AEROSTAR S.A.

INDIVIDUAL FINANCIAL STATEMENTS
ON 31 MARCH 2017

The individual Financial Statements prepared for 31 Marcg 2017 were audited by the internal auditor of AEROSTAR S.A. Bacau

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S.C AEROSTAR S.A.
INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION
FOR 31 MARCH 2017
(all amounts are stated in thousands lei unless specified otherwise)

	Notes	31 March 2017	31 December 2016
ASSETS			
Immobilized Assets			
Tangible Immobilizations	4;3	143.184	146.007
Intangible Immobilizations	5;3	1.735	1.689
Investment Property	4;3	6.361	6.499
Financial Immobilizations	6;3	200	202
Total immobilized assets		**151.480**	**154.397**
Circulating Assets			
Inventories	8;3	66.568	50.272
Commercial Receivables and other receivables	9;10	53.396	42.749
Cash and cash equivalent	12;3	153.392	163.153
Total Circulating assets		**273.356**	**256.174**
Expenses in advance		**1.146**	**521**
Total Assets		**425.982**	**411.092**
COMPANY CAPITALS AND DEBTS			
Capital and reserves			
Registered capital	13	48.729	48.729
Current Result		11.065	56.472
Result carried forward	13;3	104.012	56.331
Other reserves	14;3	68.835	67.833
Debts/Receivables regarding tax on deferred profit recognized on account of company capitals	7	(6.539)	(6.362)
Profit distribution as legal reserve		(1.003)	(9.095)
Total Company Capitals		**225.099**	**213.908**
Long term Debts			
Subsidies for investments	20;3	14.432	15,001
Revenues registered in advance	11	32	33
Debts regarding tax on defereed profit	7	4.266	3,804
Total long term debts		**18.730**	**18,838**
Long term Provisions	17;3	**70.625**	**71.448**
Current Debts			
Commercial debts	11	50.083	37.472
Debt with tax on current profit	11	2.398	2,215
Other current debts	11	9.733	14.414
Total current debts		**62.214**	**54.101**
Short term Provisions	17;3	**49.314**	**52.797**
Total Provisions		**119.939**	**124.245**
Total Debts		**80.944**	**72.939**
Total company capitals,debts and provisions		**425.982**	**411.092**

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF PROFIT OR LOSS
FOR 31 MARCH 2017
(all amounts are stated in thousands lei unless specified otherwise)

	Notes	31 March 2017	31 March 2016
Revenues from sales	14	74.803	81.132
Other revenues	14	917	517
Revenues related to inventories of finished products and production in progress	14	13.698	5.619
Revenues from production of immobilizations	14	66	155
Total Revenues from Operations		**89.484**	**87.423**
Expenses			
Expenses with materials	15	(35.469)	(34.935)
Expenses with employee benefits	15	(27.217)	(22.285)
Expenses with amortization of immobilizations	15	(5.965)	(3.816)
Influence of adjustments related to current assets		(4.191)	(503)
Influence of adjustments related to provisions	15	4.305	3.693
Expenses related to external services	15	(6.195)	(8.179)
Other expenses	15	(533)	(568)
Total Operational Expenses		**(75.265)**	**(66.593)**
Profit from Operations		**14.219**	**20.830**
Financial Revenues	16	922	1.416
Financial Expenses	16	(1.090)	(2.633)
Financial Profit/Loss		**(168)**	**(1.217)**
Profit before tax		**14.051**	**19.613**
Tax on current profit, deferred	7	**(2.986)**	**(2.920)**
Net Profit of the financial exercise		**11.065**	**16.693**

S.C. AEROSTAR S.A.
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF THE GLOBAL RESULT
FOR 31 MARCH 2017
(all amounts are stated in thousands lei unless specified otherwise)

	31 March 2017	31 March 2016
Net Profit of the period	**11.065**	**16.693**
Tax on deferred profit recognized on account of company capitals	127	-
Other elements of global result	**127**	**-**
Total global result of the period	**11.192**	**16.693**

S.C. AEROSTAR S.A. BACAU

INDIVIDUAL STATEMENT OF COMPANY CAPITALS MODIFICATIONS

(all amounts are stated in thousands lei unless specified otherwise)

	Registered Capital	Reserves	Tax on deferred profit recognized on account of company capitals	Result carried forward	Result of the period	Total company capitals
Global Result						
A.Balance as on 1 January 2017	**48.729**	**67.833**	**(6.362)**	**56.331**	**47.377**	**213.908**
Profit of the period					11.065	11.065
Other elements of global result						
Set up tax on deferred profit recognized on account of company capitals			(177)	304		127
Resume profit of the financial year 2016 on result carried forward, representing profit not distributed, until the distribution on the destinations decided by shareholders in GMS in April (Note 13)				47.377	(47.377)	-
Profit distribution as legal reserve in gross amounts		1.002			(1.002)	-
Total global result of the period		**1.002**	**(177)**	**47.681**	**(37.314)**	**11.192**
Transactions with the shareholders, recognized directly in company capitals		**-**		**-**		**-**
B.Balance as on 31 March 2017	**48.729**	**68.835**	**(6.539)**	**104.012**	**10.063**	**225.100**
C. Modifications of company capitals (NOTE 13)	**0**	**1.002**	**(177)**	**47.681**	**(37.314)**	**11.192**

S.C. AEROSTAR S.A. BACAU

STATEMENT OF TREASURY CASH FLOWS (direct method)

FOR 31 MARCH 2017

(all amounts are stated in thousands lei unless specified otherwise)

	Note	31 March 2017	31 March 2016
TREASURY CASH FLOWS FROM OPERATIONS			
received from customers	9	71.109	83.529
Taxes and excises recovered from state budget		334	841
Payments to suppliers and employees		(57.105)	(56.393)
Payments of taxes, contributions and dues to state budget		(17.455)	(17.351)
Payments of tax on profit		(2.215)	(1.970)
NET CASH FROM OPERATIONS		**(5.332)**	**8.656**
TREASURY CASH FLOWS FROM INVESTMENTS			
received from non-reimbursable funds	20	0	4.594
Interest received from loans granted		1	2
Interest received from bank deposits set-up		89	221
Received from sales of tangible immobilizations		26	2
Received installments from loans granted		1	1
Payments for purchasing of tangible and intangible immobilizations		(4.292)	(4.175)
NET CASH FROM INVESTMENTS		**(4.175)**	**645**
TREASURY CASH FLOWS FROM FINANCING OPERATIONS			
Dividends paid but not collected, recovered		29	88
Gross dividends paid		(31)	(185)
NET CASH FROM FINANCING OPERATIONS		**(2)**	**(97)**
Net Increase/ Decrease of cash and cash equivalents		**(9.509)**	**9.204**
Cash and cash equivalents at beginning of the period		**163.153**	**101.299**
Effect of exchange rates variations on cash and cash equivalents		(252)	(586)
Cash and cash equivalent at the end of the period	12	**153.392**	**109.917**

NOTE 1- GENERAL INFORMATION

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

AEROSTAR S.A. performs its operations at its registered headquarters located in Bacau, 9 Condorilor Street, code 600302.

The main field of activity of AEROSTAR is production.

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

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

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

During first quarter 2017, there was no subscription of new shares, nor of any participation certificates, convertible bonds, warranties, options or similar rights.

NOTE 3 – ACCOUNTING POLICIES

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

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

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

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

The accounting policies were developed in order to provide for, through the financial statements, information which shall be *intelligible*, *relevant* for users' needs in making decisions, *credible* in the sense of faithfully representing the assets, the debts, financial position, and profit or loss of the company shall not comprise significant errors, shall not be biased, shall be prudent, complete under all significant aspects, *comparable* so the users can compare the company's financial statements over time, in order to identify the trends in the financial position and its performance and be able to compare with the financial statements of other companies, to evaluate the financial position and the performance.

