

The Half-Year Report on 30.06.2016

according to Annex 31 to Regulation no. 1/2006 regarding the issuers and operations with securities, issued by CNVM- National Securities Exchange Commission (currently ASF-Financial Supervisory Authority)

Date of the report: 30.06.2016

Name of the company: S.C. AEROSTAR S.A. BACAU

Registered headquarters: Strada Condorilor nr. 9

Telephone number: 0234-575.070

Sole registration number with Trade Register Office Bacau: 950531

Bacau Trade Register Number: J04/1137/1991

Share capital subscribed and paid: 48.728.784 lei

Regular market on which the issued shares are traded:
BUCHAREST STOCK EXCHANGE (symbol “ARS”)

AEROSTAR S.A. BACAU

REPORT OF THE BOARD OF DIRECTORS FOR FIRST HALF 2016

INTRODUCTION

The interim report of the Board of Directors of AEROSTAR S.A. Bacau for the first half 2016 presents the significant events and transactions for understanding the modifications in the position and performance of the company, which took place in the timeperiod January 2016-June 2016.

The financial statements prepared as on the date of 30 June 2016 are accompanied by the review report of the independent financial auditor of AEROSTAR S.A. Bacau.

AEROSTAR S.A. in figures

| | MU | 30.06.2016 | 30.06.2015 |
|--|--------------|----------------|----------------|
| Registered share capital | thousand lei | 48.729 | 48.729 |
| | | | |
| Turnover | thousand lei | 169.588 | 146.628 |
| | | | |
| o Export sales | thousand lei | 142.029 | 134.003 |
| | | | |
| Expenses for investments | thousand lei | 7.888 | 5.530 |
| | | | |
| Actual number of employees, of which: | no. | 2.005 | 1.928 |
| o Own employees | no. | 1.787 | 1.720 |
| o Employees from temporary labour agent | no. | 218 | 208 |
| | | | |
| Gross Profit | thousand lei | 41.286 | 39.362 |
| | | | |
| Net Profit | thousand lei | 34.636 | 33.097 |

“AEROSTAR” SHARE (symbol ARS)

| Stock exchange symbol “ARS” | MU | 30.06.2016 | 30.06.2015 |
|--|-----|--------------------|--------------------|
| Number of shares | no. | 152.277.450 | 152.277.450 |
| | | | |
| Nominal value per share | lei | 0,32 | 0,32 |
| | | | |
| Net profit per share (EPS ratio) | lei | 0,227 | 0,217 |
| | | | |
| Market value per share at period end *) | lei | 2,87 | 2,350 |
| | | | |
| Stock exchange capitalization | lei | 437.036.282 | 357.852.007 |

*) Source: Monthly bulletin issued by Bucharest Stock Exchange

The trading price of one AEROSTAR share varied in the 1st half 2016 between a minimal level of 2,24 lei and a maximum level of 2,99 lei.

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MACROECONOMIC INDICATORS

| | MU | 30.06.2016 | 30.06.2015 |
|-----------------------------------|-----------------|---------------|---------------|
| | | | |
| Average exchange rate EURO | lei/euro | 4,4953 | 4,4475 |
| | | | |
| Average exchange rate USD | lei/USD | 4,0307 | 3,9836 |
| | | | |
| Average exchange rate GBP | lei/GBP | 5,7802 | 6,0692 |

