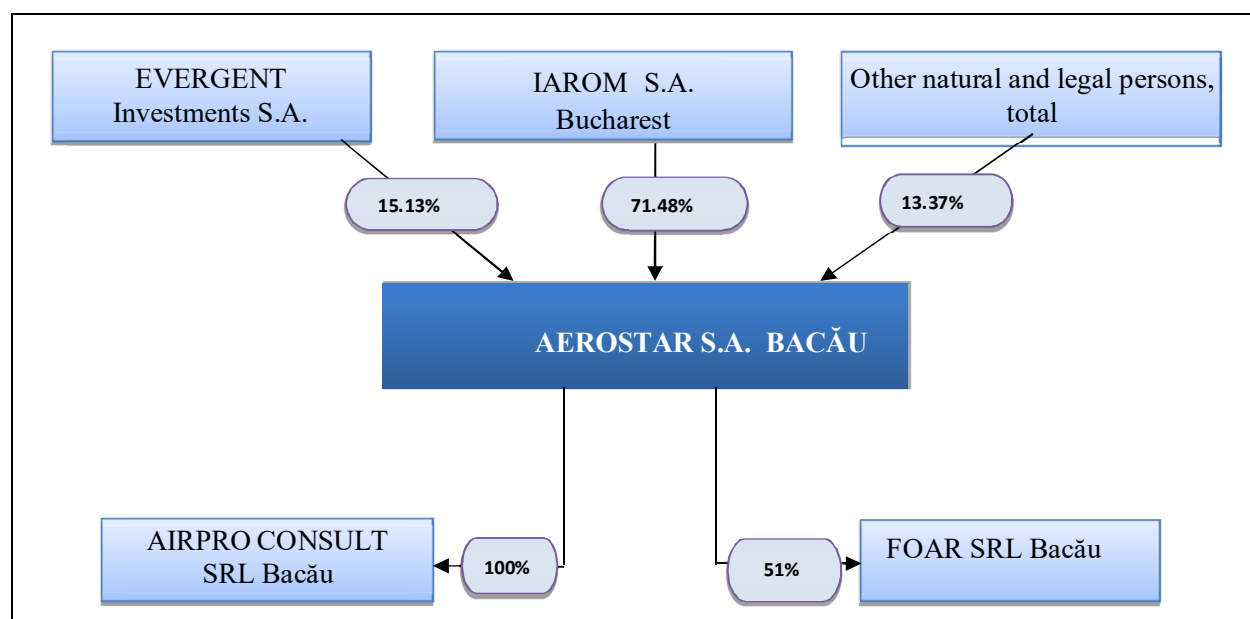
The Company was not unable to fulfil its financial obligations during the reported period.



AEROSTAR S.A.'s relation with the parent-company and the companies where it holds capital

AEROSTAR S.A. is a subsidiary of the company IAROM S.A. and therefore, the parent-company that consolidates the group's financial statements is IAROM S.A., with the unique registration code 1555301 and the registered office in Bucharest, at no. 39, Aerogării Boulevard.

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 on 31.12.2021.





Affiliated parties

On 30.06.2021 AEROSTAR S.A.'s participations in other companies are as follows:

Name of subsidiary/ affiliated company	Basic activity	No. of shares held by Aerostar	Voting rights	Value of Aerostar holding (k lei)	Financial information for the past financial year (year 2020) for which the financial statements of the affiliated companies were approved		
					Sales (k lei)	Own capitals (k lei)	Net profit (k lei)
Airpro Consult S.R.L. Bacău	cod CAEN 7820	100	100%	10	6.149	181	69
Foar S.R.L. Bacău	cod CAEN 7739	408	51%	4	254	1.008	5
TOTAL				14	6.403	1.189	74

AEROSTAR S.A.'s participations in these companies are recorded under costs. Both companies in which Aerostar still holds shares are registered in Romania. The transactions with the affiliates are presented in the Financial Statements, Note 26.

3. Top management structure



Board of Directors

AEROSTAR S.A.'s **Board of Directors** was elected for a period of four years during the General Meeting of the Shareholders of 9 July 2020.

The election was carried out by secret ballot, and the new mandate will last 4 years, starting with 11.07.2020 until 10.07.2024.

The Board of Directors consists of:

Filip Grigore
Aviation engineer
President

Damaschin Doru
Economist
Vice-president

Toncea Mihail-Nicolae
Aviation engineer
Member

Doroş Liviu- Claudiu
Economist
Member

Vîrnă Daniel
Legal Advisor
Member



The tasks and responsibilities of the Board of Directors are provided in the Constitutive Deed. The resumes of the Board of Directors' members can be found on the company website.

The direct participation of the Board of Directors' members to the registered capital of the company exceeded 1%.

There was no litigation with the above-mentioned persons in 2021 or the last 5 years.

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

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



Executive management and organizational structure

With reference to the organization and management system of Aerostar, the management structure at operational level secures the management of the activities based on a divisional type organization that relies on administrative centres outside the production area, the auxiliary and functional activities.

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

The management structure at operational-executive level is completed with the other division and department managers. There were no changes in the first semester of 2021 regarding this structure.

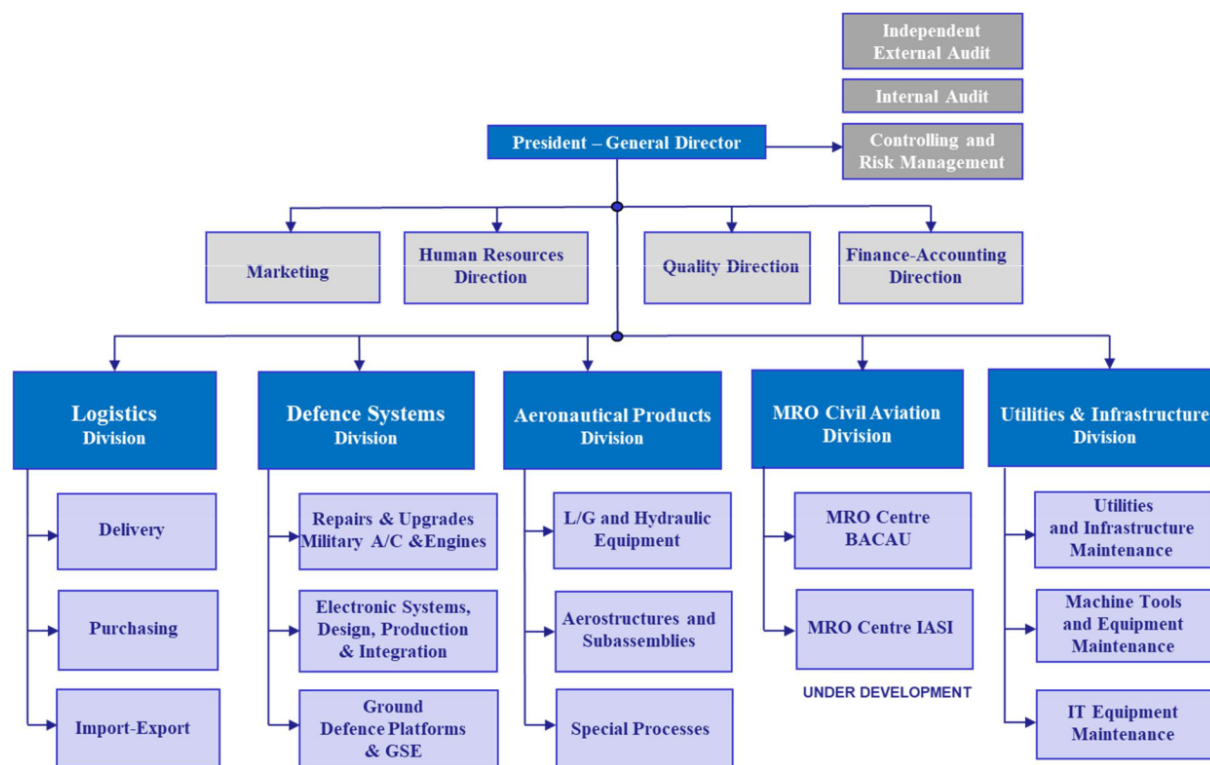
Executive management	
Name	Position
Filip Grigore	General Director
Damaschin Doru	Financial-Accounting Director
Rogoz Vasile Laurențiu	Quality Director
Popa Dan Paul Mălin	HR Director
Filip Alexandru	Logistics Division Director
Buhai Ovidiu	Defence Systems Division Director
Iosipescu Șerban	Aeronautical Products Division Director
Veleşcu Ioan - Dan	MRO Civil Aviation Division Director
Branche Cătălin Bogdan	Utilities & Infrastructure Division Director

AEROSTAR S.A. fulfils its object of activity by using in an integrated manner the joint resources of the organization. The organizational structure implemented since the beginning of the year 2018 maintains its organizing principles and the use of resources in a unitary, competitive and integrated manner.

This organization has secured the development of the company's capabilities with a view to running new programmes in the field of civil aviation and defence, as well as the investments needed for this purpose. The company is administered in a unitary system.

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

On 30.06.2021, the management structure that secures the management of the company's functions based on the organizational structure of divisionary type is as shown below:



Tangible assets

The production capacities and facilities of the company AEROSTAR S.A. are located at its headquarters in Bacău, where is also located the registered office of the company, at no. 9, Condorilor Street, Bacău 600302, Romania. The company AEROSTAR S.A. also has a secondary office without legal personality, in Iași, at no. 25B, Aeroportului Street. Currently, the company AEROSTAR S.A. carries out economic activities at this secondary office.

The company owns a land area of 47,33 hectares, with access to the European route E85.

AEROSTAR S.A. has direct access to the runway of the airport “George Enescu” in Bacău.

All types of facilities needed to run the production activity properly are built at the registered office according to the object of activity.

The production sites include hangars, industrial halls, engineering test benches, administrative and social facilities. The company also has office premises for technical and economic activities.

All these sites are maintained in good conditions. The built area of the buildings is approximately 13,47 hectares.

The assets of the company AEROSTAR S.A. comply with the provisions established in the health, safety and environmental management system, in line with the applicable occupational safety legislation and regulations, as well as the norms on property safety and security.

On June 30, 2021 AEROSTAR S.A. Bacău owns tangible assets for carrying out its activity in a gross value of 328.439 thousand lei, materialized in land, buildings, special constructions, installations, technological equipment, means of transport:

Category of tangible assets	Gross value (k lei)	Degree of wear (%)	Estimated useful life (years)
Land	29.266	N/A	N/A
Constructions	94.468	31,94%	30-50 years
Investment property	10.537	36,52%	25-50 years
Technical installations, of which:	190.525	61,20%	
○ Technological equipment	184.145	60,94%	4-25 years
○ Transport vehicles	6.380	68,47%	4-18 years
Other tangible assets	3.643	36,28%	2-18 years
TOTAL	328.439	46,26%	N/A

During the first Semester of 2021 no risks were identified related to the ownership over the tangible assets.

4. Corporate Governance

As a company listed on the Bucharest Stock Exchange, AEROSTAR S.A. aims at complying 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 deed of the company and complies with the provisions of the laws no. 31/1990 and 24/2017, the Regulation no. 5/2018 of the Financial Supervisory Authority.

The implementation of the corporate governance rules ensures a transparent decision-making process, founded on clear rules and objectives meant to lead to an enhanced level of trust of the shareholders in the company. AEROSTAR focuses on corporate governance by reviewing the level of compliance with the provisions of the Corporate Governance Code issued by the Bucharest Stock Exchange entered in force on 4 January 2016.

In the nomination and selection of the candidates, the present Board of Directors can set up a nomination committee that will consider at least the following criteria: the significant shareholders' involvement; solid expertise and experience in aerospace engineering, economics, legal, environment and social aspects management; moral and professional integrity; independence.

The main objective of the diversity policy applied in relation to the administrative, management and supervisory bodies of the entity, e.g.: age, gender, education, professional experience is to ensure high performance.



Corporate Governance structures

The corporate governance structures are:

- Shareholders – The General Meeting of the Shareholders
- Board of Directors
- Audit Committee
- Executive Management

The General Meeting of the Shareholders

The procedure for organizing and conducting the general meeting of the shareholders is published on the website [www.aerostar.ro/ Investors Relation / Reference Documents](http://www.aerostar.ro/Investors_Relation/Reference_Documents).

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

AEROSTAR exercises all due diligence, in compliance with the requirements of the relevant legislation, to facilitate the shareholders’ participation in the proceedings of the general meetings and the full exercise of their rights. The shareholders may participate and vote personally in the General Meeting, but they also have the possibility to vote by proxy or by correspondence.

The General Meetings of the Shareholders took place in full compliance with the Companies Law 31/21990, the Law 24/2018 regarding the capital market and the applicable regulations issued by FSA, as well as any other incidental legal norm.

Over the last years, the company has distributed dividends to the shareholders and consolidated a dividend policy that guarantees the shareholders’ satisfaction while also providing 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 Shareholders ceases to generate effects after the expiry of three years calculated from the dividend’s “payment date” for each financial year.

The Board of Directors

The Board of Directors of AEROSTAR was elected for a four-year period from 11.07.2020 until 10.07.2024 at the General Meeting of Shareholders on 9 July 2020.

AEROSTAR's activity is governed by responsible corporate governance principles aimed at creating sustainable values in all areas of activity of the company.

5 meetings of the BoD took place in the first semester of the year 2021.

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 among the members of the Board of Directors, or in connection with the auditor.


There is no litigation between the company and the directors regarding their activity. None of the administrators was involved in a litigation or administrative procedure with AEROSTAR during the last 5 years.

The audit committee

Based on the provisions of the Corporate Governance Code in conjunction with the provisions of Law no. 162/2017, an independent **audit committee** was established, consisting of three members appointed by the Ordinary General Meeting of 13 August 2020.

The assignments of the independent audit committee are provided in its Rules of Procedure, approved by the Board of Directors, completed with the provisions of Law no. 162/2017 and of UE Regulation no. 537/2014, that can also be found on [www.aerostar.ro/Investors Relation/ Reference documents](http://www.aerostar.ro/Investors%20Relation/Reference%20documents).

The Audit Committee meets regularly, at least 4 times a year, as well as exceptionally, if applicable.

 **The independent auditor** appointed by the general meeting of the Aerostar signed with BDO Audit SRL the contract no. 6753/2021 on 28.04.2021, based on the AGOA Resolution by which it was appointed as an independent auditor.

The contract enters in force when revising the interim individual financial statements prepared by the company for the first 6 months (on 30.06.2021).



Code of business conduct and ethics

AEROSTAR upholds the company principles and values in an honest and fair way, with integrity, while consistently acting to comply with the highest ethical standards in business, by adopting voluntarily, for several years, AEROSTAR's Code of business conduct and ethics. This code is posted on the company's website www.aerostar.ro and is included in the provisions of the collective labour agreement.

Insofar as this Code requires a higher standard than the one required by the commercial practice or the applicable laws, rules or regulations, we choose to adhere to those higher standards. This code is mandatory for the administrators, employees and is adopted in all the aspects related to the employees, as well as in relation to the investors, customers, suppliers, representatives of the local community, other business partners. The Board of Directors pays special attention to the observance of the corporate governance principles in order to guarantee:

- the actual performance achieved in terms of sustainable development of the company;
- accuracy and transparency of the decision- making process of the company;
- observance of the shareholders' rights and their fair treatment by protecting and implementing their prerogatives;
- transparency and access to information by periodically publishing the relevant financial and operational information.