Modifications in the accounting policies

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

The company modifies an accounting policy only if such modification:

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

How the modifications are applied in the accounting policies:

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

The presentation of the information:
When the initial application of an IFRS has an effect over the current or prior period of time, the company presents the following in the explanatory notes:
- the title of the IFRS;
- the nature of the accounting policy modification;
- when it is the case, the fact that the modification is made as an effect of the transitory dispositions and a description of such transitory provisions;

- for the current period and for each prior period presented, the amount of the adjustments for each affected element from the statement of the financial position, to the extent possible.
  When a voluntary modification of the accounting policy has an effect over the current or prior period, the company presents in the explanatory notes:
- the nature of the modification of the accounting policy;
- the reasons for which the application of the new accounting policy offers more reliable and more relevant information;
- for the current period and for each prior period presented, the amount of the adjustments for each affected item from the statement of the financial position, to the extent possible.

General accounting policies

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

- The principle of continuity of the activity. The company continues its operations normally, without entry into liquidation or without reducing significantly its activity.
- The principle of consistency of methods. The evaluation methods and the accounting policies are applied consistently from one financial year to another.
- The principle of prudence, according to which the assets and revenues must not be overrated, while the liabilities and expenses must not be underrated.

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

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

The financial statements outline all the predictible debts and potential loss arising during the current financial year or during a prior financial year, even if they become apparent between the date of the balance sheet and the date when such balance is prepared.

To this end, the possible provisions shall also be considered, as well as the debts resulted from contractual provisions. Provisions are accounted in the balance sheet or in the explanatory notes subject to the nature of such debt.

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

- The principle of independence

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

- The principle of accrual accounting

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

(all amounts are stated in thousands lei unless specified otherwise)

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

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

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

Materiality and Aggregation

Each significant class of similar elements is separately presented in the financial statements.
The elements of different nature or functions are presented separately, except for the case when these are insignificant.
The information is significant if its omission or misstatement can influence the economic decisions made by the users based on the financial statements.
To determine which information is significant, the following materiality thresholds are set, depending on the nature of the elements:

Element for which the materiality threshold is set	Method of calculation	Value (%)
Immobilized Assets	Analysed Asset/ Total Immobilized Assets	0,5%
Current Assets	Analysed Asset/ Total Current Assets	0,5%
Debts	Analysed Debt/ Total Debts	0,25%
Revenues from Operations	Analysed Income/ Total Operating Income	0,25%
Financial Revenues	Analysed income/ Total Financial Revenues	0,25%
Operating Expenses:		
- expenditure on inventories of materials	Analysed expense/ Total Inventory Expense	0,25%
- expenditure with manpower	Analysed expense / Total Expenditure with Manpower	0,1%
- expenses with amortization	Analysed expense / Total expense with amortization	0,5%
- other expenses	Analysed expense / Total other expenses	0,25%
Financial Expenses	Analysed expense / Total financial expenses	0,25%

Accounting policies on estimates and errors

Estimates

The preparation and presentation of the individual financial statements in accordance with IFRS suppose the use of estimates, judgements and assumptions affecting the application of the accounting policies as well as the reported value of the assets, debts, revenues and expenses. Such estimates and judgments are made based on the historic experience, as well as on a series of factors considered adequate and reasonable. The reported accounting values for the assets and liabilities which cannot be determined or obtained from other sources are based on such estimates considered adequate by the company management.
The estimates, as well as the judgements and assumptions behind them are reviewed on a regular basis, and the result thereof is recognized during the time period when such estimate was reviewed.

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

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

The company uses estimates in order to determine:

- uncertain customers and adjustments for the depreciation of the related receivables;
- the value of the provisions for risks and expenses to set up at the end of a timeperiod (month, quarter, year) for litigations, for the dismantling of tangible immobilizations, for restructuring, for warranties granted to customers, for obligations towards manpower and other obligations;
- the adjustments for the depreciation of tangible and intangible immobilizations;

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

- the lifetimes of the tangible and intangible immobilized assets;

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

- the inventories of raw materials and materials requiring to set up adjustments for depreciation;
- deferred taxes.

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

Errors

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

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

The company shall retroactively correct the significant errors of the prior period from the first set of financial statements whose publication has been approved after their discovery, through:

- restating the comparative amounts for the prior period presented in which the error occurred, or
- if the error appeared before the prior presented period, restating the opening balances of assets, debts and capital shares for the prior period presented.

The company shall present the following information:
- the nature of the error for the prior period;
in so far as possible, for each of the prior periods presented, the value of the *correction*
~ for each row item affected from the financial statement;
~ for the basic result and diluted per share
- the amount of the correction at the beginning of the first prior period presented;
- if the retroactive restatement is impossible for a specific prior period, the circumstances which lead to the existence of such circumstance and a description of how and when such error was corrected.

Accounting policy on immobilizations

TANGIBLE IMMOBILIZATIONS

Recognition

The company recognizes the tangible immobilizations when:
- the company is probable to get future economic benefits related to the asset.
- the cost of the asset can be assessed in a reliably manner:

The tangible immobilizations are tangible assets which:

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

The following are not capitalized: repairs and maintenance and general administration expenses
The specific recognition criteria for the capitalization of the subsequent expenditures, such as the work performed on the tangible immobilizations in the category of constructions:

- The lifespan of the work performed shall be at least equal with the expected remaining useful life of such building;

- The cost of the work shall be over 25% of the accounting value of the building.

The spare parts and service equipment are generally accounted for like inventories and recognized as expenses when they are consumed.

If the spare parts and the service equipment can be used only in relation with an item of the tangible immobilizations, they are accounted for as property, plant and equipment, when it is possible to determine the initial purchase value (at commissioning) of the part being replaced.

In order to decide if the recognition is made separately, each case in particular is analysed on separate components using the professional judgement.

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

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

Derecognition

The accounting value of a tangible immobilization element is derecognized:

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

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

Evaluation at recognition

The costs at which a tangible immobilization is accounted comprise:

- the purchasing price, including customs taxes and non-reimbursable purchasing fees, net of any discount and commercial deductions;
- costs which can be attributed directly to bringing the assets to the location and condition needed to operate as desired by the company management;
- the initial estimate of the costs to dismantle and restore the site where it is located. For such costs to be accounted, the provisions set forth in IAS 37 “Provisions, contingent liabilities and contingent assets” apply.

IAS 2 “Inventories” is applicable to determine the costs to produce the tangible immobilizations under company’s own administration.

The cost of a tangible immobilization held by the company based on a lease is determined in accordance with IAS 17 “Leases”.

Assessment after recognition

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

Reclassification in investment property and immobilized assets held for sale

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

Amortization of tangible immobilizations

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

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

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

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

The revaluation surplus included in the result carried forward coming from using the fair value as deemed cost at the date of transition to IFRS, is capitalized through the transfer into the result carried forward representing a surplus made from revaluation reserves during the use of the assets.

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

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

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

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

Depreciation

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

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

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

INTANGIBLE IMMOBILIZATIONS

Recognition

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

Criteria for recognition of intangible immobilizations:

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

Derecognition

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

Evaluation at recognition

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

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

In case of purchase, the cost comprises:

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

In case of intangible immobilizations internally generated, the execution phases are clearly separated into:

- Research phase. The research costs are treated as expenses of the timeperiod

- Development phase. The development costs are recognized as intangible asset, provided the following conditions are demonstrated:

- Technical feasibility to complete the asset, so that it is available for use or sale;

- Availability of adequate resources – technical, financial, human to complete the development;

- Intention to complete and use or sell the intangible asset;

- Capacity to use or sell the asset;

– The manner in which the asset will generate future economic benefits;

– Capacity to assess the related costs.

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

Items not capitalized by the company:

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

Evaluation after recognition

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

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

Amortization of intangible immobilizations

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

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

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

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

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

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

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

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

Depreciation

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

INVESTMENT PROPERTY

Recognition

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

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

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

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

Derecognition

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

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

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

Classification

The category of investment property comprises:

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

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

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

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

In this case the professional reasoning is used to make a decision.

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

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

Evaluation upon recognition

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

Evaluation after recognition

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

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

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

Amortization

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

ASSETS PURCHASED BASED ON LEASES

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

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

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

The other leases are classified as operational leases.

