

9 Months Report 30.09.2017

As per Annex 30A to Regulations no 1 /2006 with subsequent modifications regarding the issuers and the operations with securities

Date of the Report: 30.09.2017

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

Registered capital: Strada Condorilor nr. 9

Telephone No: 0234 575070

Registration with Bacau Trade Register Office: 950531

Registration No in Bacau Trade Register: J04/1137/1991

Registered capital, subscribed and paid: 48.728.784 lei

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

S.C. AEROSTAR S.A. BACAU
REPORT OF THE BOARD OF DIRECTORS FOR 9 MONTHS 2017

A PERSPECTIVE ON AEROSTAR
Report on AEROSTAR business for 9 months 2017

INTRODUCTION

The objective of this interim report of the Board of Directors of AEROSTAR S.A. is to inform the investors on the modifications of the position and performance of the company, which took place in the period January-September 2017, as well as on the predictable evolutions of AEROSTAR's market, and also in connection with the growth and development opportunities of the company.

In accordance with the usual practice, the financial statements prepared as on the date of 30 September 2017 are not accompanied by the report of the independent financial auditor.

The individual financial statements prepared for 30 September 2017 were audited by the internal auditor of the company.

On the date of 29.09.2017 AEROSTAR obtained the new registration certificate holding the European identification (EUID): ROONRC.J04/1137/1991.

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

The main field of activity is production.

Synthetic data for 9 months 2017, compared with 9 months 2016

	MU	30.09.2017	30.09.2016
Registered Capital	thousands lei	48.729	48.729
Turnover	thousands lei	223.799	240.127
• Export sales	thousands lei	182.962	193.335
Expenses for investments	thousands lei	11.745	13.732
Actual No of employees, of which:	no	2.100	2.060
• Own employees	no	1.947	1.785
• Employees attracted through temporary labour agent	no	153	275
Gross Profit	thousands lei	34.658	57.243
Net Profit	thousands lei	26.984	48.334

THE SHARE "AEROSTAR"

"ARS" stock exchange symbol	30.09.2017	30.09.2016
Number of shares	152.277.450	152.277.450
Market value per share at the end of the period (lei) *)	4,27	3,09
Stock exchange capitalization (lei) *)	650.224.712	470.537.321
Transaction price during the period (minimum level / maximum level) (lei)	3,25 / 4,55	2,24 / 3,22

**) Source: Monthly Bulletin issued by Bucharest Stock Exchange*

MAIN EVENTS DURING THE PERIOD JANUARY-FEBRUARY 2017

AEROSTAR MARKET AND COMPANY'S BUSINESS DEVELOPMENT

AEROSTAR operates on the global market, highly competitive, where the dynamics of the dominant players- the large companies which integrate final products- steadily pursue 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.

AEROSTAR acts in a consistent, intensive and transparent way to pursue the growth opportunities and ensure its access in the new programmes in the field of aviation and defence.

The growth potential envisaged is in the business area with a consolidated technological tradition in AEROSTAR's expertise, in accordance with the Mission statement of the company, and which has the perspective of continuity and development on mid and long term.

AEROSTAR initiated several projects which aim to substitute certain defence related products and services with products and services in the current generation of defence related technologies. These projects are very important to complete the cycle of transformation and implementation of new technologies, initiated at company level after the year 2000.

AEROSTAR operations are aligned with the specific trends in the global aviation and defence industry, a synergic correlation of the business lines, which enable the capacity to act on the market and sustain the power to integrate complex programmes.

AEROSTAR's main lines of business are:

- Manufacturing of aviation products**
- MRO commercial aircraft**
- Aero & ground defence systems, 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 holds a significant footprint in the global aeronautical manufacturing programmes.