Details about the compliance with the principles and recommendations provided in the Corporate Governance Code of the Bucharest Stock Exchange are presented as an integral part of this report.



Managing the conflict of interests

In terms of accounting regulations, AEROSTAR is a subsidiary of the company IAROM S.A. AEROSTAR has presented in transparency conditions, according to the applicable regulations, the structure of the company's shareholding and related parties.

At the same time, AEROSTAR fully complies with the requirements of law no. 129/2019 regarding the real beneficiaries. In relation to the significance thresholds provided in the legislation specific to the capital market, no data is available on *cross board membership* or the shares held by suppliers and other interested parties in the AEROSTAR shareholding structure.

Following the evaluation carried out, based on these declarations, it was found out that:

- No Board of Directors' member is an independent member;
- No member has any conflict of interests with the position it holds in the Board of Directors;
- No steps or changes are required in the Board of Directors.

Executive management

AEROSTAR is managed in a unitary system, with the executive management of the company delegated to the General Director and to the Financial Director.

Internal control system

The internal control system of AEROSTAR comprises the following components:

Financial management system

Budgetary control

Controlling

Internal audit

Financial management control

In AEROSTAR there is a dedicated department responsible with financial management control. This department ensures the inventory of all elements related to assets, debts and own capitals in the company records. The inventory activity was performed 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 records on paper.

Budgetary control

The budgetary control is carried out by the budget managers. From a budgeting perspective, the company is structured around:

- Profit centres
- Cost centres

Various budgets are defined in the company based on work programmes corresponding to the functions of the company.

The budgetary control ensures:

- compliance with the forecasted values for each budgeted indicator
- the groundwork for any corrective actions

On a quarterly basis, both the profit centres and the cost centres report to the executive management the methods of achieving the budgetary forecasts and the necessary, timely, efficient, effective and legal nature of the expenses incurred by the company.

Controlling

In AEROSTAR, the concept of controlling has been implemented and continuously developed as a superior stage of the budgetary control. Controlling also ensures compliance with the company's mission and strategic goals.

Internal audit

The company has in place an Internal Audit with members registered in the Romanian Chamber of Financial Auditors. AEROSTAR's internal auditing activity is organized according to the law, as a distinct department in the organizational 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 of enforcement and consultancy, designed to evaluate and improve the company's operations.

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

The internal audit missions have confirmed the positive impact of the internal audit activity on the overall activity performed in the AEROSTAR.

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

5. Business Model

AEROSTAR S.A. operates on the market as an independent company, in full compliance with the applicable national and international law.

The production activities are carried out based on commercial agreements concluded with the customers that are integrators and/or end users/customers in the aeronautical and defence industry.

The top management has adopted an integrated business model, based on the systemic-process approach and a RISK-based mentality.

The business of AEROSTAR S.A. is focused on increasing the overall performance through the employees' continuous improvement and professional development in the spirit of integrity, innovation and initiative. The increase of our competitiveness and productivity are the coordinates used for developing among our employees the culture of the successful model in the productive economy. Aerostar focuses on meeting its customers' requirements and expectations, by acting for continuous improvement on all levels.

AEROSTAR S.A., continues to act firmly in order to ensure its business sustainability and to keep its production capacities unaffected in light of the impact of the Covid-19 pandemic, and focuses on ensuring its employees' health and safety. The company policy is concentrated on continuous development and reaching its strategic goals.

The company's business model has not been affected by the Covid-19 pandemic conditions, but the manner of performing its activities was adapted to the specific nature of the activity flows.



AEROSTAR S.A. business

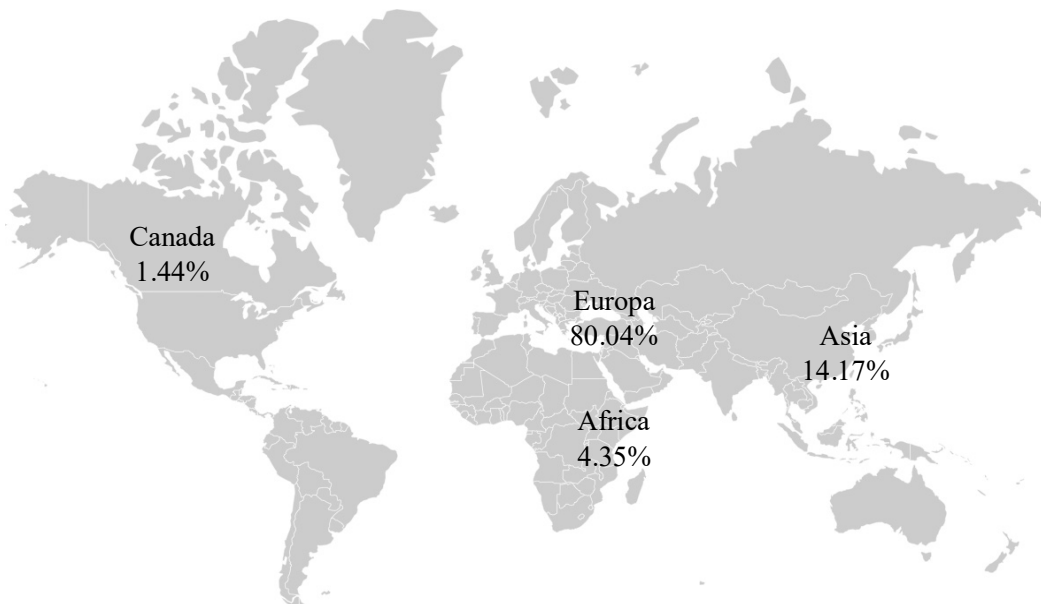
During the first semester of 2021 the impact of the pandemic crisis was felt differently on the three business lines.

Sales in Semester I

The turnover achieved in the first semester of 2021 was 174.764 thousand lei. AEROSTAR S.A. sold products and services on the domestic market in the amount of 61.664 thousand lei, and on the foreign market in the amount of 113.100 thousand lei.

About 65% of the sales represent export sales. The external customers are located in various places, but the foreign market as a representative percentage for AEROSTAR S.A. is represented by the European market.

Sales markets of AEROSTAR S.A. in the first semester of 2021:



AEROSTAR S.A. has a significant footprint in the European aviation industry and beyond, being a significant supplier in the global manufacturing and maintenance programmes at industrial level for civil aircraft.

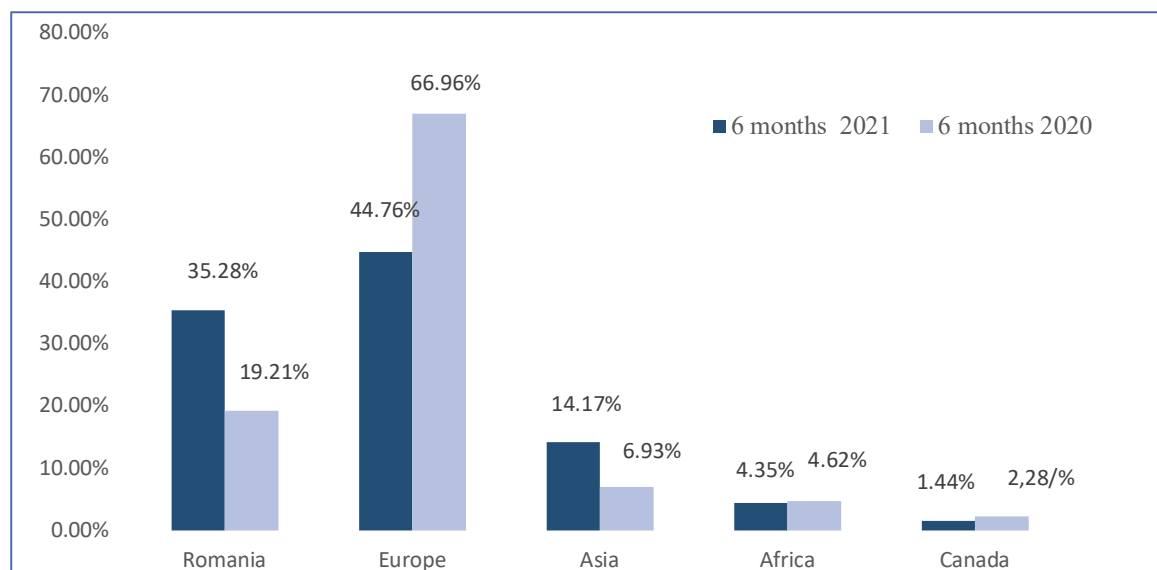
Compared to the same period of the year 2020, the export sales percentage was affected in Europe and Canada, while the sales percentage on the Romanian and Asian market increased.

In Europe we provide maintenance services for civil aviation, aviation products (landing gear systems, mechanical parts, assemblies and subassemblies), electronic equipment and ground equipment.

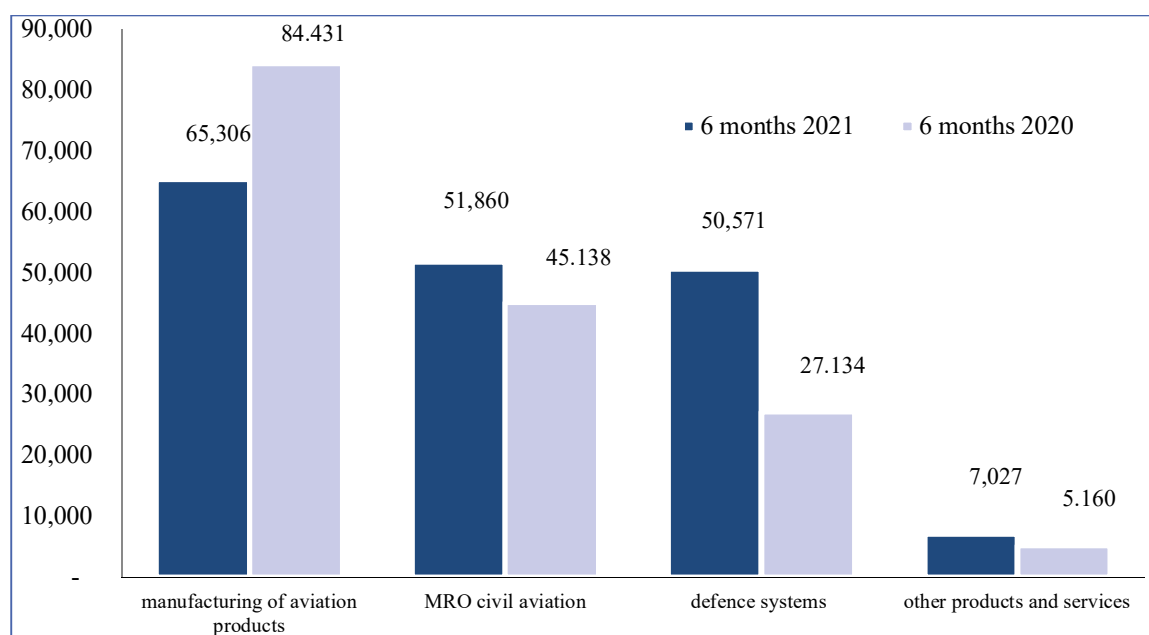
In Asia and Africa, we provide maintenance services for civil aviation and in Canada we supply aviation products.

In Romania we provide repair services for military aircraft and repairs of electronic components and parts for military aircraft, upgrades, integrations and maintenance for military aviation systems, repair services for civil aviation products, launchers and systems.

A comparative graph of the percentage distribution of the total sales on the sales markets of Aerostar is shown below:



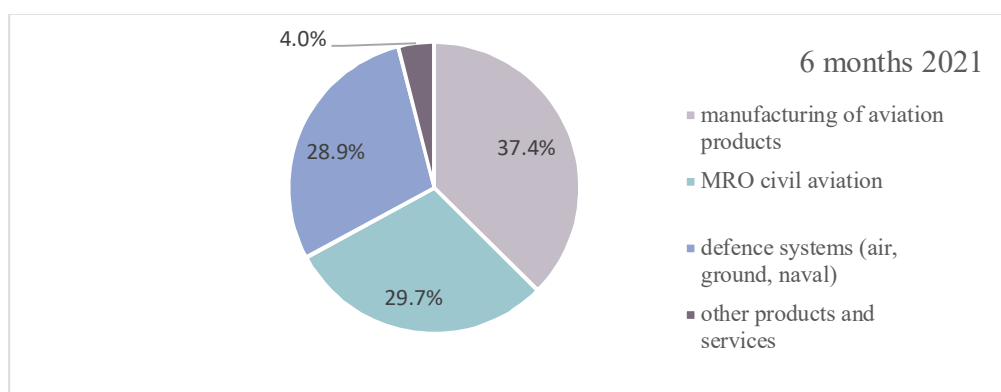
The share of products and services representing the business lines compared with the similar period of 2020 is represented below:





Share of business in total sales for first semester of 2021

AEROSTAR's business lines represented as percentage in total sales for the first semester is represented below:



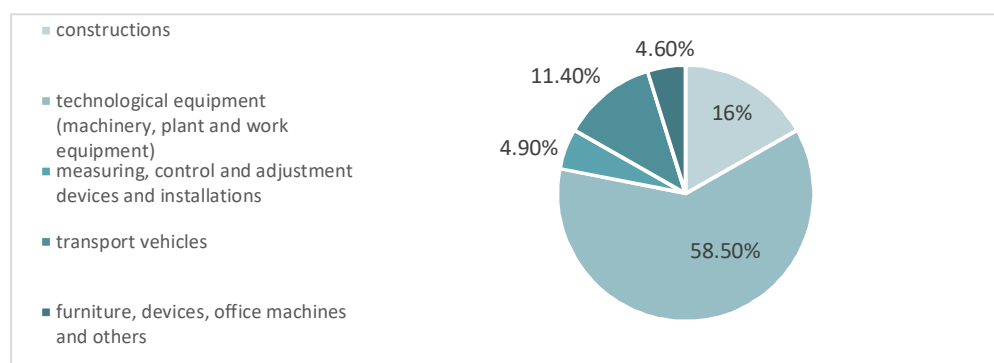
In the first semester of 2021, the sector for manufacture of aeronautical products is still affected by the crisis, and its impact is reflected in the company sales' structure.

Organic sales reductions have taken place as a result of the reduced production rates signalled since last year on multiple commercial aircraft programmes.



