

**AEROSTAR S.A. BACAU
REPORT OF BOARD OF DIRECTORS
FOR FIRST QUATER AT MARCH 2018**

Quaterly report on 31.03.2018

In accordance with Appendix 30A from Regulation no. 1/2006 regarding the issuers and operations with real estate, with later amendments

Date of report: 31.03.2018

Name of the company: AEROSTAR S.A. BACAU

Registered headquarter: Condorilor Street, no. 9, Bacău, România

Telephone number: 0234 575070

Individual Identification Number: RO 950531

Trade number in Bacau Trade Register: J04/1137/1991

LEI Code: 315700G9KRN3B7XDBB73

Subscribed and paid-in registered capital: 48.728.784 lei

The regulated market on which the real estate issued are traded:
Bucharest Stock Exchange (“ARS” indicator) – Standard Category

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Report on AEROSTAR's business for the first quarter of 2018

INTRODUCTION

The purpose of this interim report of the Board of Directors of AEROSTAR S.A. Bacau is to inform the investors with reference to the modifications in the position and performance of the company which took place January - March 2018, as well as regarding the predictable evolutions on AEROSTAR market, the growth and development opportunities of the company.

According to the common practice, the financial statements established on March 31, 2018 are not accompanied by the report of the independent financial auditor.

The individual financial statements established on March 31, 2018 were audited by the internal audit of the company AEROSTAR S.A. Bacau.

According to the classification of the activities from the Romanian economy, the main field of activity of AEROSTAR is the manufacture of aircraft and spaceship – CAEN code 3030.

The main field of activity is production.

Synthesis data on the first quarter of 2018, in comparison with the first quarter of 2017

	UM	31.03.2018	31.03.2017
Share capital	thousand lei	48.729	48.729
Turnover	thousand lei	81.774	74.803
• Export sales	thousand lei	69.155	67.934
Expenses for investments	thousand lei	10.693	3.040
Actual no. of employees, from which:	no.	2.074	2.158
• own employees	no.	1.928	1.880
• employees attracted by temporary manpower agent	no.	146	279
Gross profit	thousand lei	23.846	14.051
Net profit	thousand lei	21.105	11.065
General liquidity	-	6,08	4,39

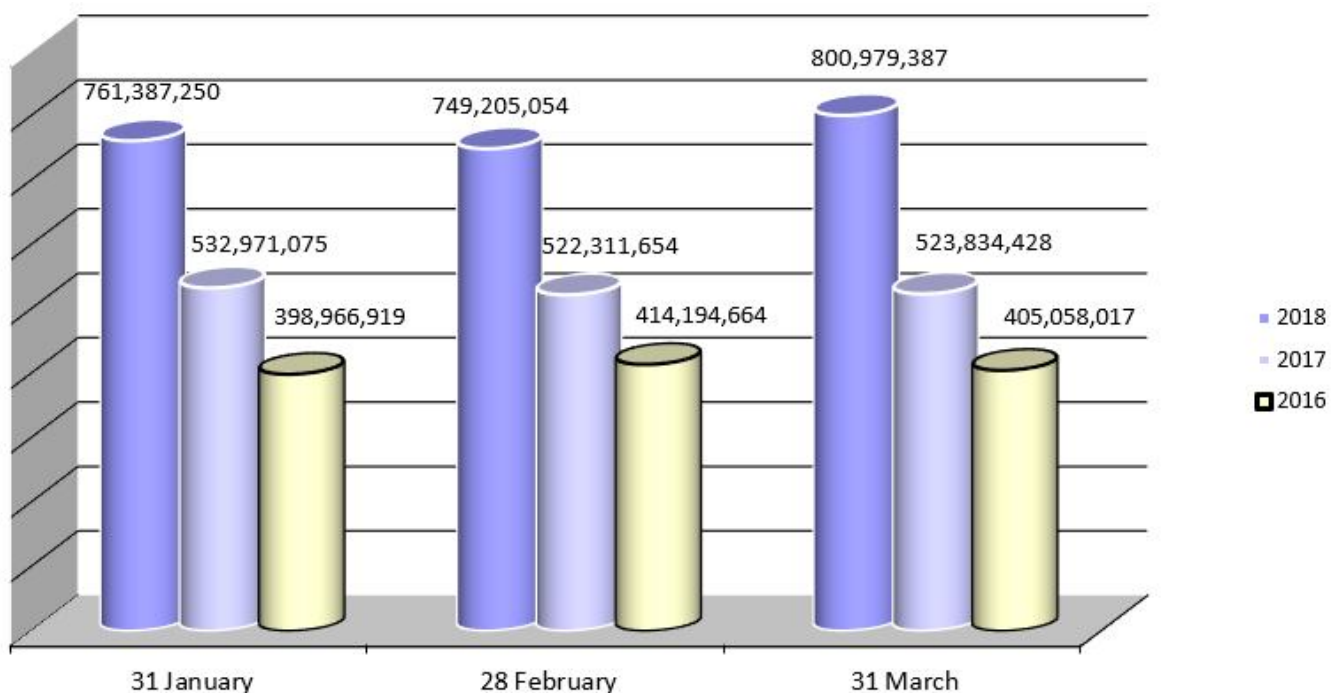
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AEROSTAR SHARES (ARS)