FINANCIAL IMMOBILIZATIONS

The financial immobilizations account:

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

Evaluation upon recognition

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

Evaluation after recognition

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

Accounting policies on inventories

The inventories are assets:

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

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

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

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

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

The conversion costs include the direct labor costs, other direct production-related expenses, as well as the systematic allocation of indirect production expenses, fixed and variable overhead. The allocation of overhead expenses on each product is based on the volume of labor used to make that product. The allocation of the fixed overhead on the costs is based on a normal production capacity, expressed in direct labor hours.The calculation of such inventories which are not normally fungible and of the resulting goods or services is determined by the specific identification of their individual costs. Upon release from the account of the inventories, and of such fungible assets, they are evaluated and accounted by applying the Average Weighted Cost method.

Borrowing Cost

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

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

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

The inventories category comprises:

- raw materials participating directly in the manufacture of products and found on the completed finished product, in total or in part, either in their original form or transformed;
- consumables (auxiliary materials, fuels, packaging materials, spare parts and other consumables), participating or contributing to the manufacturing or in the operational process, typically not identifiable in the finished product;
- materials such as inventory objects;
- products, such as:

- blanks/semifinished products

- finished products;

- scraps, recoverable materials and waste;

- merchandise;

- packing, including reusable packaging material, purchased or manufactured, intended to be used on the sold products, and which can be kept temporarily by third parties and returned as provided in the agreements;

- production in progress.

- goods in custody, for further processing or in consignment at third parties.

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

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

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

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

Evaluation upon recognition

The entry of inventories gets accounted on the date when the risks and benefits are transferred.

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

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

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

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

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

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

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

- the goods arrived, and without receiving inspection, are recorded as inventory inflows.

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

- the goods sold and not delivered are distinctly recorded in the company accounts, while in the company accounts they are registered as off-balance sheet, in the account 8039 – Other values off balance-sheet;

- the goods delivered but not invoiced yet are recorded as outflows from the company inventory, both at the store and in the accounts, based on the documents confirming the outflow from the inventory.

- the goods purchased or sold with clauses as to the ownership title are recorded in accordance with the agreements concluded.

Evaluation after recognition

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

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

Accounting policies on the company liabilities

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

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

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

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

Debts with settlement in currency

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

Monthly evaluation

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

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

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

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

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

Short-term debts

A debt shall be classified as short term debt, named also as current debt, when:
- it is expected to be settled in the normal course of the exploitation cycle of the company, or
- it is chargeable within 12 months from the balance sheet date.

All the other debts shall be classified as long term debts.

Long-term liabilities

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

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

a) the initial deadline was longer than 12 months; and

b) there is an agreement for refinancing or rescheduling the installments, concluded before the date of the financial statements.

The long-term debts comprise:

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

Certificates for greenhouse effect gas emissions

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

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

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

Receivables include:

- commercial receivables, which are amounts owed by the customers for goods sold and services supplied in the normal course of activity;
- commercial effects to receive, as instruments from third parties;
- amounts owed by the employees or affiliated companies;
- advances given to the suppliers of immobilizations, goods and services;
- receivables related to manpower and state budget

The receivables are registered based on accrual accounting in accordance with law or subject to the agreements in place.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting policies for cash, cash equivalents and their presentation in the treasury cash-flow statements

Cash comprises cash on hand and at banks;

Cash equivalents shall include:
- Short-term bank deposits, which are easily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
- Checques, commercial effects received from clients and deposited on term in the bank for cash-in at due date.
- Collateral deposits set up at third parties;

The treasury cash flows are inflows and outflows of cash and cash equivalents, classified on operating activities, investment and financing.

Accounting of cash and cash equivalents and their movement, as a result of receipts and paymentsmade, are distinctly kept in lei and foreign currency.

The operations regarding the receipts and payments in foreign currency are registered in accounting at the foreign exchange rate communicated by the National Bank of Romania, valid on the date of the operations, with the exception of the buying and selling of foreign currency which shall be registered in the accounts at the time of settlement of the operation and at the rate exchange negotiated with the commercial bank under a contract of currency sale-purchase.

At the end of each reporting period the cash and cash equivalents expressed in foreign currency shall be reassessed at the foreign exchange rates communicated by the National Bank of Romania and valid from the last banking day of the month in question, the favourable or unfavourable exchange rate differences recorded, to be recognised in accounts as revenues from favourable exchange rates, or as expenses from unfavourable exchange rates differences.

The treasury cash flows shall be reported by using the direct method for the presentation of the major classes of gross amounts received and paid, from operations, investing and financing activities.

The treasury cash flows arising from taxes paid on income are classified as treasury cash flows from operating activities.

The treasury cash flows arising from interest and dividends received are classified as treasury cash flows from investment activities.

The treasury cash flows arising from interest and dividends paid are classified as treasury cash flows and financing activities.

The effect of changes in the foreign exchange rates on cash and cash equivalents is presented in the treasury cash flows separately from the cash flows arising from operations, investments and financing, with a view to the reconciliation of cash and cash equivalents, at the beginning and at the end of the reporting period.

The transactions which do not require the use of cash or cash equivalents are excluded from the treasury cash flows statement, but the relevant information regarding these transactions will be presented in another part of the financial statements.

Accounting policies on the recognition of expenses

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

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

- Consumptions of inventories;
- work performed and services supplied for the benefit of the company;
- expenses for employee benefits;
- execution of legal or contractual obligations;
- provisions;
- amortizations;
- adjustments for depreciation or loss of value.

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

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

The operational expenses comprise:

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

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

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

- expenses with amortization, expenses with value adjustments regarding the assets and expenses with the provisions;

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

Employee benefits

The employee benefits are various counterservices supplied by the company in exchange for the service performed by the employees.

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

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

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

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

- post-employment benefits, for example retirement related benefits;

- benefits for termination of the labour agreement.

Benefits for the termination of the labour agreement

The benefits for the termination of the labor agreement are negotiated periodically, as provided in the collective labor agreement.

The financial expenses are:

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

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

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

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

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

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

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

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

Accounting policies on the recognition of revenues

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

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

The revenues are classified as follows:

- Revenues from operations;
- Financial revenues;
- Extraordinary revenues

Revenues are recognized based on accrual accounting.

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

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

The operating income includes:

- revenues from sales (of goods, of services, of goods, of residual products);
- revenues related to the cost of stocks of products;
- revenues from the production of fixed assets;
- revenues from adjustments of the assets resumed, or from the provisions reduced or resumed;
- other operating income.

Sales of goods

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

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

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

Supply of services

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

Revenues from rent

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

The financial revenues comprise revenues from interest, revenues from currency exchange rates differences, revenues from dividends and other financial revenues.

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

The revenues from dividends generated by investments are recognized when the shareholder's right to receive the payment is established (provided that the economic benefits are likely to be directed towards the Group and the value of the revenues can be measured precisely). The company records the revenues from dividends at their gross value which includes the tax on dividends (when applicable), which is recognized as current expense with the profit tax.

Accounting policies regarding the trade and financial discounts

The trade reductions are:

a) off price reductions - received for quality defects and are applicable on the sale price
b) discounts –received in case of the agreed volume of superior sales if the buyer has a preferential status, and
c) rebates –calculated price discount over the effectuated transactions as a whole with the same third party, during the specified period.

The financial discounts are under the form of reductions granted when the payment of the debts is made in advance of the normal exigibility term.

Recognition:
Trade reductions granted by the supplier and entered on the purchase invoice adjusted in the sense of reducing the acquisition cost of the goods.

The commercial discounts received after invoicing correct the cost of the inventories to which they refer, if such inventories are still in accounts. If the inventories for which the subsequent discounts were received are no longer in accounts evidence, these shall be highlighted in accounts (account 609 “Trade discounts received”), on account of the third parties accounts.

Commercial discounts granted after invoicing, no matter the period to which it refers, are kept in distinct accounts (account 709 “Trade discounts granted”), on account of third parties accounts.

Accounting policies on provisions

Provisions

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

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

Provisions are accounted on types, depending on their nature, purpose or object for which they were set up.

Warranties

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

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

Provisions for risks and expenses

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

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

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

Provisions for dismantling of tangible immobilizations

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

Provisions for the benefits of the employees

Such provisions are recognised in case of bonuses (the financial year-end bonuses, the production year-end, performance bonus, etc.) granted in accordance with the applicable Collective Labour Agreement, if and only if:
- the entity has a legal implicite obligation to make this kind of payments as a result of past events, and
- a reliable estimate of the obligation can be realised.