Investments in the first semester

In the first semester of 2021, AEROSTAR S.A. made and set in motion operation investments in the amount of 3.613 thousand lei. The percentage of investment expenditure is represented as follows:



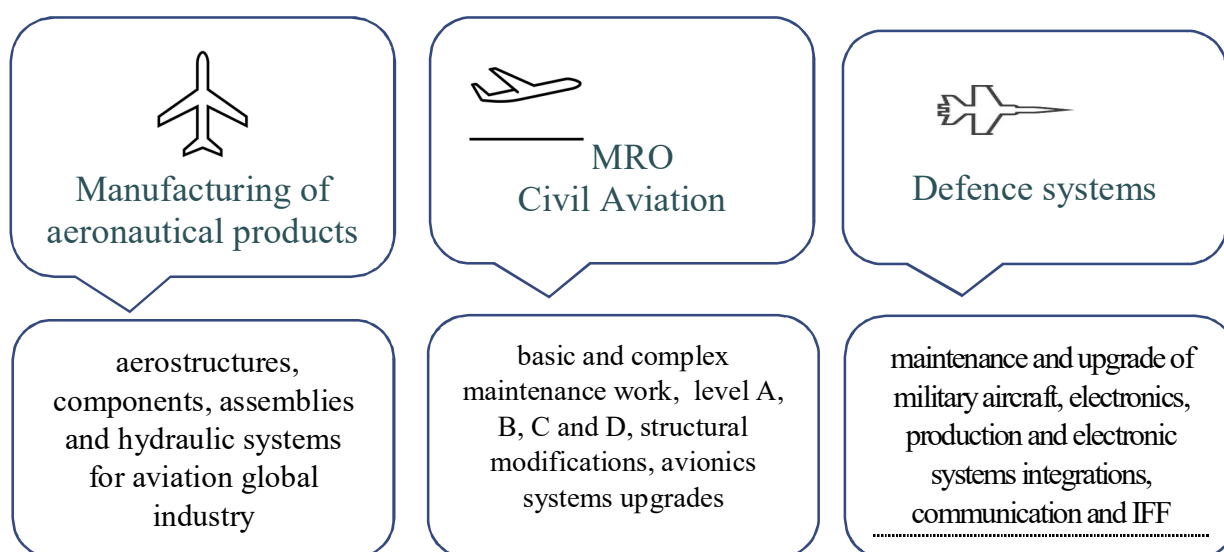
The summary statement of investment expenditure is presented in the table below:

Category	Investment expenditure in the first semester	Percentage (%)
Total tangible assets	3,446	95.40
Intangible assets	167	4.60
TOTAL	3,613	100.00



Business lines

AEROSTAR S.A. has a significant footprint in the aviation industry. The income of the company is generated mainly from basic business. The business lines of the company are:



Aerostar is a significant supplier in the manufacturing global programmes and in the industrial level maintenance field for commercial aircraft.

In the field of defence systems from air, ground and navy category, Aerostar is a tier 1 supplier for the Romanian Ministry of National Defence.

The diverse portfolio of programmes and services continues to offer a significant stability during this period.



Manufacturing of aeronautical products

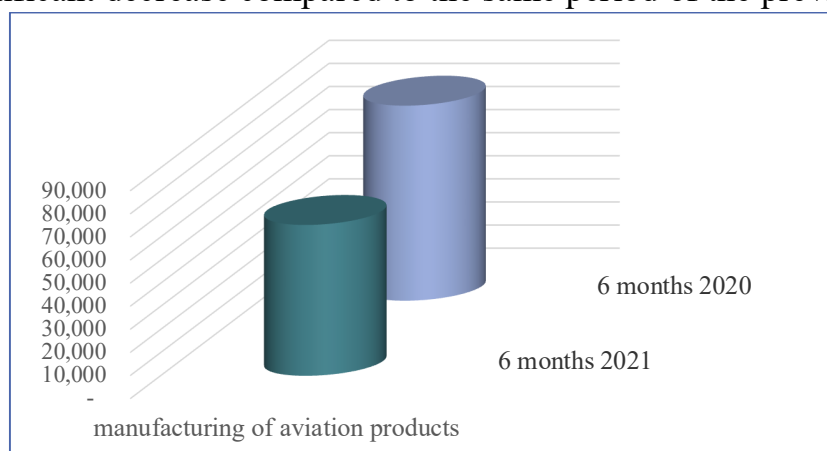
The equipment, assemblies and parts produced in AEROSTAR are part of a large number of commercial aircraft: Airbus A320, A321, A330, A350, Boeing B737, B787, B767, Gulfstream G650, Dassault F7X, Bombardier Challenger serial 600 and Global 5000/6000 series. Also, AEROSTAR supplies parts for the space industry through the European company Ariane.

In the Airbus supply chain, AEROSTAR S.A. is currently a tier 2 supplier for aerostructures and a tier 1 strategic supplier for SAFRAN Landing Systems for assemblies, hydraulic systems and actuator cylinders, landing gears for multiple aircraft programmes.

The diminished aircraft demand has a strong impact, at a global level, on the aircraft manufacturing supply chains AEROSTAR is part of. In terms of activity fields, the field of hydraulic and landing gear equipment was more dynamic during this period. The actions performed by AEROSTAR S.A. to counterbalance the pandemic's effect are oriented towards extending the customers portfolio and manufacturing programmes.

One of the major aircraft producers (e.g. Airbus) announced in the first months of this year recovery programmes for the aircraft production and delivery so that by 2024 the production level reaches the production level of 2019.

The comparative evolution of sales for the manufacturing of aeronautical products shows a significant decrease compared to the same period of the previous year.





MRO Civil Aviation

AEROSTAR S.A. has a significant footprint as business volume in the MRO Civil Aviation field, being an independent provider of maintenance services at an industrial level for the commercial aircraft in the Airbus A320 and Boeing 737 family.

Based on the Part-145 authorization from the Romanian Civil Aeronautical Authority as a full member of the European Authority for Flight Safety (EASA), the maintenance base of AEROSTAR has developed and consolidated its market position and obtained an extended range of authorizations from the civil aviation authorities from several countries outside of European Union, including from the American aeronautical authority FAA.

The EASA authorization certificate to perform repair projects and minor modifications on civil aircraft as Part-21J design organization is designed to increase the added value for our customers.

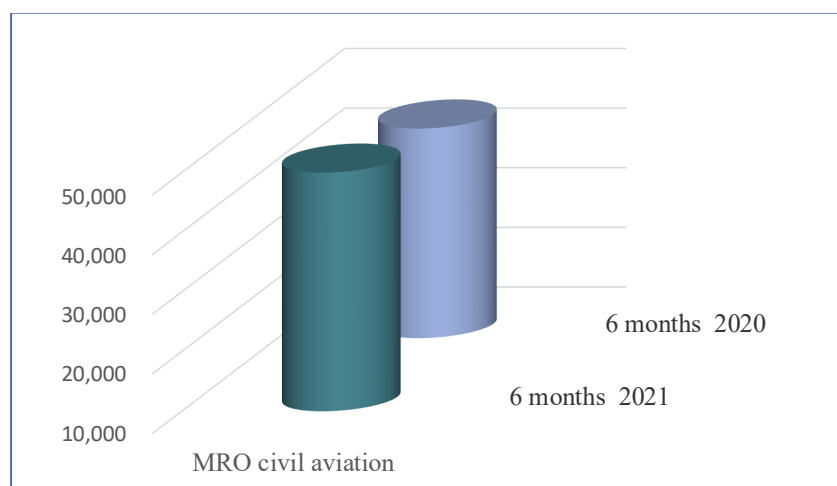
As a consequence of the reduced air transport activities, various notifications of project cancellations regarding Boeing B737 and Airbus A320 were received from several aerial operators.

Despite the business environment not being very favourable due to the pandemic, all the efforts to prepare technicians and engineers dedicated to this facility began to contribute to the sustainable development of the new maintenance centre in Iasi.

Therefore, AEROSTAR S.A. increases its footprint on the MRO Civil Aviation field, confirming its position as a main independent MRO services provider, both in Romania and in this geographic region.

By the end of the year AEROSTAR S.A. aims to extend its civil aircraft maintenance services by adding new A320 neo motorized PW1100 and B737-MAX aircraft models.

The comparative evolution of sales for the MRO civil aviation services has slightly increased compared to the same period of the previous year.



Defence systems

In the category of defence systems, AEROSTAR S.A. is actively running upgrades, integration and maintenance programmes for military and defence aviation systems, further focusing on those types of platforms for which it has proven expertise in conventional programmes, but also on new upgrade & integration programmes: military aircraft, launching systems, primary and secondary systems.

AEROSTAR S.A. is part of the national defence industry, having the status of authorized economic operator, registered in the Unique Register of economic operators and of production facility and/or defence services. Under the aforementioned law, in December 2018, the Romanian government designated AEROSTAR as a Maintenance Centre for the aircraft F-16 owned by the Romanian army.

In the first semester of 2021, AEROSTAR S.A. performed investments for setting the capabilities required for the maintenance centre for F-16 military aircraft. Therefore, the centre has been developing progressively by allocating and training its personnel, by manufacturing and purchasing test benches and devices, and also by creating its own maintenance infrastructure for the aircraft, the first F-16 aircraft owned by the Romanian Air Forces scheduled for maintenance work at Aerostar this year.

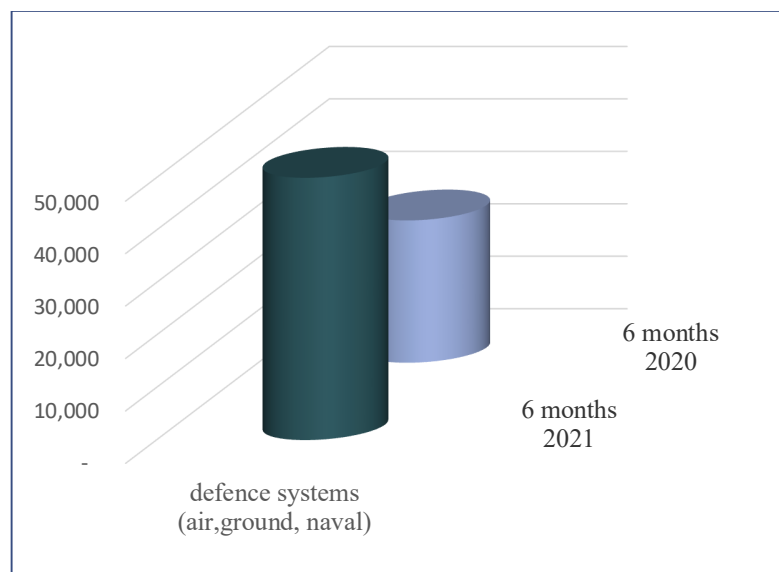


Position on the market in the field of launchers and radar systems

AEROSTAR has constantly developed the capabilities needed to strengthen its supplier status and expertise in the field of launch systems, platforms and launch and fire control component, manufacture of launchers, maintenance and logistic support, upgrades.

Starting with the manufacture of 122mm launchers, subsequently upgraded to NATO standards, the related experience has been gained over the course of several manufacturing, repairs and successive upgrade programmes, integrations of artillery systems in the service of the Romanian Army or for the platforms of other beneficiaries or technology demonstrators financed from own sources, in the category of advanced launching and artillery systems.

The comparative evolution in the field of defence systems shows a growing trend compared to the same period of the previous year.



6. Business environment and benchmarks of the context of organization

The elements of risk-based management mentality are based on understanding AEROSTAR as an organization and the context in which it operates.

In the first semester of 2021, the business environment in which AEROSTAR operates was still deeply influenced by the effects of the Covid-19 pandemic, from both a commercial and an industrial point of view.

The sustained travelling restrictions have led to a limited recovery of the international passenger transport, including the air transport. Still, the vaccination campaigns from various regions of the world have increased the public confidence in travelling by airplane with no risk of Covid-19 contamination, allowing a slight increase of the domestic air transport flights.

This context creates the premises of a gradual recovery of the global air transport traffic, but most likely, concentrated on domestic flights. The cargo air traffic has not been influenced in the same way by the context described, and even saw a growth.



Modifications of external aspects

The relevant external and internal aspects identified are the ones that can affect the achievement of the strategic mission and objectives as well as the ability of the company to achieve the desired results of its management system.

The aspects identified as being part of the external context of the organization pertain to the following areas: geopolitical, economic, technical, legal and environmental.

Political

political changes incurred by the actions of the major global players

- the trade and cooperation agreement between EU and The United Kingdom entered into force in January 2021. However, new barriers on trade are expected, which will lead to an increase of prices and adjustments of integrated supply chains;
- the trade measures taken by the EU in relation with USA regarding the additional and safeguard custom duties were maintained during 2021 too. However, there are premises for the suspension of these retaliation measures for a period of four months.

Economic

economic conjunctures and vulnerabilities created by them

- the fluctuations of the exchange rates and prices have a significant effect on the manufacturing costs and profitability;
- the orders cancelled during 2020 create a domino effect in the whole industry and in the entire supply chain: economic downturns on the key markets;
- lower liquidity and extreme volatility on the credit markets, exchange market, commodity and share markets.

Social

labour shortages in industry

- a real problem, considering the demand of qualified and specialized personnel, the high level of experience and professional training required by the specific activities from the field;
- a challenge for the future, considering the need of qualified personnel for the new technologies, in artificial intelligence or „intelligent machines”.

Technological

commercial competitiveness in the competitive contractual area

the tendency at a global level to replace the aviation fleet (with lighter and more efficient aircraft in terms of fuel use) requires state-of-the-art technologies, mainly focused on manufacturing of composite materials

Legislative

law/regulations modifications regarding the legislation in force

the restrictions lawfully imposed by the state of emergency and ordinances, followed by lockdown, resulted in diminished transport capacity and encumbered freight traffic

Environmental

Aviation industry and the environment

the sustainable aviation fuels have the potential to contribute significantly to the mitigation of the current and future effects of aviation on the environment. to ensure the aviation sustainability, the need to impose EU measures on the impact of noise on a range of important airports is taken into consideration. Through their impactful effects, the noise-related measures constrain both the airport's capacity, and the aerial system as a whole.

The identification, surveillance and elimination of the ensuing risks are performed through a permanent informative system with regard to the legislative modifications, technological evolution, market demand, as well as by organizing a system for analysis, endorsement and approval of the terms and conditions included in the trade contracts.

The relevant interested parts which were identified are: customers, employees, investors, applicable technical and regulatory authorities, certification bodies, suppliers, educational institutions, trade union organisations, local community and state.

The interested parts were identified according to the impact their requirements may have on the company's ability to meet its objectives, as well as on the ability to meet the Customers' requirements and the applicable regulations.



Modifications of internal aspects

The aspects identified as pertaining to the internal context of the company's organization fall under the following categories: human resources, infrastructure, capabilities and authorizations, from the governance field, but also of the organization's performances.

The health situation caused by the COVID-19 pandemic, as well as the impact of the economic crisis are still generating ripples. The protection measures applied in the company helped us eliminate the risk of infection in our groups of employees. However, the educational system and professional training are still affected, as well as the operational processes at organizational and management level.

The authorizations and recertifications obtained in the first semester of 2021 are presented in the chapter "Quality and environment".

The sustainable use of resources and the energy efficiency are a constant preoccupation in AEROSTAR S.A. The industrial water needs are fully covered by exploitation of its own wells.

Guidelines from the ISO 9001 international standard were used to understand the context of the organization, the determination of external and internal aspects, as well as the identification of the interested parties.

7. Our employees



Evaluation of aspects regarding the company's employees

The human resource represents an important factor in the performance, effectiveness, evolution and development of the company. AEROSTAR S.A. is involved in supporting its employees, their professional development, attracting and retaining them in the organization, through the preoccupations registered in the development strategy and evaluation of performances.