1.ECONOMIC & FINANCIAL SITUATION

a) Financial Position Elements

| (thousand lei) | 30.06.2016 | 31.12.2015 |
|---|-------------------|-------------------|
| TOTAL ASSETS, of which: | 384.091 | 359.779 |
| Immobilized Assets | 150.876 | 150.744 |
| Current Assets- total, of which: | 225.965 | 202.055 |
| o inventories | 58.774 | 43.562 |
| o commercial receivables and other receivables | 55.389 | 57.195 |
| o cash and cash equivalents | 111.802 | 101.299 |
| Other Assets Elements | 7.250 | 6.979 |
| o receivables related to tax on deferred profit | 6.263 | 6.546 |
| o expenses in advance | 987 | 433 |
| TOTAL COMPANY CAPITALS, DEBTS & PROVISIONS, of which: | 384.091 | 359.779 |
| Total Debts | 67.033 | 67.564 |
| Total Provisions | 113.695 | 110.696 |
| Subsidies for Investments | 15.938 | 16.875 |
| Total Company Capitals, of which: | 203.363 | 181.518 |
| o registered share capital | 48.729 | 48.729 |
| o result carried forward | 57.402 | 57.382 |
| o reserve | 56.191 | 34.773 |
| o other capital elements (debts related to tax on deferred profit) | 10.523 | 9.884 |
| o result achieved (profit) | 34.636 | 52.268 |

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b) Revenues & Expenses Elements

| (thousand lei) | 6 months 2016 | 6 months 2015 |
|---|----------------|----------------|
| • Total Revenues | 187.110 | 164.186 |
| • Revenues from Operations, of which: | 183.521 | 157.476 |
| ~ <i>Turnover</i> | 169.588 | 146.628 |
| • Financial Revenues | 3.589 | 6.710 |
| • Total Expenses | 145.824 | 124.825 |
| • Expenses with Operations, of which: | 142.357 | 118.387 |
| ~ Expenses with materials | 64.539 | 58.244 |
| ~ Expenses with employees' benefits | 47.441 | 42.130 |
| ~ Expenses related to amortization of buildings | 7.761 | 5.931 |
| ~ Value adjustments related to circulating assets | (1.043) | (328) |
| ~ Adjustments related to provisions | 2.999 | 201 |
| ~ Other expenses with operations, of which: | 20.672 | 12.209 |
| ~ <i>expenses related to third party services</i> | 19.543 | 11.130 |
| • Financial Expenses | 3.467 | 6.438 |
| Result from Operations (profit) | 41.164 | 39.089 |
| Financial Result (profit) | 122 | 273 |
| GROSS RESULT (profit) | 41.286 | 39.362 |
| NET RESULT (profit) | 34.636 | 33.097 |

c) Cash-flow Elements

| (thousand lei) | 6 months 2016 | 6 months 2015 |
|---|-----------------|------------------|
| A. Operations Activity | | |
| • received | 166.577 | 143.132 |
| • payments, of which: | 150.236 | (132.846) |
| -payments for suppliers and employees | (118.422) | (101.883) |
| -payments for taxes and dues to state budget | (31.814) | (30.963) |
| Cash from Operations | 16.341 | 10.286 |
| B. Investments Activity | | |
| • cash, of which: | 5.021 | 4.170 |
| -installments received from loans granted | 2 | 227 |
| -interest received from bank deposits & granted loans | 295 | 729 |
| -received from sales of immobilizations | 3 | - |
| -dividends received | 50 | - |
| -received from non-reimbursable funds | 4.671 | 3.214 |
| • payments for acquisition of immobilizations | (10.623) | (9.794) |
| Cash from Investment activity | (5.602) | (5.624) |
| C. Financing Activity | | |
| dividends recovered | 88 | |
| Payments for dividends | (268) | (13) |
| Cash from financing activity | (180) | (13) |
| Net growth of cash(A+B+C) | 10.559 | 4.649 |
| Cash at period start | 101.299 | 92.427 |
| Cash at period end | 111.796 | 97.434 |

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PAYMENT METHODS AND DISTRIBUTION PERIOD FOR THE DIVIDENDS DISTRIBUTED FROM THE PROFIT OF THE YEAR 2015

In the ordinary general meeting on 21 April 2016, AEROSTAR shareholders **approved**:

- **the distribution of the amount of 12.791.305,80 lei for dividends**, from the profit of the year 2015. The value of the gross dividend per share is **0,084 lei**, corresponding to a share having the nominal value of 0,32 lei.
- **Set the date of 21 September 2016 as the date for the payment of the dividends.**