The provisions are reviewed at the end of each reporting period and are adjusted in order to reflect the best current estimation.

Accounting policies regarding debts and contingent assets

According to IAS 37, the company does not recognise contingent assets and debts, they are kept in accounts which are off-balance sheet.

A contingent asset is a possible asset, as a result of a past event and whose existence will be confirmed only by the apparition or the absence of one or several uncertain future events, which are not totally under the control of the entity; or

A contingent debt represents:
a possible obligation resulted from past events and whose existence will be confirmed only by the apparition or the absence of one or several uncertain future events, which are not totally under the control of the entity; or

a present obligation which appeared as a result of some past events, but which is not recognised as it is unlikely to have outflows of resources required, incorporating economical benefits, to settle such obligation, or the obligation value cannot be assessed in a sufficiently reliable manner.

Accounting policies on profit taxation

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

Current tax

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

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

Deferred tax

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

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

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

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

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

Accounting policies on the profit distribution

The profit or the loss shall be established cumulatively from the beginning of the financial year.

The final result of the financial year shall be established at its closure and represents the final account of the profit and loss determined like the difference between the revenues and expenses for the year.

The profit distribution on the destinations shall be accounted for, after the approval of the annual financial statements.

Set up of reserves
At the end of the reporting period, legal reserves are set up on account of the profit of the period, only on the basis of the applicable legal provisions.

The accounting profit which remained undistributed shall be resumed at the beginning of the financial year following the one for which the annual financial statements are prepared, in the account for result carried forward, from where it is to be distributed on the other destinations decided by the General Meeting of Shareholders, in compliance with the legal provisions.

The closing of the accounts "Profit or Loss" and "Reserve" shall be performed in the financial year to follow the one for which the annual financial statements are prepared.

The profit distribution on the other destinations
The registration in accounts of the distribution of the accounting profit on destinations, except the legal reserve, shall be performed in the financial year to follow, according to the General Meeting of Shareholders.

The profit can be distributed for:
- cover the accounting loss carried forward;
- distribution of dividends;
- other statutory reserves.

The covering of the accounting loss

The accounting loss carried forward shall be covered from the profit of the financial year and the one carried over, from reserves, capital bonus and share capital, according to the resolution of the general meeting of the shareholders.

In case of correcting the errors which generate an accounting loss carried forward, this shall be covered before any distribution from the profit.

In case the development expenditure were not amortized in total, no profit distribution shall be made, only if the amount of the distributable reserves and of the profit carried forward is at least equal to the one of the development expenditure not amortized.

Accounting policies on establishing the result per share

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

Accounting policies on subsidies and other non-reimbursable funds

The category of subsidies distinctly comprises:

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

Recognition

The subsidies are recognized at their approved value.

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

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

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

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

Subsidies for investments

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

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

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

Subsidies related to revenues

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

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

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

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

Accounting policies for Related Parties

A transaction with the related parties represent a transfer of resources, services or obligations between the reporting company and a related party, whether a price is levied or not.

The identification criteria of the company's related parties are according to IAS 24 "Related Parties Disclosure".

Disclosure of information

The relations between the Company and its related parties will be presented whether there were or not transactions between them.
The company shall present the name of the parent company which prepares the consolidated financial statements available for public use.

If the Company had transactions with the related parties along the period covered by the financial statements, these will present the nature of the relation with the related parties, as well as the information regarding those transactions.

The presentation of the information will include at least:
- the value of the transactions
- the value of the outstanding balances, including undertakings;
- provisions for the doubtful receivables on outstanding balances;
- the expense recognized during the timeperiod regarding the non-recoverable or questionable receivables owed by the related parties.

The presentations of information will be prepared separately for each of the following categories:
- parent company;
- subsidiaries;
- related entities;
- joint ventures in which the entity is an associate;
- key management personnel of the entity or of the parent company
- other affiliated parts.

Accounting policies for the production of goods and services

The organization of the management accounting in AEROSTAR is based on the applicable legal provisions and the specific manual with procedures and work instructions, adapted to the specific of the company's activity.

Chart of accounts

AEROSTAR uses, for accounts management, accounts from class 9 of the general Chart of Accounts provided in the accounting regulations compliant with OMFP 2844/12.12.2016, developed into analytical accounts.

The object of accounts management consists in:
collecting of direct, indirect and auxiliary costs in accordance with their nature
distribution of indirect cost,
settlement of direct and indirect costs

The main purpose of accounts management is:
- determine the unfinished production
- determine the result on production orders or services for each organisational structure.

According to the accounting regulations, the following elements which are recognized as expenses of the period when they occurred, are not included in the cost of the goods, work or servicies executed:

a) material losses, manufacture or other production costs which are registered over the normal limits admitted

b) general administration expenses

The calculation method used in AEROSTAR S.A Bacau is the method on orders.

This method is indicated for the individual and series production. In this method the object of the evidence, for cost calculation purposes, is the order launched for a certain quantity (batch) of products.

The production expenses are collected directly on each order (direct ones) or by allocation (the indirect ones).

The effective cost per product unit shall be calculated at the completion of the order, by dividing the collected production costs on such order, to the quantity of manufactured products as part of such order.
The launching of the orders is made at the sale price or at the planned price, as applicable.

In case of orders related to export sales the price shall be expressed in lei by changing the currency at the budgeted exchange rate.

STEPS TO DETERMINE THE COSTS ON ORDERS

Prepare the provisional calculation of the costs on orders;
Collection the direct expenses on orders;
Collect the indirect expenses;
Allocate the indirect expenses and the settlement of the costs of the orders for the auxiliary activities;
Settlement of the costs for the direct orders on indirect expenses;
Allocation of the indirect expenses related to the basic activity;
Settlement of the production cost and getting the production goods and subunitary production.
Determine the production in progress.

Accounting policies for events following after the reporting date

The events following the reporting period are those specific events, favourable or unfavourable, which occur between the end of the reporting period and the date when the financial statements are authorised to be released.
The company adjusts the values recognized in its financial statements in order to reflect the subsequent events which lead to the adjustment of the financial statements after the reporting period, according to IAS 10 provisions.

Presentation of the information

The Company presents the date when the financial statements were approved for release, as well as who gave this approval.

If, subsequent to the reporting period, the Company receives information about the conditions which existed at the end of the reporting period, the Company updates the presented information which refers to this condition, in the context of the new information.

If the events which do not lead to the adjustment of the financial statements after the reporting period are significant, the Company presents the following information for each category of such events: the nature of the event and an estimation of the financial effect or a declaration according to which this kind of estimation cannot be made.

Accounting policies on financial instruments

A financial instrument is a contract generating simultaneously:

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

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

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

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

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

- it has the legal right to proceed as such

and

- it intends to settle it on a net basis

or

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

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

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

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

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

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

(all amounts are stated in thousands lei unless specified otherwise)

NOTE 4 – TANGIBLE IMMOBILIZATIONS

Gross Value	Land	Constructions	Technological eqpt and other transport vehicles	Other tangible immo bilizations	Tangible immo bilizations in progress	Investment Assets	Total
On 1 January 2017	**28.346**	**51.372**	**107.125**	**805**	**1.282**	**7.946**	**196.876**
inputs	-	459	1.785	57	2.745	26	**5.072**
transfer		112	-	-	-	(112)	**-**
immobilizations found as inventory surplus			11				**11**
		-	(45)	-	(2.327)	-	**(2.372)**
On 31 March 2017	**28.346**	**51.943**	**108.876**	**862**	**1.700**	**7.860**	**199.587**

Amortization	Land	Constructions	Technological eqpt and transport vehicles	Other tangible immo bilizations	Tangible immobilizations in progress	Investment Assets	Total
On 1 January 2017	**-**	**7.092**	**35.619**	**211**	**-**	**1.447**	**44.369**
Inputs	-	1.338	4.290	36	-	52	**5.716**
outputs		-	(43)	-		-	**(43)**
On 31 March 2017	**-**	**8.430**	**39.866**	**247**	**-**	**1.499**	**50.042**

(all amounts are stated in thousands lei unless specified otherwise)

NET ACCOUNTING VALUE OF TANGIBLE IMMOBILIZATIONS on 31 March 2017

	Gross Value	Amortization	Adjustments for loss of value	Net accounting value
1. Land	28.346	-	-	**28.346**
2. Constructions	51.943	8.430	-	**43.513**
3. Technological equipment and transport vehicles	108.876	39.866	-	**69.010**
4. Other tangible immobilizations	862	247	-	**615**
5. Investment immobilizations	7.860	1.499	-	**6.361**
6. Tangible immobilizations in progress	1.700	-	-	**1.700**
Total (1+2+3+4+5+6)	**199.587**	**50.042**	**-**	**149.545**

The tangible immobilizations are grouped by the company in the following classes of assets of the same nature and similar uses:
- Land;
- Constructions;
- Technological equipment (plant, machinery, installations);
- Transport vehicles;
- Other tangible immobilizations;
- Investment immobilizations.