Regarding these aspects, between January and June 2021, the following actions took place at AEROSTAR S.A.:

- Ensuring optimal conditions regarding the labour security and health for all the employees, as well as the course of action in certain emergency events; actions were taken all the time to prevent and fight the virus spread, in several stages, for employees' protection, both in terms of occupational hygiene and keeping the social distancing (aspects described in chapter *Measures adopted by AEROSTAR in Covid-19 pandemic context*).
- Professional development of the employees, by including them in professional training programmes and by applying an annual evaluation process for individual performances;
- Facilitating the integration of new employees, focusing on youngsters, by including them in dedicated professional training programmes and by meeting the executive management of the company;

By the human resources policies adopted, the company AEROSTAR S.A. ensures equal opportunities for all employees, with no discrimination, with regard to the professional career or any other work practice.

In the first semester of 2021 the company AEROSTAR S.A. had an effective number of 1.644 employees.

Also, by recognizing the importance of stable employment for employees and equally for the local community, the company AEROSTAR S.A. currently has 84,8% of its individual labour agreements concluded for an indefinite period, thus avoiding the excessive use of temporary manpower.

The average union membership in the company for the first 6 months of 2021 is 66.71%, an increase by 2% compared to the same period of 2020.

Diversity and inclusion

AEROSTAR S.A. observes and guarantees equal and non-discriminatory treatment in relation with its employees, partners, collaborators and customers.



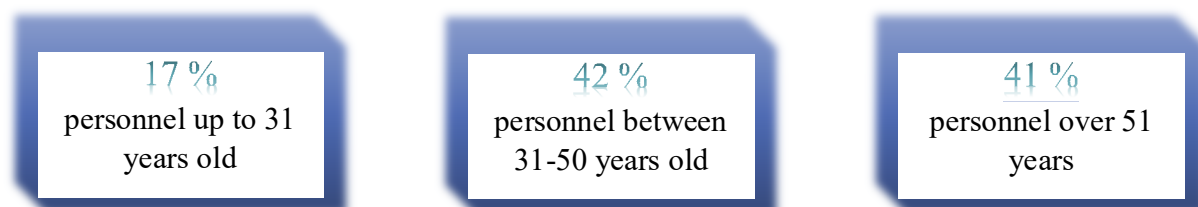
As regards the labour relations within the company, the equality principle is applied, which forbids any direct or indirect discrimination towards an employee, aimed at not grating, restricting or removing the recognition of the use or the exercise of the rights set forth in the labour law and collective employment agreements, based on criteria of sex, sexual orientation, age, race, ethnicity, religion, political option, social origin, handicap, situation or family responsibility, membership or union activity.

Gender diversity

In terms of sex distribution, taking into consideration the object of activity of the company, a percentage of 27% is represented by women in the personnel structure.

The ratio between the average base salary negotiated for the female employees and the average base salary negotiated by the company was 0,935, and the ratio between the average base salary for the male employees and the average base salary negotiated by the company was 1,024:

Age diversity



The average age of AEROSTAR S.A. and AIRPRO CONSULT S.R.L. is 45 years old.

Labour relations and social dialogue

In the company AEROSTAR S.A. the Collective Labour Agreement is in force for the period 2019-2021, being agreed upon with the employees in accordance with the provisions of law no. 62/2011 of the social dialogue, the application of which was extended until 30.03.2022.

Training, professional development

In the first 6 months of 2021, training courses for the company's employees were organized, prioritizing the covering of the training needs in the fields of interest for conducting the production activities.

Health and labour safety, working conditions

AEROSTAR acts consistently with a view to reducing the risk of accidents and diseases and always applies in its activity internal norms and regulations that ensure compliance with the legal requirements.



Employees with high incidence or high risk of disease

Following these policies and practices applied, during the first semester of 2021, there were no employees with professional diseases or any dangerous incidents.

In the first semester of 2021, the following indicators were recorded in reference to labour accidents:

- number of accidents for every 100.000 hours of work = 0.004%;
- time lost due to labour accidents for every 100.000 hours of work = 0.224%.



Measures adopted by AEROSTAR S.A. in the Covid-19 pandemic context

The safety of the employees of the company AEROSTAR S.A. remains a priority. In order to protect its employees against Covid-19, AEROSTAR implemented since the first news reports about the pandemic a general plan of measures regarding specific regulations to protect the employees.

During the entire period, anti-Covid-19 protection material was provided to the employees, according to the provisions of the general plan of measures regarding the specific regulations to protect the employees against infection with Covid-19, and for subcontractors, according to the Convention regarding the delineation of the responsibilities on Safety and Health at Work, PSI and incidents prevention.

It is mandatory to wear protection masks inside the company AEROSTAR S.A. until all risks of infection are removed.

8. Quality and environment

Following the analysis of the quality and environment management system, the policy referring to quality and environment was reconfirmed in 2021.

The quality management system was recertified based on the requirements of standards SR EN ISO 9001:2015 and EN 9100:2018.

AEROSTAR S.A. was certified as a design organization according to RMAR 2021 Section A Chapter J, according to the Certificate for Military Approval of the Design Organization, no. RO.AAMN.21J.00002.

Environmental Protection

The activities that impact the environment are held under control by internal operational controls, i.e. through analysis of the results of the monitoring and measurements made according to the provisions of the environmental authorizations. Thus, in the first semester of 2021, the actual results ranged below the maximum allowed values for the indicators.

The emissions in the atmosphere measured in 2021 (according to the requirements of the integrated environmental Authorization) revealed values considerably below the maximum allowed values provided by the applicable law in force.

The results of the checks performed by the commissioners from the National Environmental Guard – Bacau County Commissioner's Office confirm the company's compliance with the applicable legal and regulatory requirements.

Waste

All the waste generated from the activities performed in the company are selectively stored in proper containers and subsequently handed over to authorized operators to collect, value and dispose them.

In the first months of 2021, the quantity of waste valuable represented over 79% of the total quantity of waste generated.

Greenhouse gas emissions

The company AEROSTAR S.A. has observed all the obligations arising from the greenhouse gas emissions Authorization:

- preparing the monitoring report for the greenhouse gas emissions generated in 2020, report validated by the audit performed by an accredited verifier;
- complying with the European Unique Register of Greenhouse gas emissions – completed in April 2021 – when a number of 1897 certificates were returned.

Following the verification audit related to the management of greenhouse gas emissions, no nonconformities were documented, the emissions related to 2020 being validated.

9. Management of risk and opportunities

The management system within AEROSTAR S.A. places particular emphasis on the risk and opportunity management.

In the first semester of 2021, AEROSTAR S.A. continued the improvement and development of the risk and opportunity management system approached in the management analyses carried out within the company.

At AEROSTAR S.A., the risk and opportunity management system is an integral part of the management and decision-making processes.



Risk Management System

AEROSTAR S.A. applies a risk-based mentality toward strategic and sustainable development, by:

- improving the governance;
- creating a pro-active culture for improvement;
- ensuring consistent quality of products and services.

The risk management process involves a systematic application of the procedures and practices in the activities of communication and consultancy, evaluation, treatment, monitoring and reporting of the risks.

The actual risk management process guarantees that the risks are handled in such a way as to ensure the level of risk agreed upon.

The top management has made sure that adequate authorities and responsibilities were established for the relevant positions and levels within the company and the necessary resources for the risk management were allocated accordingly.



Main Risks and Risk Management – Quality and Environment

Risk management involves the evaluation and handling of the risks. At AEROSTAR S.A., the risk evaluation is a systematic activity performed with a view to:

- identifying new risks that did not occur previously;
- re-evaluating the recurring risks.

It was also taken into consideration that the actions for handling the risks and opportunities need to be proportional with the potential impact on the conformity of the products and services.

The implementation status of the actions for handling the risks and opportunities is monitored permanently and the actions are deemed to be effective if the foreseen results are obtained as a result of their implementation.



Main risks and their management in terms of human resources

The main risk identified in terms of human resources is to secure qualified resources according to the needs arising from the execution of the agreements concluded with the customers of AEROSTAR.

The efficiency of the management process for this risk can be quantified via the ratio between the number of employments and the number of job openings registered between January and June 2021, which is 100%, taking into account the sanitary crisis which affects the entire world and the economic environment, including the aeronautical field.

In the pandemic context, in order to fight the ensuing risks, AEROSTAR has informed, trained and made its employees and delegates/visitors aware about the risk of infection with the new COVID-19 coronavirus by internal decisions, memos, specific warning material/notices, briefings. The specific measures adopted are presented in *Measures adopted by AEROSTAR in the Covid-19 pandemic context*.



Handling risks

The company AEROSTAR S.A is exposed to multiple risks and uncertainties which can affect its financial performances.

The business lines conducted by AEROSTAR S.A., the operational results or financial situation could be affected by the materialization of the risks presented below.

The company aims at securing sustainability in the medium and long term and reducing the uncertainty associated to its strategic and financial objectives.

❖ *The epidemiologic risk* - the risk associated to the continuation of the pandemic and the identification of a new strain of Covid-19 is approached by applying the whole package of protection measures.

❖ *Legal risk* - the risk of loss as a result both of fines, penalties and sanctions to which the company AEROSTAR S.A. is liable in case of failure to apply or faulty application of the legal or contractual provisions or regulations. The extremely varied spectrum of suppliers and customers with which AEROSTAR collaborates,

which covers several countries and continents, makes this extremely important, as detailed and revealed through risks regarding the international changes/uncertainties; risks regarding the fierce commercial competitiveness in the aviation field, including customer concentrations and risks regarding changes to the laws/regulations regarding the legislation in force.

The effects of the legal risk are removed through continuous information regarding the legislative modifications. Furthermore, the company AEROSTAR S.A. aims to make available, by setting up provisions for risks and related expenses, its own funds designed to cover the risks to which it is exposed, also taking into consideration any risks arising from associations/partnerships.

In this context, the emphasis is placed on the possible syncope in developing and running programmes subsequently abandoned by our partners as a result of exceptional events or collaborations with contiguous delayed, non-sustainable programmes (risk of life cycle disruption for the programmes).

The allocation of appropriate resources is also aimed at ensuring that the monitoring process is focused on mitigating any potential risks specific to cyberattacks, and also on minimizing the resilience of the risk of safe and secure downtime of the information system.

❖ *Operational risk:* in order to reduce the operational risk, AEROSTAR renews annually, with first-rank insurance and reinsurance companies, a civil liability insurance contract for the main business lines (manufacture of aviation products and maintenance of commercial planes), via its full knowledge of and compliance with the specific provisions of the insurance risk and by closely monitoring and mitigating any signs of influence on the organization's reputation and the risk of damaging the company's image.

❖ *Credit risk,* including the country risk in which the client operates, is managed on a per-business basis. Whenever deemed necessary, specific credit risk mitigation instruments are requested (advance receipts, bank guarantee letters of payment, confirmed export credits).

The company AEROSTAR S.A. has no significant exposure to a single partner and does not have a significant concentration of turnover in a single geographical area. However, there is a remarkable exposure to the global Airbus programme market, with a large share of the company's products embedded in Airbus aircraft.

The crisis generated by the Covid-19 pandemic strongly affects the global aviation industry. AEROSTAR acts through integrated management system measures in order to handle all impacts and mitigate the effects of the aviation crisis on the company's performance in the short and medium term.

❖ *The liquidity risk:* To handle this risk, all cash flows are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the estimated level of net cash modifications.

Such reviews provide the basis for the financing decisions and for the capital undertakings.

For the administration of the liquidity risk, AEROSTAR keeps an annual cash reserve as a Credit Line usable as a bank overdraft.

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

❖ *The market risk* is relevant through 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, caused by some extraordinary events (the Brexit Agreement with an impact on the purchasing of materials from the United Kingdom, the implementation of certain international sanctions that limited the possibility to purchase the necessary parts and materials, etc.), as well as the increased costs related to specific duties for the import/ export of metallic products (steel and/ or aluminium) to and from USA.

This risk is evident in the context of the economic recession in the aviation industry caused by the COVID-19 pandemic.

The company AEROSTAR is exposed to *foreign exchange* risk because 65% of the turnover on the first semester is related to USD and EUR, while a significant part of the operating costs is denominated in LEI. AEROSTAR is thus exposed to the risk of being affected by the changes in the exchange rates both in its net income and its financial position, as 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 of the interest rate variation on the banking market.

Risks and uncertainties have been identified for the following period, related to maintaining the organizational performance in spite of the reduced demand on the current market in the civil aviation field.



The trend of the main risks and uncertainties for the following period

In light of the uncertainties related to economy, business, social aspects and health in the first semester of 2021 it remains obvious that the recovery of the aviation industry is a slow process, with the main risks and uncertainties influenced by the specific ongoing actions of monitoring the market evolution trend under the pressure of the Covid-19 pandemic.

The management of the company focused both on reducing the likelihood of new infections and supervising the evolution of confirmed cases, and on mitigating the social and economic consequences of economic and financial imbalances in light of the low production rates on short and long term.

At the same time, the company intensifies its constant dialogue with the customers and partners in the supply chain, with the purpose to correlate and connect their actions in order to overcome successfully this global crisis with minimum losses.

Risks and uncertainties have been identified for the following period, related to maintaining the organizational performance in spite of the reduced demand on the current market in the civil aviation field.

10. Reporting the non-financial aspects

The Board of Directors of AEROSTAR S.A. established the conformity with the legislation by presenting the non-financial information in the form of a “non-financial declaration” included in the Report of the Board of Directors and published together with it.

The annual non-financial declaration is sustained by collecting data about the analysis, evaluation, control and performance of the organization throughout the year, and by including in the quarterly and 6-month reports such data and information relevant for the applicable time period.

The sanitary and global economic situation generated by the Covid-19 pandemic did not alter AEROSTAR’s commitment or caused any impact on the company’s

conformity in terms of social and environmental responsibilities, personnel, aspects regarding human rights, fighting corruption and bribery, promoting diversity.

Guided by business responsibility and business spirit in the defence and aviation field, AEROSTAR is loyal to the best practices in the field and, in line with the practices of its business partners, it has been providing for years information, explanations and data in this category of non-financial information.

The regulatory framework established by AEROSTAR for conformity relies on:

- The Management System of AEROSTAR, the Quality and Environment Management System and the Occupational Health and Safety Management System, respectively, all certified in AEROSTAR in accordance with the requirements of the standards ISO 9001, ISO 14001, AS EN 9100, AQAP 2110 and ISO 45001:2018, respectively;
- AEROSTAR's customers' requirements
- The guidelines described in the ISO 26000 international standard on social responsibility;
- The regulatory framework provided by the Romanian law;
- The guidelines described in the European Commission Communication "Guidelines on reporting non-financial information (methodology of reporting non-financial information) (2017/C215/01)".
- The guidelines described in the Global Reporting Initiative (GRI) standards, without registering and declaring its conformity with them.

AEROSTAR fully complies with the national and international standards and regulations applicable to the environmental, social and personnel aspects, observing the human rights, fighting bribery and corruption, promoting diversity.