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

The payment of the dividends through Depozitarul Central:

1. In case of a shareholder who has an account for securities opened with an intermediary participating in the clearing-settlement and register system of the Depozitarul Central, the payment of the dividends is made through the Depozitarul Central and the participants in the clearing-settlement and register system of the Depozitarul Central.
2. In case of a shareholder who does not have an account for securities opened with an intermediary participating in the clearing-settlement and register system of the Depozitarul Central, the payment of the dividends is made by the Depozitarul Central through **CEC Bank S.A.** (the payment agent appointed by **AEROSTAR**).
3. In case of deceased shareholders, the dividends are to be paid upon request to the successors only after Depozitarul Central performs the transfer of shares to the inheritors' names.

2. REVIEW OF THE ACTIVITY IN THE FIRST HALF 2016

2.1. General Elements and Trends in the aeronautical and defence industry

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

The main field of activity is production.

AEROSTAR's main lines of business are:

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

Aerostar has maintained its positioning as number 1 in Romania for its object of activity.

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

Aerostar is a regional leader in these market areas.

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

AEROSTAR has turned into a pole of aeronautical development. AEROSTAR develops further on the capabilities and technologies requested on the market and is active to capture the opportunities of strategic importance for the development of the company and of its customers.

The market positioning is characteristic for the tier 2 subcontractors in the global aviation supply chains.

The intensive stages to develop AEROSTAR's contribution in the supply chains of the two dominant global players AIRBUS and since late 2015, also BOEING, is based on technological development and development of the production systems.

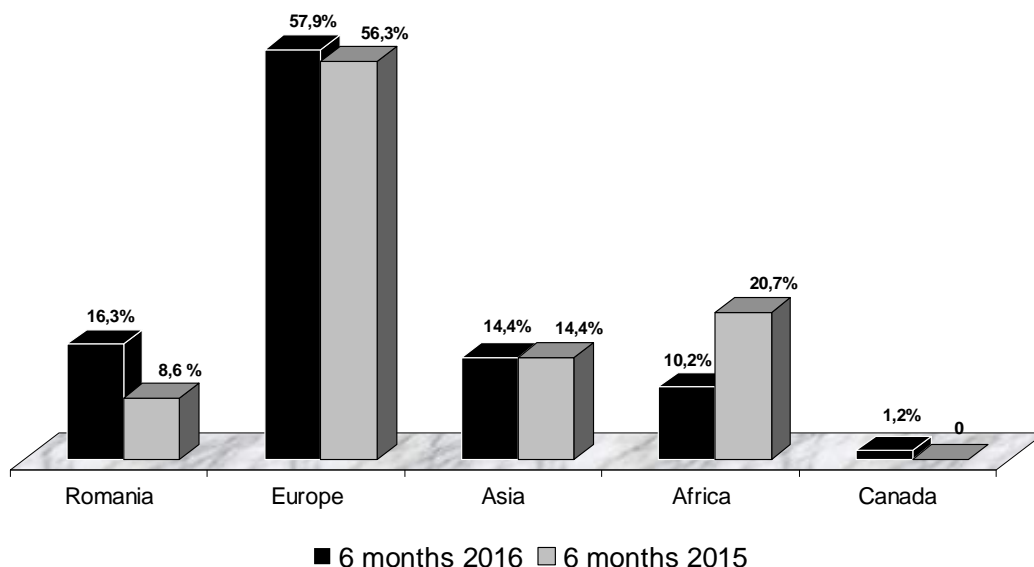
The total revenues made during 1st half 2016 were in amount of 187.110 thousand lei.

The expenses to make these revenues were in amount of 145.824 thousand lei.

The net profit achieved was in amount of 34.630 thousand lei.