When determining the gross acounting value of the tangible immobilizations, the company used the historical cost method.

The tangible immobilizations are amortized by the company using the linear method, as follows:
- constructions 30-50 years
- technological equipment 4-25 years
- transport vehicles 4-18 years
- other tangible immobilizations 2-18 years
- investment immobilizations 25-50 years

The useful lifetimes are established by committees of specialists from the company.
The fiscal operational durations of the tangible immobilizations are stipulated by the fiscal legislation on assets.

The useful lifetimes of the tangible immobilizations were revised at the end of the financial year 2017.

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

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

(all amounts are stated in thousands lei unless specified otherwise)

The revision of the estimates for the decommissioning and restoration provision is determined by the annual revision of the dismantling costs. The company's committee of specialists designated to review yearly any changes to the estimates will analyze at the end of the financial year 2017 if the initial estimates of the dismantling costs were adequate.

The amortization expenses are recognized in the profit and loss account by using the linear method of calculation.
The amortization of an asset begins when the asset is avaiable for use (i.e. when the asset is in the location and condition necessary to operate as wanted by the management) and ends on the day when the asset is reclassified in another category or when it is derecognized.
The amortization does not end when the asset is not in use.
The land and buildings are separable assets, and their accounts are kept separately, even when they are acquired together.
The land has an unlimited useful lifetime and, therefore, is not submitted to amortization.

In accordance with the provisions of IAS 36-Depreciation of assets, the company proceeded to the identification of any signs of asset depreciation, using internal sources.
Based on the review of the source, the findings are:
- the economic performance of the assets is good, compared to the forecasted performance, all the immobilizations in operation bring benefits to the company
- in first quarter 2017 no changes occurred with adverse effects on the extent and manner in which the assets are used, nor such modifications are expected in the near future.

To conclude, the tangible immobilizations in the balance sheet account on 31.03.2017 are not depreciated, and no adjustments were made for the depreciation thereof.

The gross accounting value of the fully amortized tangible immobilizations and still in operation on 31 March 2017 is 1.856 thousand lei.

As on 31.03.2017 no mortgages were set on investment immobilizations in the property of AEROSTAR S.A.

In February 2017, a building whose gross accounting value is 112 thousand lei, was transferred from the category *investment immobilizations* into the category *tangible immobilizations*, as a result of changing how it is used by AEROSTAR, while the purpose ended for which it was classified on the date of IFRS transition in investment immobilization- renting to third party.

a) Increases in gross values of the tangible immobilizations, achieved by:	**5.083**
• **acquisition** of technological equipment, hardware equipment, measuring and control equipment, modernization of buildings	2.327
• **capitalization** of expenses related to investments in progress, fully financed by AEROSTAR	2.745
• immobilizations found surplus in inventory	11
b) Decreases in gross values of tangible immobilizations, achieved by:	**2.372**
• completion of investments in progress	2.327
• derecognition of certain tangible immobilizations, due to the fact that the company no longer expects future economic benefits from their use.	45

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

Note 5 – INTANGIBLE IMMOBILIZATIONS

Gross Value	Research & Development Expenses	Licences	Other intangible immo bilizations	Total
On 1 January 2017	**-**	**3.766**	**607**	**4.373**
Inputs	2	131	164	297
Outputs	(2)	-	-	(2)
On 31 March 2017	**-**	**3.897**	**771**	**4.668**

Amortization	Research & Development Expenses	Licences	Other intangible immo bilizations	Total
La 1 ianuarie 2017	**-**	**2.432**	**252**	**2.684**
Intrari	2	183	66	249
Iesiri	(2)	-	-	(2)
La 31 martie 2017	**-**	**2.615**	**318**	**2.933**

NET ACCOUNTING VALUE OF INTANGIBLE IMMOBILIZATIONS ON 31 MARCH 2017

	Gross Value	Amortization	Adjustments for loss of value	Net Accounting Value
1.Research & Development Expenses	2	2	-	-
2.Licences	3.897	2.615	-	1.282
3.Other intangible immobilizations	771	318	-	453
Total (1+2+3)	**4.670**	**2.935**	-	**1.735**

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

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

- Development expenses
- Licenses
- Other intangible immobilizations

The IT programmes are registered in other intangible immobilizations.

The estimated useful lifetimes of intangible immobilizations are established in years.
The useful lifetimes are established by committees of specialists from the company.

The fiscal durations of operation of the intangible immobilizations are stipualted 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 immobilizations in the balance as on 31.03.2017 are not depreciated and no adjusrtments were made for the depreciation thereof.

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

The value of the completely amortized software licenses on 31 March 2017 and which are still in use is 786 thousand lei.

All the intangible immobilizations in the balance as on 31 March 2017 are the property of AEROSTAR.

Increases in gross values of intangible immobilizations were obtained by:	**297**
• Capitalization of the research-development expenses fully financed by Aerostar - qualification of special processes	2
• Development of the production management SW application AEROPROD	164
• Acquisition of software licenses	131

During first quarter 2017 no internally generated licenses were registered, nor acquired by business combinations.
During first quarter 2017 no assets were classified as held for sale in accordance with IFRS 5.

(all amounts are in thousands lei unless specified otherwise)

Note 6- FINANCIAL IMMOBILIZATIONS

	Shares held in related entities	Other immobilized securities	Long term loans granted	Total
On 1 January 2017	**14**	**92**	**96**	**202**
Increases/ Reductions	-	-	(2)	(2)
On 31 March 2017	**14**	**92**	**94*)**	**200**

*)The company accounts in financial immobilizations the outstanding balance amount (94 thousand lei) from the loan granted by AEROSTAR to an employee, falling due in over 12 months, for which AEROSTAR charges interest.

Details of the investments of the entity in other companies as on 31.03.2017 are the following:

Name of the subsidiary/ Registered headoffice	Basic activity	No of shares	Voting Rights (%)	Value of Aerostar shares (thousands lei)
SC Airpro Consult SRL Bacau Str. Condorilor nr.9	- contracting of manpower on a temporary basis	**100**	**100%**	10
SC Foar SRL Bacau Str. Condorilor nr.9	-renting and leasing with other machinery, eqpt and tangible goods	**408**	**51%**	4
SC Aerostar Transporturi Feroviare S.A Bacau Str. Condorilor nr.9	- manufacturing of lifting and handling equipment	**9.150**	**45,75%**	92
TOTAL				**106**

AEROSTAR's participations in these companies are accounted at cost, there is no active market for such securities and no other information with recent transactions on the market.

During the first half 2017, no increases/ reductions of AEROSTAR's participation percentage was registered, keeping the same influence as in 2016.

All the companies in which AEROSTAR holds contributions are registered in Romania.

(all amounts are in thousands lei unless specified otherwise)

NOTE 7- TAX ON PROFIT

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

Current tax on profit

The current tax is the tax payable in relation to the profit achieved in the current period, as determined based on the applicable fiscal regulations on the reporting date. Starting with 01.01.2017 Aerostar S.A. is payer of specific tax applicable to restaurant and public food supply activities. Therefore, it is a separate determination of the current tax applicable to other activities and the specific tax- which falls due to pay on 25.07.2017.

The profit tax rate applicable on 31.03.2017 was 16% (the same rate that applied for the financial year 2016).