AEROSTAR systematically informed the interested parties regarding the non-financial aspects that were deemed capable of facilitating the understanding of the field in which the company operates and the manner of conducting and organizing the company's business.

Through its continuous and sustainable development strategy, AEROSTAR has embraced the goals of sustainable development and social responsibility for business growth, by upgrading its production and management systems for production and business and its organizational development in line with developments in the global aviation industry.

The Board of Directors determines the strategic orientation of the company and ensures its implementation, with a view to achieving a sustainable increase of AEROSTAR's value. The Board of Directors is also responsible for ensuring the observance of all the applicable legal provisions, internal regulations as well as for the adequate management and control of the risks.

The executive management closely coordinates the activity of the departments in charge with the economic, environmental and social aspects within the company and informs the Board of Directors accordingly, in order to ensure long-term development.

The contact in charge with the non-financial reporting process is also charged with the regulatory reports to be submitted by the company.

The management system from AEROSTAR ensures the operational and growth framework of the company in safe and sustainable conditions, setting objectives, allocating and planning resources, measuring the performance and establishing improvement actions.

- The responsibilities regarding the quality and environment aspects, as well as the Risk Management are allocated/delegated to the Quality and Environment Director.
- The responsibilities regarding the social, personnel, health and safety at work, the fight against discrimination and promoting diversity are allocated/delegated to the Human Resources Director; in terms of interferences these responsibilities are correlated with:
- The responsibilities regarding the aspects of conformity with the law, regarding the human rights and fighting bribery and corruption, which are allocated/delegated to the Legal Department.
- The responsibilities regarding aspects of sustainable use of resources or reducing the energy consumption are allocated/delegated to the Infrastructure and Utilities Division Director.

- The responsibilities provided in the anti-money laundering measures of conformity are allocated to the Financial-Accounting Director.
- The responsibilities regarding the corporate governance are assigned to the general secretary of the company.

For each afore-mentioned aspect, various control functions are allocated, and reports are presented during the quarterly management reviews.

We are deeply committed to the continuous improvement of our economic performance in relation to our goals regarding natural resources, the responsible use of water and energy, waste recycling, reducing the carbon emissions and the use of dangerous chemicals, all these aspects are of major importance in all our activities. Aerostar undertakes to continue to apply sustainable development strategies and to continuously improve its work practices in this field.

Furthermore, Aerostar commits itself to:

- Communicate its environmental policy and strategy to all interested parties and to raise their awareness of their own responsibilities towards the environment;
- Comply fully and where possible to exceed the requirements of the applicable regulations and standards;
- Reduce the energy consumption and GHG emissions;
- Reduce water consumption;
- Reduce the waste resulting from its activities;
- Improve and develop all company sites in order to avoid the negative environmental impact;
- Avoid the use of environmentally-damaging substances, materials and processes and where this is not possible, to limit the use thereof.

Our guiding principles are the compliance with our customers' requirements, the full safety of the users of our products and services, the continuous improvement and increase of the environmental performance.

11. Summarized Financial-Accounting Statement

	k lei	
Summary of Assets, Company Equity, Debts and Provisions	30 June 2021	31 December 2020
Non-current assets	197.178	206.820
Circulating assets	372.343	340.232
Total assets	569.521	547.052
Company equity	398.021	380.370
Provisions	104.748	115.641
Debts	66.752	51.041
Total company equity, prepaid income, debts & provisions	569.521	547.052

	k lei	
Summary of Income, Expenses, Results	30 June 2021	30 June 2020
Operating income, of which:	181.982	189.189
– sales income	174.764	161.863
Operating Expenses	(143.401)	(156.897)
Profit/loss from operations	38.581	32.292
Financial income	5.524	6.827
Financial expenses	(2.347)	(2.546)
Financial profit/loss	3.177	4.281
Profit before tax	41.758	36.573
Tax on current and deferred profit	(5.760)	(4.797)
Net profit of the financial period	35.998	31.776

AEROSTAR S.A. BACĂU
INDIVIDUAL FINANCIAL STATEMENTS
FOR JUNE 30, 2021

REVISED

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AEROSTAR S.A. BACAU
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
FOR 30 JUNE 2021
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	30 June 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	6	171.609	180.923
Intangible assets	5	600	663
Investment property	6	6.689	6.995
Rights of use on assets under lease	32	1.767	1.789
Financial Assets	7	52	52
Receivables regarding deferred profit tax	17	15.669	15.585
Long-term prepaid expenses	31	792	813
Total non-current assets		197.178	206.820
Current assets			
Inventories	10	90.374	96.918
Trade receivables and other receivables	8;9	41.311	38.377
Receivables regarding deferred profit tax	23	0	1.734
Cash and cash equivalents	11	239.535	202.660
Short-term prepaid expenses	31	1.123	543
Total current assets		372.343	340.232
Total assets		569.521	547.052
COMPANY EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	48.729	48.729
Current result	12	35.998	38.443
Result carried forward	12	51.397	51.214
Reserves	12	279.727	270.214
Deferred income tax recognized based on own equity	17	(16.413)	(16.148)
Distribution of profit for legal reserve	12	(1.417)	(12.082)
Total equity	12	398.021	380.370
Long-term liabilities			
Liabilities regarding deferred income tax	17	18.886	18.850
Other long-term liabilities	16	2.310	2.335
Subsidies for investments	14	4.951	5.893
Total long-term liabilities		26.147	27.078
Long-term provisions	13	86.632	86.747
Current liabilities			
Trade liabilities	15	24.609	12.060
Liability with current income tax	23	3.095	0
Other current liabilities	16	11.614	10.748
Prepaid income	31	1.287	1.155
Total current liabilities		40.605	23.963
Short-term provisions	13	18.116	28.894
Total provisions		104.748	115.641
Total liabilities		66.752	51.041
Total company equity, prepaid income, liabilities and provisions		569.521	547.052

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE PROFIT OR LOSS
FOR 30 JUNE 2021
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	30 June 2021	30 June 2020
Operating income			
Proceeds from sales	19	174.764	161.863
Other income	19	1.229	1.178
Proceeds related to the inventories of finished goods and work in progress	19	4.433	24.200
Proceeds from production of assets	19	191	1.124
Proceeds from operating subsidies	19	1.365	824
Total operating income		181.982	189.189
Operating expenses			
Material expenses	20	(60.381)	(60.521)
Expenses with employees' benefits	20	(57.974)	(59.579)
Expenses regarding amortization of assets	20	(13.309)	(12.325)
Adjustments regarding current assets	20	(6.572)	(7.669)
Adjustments regarding provisions	20	10.893	1.513
Expenses regarding external services	20	(14.527)	(17.277)
Other expenses	20	(1.531)	(1.039)
Total operating expenses		(143.401)	(156.897)
Profit/loss from operating activity		38.581	32.292
Financial revenues	21	5.524	6.827
Financial expenses	22	(2.347)	(2.546)
Financial profit/loss		3.177	4.281
Profit before tax		41.758	36.573
Tax on current and deferred profit	17;23	(5.760)	(4.797)
Net profit of the period		35.998	31.776

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT
FOR 30 JUNE 2021
(unless specified otherwise, all amounts are stated in thousand lei)

	30 June 2021	30 June 2020
Net profit of the period	35.998	31.776
Deferred income tax recognized on company equity	(74)	(771)
Retained earnings related to 2019	0	9
Other elements of the global result	(74)	(762)
Total global result of the period	35.924	31.014

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE MODIFICATION OF COMPANY EQUITY
FOR 30 JUNE 2021
(unless specified otherwise, all amounts are stated in thousand lei)

	Share capital	Reserves	Deferred income tax recognized on equity	Result carried forward	Result of the period	Total equity
Global result						
A. Balance on 1 January 2021	48.729	270.214	(16.148)	51.214	26.361 *)	380.370
Profit of the period					35.998	35.998
Other elements of global result						
Setting up of deferred profit tax recognized on account of equity.			(265)	191	-	(74)
Distribution of profit of the financial year 2020 and of the undistributed amount from the profit of the year 2019, to the destinations decided by the shareholders in OGMS of 21 April 2021 (Note 12).				26.361	(26.361)	-
Distribution of the profit of 1st quarter 2021 for reserves from fiscal facilities in gross amount.		1.417			(1.417)	-
Total global result of the period		1.417	(265)	26.552	8.220	35.924
Reserves distributed from the profit of the years 2019 and 2020		8.096		(8.096)		-
Distributed dividends for the year 2020				(18.273)		(18.273)
Transactions with shareholders, directly recognized in equity		8.096		(26.369)		(18.273)
B. Balance on 30 June 2021	48.729	279.727	(16.413)	51.397	34.581**)	398.021
C. Modifications of equity (NOTE 12)	0	9.513	(265)	183	8.220	17.651

*) The result on 31.12.2020 is 38.443 thousand lei and is influenced by the profit allocation to the legal reserves in the amount of 12.082 thousand lei.

**) The result on 30.06.2021 is 35.998 thousand lei and is influenced by the profit distribution to legal reserves in the amount of 1.417 thousand lei

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE MODIFICATION OF COMPANY EQUITY
FOR 30 JUNE 2021

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

COMPARATIVE FIGURES - ON 30.06.2020	Share capital	Reserves	Deferred income tax recognized on equity	Result carried forward	Result of the period	Total equity
Global result						
A. Balance on 1 January 2020	48.729	215.506	(14.139)	58.931	54.305*)	363.332
Profit of the period					31.776	31.776
Other elements of global result						
Setting up of deferred profit recognized on account of equity			(965)	194	-	(771)
Distribution of profit of the financial year 2019 to the destinations decided by the shareholders in OGMS of 21 April 2020 (Note 12).				54.305	(54.296)	9
Distribution of the profit of 1st semester of 2020 for legal reserves in gross amounts		5.793			(5.793)	-
Total global result of the period		5.793	(965)	54.499	(28.313)	31.014
Reserves distributed from the profit of the year 2019		34.500		(34.500)		-
Distributed dividends for the year 2019				(19.796)		(19.796)
Undistributed profit for the year 2019					(9)	(09)
Transactions with shareholders, directly recognized in equity		34.500		(54.296)	(9)	(19.805)
B. Balance on 30 June 2021	48.729	255.799	(15.104)	59.134	25.983 **)	374.541
C. Modifications of equity (NOTE 12)	0	40.293	(965)	203	(28.322)	11.209

*) The result of 65.979 thousand lei for the previous period is influenced by the profit allocation to the legal reserves in the amount of 11.674 thousand lei;

**) The result of 31.776 thousand lei recorded on 30.06.2020 is influenced by the profit allocation to legal reserves in the amount of 5.793 thousand lei.

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE CASH FLOWS (direct method)
FOR 30 JUNE 2021
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	30.06.2021	30.06.2020
CASH FLOWS FROM OPERATIONS			
collected from customers		186.336	199.469
taxes and excises recovered from the State Budget		887	6.051
collected as subsidies from the State Budget		2.374	2.925
payments to suppliers and employees		(101.091)	(132.175)
payment of taxes, contributions and dues to the State Budget		(34.110)	(31.871)
payment of profit tax		(1.037)	(6.276)
NET CASH FROM OPERATIONS	27	53.359	38.123
CASH FLOWS FROM INVESTMENTS			
interest collected from bank deposits set up		1.224	1.578
collected from the sales of tangible assets		30	0
payments for purchasing tangible and intangible assets		(2.323)	(28.814)
NET CASH FROM INVESTMENTS	27	(1.069)	(27.236)
CASH FLOWS FROM FINANCING ACTIVITIES			
gross dividends paid		(17.183)	(18.544)
NET CASH FROM FINANCING ACTIVITIES	27	(17.183)	(18.544)
Net increase of cash and cash equivalents		35.107	(7.657)
Cash and cash equivalents at the beginning of the period		202.660	207.362
Effect of the exchange rate variation on cash and cash equivalents	27	1.768	721
Cash and cash equivalents at the end of the period	11	239.535	200.426

General Director,
Grigore Filip

Financial Director,
Doru Damaschin

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 JUNE 2021
(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. performs its activity at its registered head office located in Bacau, 9, Condorilor Street, code 600302. In accordance with the Agreement no. 2/14.12.2017 of the Board of Directors, a secondary place of business without legal personality (workplace) has been approved in Iasi, on 25B Aeroportului Street.

The main field of activity of AEROSTAR is production.

The main object of activity of the company is “Manufacture of aircraft and spaceships” - code 3030. The company was registered as a shareholding company at the Bacau Trade Register (under number J04/1137/1991), with the current name “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 6 months of 2021, 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 unique identification code 1555301, having its registered head office in Bucharest, 39 Aerogarii B-d. The consolidated financial statements for the financial year 2019 were submitted to A.N.A.F. under registration number 221497794-2020/27.08.2020. Copies of the consolidated financial statements can be obtained from the head office 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 on 31.12.2020.

The company has a sole operating segment 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, given the impact of the COVID-19 pandemic on the aviation industry.

During the first semester of 2021, the company did not use borrowed capital and there was no capital injection from the shareholders, but it benefited from technical unemployment and allowances during the period of reduced working time of the employees in accordance with the legal provisions.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 JUNE 2021
(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 involves the use of estimates, judgements and assumptions that affect 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 take into account 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 recognized 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 of time when the change occurs, if it affects only that period of time; or
- of the period of time when 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 the period of time (month, quarter, year) for litigations, for the dismantling of property, plant and equipment, for restructuring, for collateral granted to customers, for obligations toward 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 are indications of 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 life of the 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 the setting up of adjustments for impairment.
- deferred taxes.

Presenting the information

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

2.2. Errors

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

The company corrects retroactively the significant errors on the prior period presented in the first set of financial statements approved for publication after discovering the errors, by:

- restating the comparative values for the prior period presented when the error occurred, or
- if the error occurred before the earliest period presented, by restating the opening balances of assets, liabilities and equity for the prior period presented.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 JUNE 2021
(unless specified otherwise, all amounts are stated in thousand lei)

In case of identifying an error, the company presents the following information:

- the nature of the error for the previous period;
 - for each previous period presented, as far as possible, the corrected value:
- for each item - row affected in the financial statement
- for the basic result and diluted per share.
- the amount of the correction at the beginning of the earliest period presented;
 - if retrospective restating is impossible for a specific prior period, the circumstances leading to the existence of such circumstance and a description of the manner in which and the time 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 on the financial performance or cash flows of the entity.

Application of changes in the 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 during the initial application of an IFRS that does not include specific transitory provisions.

Presenting the information

When the initial application of an IFRS has an effect on the current or prior period of time, the company discloses in the explanatory notes the following:

- the title of IFRS;
- the nature of the accounting policy change;
- when applicable, 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 of the statement of the financial position, to the extent possible.

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

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

- the nature of the change of accounting policy;
- the reasons for which the application of the new accounting policy provides more reliable and relevant information;
- for the current period and for each prior accounting period, the estimated amount of the adjustments for each affected item of the statement of the financial position, as far as possible.

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR 30 JUNE 2021
(unless specified otherwise, all amounts are stated in thousand lei)

NOTE 3 - ACCOUNTING AND EVALUATION PRINCIPLES

3.1. Basis for the preparation and presentation of financial statements

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

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

The accounting record 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 relevant to the company's situation.