We present the markets where AEROSTAR business was performed in the first half of 2016 (as percentage in total sales made):

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2.2. Presentation of the investments

The expenses for investments made during the time period January- June 2016 were in total of 7.888 thousand lei, fully funded by Aerostar.

From this amount, 7.663 thousand lei was spent for the acquisition of technological equipment, hardware equipment, measuring and control equipment, installations, in-house transport equipment etc. and 225 thousand lei for the acquisition of software licenses.

2.3. QUALITY AND ENVIRONMENT

During the first half of this year, Aerostar maintained the certifications and authorizations obtained from either certification bodies or from customers or regulatory authorities.

As to quality, surveillance audits took place in Aerostar both from the Romanian Civil Aeronautical Authority for maintaining the Part 21G and Part 145 approvals, as well as from AEROQ to maintain the 9001 approval.

Also, during the 1st half of this year took place the surveillance audit for the Quality Management System, performed by DQS, based on the standard AS 9100 specific for the production of civil aviation parts, but also the recertification of the Quality Management System in accordance with AQAP 2110.

Environment protection and increased efficiency of consumptions

As to environment, a control activity took place from the Environmental Guard, as well as the audit for the validation of the number of GES (greenhouse effect gas) certificates related to the year 2015. Also, the GES certificates were handed-out and conformance was insured with the applicable legislation.

The emissions of carbon dioxide were reduced with 7,44% compared to the year 2015 and with 32,82% compared to the year 2014.

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78% of the total residues resulted from the production processes of AEROSTAR was sold via specialized qualified companies.

Also, a new investment was made in 2016, which comprises an automatic painting plant which uses water-based paints, with a significantly reduced content of **volatile organic compounds (COV)**, which means a COV reduction with 90%.

The procedure was initiated to review the Integrated Environment Authorization and the Water Management Authorization following the new investments related to the tartaric-sulphuric anodization plant and the water-based painting line.

During this timeperiod monitoring was performed for water, air and noise on the entire AEROSTAR site in accordance with the requirements imposed by the Integrated Environment Authorization.

No environment incidents occurred during the period under review.

2.4. AEROSTAR AS AN EMPLOYER

As on the date of 30 June 2016 in Aerostar there was an actual number of 2.005 employees, with 77 employees more compared to 30 June 2016.

From among these, a number of 218 employees were made available by AIRPRO CONSULT S.R.L., which acts as a temporary labour agent on the market.

As to their background and skills, the situation is as follows:

| | |
|--|-----|
| o University degree: | 526 |
| o high school and post high-school: | 606 |
| o vocational education or on-job competences and skills: | 655 |

The average union membership during first half 2016 was 79,91%.

Other aspects related to human resources:

- average length of service duration in S.C. AEROSTAR S.A. → 16 years
- average age of employees in S.C. AEROSTAR S.A. → 47 years
- number of employees close to retirement till the year end 2016 → 73
- 99,9% of the employees are Romanian nationality
- 25,11% are women and 74,89% are men
- 41,67% of the employees have the age between 26 and 50 years
- non-discrimination in employment, nor in work;
- optimal conditions for work safety and security for all employees, as well as the mode of intervention in case of possible emergency situations.

In the first half 2016, a range of preoccupations materialized in connection with:

- annual negotiation of the collective labour contract regarding the salaries of the personnel for the period April 2016-March 2017
- professional development of the employees by training programmes and application of yearly evaluation processes of the individual performance;
- set-up of partnerships between AEROSTAR S.A. and five technical colleges in Bacau regarding joint activities for the formation training of operators/ technicians specializing in areas of interest for the company (eg: operators for NC machines, grinding, fitters, electromechanics, galvanizers/ chemical operators, ao.)
- set-up partnerships between AEROSTAR S.A. and six technical universities in Bucharest,

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Bacau, Galati and Suceava

- support to set-up efficient internal partnerships to help improve the flexibility within the company.

During first half 2016, 52% of the employees were included in training and career advancement programmes.