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

**AEROSTAR, DESIGNATED AS SUPPLIER OF THE YEAR BY SAFRAN LANDING SYSTEMS
(Messier-Bugatti-Dowty)**

The award granted to AEROSTAR during the annual meeting "Quality Day", attended by suppliers in Safran's chain of supply, is specially important as it is a new confirmation received for the compliance with customers' requirements and expectations.

The award was handed on 31 May 2017 during the annual Supplier Conference organized by Safran at its headoffice in Bidos and congratulations were transmitted to the entire AEROSTAR team.

The suppliers selected got recognition thus for their performance in the field of quality and on-time delivery, as well as for their capacity to innovate and support the activities of Safran Landing Systems.

Safran Landing Systems is the world leader in the design, development and manufacture of aircraft landing and braking systems. As a major supplier for Safran, Aerostar specializes in the production and testing of hydraulic systems: complete landing gears, various categories of actuators, complex parts and subassemblies, kits of parts for global aviation programmes such as Airbus 320, Airbus 330/350/380, Boeing 787 and others.

Safran purchasing policy is based on solid, long-lasting, balanced relationships with their suppliers, selected according to demanding criteria in terms of performance, expertise and technological innovation. At the same time, Safran supports its suppliers in a drive for shared growth, based on continuous improvement at all levels.

AEROSTAR AND AIRBUS AWARD D2P DETAIL PARTS PARTNER 2017

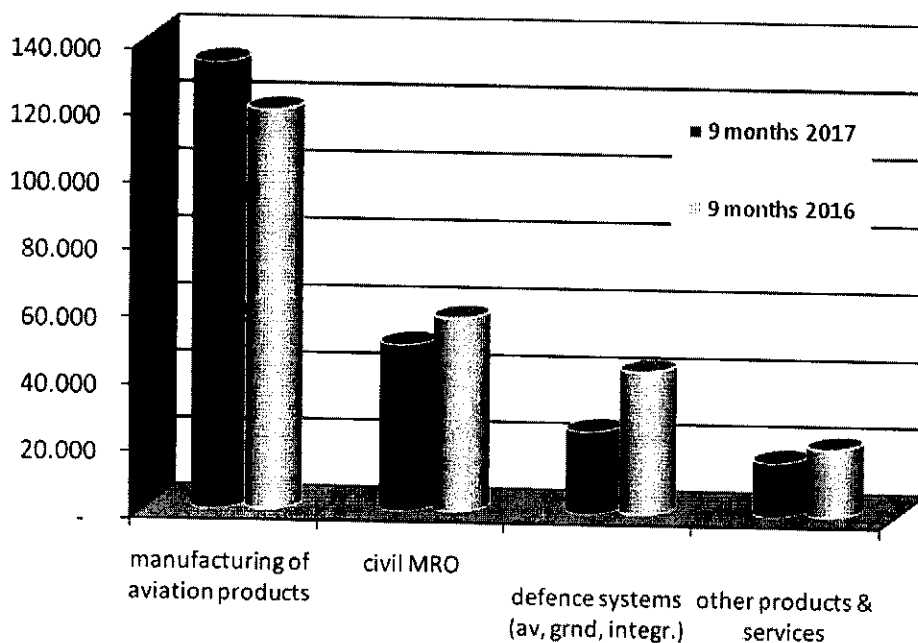
In June 2017, on the occasion of Airbus Group Detail Parts Supplier Conference, Aerostar received the award for the performance achieved reflected in the co-operation with Airbus/PAG outlining the appreciation for *Aerostar support for Airbus programmes successes*.