	31 March 2017
Gross accounting profit	**14.051**
Expenses with current profit tax	**2.398**

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	90.018	Fiscal revenues	81.819	-8.199
Accounting expenses*	75.957	Fiscal expenses	65.759	-10.198
Gross accounting profit restated*	14.061	Fiscal profit	16.060	+1.999
Tax (16%)	2.250	Fiscal tax (16%)	2.570	+320
Tax reductions	-		172	+172
Tax on final profit	2.250		2.398	+148
Legal tax rate applicable	16%			
Effective average tax rate, calculated on gross accounting profit, restated	17%			

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

The main factors which affected the effective tax rate:

- Non-taxable revenues from the recovery of non-deductible expenses (out of which the revenues from resuming certain provisions for guaranties represented a significant part);
- Fiscal facilities representing the profit tax exemption corresponding to the investments made in accordance with Art.22 of the Fiscal Code;

(all amounts are in thousands lei unless specified otherwise)

- Non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization; a.o.)

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

The structure of the deffered tax on 31.03.2017 is:

Debts on deferred tax	Amounts (thousands lei)
1. Debts related to deferred tax, generated by differences between the accounting bases (bigger) and fiscal ones (smaller) of the immobilized assets	4.566
2. Debts related to deferred tax regarding legal reserves	1.559
3. Debts related to deferred tax regarding reserves from fiscal facilities	6.062
4. Debts related to defereed profit regarding result carried forward representing surplus made from re-evaluation reserves	59
Total debts related to deferred profit	**12.246**
Receivables related to deferred tax	
Receivables related to deferred tax regarding customer depreciation adjustments set up in 2010	38
Receivables related to deferred tax regarding risks and expenses provisions set up in 2010	1.045
Receivables related to deferred tax regarding provisions for customer warranties set up in the period 2014-2016	6.898
Total receivables related to deferred tax	**7.980**

(all amounts are in thousands lei unless specified otherwise)

Note 8- INVENTORIES

	31.03.2017	31.12.2016
Raw materials	13.037	11.139
Consumable materials	24.960	23.270
Other materials	130	14
Semifinished products	48	48
Packings	26	2
Finished products	13.643	11.918
Products in production process	30.807	20.063
Goods	1	3
Adjustments for depreciation of inventories	(16.083)	(16.185)
TOTAL	**66.569**	**50.272**

The inventories are evaluated at cost value or net achievable value, whichever is lower.
The net achievable value is the estimated sale price of the inventories minus all estimated costs of completion and the necessary costs for sale.
The cost of the inventories includes: purchase costs, conversion costs as well as other costs incurred to bring the inventories in their current condition and in the present location.
At the release from accounts, the inventories are evaluated and recorded in the accounts by applying the Average Weighted Cost method.

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

The Company considers as depreciated those goods which are older than the storage period established by internal decision of the Board of Directors.
During the reported period, the following adjustments for stock depreciation were made:

The total value of the inventories recognized as expense during the reported timeperiod is 30.026 thousand lei.

The company has no pledge set on inventories.

Note 9 – FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial debt or a company capital instrument for another entity.
The financial assets and debts are recognized when AEROSTAR SA becomes part of the contractual provisions of the instrument.

On the reporting date AEROSTAR S.A. does not hold:
- financial instruments kept for making transactions (including derived instruments)
- financial instruments kept till due date
- financial instruments available for sale

The financial assets of AEROSTAR S.A. include:
- cash and cash equivalents
- commercial receivables
- commercial effects received
- immobilized receivables (customer-guaranties)
- loans granted with interest

The financial debts of AEROSTAR S.A. include:
- commercial debts
- commercial effects to pay

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

The main types of risks generated by the financial instruments held, to which AEROSTAR S.A is exposed are:
a) credit risk
b) liquidity risk,
c) currency risk,
d) interest rate risk.

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

The cash and cash equivalents are placed only at first-rank bank institutions considered to have a high solvency rating.
In certain cases, specific instruments will be requested for credit risk mitigation (down payments, letters of bank guarantee for customers with good payment records, confirmed letters of credit for export).

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

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

(all amounts are in thousands lei unless specified otherwise)

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

	31.03.2017	31.03.2016
Cash and cash equivalents	153.392	109.917
Commercial receivables, net of depreciation adjustments	40.259	43.438
Commercial effects received	4	6
Immobilized receivables (customer guarantee)	0	417
Loans granted with interest	95	104
Total	**193.750**	**153.882**

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

	31.03.2017	31.13.2016
Domestic market	3.590	1.878
Countries in the Euro zone	20.506	19.613
Great Britain	11.612	10.355
Other European countries	387	3.744
Other regions	4.164	7.848
Total	**40.259**	**43.438**

Adjustments for depreciation

Structure on duration of gross commercial receivables as on the reporting date:

	Gross Value 31.03.2017	Adjustments for depreciation 31.03.2017	Gross Value 31.03.2016	Depreciation adjustments 31.03.2016
On term	40.259	0	43.263	0
Outstanding, total of which:	5.317	5.317	3.338	3.163
1-30 days	2.591	2.591	143	0
31-60 days	186	186	2.339	2.330
61-90 days	699	699	578	578
91-120 days	444	444	23	0
Over 120 days	1.159	1.159	4	5
More than 1 year	238	238	250	250
Total	**45.576**	**5.317**	**46.601**	**3.163**

The movement in adjustments for the depreciation of the commercial receivables during the year is presented below:

	31.03.2017	31.03.2016
Balance on 1 January	**1.024**	**254**
Adjustments for depreciation set up	4.293	3.775
Adjustments for depreciation resumed as revenues	0	(866)
Balance on 31 March	**5.317**	**3.163**

(all amounts are in thousands lei unless specified otherwise)

On 31.03.2017, 88% of the commercial receivables in balance are related to customers with good payment records.

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

AEROSTAR policy regarding the liquidity risk is to maintain an optimum level of liquidity so as to pay for the liabilities, as they fall due.
To evaluate the liquidity risk, the treasury cash flows from operations, from investments and from financing operations are monitored and reviewed weekly, monthly, quarterly and yearly in order to determine the estimated level of net liquidity modifications.
Also, the specific liquidity indicators are analyzed monthly (general liquidity, immediate liquidity and general solvency rating) against the budgeted levels.
Besides, in order to reduce the liquidity risk, AEROSTAR maintains annually a liquidity reserve as a Credit Line (usable as an overdraft) granted by banks to a maximum limit of 2.500 thousand USD.

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

	Financial Debts	**Accounting Value**	Contractual cash flows	0-30 days	31-60 days	Over 60 days
31.03. 2017	Commercial debts	32.074	(32.074)	(21.757)	(7.305)	(3.012)
	Commercial effects to pay	158	(158)	(158)	-	-
31.03. 2016	Commercial debts	27.551	(27.551)	(16.775)	(7.428)	(3.348)
	Commercial effects to pay	23	(23)	(23)	-	-

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

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

On 31.03.2017 AEROSTAR has no outstanding financial debts in its records.

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

<u>Exposure to the foreign exchange currency risk</u>
AEROSTAR is exposed to the foreign currency risks, as 91% of its turnover made in the reporting period is denominated in USD and EUR while a significant part of the operating expenses relates to LEI.
Thus, AEROSTAR is exposed to the risk of being affected by the exchange rate fluctuations both in its net revenues and in its financial position, as they are stated in Lei.

(all amounts are in thousands lei unless specified otherwise)

The net exposure to foreign currency risk of its financial assets and debts is presented below based on the financial-accounting values denominated in foreign currency as accounted at the end of the reporting period:

31.03.2017	**thousands EUR**	**thousands USD**	**Thousands GBP**
Cash and cash equivalents	481	1.423	3
Commercial receivables	1.020	7.569	-
Commercial debts	(1.580)	(2.453)	(138)
Net exposure, in the currency of origin	**(79)**	**6.539**	**(135)**

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

Taking into consideration the statistics of the last 2 years a relatively high volatility is observed for the foreign exchange pair USD/RON (9% in the year 2015 and 2% in 2016). Thus, a resonably possible variation of 6% can be taken into consideration at the end of the reporting period.

The following table details the effect of reasonably possible variations of the exchange rates over AEROSTAR's financial result.