Stock Exchange Symbol "ARS"	31.03.2018	31.03.2017
Number of shares	152.277.450	152.277.450
Market value per share at the end of the period (lei) *)	5,25	3,440
Stock Exchange Capitalization (lei) *)	800.979.387	523.834.428
Trading price during the period (minimum level /maximum level) (lei)	4,92 / 5,26	3,25 / 3,56

*) Source: Monthly newsletter issued by the Bucharest Stock Exchange

Monthly evolution of the company's market value (in lei) in the first quarter in the last three years (2018, 2017, 2016):



MAIN EVENTS WHICH TOOK PLACE BETWEEN JANUARY – MARCH 2018

ACHIEVEMENTS IN THE REPORTING PERIOD

- **Starting with January 2018 a new organisational structure has been implemented in AEROSTAR**
- **Sales increased by 10% in the first quarter of 2018 in comparison with the sales realised in the previous similar period.**
- **Investments in the first quarter of 2018 were 3,5 times higher in comparison with the investments realised in the first quarter of 2017.**

A NEW ORGANISATIONAL STRUCTURE

Starting with January 2018, AEROSTAR has operated organisational modifications with the purpose of a better using and mobilization of resources, to exploit the market opportunities and to respond as much as possible to the clients' requests.

These modifications consisted in:

- The **reorganisation** of Aviation MRO & Upgrades Division, as a division exclusively destined to the military programs.

The new name of this division is **The Defence Systems Division** and shall comprise:

- The Repair and Upgrades of Military Aircraft and Engines
- The Ground Defence Platforms Section and GSE
- Design, Production and Integration of Electronic Systems Program
- New programs, in development

- **The establishment of Civil Aviation MRO Division** which contains the maintenance units related to the MRO Civil Aviation Centre Part 145, the current MRO Civil Aviation Centre Part 145 from Bacau and the future MRO Civil Aviation Centre Part 145 from Iasi.

AEROSTAR MARKET AND THE COMPANY'S BUSSINESS DEVELOPMENT

In the time interval elapsed since the last reporting period, AEROSTAR has continued its development based on business lines according to the mission, strategy and development directions presented:

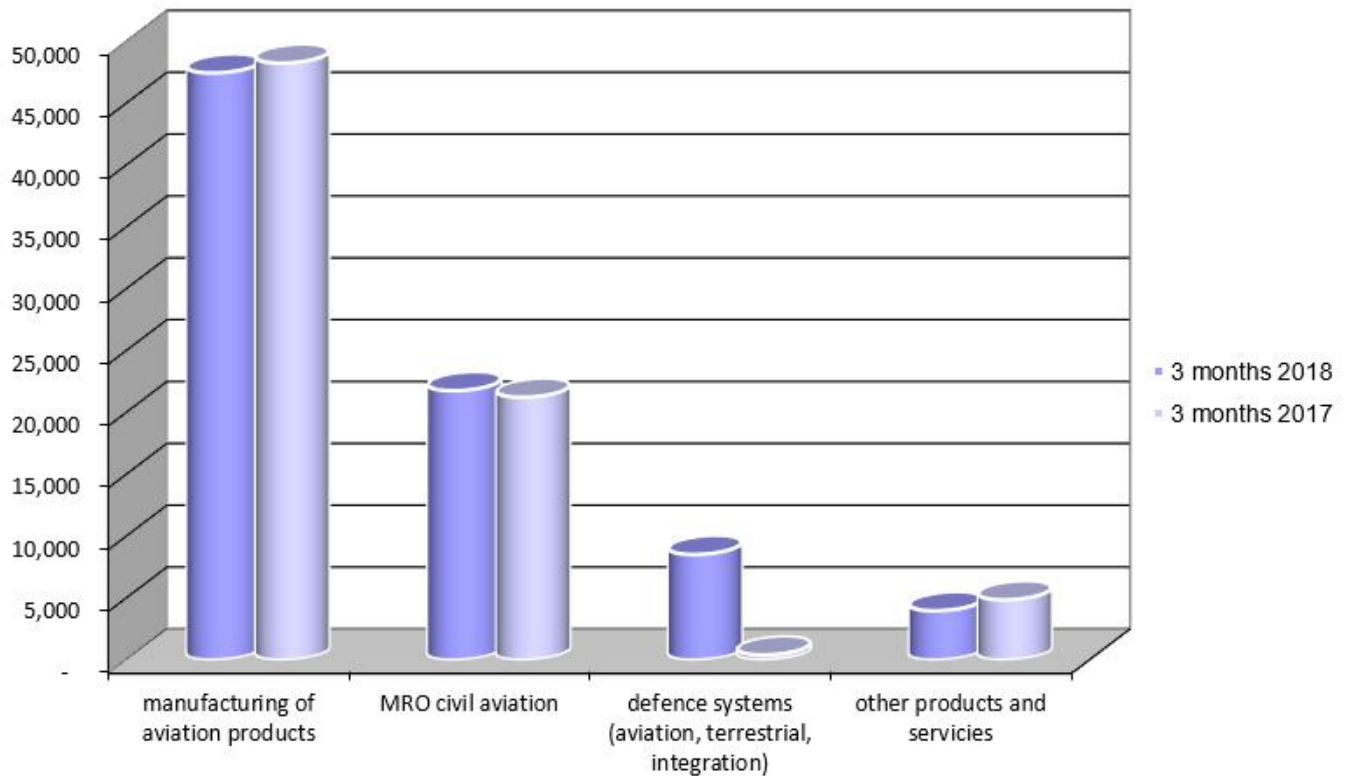
- Manufacturing of aviation products;
- Commercial aircraft maintenance;
- Aero, terrestrial and naval defence systems

AEROSTAR has maintained its position on top of the Romanian and Central Europe market.