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

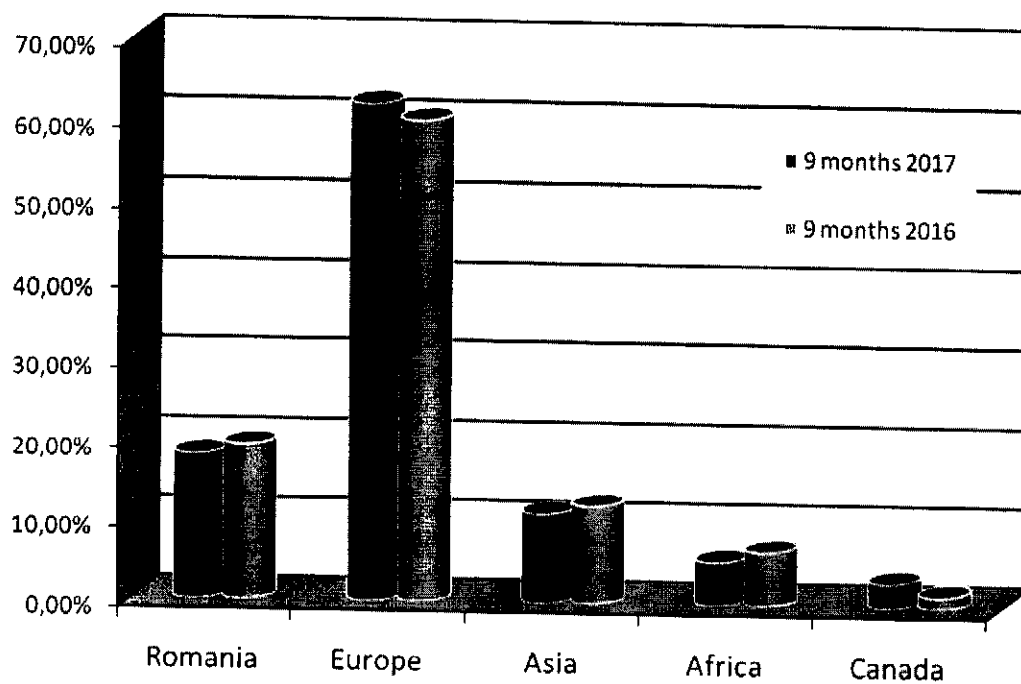
AEROSTAR's contribution in the supply chains of the two dominant global players, AIRBUS and BOEING, is based on the technological development and of the production systems.

In the period January-September 2017 AEROSTAR sales were in amount of 223.799 thousand lei, of which the equivalent of 182.962 thousand lei was export sales, to a large variety of customers, in a large number of different production programmes.

Comparative evolutions of the sales of products and services:



Aerostar sales were made on a global market, of large geographical spread, both in the civil aviation and in defence.



INVESTMENTS

The expenses for investments made in the period January-September 2017 totalled 11.745 thousand lei, fully financed from Aerostar funds.

From this amount, 11.009 thousand lei was spent for the acquisition of technological equipment, hardware, measurement and control units, installations, finalization of the refurbishment and modernizations of the work spaces and improved comfort for the employees (dining rooms, locker rooms, etc.), outer thermoinsulating of a number of production hangars, while 204 thousand lei was spent for the acquisition of software licenses and 532 thousand lei for the development of the IT system applicable to the production management.

On 7 September 2017, in accordance with the provisions of Bucharest Stock Exchange Code (art.99) AEROSTAR informed all shareholders and investors in connection with the signature with the County Council Iasi, of the Lease (concession) for a surface area of 16.000 sm, for an initial duration of 49 years, located within the premises of the Iasi International Airport.

This step opens the road to make the investment to build a new production capacity to perform civil aircraft maintenance activities.

AEROSTAR AS AN EMPLOYER

In the first 9 months 2017 a number of 2100 employees were working in AEROSTAR, of which 153 were made available by AIRPRO CONSULT S.R.L., which operates on the market as a temporary labour agent.

During this period Aerostar continued the recruiting and selection policies for the replacement manpower; the qualification and training processes were continued with the objective to train the new employees at the level of the requirements of the jobs released through the natural departure of the older employees.

The mobility rate foreseen is 7-10%, which outlines the special efforts made by the company with the employees' development programmes.

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

The total attendance in the professional formation programmes was 2.526 as a number while the expenses for this activity were in amount of 940 thousand lei.