31.03.2017	**Thousand USD**
Net exposure, in currency of origin	6.539
Currency exchange rate	4.23
Net exposure, in functional currency	27.660
Reasonably possible variation of the currency exchange rate	+/- 6%
Effect of the variation on the profit and loss statement	**1.660**

d) Interest rate risk

For the reporting period AEROSTAR has contracted a Credit Facility of 7,000 thousand USD, intended for financing the company's operations, which includes:

1) A monetary sub-limit in amount of 2.500 thousand USD, usable as an overdraft, set up to provide at any given time the necessary financial liquidity and flexibility (liquidity reserve);
2) A non-monetary sub-limit in the amount of 4.500 thousand USD, usable to guarantee for the contractual commercial obligations by issuing letters of bank guarantee and import letters of credit.

The bank interest is applicable only for the overdraft utilized within the sub-limit of 2.500 thousand USD.

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

On 31.03.2017, the level of guarantees granted by AEROSTAR under commercial agreements, by issue of bank guarantee letters amounts to 3.002 thousand USD (equivalent to 12.700 thousand LEI).

On 31.03.2017 no mortgage is set on the property assets owned by AEROSTAR.

(all amounts are in thousands lei unless specified otherwise)

Note 10- COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

RECEIVABLES	Balance on 31 March 2017	Balance on 01 January 2017
Commercial Receivables	**47.573**	**40.823**
Internal Clients	3.590	2.115
External Clients	41.656	36.674
Uncertain Clients [1)]	5.317	1.024
Adjustments for depreciation of customer receivables	(5.317)	(1.024)
Debtor suppliers	2.293	1.486
Customers – invoices to prepare	30	477
Effects to receive from customers	4	71
Other receivables, of which:	**5.823**	**1.926**
• Receivables related to manpower and similar accounts	45	16
• Receivables related to social security budget and state budget, of which:	4.216	1.317
-VAT to recover	*3.222*	-
-non-exigible VAT	*210*	*339*
-excise to recover related to fuel used	*721*	*792*
• Interest to receive from bank deposits	96	17
• Other receivables	1.466	576
TOTAL	**53.396**	**42.749**

[1)] Uncertain customers are kept in distinct accounts.

To cover the risk of non-recovery of the amounts representing uncertain receivables, the company recorded adjustments for depreciation of uncertain customers at the integral value thereof.
When determining the recoverability of a commercial receivable, the changes were considered which occurred in the customer's credit rating from the time when the credit was granted till the time of reporting.

The receivables expressed in foreign currency were evaluated at the market exchange rate communicated by the National Bank of Romania to close the month of March 2017.

The favourable and unfavourable differences between the market exchange rate used for accounts of the receivables in foreign currency and the market exchange rate communicated by the National Bank of Romania for the end of March 2017 were recorded in the related revenue or expense account from the exchange rate differences, as applicable.

(all amounts are in thousands lei unless specified otherwise)

Note 11 – DEBTS STATEMENT

DEBTS	Balance on 31 March 2017	Balance on 01 January 2017
Advance payments received on customers accounts, of which:	**16.487**	**10.327**
Domestic Customers- creditors	8.040	8.096
Foreign Customers- creditors	8.447	2.231
Suppliers, total of which:	**33.438**	**27.140**
Domestic suppliers	12.967	11.143
Foreign suppliers	18.092	12.735
Suppliers-invoices not arrived	1.364	1.892
Suppliers of immobilizations	1.015	1.370
Trade effects to pay	**158**	**5**
Debt with current profit tax	**2.398**	**2.215**
Other current debts, of which:	**9.733**	**14.414**
• Debts related to manpower and similar accounts	2.522	1.892
• Debts related to social security budget and state budget	4.364	10.951
- *VAT to pay*	-	*6.543*
- *Social security*	*2.954*	*2.960*
• Other debts, of which:	2.847	1.571
-dividends:	1.201	1.201
o *For year 2015*	*591*	*591*
o *For year 2014*	*488*	*488*
o *For year 2013*	*122*	*122*
TOTAL	**62.214**	**54.101**

The advance payments received on customers' account, amounting to 16.487 thousand lei are for aircraft maintenance and repair work, with settlement in 2017 and 2018.

For the accounted debts no mortgages were set.

At the end of March 2016 the company made undertakings as bank guarantee letters in amount of 3.002.000 USD issued in favor of the business partners in accordance with the contractual requirements.

The exchange rate differences, favourable or unfavourable, between the market exchange rate at which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for the end of March 2017, were registered in the corresponding account – revenues or expenses – from exchange rate differences, as applicable.

The dividends in balance as on 31 March 2017 in amount of 1.201 thousand lei represent:

- 591 thousand lei- the outstanding amount to be transferred by AEROSTAR for the payment of dividends corresponding to **year 2015** for the shareholders who did not collect them from CEC Bank S.A. desks (the paying agent designated by AEROSTAR).

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

- 122 thousand lei – the outstanding amount to be transferred by AEROSTAR for the payment of the dividends corresponding to **year 2013** for the shareholders who did not collect them from CEC Bank S.A. desks (the paying agent designated by AEROSTAR).

(all amounts are in thousands lei unless specified otherwise)

Note 12 - CASH AND CASH EQUIVALENTS

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

	31.03.2017	**31.03.2016**
Cash	4.027	6.768
Bank deposits	149.274	103.088
Cheques and commercial effects to receive	70	40
Collateral deposits	21	21
Cash and cash equivalents in the treasury cash flows statement	**153.392**	**109.917**

The cash comprises the available current amount in the cash account and at banks;
The cash equivalents comprise:
- short-terms bank deposits
- cheques and commercial effects (promissory notes) deposited in banks to collect
- collateral deposits set up in accordance with the legal requirements with the Local Customs Department in Bacau with a view to securing the payment of current customs obligations (customs taxes and VAT).

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

There are no restrictions on the liquidity accounts in banks.

The value of the credit facilities not used as on 31.03.2017 and avaialbale for future operations is 10.581 thousand LEI (2.500 thousand USD).

The value of treasury flows allocated for increasing the operating capacity is 5% of the aggregate value of the cash used.

Note 13- COMPANY CAPITALS

In the first quarter 2017 the company capitals increased with the amount of 11.192 thousands lei.

The modifications of the main company capitals items occurred in first quarter 2017, compared to 2016 are as follows:

- **The share capital remained unchanged:**

On 31 March 2017, the share capital of SC AEROSTAR SA Bacau is 48.728.784 lei, divided in 152.277.450 shares with a nominal value of 0,32 lei

- **The reserves increased with 1.002 thousand lei on account of:**
    - the distribution of the reinvested profit of the first quarter 2017 in reserves, in gross amount of 1.002 thousand lei

- **Other capitals items increased with the amount of 177 thousand lei** on account of the deferred profit tax, recognized on account of company capitals.
    - **The result carried forward increased with:**
    - 304 thousand lei on account of tax on deferred profit, recognized on account of company capitals
    - 47.377 thousand lei representing the profit of the year 2016 to be distributed, resumed in the result carried forward until its distribution on the destinations approved by the shareholders in the ordinary general meeting of 20 April 2017:
        - ✓ The amount of 33.672 thousand lei for statutory reserves;
        - ✓ The amount of 13.705 thousand lei for dividends;

the net increase of the result carried forward being in amount of 47.681 thousand lei during the first quarter 2017.

The structure of the balance for the result carried forward account as on 31 March 2017, in amount of 104.012 thousand lei is:

- 42.947 thousand lei - result carried forward originating from the use of the fair value, at IFRS transition, as presumed cost
- 47.377 thousand lei - result carried forward representing the profit not distributed of the financial year 2016
- 13.688 thousand lei - result carried forward representing the earning made from the re-evaluation reserves, capitalized on account of the amortization of tangible and intangible immobilizations

- **The result of the first quarter 2017 (profit) was** 11.065 thousand lei, of which the gross amount of 1.002 thousand lei was distributed as reserves in the category of reinvested profit.