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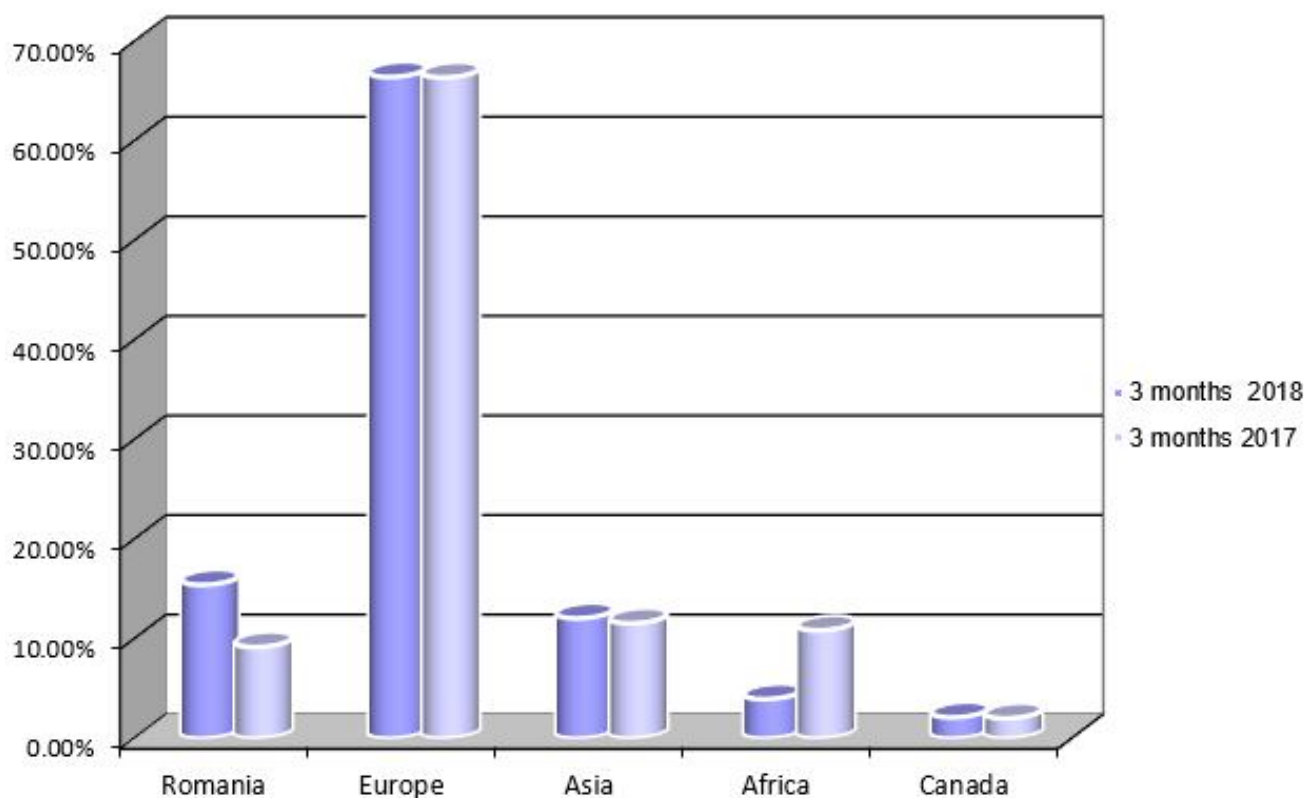
During the period of January – March 2018, AEROSTAR has realized sales in the amount of 81.774 thousand lei, from which 69.155 equivalent in thousand lei were export sales, with a large diversity of customers, in a high number of different production programs.

The comparative evolution of the products and services sales:



Aerostar sales have been realized on a global market of large geographical area both in civil and in defence field.

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INVESTMENTS

In the first quarter of 2018 the level of investments realized in AEROSTAR was of 10.693 thousand lei (the first quarter in 2017: 3.040 thousand lei), the financing source being its own internal source.

The level of investments in the reporting period was 3,5 times higher than the level realized in the first quarter of 2017.

The main purpose of the company's investment effort is, also in 2018, upgrading the production field by providing performant technological equipment, meant to assure the realization of the contracted production programs and the continuous development of the capabilities and services offered to the customers.

Performant CNC machine-tools, technological equipment, facilities, measuring and control equipment of last generation have been purchased – in a total amount of 10.525 thousand lei.

In the reporting period the company has spended 168 thousand lei in purchasing software licences and for the IT development of production management.

The digital transformation of the company is also in 2018 one of the main strategic development priorities. Managing the cyber security issues, establishing the strategies and management processes of the information, the digital transformation of IT and the creation of an organization with a high risk of use of data analysis generates, in Aerostar's vision, the degree of financial health of the company.

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AEROSTAR EMPLOYEES

In the first 3 months of 2018 AEROSTAR had 2.074 employees from which 146 employees made available by AIRPRO CONSULT S.R.L., which actions on the market as temporary work agent.