3.2. Applied Accounting Policies

Aerostar SA describes the applied accounting policies 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.

Compared to the presentation made at the end of the financial year 2020, no changes were made to the applied accounting principles, methods, policies and procedures.

AEROSTAR S.A. BACAU
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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 on the date of the transaction.

On the date 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 the date of ending the financial year:

Currency	30.06.2021
EUR (Euro)	4,9267
USD (American Dollar)	4.1425
GBP (British pound)	5,7374

The favourable and unfavourable exchange rates differences resulting 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 65% of 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 and 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 is as follows:

FIRST SEMESTER 2021	k EUR	k USD	k GBP
Collected from financial assets	4.793	20.084	0
Payments of financial liabilities	(2.760)	(6.820)	(159)
Foreign exchange net exposure	2.033	13.264	(159)

In the reporting period, the quarterly variation of the foreign exchange rate USD/LEU was as follows:
+ 2,00% in the first quarter of 2021 compared to 31.12.2020
- 2,64% in quarter II of 2021 compared to 31.03.2021

and

EUR/LEU:

+ 0,20% in the first quarter of 2021 compared to 31.12.2020
- 0,03% in quarter II of 2021 compared to 31.03.2021

has determined a recorded profit from favourable exchange rate differences of 2.050 thousand LEI.

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NOTE 5 - INTANGIBLE ASSETS

	30 June 2021			01 January 2021		
	Gross amount	Depreciation/ Impairment	Net accounting value	Gross amount	Depreciation/ Impairment	Net accounting value
Licences	5.877	(5.390)	487	5.720	(5.200)	520
Other intangible assets (software)	413	(300)	113	404	(261)	143
Total	6.290	(5.690)	600	6.124	(5.461)	663

Net accounting value

	Balance on 1 January 2021	Increases	Depreciation/ Impairment during the period	Balance on 30 June 2021
Licenses	520	157	(190)	487
Other intangible assets	143	8	(38)	113
Total	663	165	(228)	600

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

- Licences
- Other intangible assets

The software programmes are registered under other intangible assets.

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

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

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

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

The intangible assets in the balance sheet account as on 30.06.2021 are not depreciated and no adjustments were made for the depreciation thereof.

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

The value of the completely amortized software licenses on 30 June 2021 and which are still in use is 3.235 thousand lei.

All the intangible assets recorded in the balance sheet as on 30 June 2021 are the property of AEROSTAR.

The increased values of intangible assets were a result of:

- development of the IT management system of production - version 3
- purchasing of software licences

165 k lei

8 k lei

157 k lei

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

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

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NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment on 30 June 2021 and 01 January 2021 comprise the following:

	30 June 2021			01 January 2021		
	Gross amount	Depreciation	Net accounting value	Gross amount	Depreciation	Net accounting value
Land	29.266	0	29.266	29.266	0	29.266
Constructions	94.468	(30.170)	64.298	94.206	(26.781)	67.425
Technological equipment and vehicles	190.525	(116.594)	73.931	188.533	(107.613)	80.920
Other equipment and office equipment	3.643	(1.321)	2.322	3.475	(1.172)	2.303
Investment property	10.537	(3.848)	6.689	10.537	(3.542)	6.995
Property, plant and equipment under construction	1.792	0	1.792	1.009	0	1.009
Total	330.231	(151.933)	178.298	327.026	(139.108)	187.918

Net accounting value

	Balance on 1 January 2021	Increases	Disposals/Transfers	Depreciation	Balance on 30 June 2021
Land	29.266	0		0	29.266
Constructions	67.425	262		(3.389)	64.298
Technological equipment and vehicles	80.920	2.235	(7)	(9.217)	73.931
Other equipment and office equipment	2.303	168		(149)	2.322
Investment property	6.995	0		(306)	6.689
Property, plant and equipment under construction	1.009	3.448	(2.665)	0	1.792
Total	187.918	6.113	16 (2.672)	(13.061)	178.298

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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 of property, plant and equipment are amortized by using the linear method.

Depreciation expenses are recognized in the profit and loss statement.

The following useful lifetimes 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 lifetimes are established by committees consisting of specialists from our company. The useful lifetimes of the property, plant and equipment will be reviewed in September 2021.

The fiscal useful lifetimes of the property, plant and equipment are stipulated by the fiscal legislation on assets.

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

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

The value of renting incomes in this category of fixed assets, registered on 30 June 2021 was 1.121 thousand lei.

On the date of transition to IFRS, the company estimated and included in the cost of the property, plant and equipment the estimated costs for 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 envisioned by the top 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.

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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 the external and internal sources of information.

Internal sources of information:

The economic performance of the assets is good, all fixed assets that are in operation benefit the company.

External source of information:

On 30.06.2021 the market value of the company (stock exchange capitalization) recorded an increase of 55% compared to 30.06.2020.

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

indicator MBR-Market to book ratio	30.06.2021	30.06.2020	31.12.2020
Stock exchange capitalization/ company equity	1,6	1,3	1,7

The increased **over-unit** value of the MBR indicator compared to the similar previous period is obtained by companies well listed on the capital market and which are of interest to the investors.

The property, plant and equipment in the balance sheet on 30.06.2021 are not depreciated and no significant depreciation indicators were identified.

The gross accounting value of the fully depreciated property, plant and equipment which are still in operation on 30 June 2021 is 30.394 thousand lei.

On 30.06.2021 no mortgages were set on the fixed assets owned by Aerostar S.A.

Increased values of property, plant and equipment, achieved by:	<u>6.113 k lei</u>
• acquisition of technical equipment, hardware equipment, measuring and control equipment	2.665 k lei
• investments made in 2021	3.448 k lei

Decreased values of property, plant and equipment, achieved by:	<u>2.672 k lei</u>
• transfer of property, plant and equipment under construction to property, plant and equipment after putting it into operation	2.665 k lei
• derecognizing some property, plant and equipment due to the fact that the company no longer expects future economic benefits from their use	7 k lei

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NOTE 7- FIXED FINANCIAL ASSETS

	Shares held in affiliated entities	Other immobilized receivables – supplier guarantees	Total
On 1 January 2021	14	38	52
Increases/Decreases	-	-	-
On 30 June 2021	14	38	52

Details of the entity's investments on 30.06.2021 in other companies:

Subsidiary name / Registered head office	CAEN code	No. of shares/ shares issued	Voting rights (%) held	Value of shares held by Aerostar (k lei)	Financial Information Related to 2020				
					Compan y's share capital (k lei)	Reserve (k lei)	Net profit (k lei)	Nominal value/ share	Net asset/ share
Airpro Consult SRL Bacau 9, Condorilor Street	- main activity according to CAEN code 7820	100	100%	10	10	102	69	0,10	1,8
Foar SRL Bacau 9, Condorilor Street	- main activity according to CAEN code 7739	800	51%	4	8	995	5	0,01	1,3
TOTAL	x	x	x	14	18	1.097	74	x	x

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

During the first semester of 2021 the company recorded no modifications i.e. no increases/decreases as to the shareholding percentage, maintaining the same influence as in 2020 on the remaining companies in the equity portfolio.

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

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NOTE 8 - TRADE RECEIVABLES

	30 June 2021	31 December 2020
TRADE RECEIVABLES OF WHICH:		
Customers, of which:	35.527	30.476
Domestic customers	7.893	13.121
Foreign customers	26.569	17.355
Uncertain customers	1.065	855
 Adjustments for impairment of receivables - customers	 (543)	 (438)
 Suppliers – debtors	 3.203	 3.819
 Adjustments for the impairment of receivables - advances granted to customers	 (40)	 (38)
 TOTAL TRADE RECEIVABLES	 38.147	 34.674

In accordance with the provisions of 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 value of the receivables not collected on time if the due date is between 30 days and 180 days. On 30 June 2021, the company registered adjustments for depreciation of this nature in the amount of 522 thousand lei;
- in percentage of 100% from the value of the receivables not collected, having no receivables with due date exceeding 180 days. On 30 June 2021, the company registered adjustments for depreciation of this nature in the amount of 21 thousand lei.

Also, the company registered adjustments for depreciation of the advances granted to the suppliers in the amount of 40 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 2021.

The receivables were evaluated at the market exchange rate communicated by the National Bank of Romania available for the end of June 2021.

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 2021, were recorded in the related income or expense account.

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NOTE 9 - OTHER RECEIVABLES

	30 June 2021	31 December 2020
Receivables related to manpower and similar accounts	98	37
Receivables related to the budget of social insurance and the state budget, of which:	2.762	3.300
- VAT to be recovered	328	0
- non-exigible VAT	58	29
- amounts to be recovered from the National Health System (allowances on medical leaves)	1.422	1.339
- Amounts to be recovered from A.J.O.F.M. representing the allowance for the reduced working time according to OUG 132/2020	39	1.188
- Excize duty to be recovered related to the fuel used	900	474
- Subsidies receivable according to OUG 147/2020 about giving parents days off for child surveillance, in December, as well as subsidies for hiring graduates	0	33
- Other receivables related to the local budget for annual tax reduction on buildings as determined by the Local Council 265/02.12.2020	0	201
- Other receivables in connection with local budget representing the fee of public service to be recovered resulting from corrected declarations submitted during 2020	5	22
- Other receivables in connection with the social security budget and the state budget	10	14
Interest to receive from bank deposits	209	277
Various debtors	264	215
Adjustments for the depreciation of the receivables – various debtors	(169)	(126)
TOTAL OTHER RECEIVABLES	3.164	3.703

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	30 June 2021	31 December 2020
NOTE 10 - INVENTORIES		
of which:		
Raw materials *	31.633	35.069
Consumables **	39.234	37.456
Other materials	146	536
Semi-finished/ Forgings	1.839	1.505
Packaging	7	3
Finished products	15.820	19.749
Products and services in progress	50.804	45.301
Gross value of the inventory (unadjusted)	<u>139.483</u>	<u>139.619</u>

Adjustments for impairment of inventories and production in progress

Explanation	30 June 2021	Increases/ Establishments /	Decreases/ Reruns/	31 December 2020
Total adjustments	49.109	11.406	4.998	42.701
Adjustments for impairment of raw materials	22.555	2.504	2.823	22.874
Adjustments for impairment of consumables	17.470	1.658	1.849	17.660
Adjustments for impairment of production in progress	6.981	6.681	-	300
Adjustments for impairment of semi-finished	1.446	221	280	1.505
Adjustments for impairment of finished products	657	342	46	362

Note:

* The raw materials directly participate in the manufacturing of the products and are found in the semi-finished or finished product, either in their initial state, or converted (bars, pipes, plates, profiles, wires etc.);

** The consumables participate or help the manufacturing or operating process, without usually being found in the finished product (auxiliary materials, fuels, spare parts, tooling & jigs 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.

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

The total value of inventories recognized as an expense during the period is of 55.416 thousand lei.

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

AEROSTAR S.A. 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:

	30.06.2021	31.12.2020	30.06.2020
Cash	34.062	19.969	16.329
Bank deposits	205.469	182.691	184.097
Paycheck and trade effects to be collected	4	0	0
Cash and cash equivalents in the statement of treasury flows	239.535	202.660	200.426

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

The cash equivalents consist of:

- short-term bank deposits;
- Paychecks and trade effects (promissory notes) deposited at banks to be collected.

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 the bank credit line usable in the form of the discovery account, available for the future operating activity, is 2.500 THOUSAND USD (the equivalent of 10.356 THOUSAND LEI).

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NOTE 12 - COMPANY EQUITY

The company equity on 30 June 2021 is 398.021 thousand lei.

The net increase of the equity in the first semester of 2021 compared to 2020 was 17.651 thousand lei.

The following changes in the main equity elements occurred in the first quarter of 2021 compared to 2020:

- **The share capital remained unchanged**

On 30 June 2021, the share capital of AEROSTAR SA is 48.728.784 lei, divided in 152.277.450 shares, each of them having a nominal value of 0,32 lei.

- **The reserves have increased by 9.513 thousand lei:**
 - 1.417 thousand lei on the account of distribution to reserves of the reinvested profit related to the first semester of 2021.
 - 8.096 thousand lei reserves distributed from the profit of 2019 and 2020.

- **Other equity elements have decreased by the amount of 265 thousand lei** on the account of the deferred income tax recognized in company equity.

- **The result carried forward increased by 183 thousand lei:**
 - Increasing by 191 thousand lei on the account of the deferred income tax recognized in company equity;
 - Decreasing through distribution to reserves of non-distributed 8 thousand lei from the profit of 2019.

- The balance of the retained earnings account carried forward on 30 June 2021 is 51.397 thousand lei, consisting of:

- the result carried forward incurred by the use, on the date of transition to IFRS, of the fair value as presumed cost = 30.375 thousand lei;

- the result carried forward representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets = 21.022 thousand lei.

- **The result of the period was profit in the amount of 35.998 thousand lei.**

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NOTE 13 – PROVISIONS

	31 December 2020	Increases/ Set-up/ Reclassification of provisions	Reductions/ Resumed/ Reclassification of provisions	Differences from re- evaluation	30 June 2021
Total provisions	115.641	11.629	(23.862)	1.340	104.748
Provisions for bonds granted to customers	43.996	11.629	(13.194)	816	43.247
Provisions for decommissioning property, plant and equipment	16.396	0	0	0	16.396
Provisions for the employees' benefits	5.284	0	(5.057)	0	227
Provisions for litigations	5.319	0	(5.375)	56	0
Other provisions	44.646	0	(236)	468	44.878
Long-term provisions	86.747	5.078	(6.429)	1.236	86.632
Provisions for bonds granted to customers	29.840	5.078	(6.193)	816	29.541
Provisions for decommissioning property, plant and equipment	16.396	0	0	0	16.396
Other provisions	40.511	0	(236)	420	40.695
Short-term provisions	28.894	6.551	(17.433)	104	18.116
Provisions for bonds granted to customers	14.156	6.551	(7.001)	0	13.706
Provisions for customers' benefits	5.284	0	(5.057)	0	227
Provisions for litigations	5.319	0	(5.375)	56	0
Other provisions	4.135	0	0	48	4.183

Provisions set up for guarantees granted to customers

Provisions for bonds granted to customers are set up 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

Provisions for decommissioning of property, especially buildings are set up 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 up for the bonus granted according to the clauses of the applicable Collective Labour Agreement (bonus for the end of the financial year, for performance) and for the days of annual leave not taken by the employees in the previous year.

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The balance contains the provision for the days of annual leave for the year 2020 not taken by the employees until 30.06.2021.

Provisions for litigations

The provision for litigations, set up for any indemnities payable by the company to a former employee, was cancelled in April, subsequent to a final rejection of the appeal brought by the appellant, pronounced by the Bucharest Court of Appeal.

Other provisions

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

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

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NOTE 14 – SUBSIDIES

Subsidies related to assets

AEROSTAR recognizes assets subsidies as deferred income.

