

Half - Year Report as on 30.06.2017

In accordance with Annex 31 to the Regulation no 1/2006 with subsequent modifications regarding the issuers and operations with securities, issued by CNVM, currently ASF (Financial Supervisory Authority)

Date of the report: 30.06.2017

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

Registered Headoffice: str.Condorilor nr 9

Telephone No: 0234-575.070

Sole Registration Number with Bacau Trade Register Office: 950531

Number in Bacau Trade Register: J04/1137/1991

Social capital, subscribed and paid: 48.728.784 lei

Regular market for trading issued securities: BUCHAREST STOCK EXCHANGE (symbol "ARS")

INTRODUCTION

The interim financial report of the Board of Directors of AEROSTAR S.A. Bacau for half year 2017 presents the significant events and transactions in order to provide the understanding of the modifications in the position and performance of the company, which took place in the time period January 2017 - June 2017.

AEROSTAR S.A. In Figures

	MU	30.06.2017	30.06.2016
Registered Capital	thousand lei	48.729	48.729
Turnover	thousand lei	162.706	169.588
o Export Sales	thousand lei	136.726	142.029
Expenses for Investments	thousand lei	8.031	7.888
Actual Number of Employees, of which:	no	2.128	2.005
o Own employees	no.	1.943	1.787
o Employees from temporary labour agent	no.	185	218
Total Gross Profit	thousand lei	31.307	41.286
Net Profit	thousand lei	25.213	34.636

"AEROSTAR" SHARE

Stock Exchange Symbol "ARS"	MU	30.06.2017	30.06.2016
Number of shares	no.	152.277.450	152.277.450
Nominal Value per share	lei	0,32	0,32
Net Profit per share (EPS ratio)	lei	0,166	0,227
Market value per share at the end of the period *)	lei	3,43	2,87
Stock Exchange capitalization	lei	522.311.654	437.036.282

*)source: Bucharest Stock Exchange Monthly Bulletin

The transaction price of an AEROSTAR share during the first half of the year 2017 was fluctuating between a minimum level of 3.25 lei and a maximum level of 3.70 lei.

MACROECONOMIC INDICATORS

	MU	30.06.2017	30.06.2016
Average Exchange Rate EURO	lei/euro	4,536	4,4953
Average Exchange Rate USD	lei/USD	4,195	4,0307
Average Exchange Rate GBP	lei/GBP	5,274	5,7802

1.ECONOMIC & FINANCIAL SITUATION

a) Financial Position

(thousands lei)	30.06.2017	31.12.2016
TOTAL ASSETS, of which:	413.550	411.092
Immobilized Assets	150.706	154.397
Current Assets- total, of which:	262.018	256.174
o inventories	62.893	50.272
o commercial receivables and other receivables	53.193	42.749
o cash and cash equivalent	145.932	163.153
Other assets elements (expenses in advance)	826	521
TOTAL COMPANY CAPITALS, DEBTS AND PROVISIONS, of which:	413.550	411.092
Total Debts	71.928	72.939
Total Provisions	116.140	124.245
Subsidies for Investments	13.867	15.001
Total Company Capitals, of which:	225.482	213.908
o registered capital	48.729	48.729
o result carried forward	56.911	56.331
o reserves	104.516	67.833
o other capital elements (receivables/debts related to tax on deferred profit)	(6.876)	(6.362)
o profit distributed as legal reserve	(3.011)	(9.095)
o result (profit)	25.213	56.472

S.C. AEROSTAR S.A. BACAU
REPORT OF THE BOARD OF DIRECTORS HALF-YEAR 2017

b) Revenues & Expenses Elements

(thousands lei)	6 months 2017	6 months 2016
• Revenues from Operations, of which:	182.676	183.521
~Turnover	162.706	169.588
• Financial Revenues	2.296	3.589
• Expenses for Operations, of which:	(149.794)	(142.357)
~ Expenses with materials	(68.118)	(64.539)
~ Expenses with employees benefits	(53.398)	(47.441)
~ Expenses regarding amortization of immobilizations	(11.743)	(7.761)
~Value adjustments regarding current assets	(9.385)	1.043
~Adjustments regarding provisions	8.104	(2.999)
~Other expenses for Operations, of which:	(15.254)	(20.672)
~expenses regarding external services	(14.056)	(19.543)
• Financial Expenses	(3.871)	(3.467)
Result from Operations (profit)	32.882	41.164
Financial Result (loss/profit)	(1.575)	122
GROSS RESULT (profit)	31.307	41.286
NET RESULT (profit)	25.213	34.636