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 75,62%.

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.

QUALITY AND ENVIRONMENT

Aspects related to the Quality & Environment Management System

During the first nine 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.

On 20 September 2017, Aerostar obtained the approval certificate for civil aircraft maintenance from the Federal Aviation Authority, the equivalent of the European agency EASA; the new approval will provide for the company to perform Part 145 maintenance work, for customers who have aircraft under lease from USA entities, or under FAA jurisdiction.

As regards the **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, as well as the monitoring audit for the environment management system made by the auditing team from DQS Germany.

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

During this period also, water, air and soil monitoring inspections were made for the entire company site in accordance with the requirements in the Integrated Environment Approval.

The process to get a new integrated environment approval is under way, the same for the water management approval.

IMPORTANT EVENT DURING THE REPORTING PERIOD

**- DISTRIBUTION OF THE DIVIDENDS FROM THE PROFIT OF THE YEAR 2016,
DISTRIBUTION METHOD AND PERIOD**

On the date of 1 September 2017, AEROSTAR informed the shareholders of the company in a press release on:

- ✓ The coordinates for the payment of the dividends to the shareholders, distributed from the profit of the year 2016:

- a) **the gross dividend** per share is **0.09 lei**, of which the tax on dividends withheld is as per the legal rate in force on the payment date; the payment related costs will be covered from the net dividend value;
- b) **the "ex date"** was set for the date of 31.08.2017 as approved by the O.G.M.S. held on 20.04.2017;
- c) the shareholders entitled to receive dividends from the net profit of the financial year 2016 are those registered in the consolidated shareholders' register on **01.09.2017 - Record Date** (approved by the O.G.M.S. held on 20.04.2017);
- d) the dividends distributed from the profit made during the financial year 2016 were paid to the shareholders starting with the date of **20.09.2017- Payment Date** (approved by the O.G.M.S. held on 20.04.2017);

- ✓ **Payment of the dividends** (the detailed presentation was included in the press release)

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

EVENTS SUBSEQUENT TO THE DATE OF THE 9 MONTHS REPORT

In the field of civil aviation, on the date of 16 October 2017, Airbus si Bombardier announced their partnership set for the "C series" programme, agreement which was designated as the biggest surprise of the year 2017 in aviation.

This agreement is considered to impact on the profile of the aviation market by bringing together Airbus' global reach and scale with Bombardier's newest, state-of-the-art jet aircraft family, positioning both partners to fully unlock the value of the C Series platform and create significant new value for customers, suppliers, employees and shareholders.

Under the agreement, Airbus will provide procurement, sales and marketing, and customer support expertise to the C Series Aircraft Limited Partnership (CSALP), the entity that manufactures and sells the C Series.

Aerostar is a significant supplier in the Airbus chain of supply, while being also a supplier of parts and components for Bombardier programmes since 2015.

"At Victoria Palace the Memorandum of Understanding was executed, which will enable launching the procurement programme for Army's Patriot systems"

On 18 October, at Victoria Palace, in the presence of Mihai Tudose, Romania's Government Prime Minister, the Memorandum of Understanding was signed between the Ministry of Economy, through S.C.Aerostar S.A. and the American company Raytheon International Defence System, on the cooperation in the field of the equipments and components related to the integrated multilevel air defence system.

At the signature event attended officials of the Government of Romania, Hans Klemm, the Ambassador of the United States of America in Romania, representatives of the companies Raytheon and Aerostar.

The document provides the technology transfer and technical assistance necessary to modernize and implement new technologies for the existing equipments, as well as the technical support specific for the Patriot missile system.

The signature of the memorandum enables the launching of the procurement procedures for the first Patriot system for the inventory of the Romanian Army, in accordance with the Procurement Plan for 2017-2026 and within the context of Romania's arrangements as partner state in NATO's eastern flank and strategic partner in the relation with USA.