(all amounts are in thousand lei unless expressed otherwise)

Note 14- REVENUES

	31 March 2017	31 March 2016
Revenues from sales, of which:	**74.803**	**81.132**
Revenues from sales of products	48.799	47.221
Revenues from services supplied	24.098	32.245
Revenues from sales of goods	1.280	1.038
Revenues from rent	462	517
Revenues from other activities	164	111
Revenues related to inventories of finished products and production in progress	**13.698**	**5.619**
Other revenues from Operations	**917**	**517**
Revenues from production of immobilizations	**66**	**155**
Total revenues from operations	**89.484**	**87.423**

Note 15- EXPENSES

	31 March 2017	31 March 2016
Expenses with employees' benefits, of which:	**27.217**	**22.285**
Salaries and allowances	22.553	18.354
Expenses with social security	4.664	3.931
Expenses with raw materials and materials	**28.189**	**28.873**
Energy, water and gas	**3.525**	**2.968**
Other expenses with materials	**3.756**	**3.087**
Expenses related to external serbvices, of which:	**6.195**	**8.179**
Transportation costs	962	1.328
Repairs	1.996	1.913
Expenses with rents	203	284
Other expenses with services supplied by third parties	1.739	1.759
Amortizations	**5.965**	**3.816**
Increase/decrease of adjustments related to provisions	**(4.306)**	**(3.693)**
Increase/decrease of adjustments related to Circulating assets	**4.191**	**503**
Other expenses from Operations	**533**	**574**
Total expenses from Operations	**75.265**	**66.592**

(all amounts are in thousand lei unless expressed otherwise)

AVERAGE NUMBER OF EMPLOYEES

	31 March 2017	31 March 2016
Average number of employees, of which:	**2.064**	**1.910**
• Average number of company's own employees	1.794	1.714
• Average number of employees attracted through temporary labour agent (AIRPRO Consult SRL)	270	196

Note 16- FINANCIAL RESULT

	31 March 2017	31 March 2016
Revenues from exchange rate differences	**752**	**1.300**
Revenues from interest	**170**	**116**
Expenses from exchange rate differences	**(1.090)**	**(2.633)**
Financial Result	**(168)**	**(1.217)**

(all amounts are in thousands lei unless specified otherwise)

Note 17- PROVISIONS

	31 December 2016	Increases/ Provisions set up	Reductions/ Provisions resumed	31 March 2017
Total Provisions	**124.245**	**2.652**	**6.958**	**119.939**
Provisions for guarantees granted to customers	41.418	2.040	3.786	39.672
Other provisions for risks and expenses	60.635	48	674	60.009
Provisions for litigations	700	0	0	700
Provisions for employees' benefits	5.370	564	2.495	3.439
Provisions for decommissioning of tangible immobilizations, of which:	16.133	0	3	16.119
Long term Provisions	**71.448**	**37**	**860**	**70.625**
Provisions for guarantees granted to customers	7.929	6	753	7.182
Other provisions for risks and expenses	47.397	31	104	47.324
Provisions for decommissioning of tangible immobilizations	16.122	0	3	16.119
Short term Provisions	**52.797**	**2.615**	**6.098**	**49.314**
Provisions for guarantees granted to customers	33.489	2.034	3.033	32.490
Other provisions for risks and expenses	13.238	17	570	12.685
Provisions for litigations	700	0	0	700
Provisions for employees' benefits	5.370	564	2.495	3.439

The categories of provisions in balance on 31.03.2017, are:

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

The provisions set up in foreign currency were reevaluated in accordance with the applicable regulations, resulting in a net increase from exchange rate differences in amount of 335 thousand lei.
The company registers contingent debts related to granted letters of bank guarantee in a total amount 10.156 thousand lei.

(all amounts are in thousands lei unless specified otherwise)

Note 18 – TRANSACTIONS WITH RELATED PARTIES

Purchasing of goods and services	First quarter 2017	First quarter 2016
S.C Airpro Consult SRL Bacau	2.878	1.850
S.C Foar SRL Bacau	154	179
TOTAL	3.032	2.029

Sales of goods and services	First quarter 2017	First quarter 2016
S.C Airpro Consult SRL Bacau	5	3
S.C Foar SRL Bacau	1	0,4
TOTAL	6	3,4

Debts	Balance on 31.03.2017	Balance on 31.03.2016
S.C Airpro Consult SRL Bacau	1.039	646
S.C Foar SRL Bacau	113	128
TOTAL	1.152	774

The transactions with the affiliated parties during first quarter 2017 consisted in:

- Services provided by SC AIRPRO CONSULT SRL Bacau to SC AEROSTAR SA Bacau for services with the temporary manpower
- Machinery rental services provided by SC FOAR SRL Bacau to SC AEROSTAR SA Bacau
- Services provided by SC AEROSTAR SA Bacau to SC AIRPRO CONSULT SRL Bacau and to SC FOAR SRL Bacau for space rental and supply of utilities

There were no transactions with the company S.C.Transporturi Feroviare SA Bacau.

Note 19- PROFIT PER SHARE

The profit per basic share was calculated based on the profit which can be allocated 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	31.03.2017	31.03.2016
Profit to allocate to ordinary shareholders	11.064.844	16.693.244
Number of ordinary shares	152.277.450	152.277.450
Profit per share	**0,073**	**0,109**

(all amounts are in thousands lei unless specified otherwise)

Note 20 – SUBSIDIES

Subsidies related to assets

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

	31.03.2017	31.03.2016
Balance on 1 January	**14.972**	**16.828**
Subsidies related to assets	0	0
Subsidies registered as revenues corresponding to amortization calculated	(570)	(461)
Balance on 31 December	**14.402**	**16.367**

The balance of 14.402 thousand lei represents subsidies related to investments in immobilized assets, to be registered under revenues during the timeperiod to follow corresponding to the calculated amortization.

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

1. Contract no. 210304/22.04.2010: ”Extension of the capacity for manufacturing and assembly for aerostructures for civil aviation”, executed between April 2010 and October 2012, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 5,468 thousand Lei;

2. Contract no. 229226/14.06.2012: ”Set-up of a new manufacturing capacity for diversifying production and export growth”, executed between June 2012 and May 2014, the value of the subsidy received from the Ministry of Economy, Trade and Business Environment (MECMA) being of 6.011 thousand Lei;

3. Contract no. 5IM/013/24.03.2015: ”Consolidation and sustainable development of the machining and painting sectors by high performance investments”, executed between March and December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being of 8,299 thousand Lei;

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

(all amounts are in thousands lei unless specified otherwise)

Note 21 – LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

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

	31 March 2017	31December 2016
• Liabilities:		
- Guarantees granted to customers as letters of bank guarantee	10.156	10.192
- Guarantees received from suppliers as letters of bank guarantee	467	433
• **Goods**		
- Inventories such as other materials released for use (jigs & tooling and measurement eqpt, protection outfits, measuring and control eqpt, technical library, etc.)	23.122	22.348
- Value of materials received under custody	1.796	1.796
- Tangible and intangible immobilizations- result of research – development, purchased by co-funded projects	1.151	1.151
- Material values received for processing/repair	653	616
- Other goods off the balance sheet	176	169
• **Other values off balance sheet**		
- Liabilities related to covering future obligations to A.J.O.F.M. (Manpower Occupancy Agency) based on emergency ordinance OUG 95/2002 regarding the defence industry	6.530	6.635
- Debtors out from the assets, under continued monitoring	345	349
- Material guarantees	198	186

Note 22- EVENTS AFTER THE REPORTING PERIOD WHICH DO NOT GENERATE ADJUSTMENTS OF THE FINANCIAL STATEMENTS

In the ordinary general meeting of 20 April 2017 AEROSTAR's shareholders approved the distribution of the net profit of the financial year 2016, namely the amount of 56.471.594,73 lei, as follows:

- **Distribution as legal reserve** of the reinvested profit in amount of 9.094.374,24 lei
- **Distribution as statutory reserve** for the working capital in amount of 33.672.250,49 lei
- **Distribution for dividends of the amount of** 13.704.970,0 lei and set a gross dividend per share of 0,09 lei, corresponding to a share of nominal value of 0,32 lei
- **Set the date for the payment of the dividends on 20 September 2017.**

The distribution of the dividends for the year 2016 to AEROSTAR's shareholders will be made in accordance with the legal provisions applicable.

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