c) Cash-Flow Elements

(thousands lei)	6 months 2017	6 months 2016
A. Operations		
• Amounts collected	154.503	166.577
• Payments, of which:	161.206	150.236
-payments for suppliers and employees	(128.333)	(118.415)
-payments for dues and taxes to state budget	(32.873)	(31.814)
Cash from Operations	(6.703)	16.341
B. Investments		
• Amounts collected, of which:	196	9.071
-installments collected from loans granted	2	2
-interest received from bank deposits and loans granted	133	295
-amounts collected from sales of immobilizations	72	3
-dividends received from subsidiaries	97	50
-amounts received from non-reimbursable funds	0	4.671
• Payments for acquisitions of immobilizations	(9.829)	(10.623)
Cash from Investments	(9.633)	(1.552)
C. Financing Operations		
Dividends paid but not collected, recovered	29	88
Payments for dividends	(32)	(268)
Cash from Financing Operations	(3)	(180)
Net cash increase (A-B-C)	(16)	13.209
Cash at the beginning of the period	163.153	101.299
Effect of currency exchange rates variations	(990)	(62)
Cash at the end of the period	145.982	110.805

IMPORTANT EVENT DURING THE REPORTING PERIOD

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

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

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

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

2. REVIEW OF AEROSTAR ACTIVITY FOR HALF- YEAR 2017

In accordance with the classification of activities in the national economy, the main object of activity is manufacturing of aircraft and spaceships- CAEN code 3030.

The main field of activity is production.

AEROSTAR BUSINESS DEVELOPMENT FOR HALF-YEAR 2017

AEROSTAR operates on the global market, highly competitive, where the dynamics of the dominant players- the large companies which integrate final products- pursue with consistency their major objective of business growth.

While the growth dynamics seems not to be affected by the geopolitics of the recent and present periods, the Original Equipment Manufacturers focus on those levers able to support growth: key cooperations within the supply chains, growing their share of the services and support business associated with their products.

The approaches related to innovative technologies, the progress in the digital transformation as well as cybersecurity are the aspects which are setting the growth coordinates in the aviation and defence industry.

During the first six months 2017, AEROSTAR business is aligned with the specific trends in the field of aviation and defence at global scale.

Further on, AEROSTAR's main lines of business are:

- Manufacturing of aviation products
- MRO commercial aircraft
- Aero & ground systems for defence, production and integrations

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

- Number 1 in aviation manufacturing
- Number 1 in maintenance of commercial aircraft

Aerostar is a significant supplier for the solutions in the field of aero & ground defence systems.

AEROSTAR is a regional leader in these market domains.

AEROSTAR holds a significant footprint in the global programmes of aeronautical manufacturing.

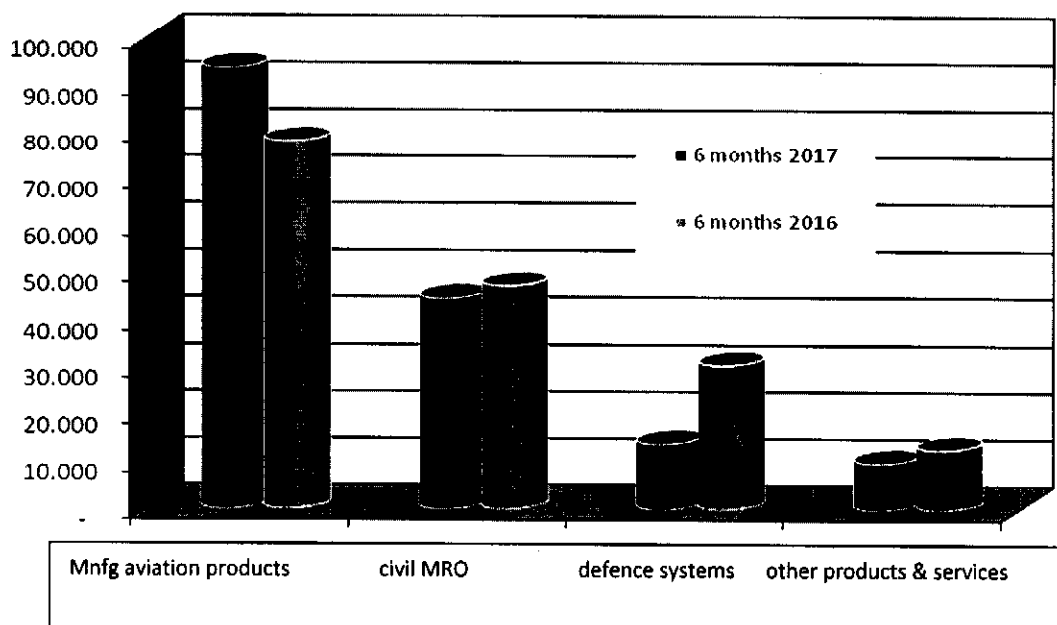
Aerostar fulfills at a high level the performance and competitiveness criteria and was specifically distinguished by AIRBUS and SAFRAN Landing Systems on the occasion of their annual meetings with their suppliers in the manufacturing programmes.