S.C. AEROSTAR has continued the on-going programs of professional development of the employees by including them in programs of professional training.

The average burden of the employees affiliated to the trade union organizations was of 75%.

QUALITY AND ENVIRONMENT

Aspects related to the System of Quality and Environment Management

If in the first three months of the year 2018, AEROSTAR has maintained its certifications and authorizations obtained either from the certification organisms or from the customers or other regulation authorities.

On a quality line, in Aerostar there have been performed surveillance audits both from Romanian Civil Aeronautical Authority for maintaining Part 21F authorization, as well as for recertification audits of the Quality Management System according to the requirements of SR EN ISO 9001 from 2015 with the organism of AEROQ certification and according to the requirements of AQAP 2110 from 2016 with OMCAS.

On an environment line, a thematic control from the Environment Guard took place regarding the verification of environment legislation, EUTR Regulation and of H.G. 845/2015, as well as the audit of the validation of the number of GES certificates related to 2017.

Also, the GES certificates were handed in by assuring the conformance with the legislation in force.

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IMPORTANT EVENTS FOR THE INVESTORS AND INTERESTED PARTIES
WHICH TOOK PLACE AFTER
THE DATE OF THE REPORT ON 3 MONTHS OF 2018

▪ **GENERAL ORDINARY MEETINGS OF SHAREHOLDERS FROM APRIL 19th 2018**

In the Ordinary General Meeting of the Shareholders from April 19th 2018, AEROSTAR shareholders have approved the following:

- The distribution of the net profit relating to the financial year 2017, respectively of the amount of 53.169.632,90 lei, as follows:
 - distribution to the legal reserve of the profit reinvested in the amount of 9.337.715,64 lei
 - distribution to the reserve in the amount of 29.517.837,26 lei;
 - distribution for dividends of the amount of 14.314.080 lei and the establishment of a gross dividend per share of 0,094 lei, corresponding to a share with the nominal value of 0,32 lei;
 - **establishment of the payment date** of the dividends for the date of **September 20th 2018**.

The distribution of the dividends due to the shareholders of the company AEROSTAR relating to 2017 shall be performed in accordance with the applicable legal provisions.

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

The establishment of an audit Committee formed from the following members: Mihai Deju and Daniel Botez.

The time period of the contracts signed with the audit Committee is for a period between 19 April 2018 and 10 July 2020.

The net allowances of the members of the audit Committee have been approved by the shareholders on the level of 50% from the allowance of a member of AEROSTAR's Board of Directors.

- Naming MAZARS ROMANIA SRL as a financial audit.

The contract of financial audit with MAZARS ROMANIA SRL is concluded on a period of at least 2 years, with the possibility of extension through an amendment approved by the Board of Directors of AEROSTAR.

▪ **ON THE DATE OF APRIL 17th 2018 AEROSTAR HAS CELEBRATED 65 YEARS FROM ITS ESTABLISHMENT**

A representative company for the Romanian and European aviation and defence industry, AEROSTAR has marked the celebration of 65 years from its establishment through a series of events.

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Most of the activities dedicated to these celebrating events were organized and financed by Asociatia Cultural-Educationala Aerostar Bacau.

- **On 16 April 2018**, the members of the County Council voted the granting of the title of an **Honorary Citizen of Bacau county to Mihai Nicolae TONCEA**, President – General Director IAROM S.A., the main shareholder of the company.
- **On 26 April 2018**, the **President of Romania, ms. Klaus Werner JOHANNIS** has visited AEROSTAR. The management of the company has presented a part of the production and maintenance centers from the civil aviation field, as well as the future perspectives from these fields of activity. The visit has also highlighted discussions with the management of the company relating the importance of aviation industry for the Romanian economy.
- **On 27 April 2018**, the Ordinary General Meeting of the shareholders of SIF Moldova has approved the name modification of the company from Societatea de Investitii Financiare MOLDOVA S.A. in FIRST ROMANIA CAPITAL INVEST S.A.