An aggregate number of 2.303 trainees, company employees, attended various internal professional formation programmes (approval on various activity categories) and external (specialized competences, professional advancement, post-graduate courses), with the priority objective to cover the training necessities in the areas of interest related to the production activities.

In average, each employee of those included in training and career advancement programmes, benefitted from 5.8 training hours.

Expenses were made for:

- professional formation training programmes for employees in amount of 527 thousand lei
- various expenses for health and safety in amount of 1.025 thousand lei
-

Special event which took place in 1st half 2016

In April 2016, on the occasion of the 63rd anniversary since the foundation of the company (17.04.1953), the event “Open Gates Day at AEROSTAR S.A.” was organized, where around 1000 visitors attended.

2.5.Risk Management

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

The risk management processes performed in various areas provide the identification, analysis, evaluation and management of all risks in order to minimize their effects down to an agreed level.

The risks currently managed by the company are:

- operational risk
- credit risk
- liquidity risks
- market risk, which comprises the price risk, currency exchange risk and interest rate risk

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

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

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

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

The credit risk is assessed and administered for each business partner based on the credit rating reviews, which also include the country risk for the country where the customer operates. Based on the creditworthiness, the customers are allocated a maximum level of commercial credit (in terms of value and duration), while the reassessment of the allocated creditworthiness and the credit limits are monitored and reviewed on a regular basis.

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

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

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

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

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

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

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

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

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

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

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

AEROSTAR S.A. is exposed to currency risk as 84% of the turnover is related to USD and EUR, while a considerable amount of the operational expenses is related to the operational currency (LEI).

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

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

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

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

2.6. Involvement in community life

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AEROSTAR S.A. co-operates and interacts with the interested parties from the community where the company business is performed, by philanthropic initiatives and community programmes.

We have identified the following key interested parties with whom we co-operate:

- Customers
- Suppliers and contractors
- Employees
- Banks
- Local authorities
- NGO-s
- Press
- Education institutions

AEROSTAR involvement is based on the identification of the projects which count for the local community and what gets support are programmes, projects both with public institutions, natural persons, local authorities or other entities in need of financial support.

The way we bring our contribution in the communities where we perform our activity includes the payment of taxes and dues within the legal time terms, employ local workforce, sponsorships, MECENATE, ETC

Our sponsorship programmes supported activities performed for:

1.the professional development of pupils and students:

- o National Chemistry Olympics, the 50th jubiliary edition, support granted to the Association of laboratory assistants, sciences & chemistry teachers, chemical engineers of Bacau
- o National IT Olympics- Bacau 2016
- o The project BRAIN HUNT of the association EUROAVIA, performed during the university year 2015-2016, a project which pursues the personal advancement and the evolution of the pupils and students towards building a future career

2.promote AEROSTAR name on the occasion of demo flights of specialized schools and institutions

3.the project "A chance for Dignity" of the ASSOCIATION "LUMINA" (Light) of Comanesti- Bacau county

4.revitalization of the national sport oina – *Sports Competiton of the Romanian Oina Federation*

5.support for the performance sports- *Sports Competition of the Romanian Volleyball Federation- sports team Stiinta Bacau*

Partnerships and sponsorship initiatives are part of corporate social responsibility, cultural and sports as well, which are assumed by AEROSTAR.

AEROSTAR S.A., one of the most important companies in Bacau county and one of the largest aeronautical production units in Romania, beyond the direct economic impact generated of the business performed, will support further on the projects and programmes for the consolidation of the local community.

3. MODIFICATIONS IN THE COMPANY CAPITAL AND ADMINISTRATON

In first half 2016 there were no modifications regarding the rights of AEROSTAR shareholders.

4. SIGNIFICANT TRANSACTIONS

In first half 2016, AEROSTAR S.A. did not make transactions with the persons with whom it acts jointly or where such persons were involved.

GENERAL DIRECTOR,
GRIGORE FILIP

FINANCIAL DIRECTOR,
DORU DAMASCHIN