The positioning on the market is characteristic for the tier 2 suppliers in the global supply chains in the aviation industry.

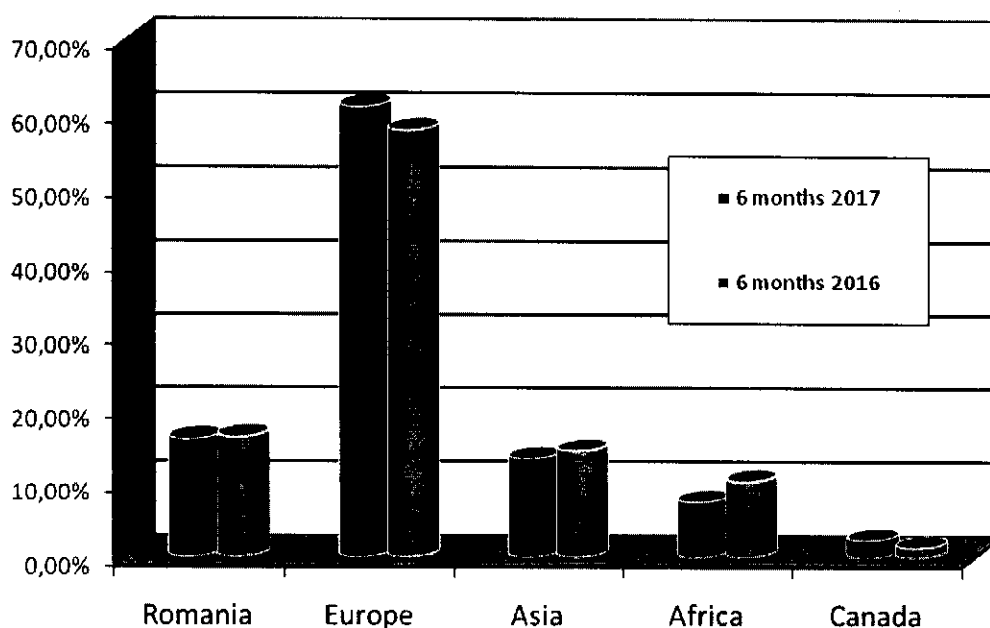
AEROSTAR's contribution in the supply chains of the two dominant global players, AIRBUS and BOEING, is based on the technological development and of the production systems.

The total revenues during the first semester 2017 were in amount of 184.973 thousand lei.
The expenses made to achieve these revenues were in amount of 153.666 thousand lei.
The net profit achieved was in amount of 25.213 thousand lei.

We present the comparative evolution for the sales of products and services (thousand lei):



We present the markets where AEROSTAR business was performed during the first six months 2017 (as contribution in total sales)



INVESTMENTS

In the first six months 2017 the level of the investments made by AEROSTAR from own sources was in amount of 8.031 thousand lei.

From this amount, 7.397 thousand lei were spent for the acquisition of technological equipment, hardware, measurement and control units, installations, internal and freight transportation vehicles and equipment, etc while 634 thousand lei were spent for the acquisition of software licenses and for the development of the IT system applicable to the production management.

The digitalization is no longer an option, it is a MUST.

Aviation is certainly among the most advanced from the digitalization viewpoint.

The subcontractors management, the integration of all components are performed using highly digitalized business process for the very reason to provide for the traceability, transparency and integration of the processes.

The digitalization process initiated in AEROSTAR is not an option, it is a MUST.

The purpose of the digitalization is obviously to have an increased effectiveness of the data flow, to reduce the time to convey the information and use it when needed and not later.

The digitalization does not start from zero in AEROSTAR, there is already a range of digitalized processes, a sensors network installed on the equipment which join into an Internet of Things, there are already ERP systems, MRP, PDM.

Aerostar has the hardware and software resources required to continue this process, as well as the human resource to create the applications which are at the basis of the digitalization process.

The company is under full digitalization processes.

The main objective of the project team made of AEROSTAR specialists is the digitalization of all the production processes by the end of 2018.

QUALITY AND ENVIRONMENT

During the first six months 2017 AEROSTAR maintained the certifications and approvals issued either by the certification bodies, or by the customers or other regulatory authorities.

As regards quality, surveillance audits were performed in AEROSTAR both by the Romanian Civil Aeronautical Authority in order to maintain the Part 21G and Part 145 approvals, by the certification body AEROQ in order to maintain the certification in accordance with the requirements of SR EN ISO 9001, by DQS in order to maintain the certification in accordance with the requirements in AS9100, as well as by OMCAS in order to maintain the certification in accordance with the requirements in AQAP 2110.

As regards environment, four inspections were made by Garda de Mediu (environment police), an on site inspection by the Environment Protection Agency Bacau as a first step in the process to renew the approval, as well as the audit for the validation of the GES (greenhouse effect gas) certificates for the year 2016.