	30.06.2021	30.06.2020
Balance on 1 January, of which:	5.894	7.935
Subsidies related to the assets received	5.875	7.914
Surplus in inventories in the category of immobilizations	19	21
Subsidies registered in income corresponding to the calculated amortization	(943)	(1.081)
Balance on 30 June, of which:	4.951	6.854
Subsidies related to the assets received	4.934	6.834
Surplus in inventories in the category of immobilizations	17	20

In the first semester of 2021 AEROSTAR S.A. did not receive any subventions for the financing of assets.

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

1. contract no. 210304/22.04.2010: 'Extension of the manufacturing and assembly capacities for aerostructures for civil aviation', performed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being 5.468 thousand lei;
2. contract no. 229226/14.06.2012: 'Setting up 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 6.011 thousand lei;
3. contract no. 5IM/013/24.03.2015: 'Consolidation and sustainable development of the mechanical processing and painting sectors by high performance investments', carried out between March and December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being 8.299 thousand lei.

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

The balance of 4.934 thousand lei registered on 30 June 2021 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: 1.129 thousand lei
2. contract no. 229226/14.06.2012: 428 thousand lei
3. contract no. 5IM/013/24.03.2015: 3.377 thousand lei

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NOTE 15 – COMMERCIAL DEBTS

	30 June 2021	31 December 2020
Prepaid amounts collected on customers' account, of which:	5.138	2.560
Domestic customers-creditors	1.072	91
Foreign customers-creditors	4.066	2.469
Suppliers, of which:	19.397	9.500
Domestic suppliers	4.494	3.304
Foreign suppliers	12.841	4.717
Suppliers-invoices not arrived	1.321	1.088
Suppliers of non-current assets	741	391
Commercial effects to pay	74	-
Total commercial debts	24.609	12.060

The payments in advance collected from external customers are for aircraft maintenance and repair work (99,07%) and other services provided (0.93%).

For the registered debts 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 2021, were registered in the corresponding accounts of revenues or expenses.

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NOTE 16 – OTHER LIABILITIES

	30 June 2021	31 December 2020
Other current liabilities, of which:	11.614	10.748
• <i>Liabilities related to manpower and similar accounts</i>	3.537	2.840
• <i>Liabilities related to social security budget and state budget, of which:</i>	4.523	5.478
– VAT payable	0	1.444
– Social insurance	3.361	3.022
– Labour safety contribution	214	190
– Tax on salary type revenues	671	584
– Contribution for disabled people, unemployed	123	137
– Other taxes	107	62
– Other social liabilities	47	39
• <i>Other liabilities, of which:</i>	3.554	2.430
– dividends	3.222	2.148
– various creditors	247	212
– warranties received	85	70
– liabilities and tax related to the right to use leasing assets		-
Other long-term liabilities	2.310	2.335

In the category *Other long-term liabilities* are found:

- the liability regarding the right to use the land leased for the Maintenance Hangar of Iasi (1.518 thousand lei) and the tax related to the right of use (792 thousand lei);

The dividends in balance on 30 June 2021, in amount of 3.222 thousand lei represent:

- 1.132 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2020;
- 867 thousand lei, amount to be paid by AEROSTAR for the dividends corresponding to 2019;
- 667 thousand lei, amount to be paid by AEROSTAR for the dividends corresponding to 2018;
- 556 thousand lei, sum amount to be paid by AEROSTAR for the dividends corresponding to 2017;

All the amounts remained in balance are dividends for the shareholders who did not show up at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR).

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NOTE 17 – TAX ON DEFERRED PROFIT

The **deferred tax** is determined for the temporary differences which occur between the tax base of the assets and liabilities and their accounting base. 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 30.06.2021 is:

Liabilities from deferred tax

1. Liabilities related to deferred tax generated by the differences between accounting bases (higher) and the fiscal ones (lower) of the non-current assets	1.677
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities on deferred tax related to reserves from the fiscal facility	15.589
4. Liabilities on deferred tax related to the reported result representing a surplus from revaluation reserves	61
Total liabilities from deferred tax	18.886

Receivables on deferred tax

1. Receivables on deferred tax related to other provisions	736
2. Receivables on deferred tax related to provisions for bonds granted to customers	6.920
3. Receivables on deferred tax related to provisions for manpower benefits	36
4. Receivables on deferred tax related to the adjustments for depreciation of the inventories	7.857
5. Receivables on deferred tax related to the adjustments for depreciation of the trade receivables	120
Total receivables on deferred tax	15.669

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.

In the period 01 January 2021 – 30 June 2021, the company registered income from tax on deferred profit in the amount of 2.609 thousand lei and expenses with tax on deferred profit in the amount of 2.488 thousand lei.

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NOTE 18 - FINANCIAL INSTRUMENTS

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

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

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

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

The financial assets of AEROSTAR S.A. include:

- trade receivables;
- trade effects received;
- immobilized receivables (bonds deposited at third parties);

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities;
- trade effects payable.

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

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

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

a) Credit risk

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

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

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

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

Exposure to credit risk

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

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

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	30.06.2021	30.06.2020
Trade receivables, net of adjustments for depreciation	33.171	26.475
Trade effects received	0	7
Immobilized receivables	38	38
Total	33.209	26.520

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

	30.06.2021	30.06.2020
Domestic market	7.927	8.443
Euro zone countries	11.729	11.792
Great Britain	7.530	4.946
Other European countries	3.266	375
Other regions	2.719	919
Total	33.171	26.475

Depreciation adjustments

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

	Gross amount	Depreciation adjustments	Gross amount	Depreciation adjustments
	30.06.2021		30.06.2020	
In due time	32.614		25.831	
Past due, total of which:	1.100	543	1.322	678
1-30 days	0	0	0	0
31-60 days	654	490	113	20
61-90 days	46	17	901	457
91-120 days	22	0	133	37
Over 120 days	357	15	135	124
Over 1 year	21	21	40	40
Total	33.714	543	27.153	678

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

	30.06.2021	30.06.2020
Balance on 1 January	438	807
Adjustments set up for depreciation	685	1.460
Adjustments for depreciations resumed as revenues	(580)	(1.589)
Balance on 30 June	543	678

On 30.06.2021, 98,40% of the balance of trade receivables are related to customers with a good payment record.

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b) Liquidity risk

The liquidity risk is the risk that AEROSTAR has difficulties in meeting 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:

	Financial debts	Accounting value	Contractual cash flows	0-30 days	31-60 days	over 60 days
30.06. 2021	Trade liabilities	18.076	(18.076)	(11.518)	(6.473)	(85)
	Trade effects	0	0	0	0	0
30.06. 2020	Trade liabilities	17.613	(17.613)	(13.244)	(2.090)	(2.279)
	Trade effects	5	(5)	(5)	0	0

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

On 30.06.2021 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 65% of 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.

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

The net exposure of the financial assets and liabilities to the foreign exchange risk is presented below based on the carrying amounts denominated in foreign currency recorded at the end of the reporting period:

30.06.2021	k EUR	k USD	k GBP
Cash and cash equivalents	5.278	1.701	12
Trade receivables	883	5.044	0
Trade liabilities	(770)	(2.431)	(13)
Net exposure in original currency	5.391	4.314	(1)

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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 and EUR/LEU exchange rate in the previous years, a relatively high volatility (+/- 10%) of the USD/LEU exchange rate and a moderate volatility (+/-2%) of the EUR/LEU exchange rate can be noticed.

Thus, a reasonably possible variation of the USD/LEU foreign exchange rate of +/- 10% and +/-2% may be envisaged to calculate at the end of the reporting period.

The effect of the reasonably possible variation of the USD/LEU exchange rate and EUR/LEU exchange rate over the financial result of AEROSTAR is calculated in the following table:

30.06.2021	EUR/LEU	USD/LEU
Net exposure, in the currency of origin	5.391 k EUR	4.314 k USD
Currency exchange rate	4,93	4.14
Net exposure in functional currency	26.578 k LEI	17.860 k LEI
Possible reasonable variation of exchange rate	+/- 2%	+/- 10%
Effect of variation on the financial result	+/- 532 k LEI	+/- 1.786 k LEI

d) Interest rate risk

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

- 1) Product A: in the amount of 2.500 thousand USD, usable as an overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
- 2) Product B: in the amount of 7.000 thousand USD (provided that 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 the amount of 2.500 thousand USD.

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

On 30.06.2021, the level of bonds granted by AEROSTAR under commercial agreements, by issue of bank bond letters and import Letters of Credit amounts to 1.985 thousand USD (equivalent to 8.223 thousand LEI).

On 30.06.2021 no mortgages are set up on the property assets in AEROSTAR ownership.

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NOTE 19 - OPERATING INCOME

	30 June 2021	30 June 2020
Revenues from sales, of which:	174.764	161.863
Revenues from product sales	70.239	87.844
Revenues from services supplied	102.281	72.617
Revenues from selling goods	799	7
Revenues from renting	1.194	1.171
Trade discounts granted	(24)	(24)
Revenues from other activities	275	248
Revenues related to inventories of products finished and in progress	4.433	24.200
Revenues from the production of fixed assets	191	1.124
Revenues from operating subsidies	1.365	824
Other revenues from operations	1.229	1.178
Total operating income	181.982	189.189

The company obtained in the first quarter of 2021 incomes from operating subsidies received for:

- employment of an unemployed person in the NEET category (Not in Education, Employment or Training) in the amount of 12 thousand lei;
- paying indemnities to the employees who were granted days off for children surveillance in case of temporary closure of educational establishments, in the amount of 15 thousand lei;
- payment of indemnity for reduced working time acc. OUG 132/2020 in the amount of 1.289 thousand lei;
- payment of indemnity for labour agreements concluded for a fixed period of up to 3 months according to OUG 220/2020 in the amount of 49 thousand lei.

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NOTE 20 - OPERATING EXPENSES

	30 June 2021	30 June 2020
Expenses with employee benefits, of which:	57.974	59.579
Salaries and allowances	52.022	54.527
Expenses with benefits in kind and expenses with ticket meals granted to employees	3.299	2.470
Expenses with social security	2.653	2.582
Expenses with raw materials and materials	50.249	49.444
Energy, water and gas	4.307	5.304
Other material expenses, of which:	5.825	5.773
Expenses with non-inventory materials	658	934
Expenses with goods	910	5
Expenses with packaging	129	192
Expenses with other materials	4.128	4.642
Expenses with external services, of which:	14.527	17.277
Repairs	6.835	9.287
Transport costs	1.337	1.338
Commissions and fees	844	1.651
Travels, deployments	900	368
Renting expenses	316	301
Other expenses with services supplied by third parties	4.295	3.473
Trade discounts received	(15)	(72)
Amortizations	13.309	12.325
Increase/decrease of adjustments regarding provisions	(10.893)	(1.513)
Increase/decrease of adjustments regarding the depreciation of current assets	6.572	7.669
Other operational expenses	1.546	1.111
Total operating expenses	143.401	156.897

In accordance with the provisions of the International Financial Reporting Standards and of the Accounting Policies Manual, the company registers adjustments regarding provisions (Note 13) and adjustments for the impairment of the current assets, inventories, production in progress and receivables (Note 8, Note 9 and Note 10), respectively.

In the first semester of 2021, AEROSTAR registered increased/set up and decreased/resumed adjustments, as follows:

Adjustments regarding provisions	30 June 2021	30 June 2020
<i>Increases / setups</i>	9.380	8.595
<i>Decreases / reruns</i>	20.273	10.108
Increase/Decrease of adjustments regarding provisions	(10.893)	(1.513)

The impact of the increased (set-up)/decreased (resumed) adjustments regarding provisions was a decrease of the operating expenses by the amount of 10.893 thousand lei.

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Adjustments regarding the impairment of current assets	30 June 2021	30 June 2020
<i>Increased / setup adjustments</i>		
Adjustments for impairment of investments	11.406	14.490
Adjustments for impairment of receivables	744	1.495
<i>Total increased/set up adjustments</i>	<i>12.150</i>	<i>15.985</i>
<i>Decreased / resumed adjustments</i>		
Adjustments for impairment of inventories	4.998	6.704
Adjustments for impairment of receivables	580	1.612
<i>Total decreased/resumed adjustments</i>	<i>5.578</i>	<i>8.316</i>
Increased/ decreased adjustments regarding the impairment of current assets	6.572	7.669

The impact of the increased (set-up)/ decreased (resumed) adjustments regarding the impairment of current assets was an increase of the operating expenses by the amount of 6.572 thousand lei.

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NOTE 21 - FINANCIAL INCOME

	30 June 2021	30 June 2020
Income from foreign currency exchange differences	4.368	3.702
Income from interest	1.156	2.588
Income from shares owned by affiliated bodies	0	537
Total venituri financiare	5.524	6.827

The 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

	30 June 2021	30 June 2020
Expenses from exchange rate differences	2.317	2.516
Expenses with interests related to leasing contract	30	30
Total financial expenses	2.347	2.546

In the first semester of 2021 the company registered in the financial expenses category:

- expenses from unfavourable exchange rate differences;
- expenses with interests related to the right to use the land leased for the Maintenance Hangar of Iași.

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NOTE 23 - TAX ON PROFIT

Tax on profit

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

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

The profit tax rate applicable for 30.06.2021 was 16% (the same rate was also applied for the financial year 2019).

30 June 2021

Gross accounting profit	41.758
Expenses with current tax on profit	5.867

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	186.437	Fiscal income	160.922	– 25.515
Accounting expenses*	144.329	Fiscal expenses	121.356	– 22.973
Gross accounting profit, restated*	42.108	Fiscal profit	39.566	-2.542
Accounting tax (16%)	6.737	Fiscal tax (16%)	6.331	-406
Tax reductions	-	<i>Tax reductions</i> , of which:	464	+464
		• related to investments made acc.to Art. 22 Fiscal Code	227	+227
		• sponsoring	237	+237
Tax on final profit	6.737	Tax on final profit	5.867	-870
Applicable legal rate	16,00%	Applicable legal rate	16,00%	
Actual average tax rate, calculated on gross accounting profit, restated		13.93%		

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

The main factors that 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 made in accordance with Art. 22 of the Fiscal Code. sponsorship;
- non-taxable income obtained from the recovery of certain non-deductible expenses.

On 30 June 2021 the company registered a debt related to the tax on current profit in the amount of 3.095 thousand lei corresponding to trimester II of 2021.

Tax specific to some activities

As of 01.01.2017 Aerostar S.A. is a payer of specific taxes for restaurant and public food activities. The specific tax corresponding to the first semester of the year 2021 amounted to 13 thousand lei, being diminished on account of the fiscal facilities granted under the applicable legislation.

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NOTE 23 - TAX ON PROFIT (COMPARATIVE FIGURES)

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 30.06.2020 was of 16% (the same rate was applied also for the financial year 2019).

30 June 2020

Gross accounting profit	36.573
Expenses with current tax on profit	5.850

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	193.707	Fiscal income	174.956	– 18.751
Accounting expenses*	156.831	Fiscal expenses	130.629	– 26.202
Gross accounting profit, restated*	36.876	Fiscal profit	44.327	+ 7.451
Accounting tax (16%)	5.900	Fiscal tax (16%)	7.092	+ 1.192
Tax reductions	-	<i>Tax reductions, from which:</i>	1.242	+ 1.242
		• related to investments made acc.to Art. 22 Fiscal Code	858	+ 858
		• sponsoring	159	+ 159
		• bonus on quarter II 2020	225	+ 225
Tax on final profit	5.900	Tax on final profit	5.850	– 50
Applicable legal rate	16,00%	Legal rate applicable	16,00%	
Actual average tax rate, calculated on gross accounting profit, restated				15.86%

* 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 affected the effective 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 sponsorship;
- non-taxable income obtained from the recovery of certain non-deductible expenses.