SIF Moldova is a significant shareholder of AEROSTAR. At the date of 31 December 2017, it held 15,0514% from the registered capital of AEROSTAR.

- **FINANCIAL CALENDAR 2018 – the following events which shall be performed:**

The presentation of the financial results of the first semester of 2018.	16.08.2018
Meeting with the press and the investors interested for the presentation of financial results of the first semester of 2018.	16.08.2018
The presentation of the financial results on September 30 th 2018.	09.11.2018

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**THE FINANCIAL POSITION AND THE PERFORMANCE OF THE COMPANY AEROSTAR
S.A. IN JANUARY – MARCH 2018**

Financial position

	31 March 2018	31 December 2017
ASSETS		
Noncurrent assets		
Property, Plant and Equipment	149.314	144.613
Intangible assets	1.580	1.858
Investment property	7.135	6.987
Long-term financial assets	225	228
Total noncurrent assets	158.254	153.686
Current assets		
Inventories	86.048	67.925
Trade receivables and other receivables	56.143	46.640
Cash and cash equivalents	159.397	163.886
Total current assets	301.588	278.451
Deferred tax assets	9.771	10.564
Prepaid expenses	1.103	491
Total assets	470.716	443.192
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	48.729	48.729
Current Result	21.105	53.170
Result carried forward	101.562	57.524
Other reserves	117.899	110.843
Deferred tax liabilities/assets recognized on equity	(9.107)	(7.961)
Distribution of profit for legal reserve	(7.056)	(9.338)
Total equity	273.132	252.967
Deferred income		
Subsidies for investments	12.066	12.677
Income registered in advance	26	28
Total income in advance	12.092	12.705
Non-current liabilities		
Deferred tax liabilities	13.612	12.690
Other non-current liabilities	51	51
Total non-current liabilities	13.663	12.741
Non-current provisions	74.667	75.825
Current liabilities		
Trade liabilities	41.073	29.515
Current tax liabilities	1.952	1.522
Other current liabilities	8.179	8.553
Total current liabilities	51.204	39.590

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Financial position (continuation)

	31 March 2018	31 December 2017
Short term provisions	45.958	49.364
Total provisions	120.625	125.189
Total liabilities	64.867	52.331
Total equity, deferred income, liabilities and provisions	470.716	443.192

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Performance realized

The achievement of the revenues, expenses and profit of the first quarter in 2018, on component parts, in comparison with the first quarter of 2017, shall be presented as follows:

	March 31 2018	March 31 2017
Income from sales	81.774	74.803
Other income	628	917
Income related to the cost of products inventories and production in progress	11.830	13.698
Income from production assets	161	66
Total operating income	94.393	89.484
Expenses		
Expenses with materials	(33.337)	(35.469)
Expenses with employee benefits	(28.844)	(27.217)
Expenses with amortization of assets	(6.062)	(5.965)
Influence of adjustments on current assets	1.407	(4.191)
Influence of adjustments on provisions	4.565	4.305
Expenses related to third party services	(7.233)	(6.195)
Other expenses	(806)	(533)
Total operating expenses	(70.310)	(75.265)
Profit from Operations	24.083	14.219
Financial Revenues	1.323	922
Financial Expenses	(1.560)	(1.090)
Financial loss	(237)	(168)
Profit before tax	23.846	14.051
Tax on current and deferred profit	(2.741)	(2.986)
Net profit of the period	21.105	11.065

In name of the Board of Directors:

Grigore FILIP,
President and General Director

Doru DAMASCHIN,
Vicepresident and Financial Director

Appendix 30

B. ECONOMIC & FINANCIAL INDICATORS

Indicator	Calculation method	Result
1. Current Liquidity Indicator	Current Assets/Current liabilities	6,08
2. Endebtness Ratio	Equity loaned/Equity x 100	0
3. Rotation of Client Debits	Medium balance for customers/Turnover x 90	52
4. Rotation of Noncurent assets	Turnover/ Immobilized Assets	0,52

In name of the Board of Directors

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President and General Director

Doru DAMASCHIN
Vicepresident and Financial Director