Also, the GES certificates were submitted in order to provide compliance with the applicable legislation.

During this period the water monitoring inspection was made for the entire company site in accordance with the requirements in the Integrated Environment Approval.

AEROSTAR AS AN EMPLOYER

In the first semester 2017 an actual number of 2128 employees were working in AEROSTAR, of which 185 were made available by AIRPRO CONSULT S.R.L., a company which operates on the market as a temporary labour agent.

AEROSTAR continued the professional development programmes for the employees by professional formation courses.

AEROSTAR provides training of its employees for specialties and skills which are not provided otherwise on the labour market.

During the first six months 2017 the total attendance in the professional formation programmes was 1879 as a number while the expenses for this activity were in amount of 523 thousand lei.

With reference to the background of the employees, the figures indicate as follows:
:

- university degree	566
- high school education	650
- vocational schools	646
- other categories	83

These figures do not include the numbers from the people employed through the temporary labour agent company and utilized in the production processes in AEROSTAR.

The average union membership was 76,15%.

The negotiations for a new collective labour contract were finalized on 22 March 2017 with validity in force from the date of 01 April 2017 until 31 March 2019.

RISK MANAGEMENT

AEROSTAR is exposed to a variety of risks and uncertainties which may affect its financial performances. The business lines followed by Aerostar, the operational results or the financial situation of the company, could be affected by the materialization of the risks presented as below.

Aerostar pursues to secure the mid and long term sustainability and also to reduce the uncertainty associated to its strategic and financial objectives.

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

Still, there may be risks and uncertainties further to the ones presented as follows, which are not currently known, or which are considered insignificant but which may affect in the future the business lines followed by Aerostar.

Operational Risk

It is the risk to register losses or not to achieve the estimated profits, caused by:

- use of inadequate processes, systems or human resources, or which did not conduct their function properly,
- external events and actions: degradation of the global economic conditions, natural catastrophies or other events which may affect Aerostar's assets.

Assimilated to the operational risk is the **Legal Risk**, defined as the risk of loss due to penalties, fines and sanctions for which Aerostar is liable in case of failure to apply or inadequate application of the dispositions, of the legal or contractual regulations, or in case the contractual rights and obligations are not properly set for Aerostar and/or its business partner.

The monitoring and the elimination of the effects of the legal risk is implemented by means of a permanent updating system as to the legislative changes, as well as through a system for the review, advise and approval of the terms and conditions included in the commercial agreements.

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

In addition, Aerostar seeks to have available company funds, by setting provisions for risks and related expenses, in order to cover its risks of exposure.

Also, in order to minimize the operational risk, Aerostar annually renews the liability insurance contract with prime insurance-reinsurance companies in connection with its main business lines (aviation products manufacturing and maintenance of commercial aircraft).

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

The cash and cash equivalents are placed solely in first rank banking institutions and are considered to have a high solvency degree.

The credit risk, including the risk of the country where the customer performs its operations, is administered for each business partner. When considered necessary, specific mitigation tools are requested (advance payments, letters of bank guarantee, confirmed letters of credit).

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

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

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

For the administration of the liquidity risk, the treasury cash flows are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash. Such reviews provide the basis for the financing decisions and for the capital undertakings.

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

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

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

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

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

The management of this risk is made by:

- diversification of the range of suppliers, which provides increased negotiation levers in case of price increase for the materials from certain suppliers.
- Long term contracts, with fixed price clauses.

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

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

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

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

3. CHANGES IN COMPANY CAPITAL AND ADMINISTRATION

During the first six months 2017 AEROSTAR fulfilled all its financial obligations.

No changes occurred regarding the rights of AEROSTAR shareholders in the first half year 2017.

4. SIGNIFICANT TRANSACTIONS

In the first semester 2017, AEROSTAR did not conclude major transactions with the persons with whom is acting in correlation or transactions in which such persons were involved.

GENERAL DIRECTOR,
GRIGORE FILIP

FINANCIAL DIRECTOR,
DORU DAMASCHIN



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

DECLARATION

In accordance with the provisions of no. 1/2006 Regulation with subsequent changes

The undersigned GRIGORE FILIP, as President of the Board of Directors and General Director of SC AEROSTAR S.A. and DORU DAMASCHIN, as Vice-president of the Board of Directors and Financial Director of S.C AEROSTAR S.A., hereby undertake responsibility for the preparation of the individual financial statements as on 30.06.2017 and we confirm hereby that:

- a) The finance-accounting statements for half-year 2017 was prepared in accordance with the applicable accounting standards.
- b) The finance-accounting statements for half-year 2017 provide a fair image and compliant with the reality of the related assets, liabilities, financial position and profit of AEROSTAR.
- c) The report of the of the Board of Directors for half-year 2017 presents in a correct and complete manner the information about SC AEROSTAR SA Bacău.

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

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