The representatives of the two signatory companies, Grigore Filip, president, general director of S.C.Aerostar S.A. and William Schmieder, President Raytheon International Defence System Europe, respectively, outlined that this is a first step of a long term cooperation, which includes Romania in the major acquisition programmes in the field of defence. New opportunities will thus be created to implement the state-of-the-art technologies in the field while the development of the most advanced air and missile defence system is not only a security warrant for Romania, but also accomplishing Romania's assumed commitments as a NATO partner state.

FINANCIAL POSITION AND PERFORMANCE OF THE COMPANY
IN THE PERIOD JANUARY- SEPTEMBER 2017

Financial Position

	30 September 2017	31 December 2016
ASSETS		
Immobilized Assets		
Tangible Immobilizations	139.946	146.007
Intangible immobilizations	1.500	1.689
Investment Property	6.961	6.499
Financial Immobilizations	195	202
Total Immobilized Assets	148.602	154.397
Circulating Assets		
Inventories	71.888	50.272
Commercial receivables and other receivables	53.751	42.749
Cash and cash equivalents	130.404	163.153
Total Circulating Assets	256.043	256.174
Expenses in advance	658	521
Total Assets	405.303	411.092
COMPANY CAPITALS AND DEBTS		
Capital and reserves		
Registered capital	48.729	48.729
Current result	26.984	56.472
Result carried forward	57.166	56.331
Other reserves	107.224	67.833
Debts/Receivables ref tax on deferred profit recognized on account of company capitals	(7.364)	(6.362)
Distribution of profit of the period as legal reserve	(5.719)	(9.095)
Total Company Capitals	227.020	213.908
Long term debts		
Subsidies for investments	13.295	15.001
Revenues registered in advance	29	33
Debts ref tax on deferred profit	5.466	3.804
Total long term debts	18.790	18.838
Long term provisions	74.333	71.448
Current debts		
Commercial debts	33.399	37.472
Debt with tax on current profit	850	2.215
Other current debts	7.943	14.414
Total current debts	42.192	54.101
Short term provisions	42.968	52.797

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Financial Position (continued)

	30 September 2017	31 December 2016
Total provisions	117.301	124.245
Total debts	60.982	72.939
Total company capitals, debts and provisions	405.303	411.092

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Performance achieved

	30 September 2017	30 September 2016
Revenues from sales	223.799	240.127
Other revenues	2.328	2.690
Revenues related to the cost of inventories of products And production in progress	27.034	16.180
Revenues from production of immobilizations	756	997
Total Revenues from Operations	253.917	259.994
Expenses		
Expenses with materials	(92.483)	(90.196)
Expenses with employee benefits	(79.930)	(72.046)
Expenses with amortization of immobilizations	(17.587)	(11.731)
Influence of adjustments related to current assets	(11.870)	(26)
Influence of adjustments related to provisions	6.944	1.373
Expenses related to external services	(20.691)	(27.833)
Other expenses	(1.872)	(1.641)
Total Expenses with Operations	(217.492)	(202.100)
Profit from Operations	36.425	57.894
Financial Revenues	3.332	4.103
Financial Expenses	(5.099)	(4.754)
Financial Period	(1.767)	(651)
Profit before tax	34.658	57.243
Tax on current profit, deferred	(7.674)	(8.909)
Net Profit of the Period	26.984	48.334

Annex 30

B. ECONOMIC & FINANCIAL INDICATORS

Indicator	Calculation Method	Result
1. Current Liquidity Indicator	Current Assets/Current Debts	6,07
2. Endebtness Ratio	Capital loaned/Company capital x 100	0
3. Rotation of Client Debts	Average Client Balance/Turnover x 270	56
4. Rotation of Immobilized Assets	Turnover/ Immobilized Assets	1,51

GENERAL DIRECTOR,
GRIGORE FILIP

FINANCIAL DIRECTOR,
DORU DAMASCHIN