At 30 June 2020 the company registered a debt related to the tax on current profit in amount of 2.021 thousand lei corresponding to 2nd quarter 2020, benefiting from a bonus in the amount of 225 thousand lei, respectively 10% calculated on the profit tax due by large taxpayers for the advance payment of the tax until the due date 25 July 2020.

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The tax specific to some activities

Starting with 01.01.2017 Aerostar S.A. is a payer of taxes specific for restaurant and public food activities. The specific tax related to the first six months 2020 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 attributed to the ordinary shareholders and on the number of ordinary shares.

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

IN LEI	<u>30.06.2021</u>	<u>30.06.2020</u>
Profit attributable to ordinary shareholders	35.998.156	31.775.682
Number of ordinary shares	152.277.450	152.277.450
	<hr/>	<hr/>
Profit per share	<u>0,236</u>	<u>0,209</u>

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NOTE 25 - AVERAGE NUMBER OF EMPLOYEES

Own employees:

	Semester I 2021	Semester I 2020
Average number of employees	1.556	1.513

Employees hired through temporary labor agent:

	Semester I 2021	Semester I 2020
Average number of employees	15	114

	Semester I 2021	Semester I 2020
Total number of employees	1.571	1.627

Actual number of employees on 30.06.2021:

	Semester I 2021	Semester I 2020
Total staff	1.644	1.918

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NOTE 26 - TRANSACTIONS WITH AFFILIATED PARTIES

Acquisitions of goods and services	6 months 2021	6 months 2020
Airpro Consult SRL Bacău	505	2.898
Foar SRL Bacău	187	167
TOTAL	692	3.065
Sales of goods and services	6 months 2021	6 months 2020
Airpro Consult SRL Bacău	-	-
Foar SRL Bacău	1	1
TOTAL	1	1
Liabilities	Balance on 30.06.2021	Balance on 30.06.2020
Airpro Consult SRL Bacău	165	562
Foar SRL Bacău	34	17
TOTAL	199	579
Dividends to be collected by Aerostar	6 months 2021	6 months 2020
Airpro Consult SRL Bacău	0	50
Foar SRL Bacău	0	487
TOTAL	0	537

The transactions with the affiliated parties in the first semester of 2021 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;
- Space rental services provided by AEROSTAR SA to Foar SRL Bacau.

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NOTE 27 - INFORMATION REGARDING THE CASH FLOW

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

The cash flows Statement presents the cash flows and cash equivalents classified on operating activities, investments 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 deposited with banks in order to be collected.

The treasury cash flows from the transactions made in foreign currency are registered in the functional currency by applying to 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 on 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, so as 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.

Thus, in the first semester of 2021:

- the amounts collected from the customers were worth 186.336 thousand LEI,
- the amounts collected as subventions were worth 2.374 thousand LEI, of which 2.347 thousand lei were collected as a result of the support measures adopted by the Government in the context of the epidemiologic situation (SARS-CoV-2) in Romania,
- the payments to the suppliers and employees amounted to 101.091 thousand LEI, of which 68.346 thousand LEI payments to the suppliers and 32.745 thousand LEI payments to the employees;
- tax payments to the State Budget amounted to 35.147 thousand LEI, of which 1.037 thousand LEI tax on profit.

The operating activity generated a net cash of 53.359 thousand LEI, an increase by 15.236 thousand LEI compared to the same period of the previous year.

The payments to purchase tangible and intangible assets amounted to 2.323 thousand LEI.

The value of the cash flows allocated for the increase of the operating capacity represents 1% of the aggregate value of the cash used for operating, investment and financing activities.

As part of the financing activity, an amount of 17.183 thousand LEI was paid, representing dividends due to the shareholders.

The level of cash and cash equivalents registered on 30.06.2021 amounts to 239.535 thousand LEI, an increase by 36.875 thousand LEI compared to the beginning of the year.

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NOTE 28 - LIABILITIES AND OTHER OFF-BALANCE ITEMS

AEROSTAR S.A. registers as off-balance items, the rights, liabilities and goods that are not recognized in the company assets and liabilities, i.e.:

	30 June 2021	31 December 2020
• Liabilities:		
○ Guarantees granted to customers as letters of bank guarantee and letters of credit	220	256
○ Guarantees received from suppliers – as letters of bank guarantees and letters of credit	102.002	149.899
• Goods, of which:		
○ inventories of other materials released for use (tooling, jigs, fixtures, safety equipment, measuring and control eqpt, technical library etc.)	34.950	33.778
○ material values received in consignment	1.831	1.826
○ tangible and intangible assets –obtained or purchased as a result of co-financed activity	585	4.151
○ material values received for processing/repairs	7.727	4.643
• Other values off-balance, of which:		
○ Liabilities for covering certain future obligations to A.J.O.F.M. based on OUG 95/2002 regarding the defence industry	4.597	4.833
○ debtors removed from accounts, monitored further on	155	155
• Greenhouse Gas Emission Certificates	4.541	2.927

On 30 June 2021, AEROSTAR S.A. had a number of 16.459 greenhouse gas emission certificates. The market value on the last transaction day of a GES certificate was 56 Euro, according to the European Energy Exchange website (in December 2020: 32,75 Euro).

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NOTE 29 – DIRECTORS’ REMUNERATION

The Board of Directors of AEROSTAR S.A.:

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

During the first semester of 2021, the company Aerostar did not grant advance payments or credits to the members of the Board of Directors and did not take any liability on their account as a collateral of any kind.

In the Ordinary General Meeting of 16 December 2020, the shareholders of the company Aerostar approved the freezing at the level decided by the ordinary general meeting of shareholders dated 9 July 2020 of the directors’ compensation **for the financial year 2021, i.e.:**

- ✓ Maintaining a monthly net fixed remuneration of 4.750 lei for each elected BOD member;
- ✓ A maximum level of additional remunerations for the BOD members who also have executive attributions, of a monthly fixed amount of at most 10 (ten) times (inclusively) the value of the fixed remuneration of 4.750 lei, applied individually, as the case may be.
- ✓ Mandating the BOD to negotiate them within the approved ceiling.

The amount of the gross compensations granted to the members of the Board of Directors during the first semester of 2021, by virtue of their responsibilities, was 862 thousand lei.

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NOTE 30 – RISK MANAGEMENT

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

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

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

However, there may be risks and uncertainties additional to what is presented further on, which are currently unknown or considered insignificant, but which may affect in the future the business lines run by AEROSTAR.

Operational Risk

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

- the use of 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 that can affect AEROSTAR's assets.

Thus, the COVID-19 pandemic affects significant sectors of the global markets and economies.

The global supply chains of the aeronautical industry is facing significant cancellations and reductions of the airplane manufacturing orders, as well as reduced passenger air traffic. As a result, all the suppliers in the global supply chains are affected, which leads to reduced activities, temporary or indefinite shutdowns of the production facilities, temporary or definitive unemployment in all sectors of activity of the aeronautical industry.

In terms of human resources, the impact of the COVID-19 pandemic causes profound changes of people's lifestyle and their outlook on priorities and value hierarchies. In most cases the safety measures implemented in AEROSTAR have helped us eliminate the risk of appearance and developments of new outbreaks among our employees.

For the year 2021, given the diminished production in the field of manufacture of parts, aviation equipment and maintenance services in civil aviation MRO, AEROSTAR has decided to maintain unaffected its production capabilities and to maintain the existing personnel, also resorting to the legal solution of technical unemployment and/or reduced worktime. AEROSTAR will take steps to ensure the levels of skills and qualifications needed to honor the existing contracts, while also maintaining its recovery and growth capacity when the pandemic effect will stop.

The Operational Risk also includes the **Legal Risk**, defined as the risk of loss, resulting from the fines, penalties and sanctions AEROSTAR is liable 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.

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The effects of the legal risk are monitored and eliminated through a permanent information system regarding the legislative modifications, as well as by setting up a review, endorsement and approval system for the terms and conditions included in the commercial agreements.

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

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

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

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

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

The credit risk, including the country risk in which the customer runs its activity, is managed per 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.

There is however a significant exposure of the AIRBUS programmes to the global market, a large part of the coppany's products being integrated in the Airbus airplanes.

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 as an overdraft granted by banks in the amount of 2.500 thousand 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, the exchange rate risk and the interest rate risk.

AEROSTAR is exposed mainly to the price risk determined by the fluctuations of the raw material price and of the price of the material used in the manufacturing processes, caused by exceptional events such as the Brexit Agreement with impact on the purchasing of material from U.K., the application of international sanctions resulting in a limited possibility to procure parts and materials,

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the increased costs with specific taxes for the import/export of metallic products (mate of steels and/or aluminium) to and from USA. Tis risk is pregnant on the background of the economic recession of the aeronautical industry caused by the COVID-19 pandemic.

The management of this risk is carried out by:

- diversifying 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 65% of its turnover is related 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 will affect both its net income, as well as its financial position, as they are expressed in LEI.

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

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.

Other aspects concerning risk management are presented in the chapter OPPORTUNITY RISK MANAGEMENT of the Board of Directors' Report.

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NOTE 31 – PREPAID EXPENSES AND INCOME

	30 June 2021	31 December 2020
Expenses registered in advance, of which:	1.915	1.356
Amounts to resume within a year	1.123	543
Amounts to resume within more than a year	792	813
Income registered in advance	1.287	1.155

The expenses made and the income obtained in the current period, but which regard the future periods or financial years are registered distinctly in the accounting department, as prepaid expenses or prepaid income, as applicable.

In the category **expenses registered in advance** in records on 30.06.2021 are found:

- amounts to resume within a year representing subscriptions, insurance policy, fees, participation at trade fairs and conferences, taxes and dues, on-line services, maintenance of IT systems, etc.
- amounts to resume within more than a year, representing the interest related to the right to use the land leased for the Maintenance Hangar in Iași.

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NOTE 32 - ASSETS REGARDING THE RIGHTS TO USE THE LEASED ASSETS

	30 June 2021			01 January 2021		
Account 251	Gross amount	Depreciation	Net accounting value	Gross amount	Depreciation	Net accounting value
Asset related to the right to use the land for the Maintenance Hangar in Iași	1.862	(95)	1.767	1.864	(75)	1.789
Total	1.862	(95)	1.767	1.864	(75)	1.789

Net accounting value

	Balance on 1 January 2021	Reevaluations in first quarter and Semester I of 2021	Depreciation	Balance on 30 June 2021
Asset related to the right to use the land for the MRO Hangar in Iași	1.789	(2)	(20)	1.767
Total	1.789	(2)	(20)	1.767

The right to use the land for the Maintenance Hangar in Iași was reevaluated at the foreign exchange rate communicated by the National Bank of Romania on the last banking day of March and of June 2021.

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NOTE 33 – SIGNIFICANT EVENT IN THE REPORTING PERIOD

On 11 May 2021, Aerostar communicated to the shareholders of the company by a **press release**, the coordinates of the paid dividends due to the shareholders, distributed from the profit of the year 2020, as follows:

- a) The gross dividend per share is 0,12 lei, amount from which is retained at the source the dividend tax, within the quotas provided by the legislation in force on the date of payment; the costs related to such payment are borne from the net dividend value;
- b) The „ex date” was set for 31.05.2021 as per A.G.O.A. of 21.04.2021.
- c) The shareholders entitled to receive dividends distributed from the net profit obtained for the financial year 2020 are the ones recorded in the consolidated register of shareholders on 02.06.2021 – Registration date (approved by A.G.O.A. of 21.04.2021);
- d) The dividends distributed from the profit obtained for the financial year 2020 **were paid to the shareholders starting on 22.06.2021 – Date of payment (approved by A.G.O.A. of 21.04.2021).**

The method of payment of the dividends was detailed in the press release of 11 May 2021.

EVENTS AFTER THE REPORTING PERIOD

AEROSTAR S.A did not identify after the reporting date any events likely to have an impact on the financial statements for 6 months of 2021.

Financial Calendar 2021 – the next event will take place as follows:

Presentation of financial results on 30 September 2021	12.11.2021
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These individual financial statements which comprise: the statement of financial position, the statement of profit or loss, other elements of the global result, the individual statement of the company equity's modifications, the individual statement of the cash flows and the explanatory notes to the financial statements were approved by the Board of Directors on 26 August 2021 and signed on behalf of the Board of Directors by:

Grigore FILIP
President & General Director

Doru DAMASCHIN
Vice President & Financial Director



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

Str. Condorilor nr.9, Bacau 600302; Inmatriculat cu nr: J04/1137/1991-R.C.Bacau;
Cod Unic de Inregistrare: RO 950531; Capital social: 48.728.784 lei
Tel: +40234.575070; Fax: +40234.572023; 572259
e-mail: aerostar@aerostar.ro; Website: http://www.aerostar.ro

DECLARATION

The undersigned GRIGORE FILIP, acting as President of the Board of Directors and General Director of AEROSTAR S.A. and DORU DAMASCHIN, as Vice-President of the Board of Directors and Financial Director of AEROSTAR S.A., assume responsibility for the preparation of the individual financial statements as of 30.06.2021 and confirm that:

- a) The financial and accounting statement for the first semester of 2021, which was prepared according to the applicable accounting regulations, provides a fair and consistent view of the assets, liabilities, financial position, profit and loss account of Aerostar S.A. Bacau;**
- b) The Report of the Board of Directors on the first semester of 2021, prepared according to the provisions of the Regulation no. 5/ 2018 issued by the Financial Supervisory Authority – ANNEX no. 14, presents correctly and completely the information regarding Aerostar S.A. Bacau.**

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

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



Report on Review of Interim Financial Information To the Shareholders of Aerostar SA Bacau

[1] We have reviewed the accompanying interim financial information of **Aerostar SA Bacau** (hereinafter referred to as “the Company”), with registered office in Bacau, 1 Condorilor street, identified by the tax registration code 950531, comprising the interim statement of financial position as at June 30, 2021, and the interim statement of comprehensive income, interim statement of changes in equity and interim statement of cash flows for the six-months period then ended, including a summary of significant accounting policies and other explanatory notes to the interim financial information.

[2] Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards and IAS 34 - Interim financial Reporting, adopted by European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

[3] We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410). A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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

[4] Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at June 30, 2021, and of its financial performance and its cash flows for the six-months period then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards and IAS 34 - Interim financial Reporting, adopted by European Union.

Other aspects

[5] This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a limited review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our work, for this report, or for the conclusion we have formed.

On behalf of BDO AUDIT SRL

Registered to Electronic Public Register of Financial Auditors
and Audit Firms
No. FA18

Name of engagement partner: Cristian Iriciuc

Registered to Electronic Public Register of Financial Auditors Bucharest, Romania
and Audit Firms
No. AF4090

August 24, 2021

For stamp and signature please refer to the original Romanian version
