

AEROSTAR S.A. BACAU

**INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED ON 31 DECEMBER 2018**

**Prepared in accordance with the Order of the Minister of Public Finance
no. 2844/2016 for the approval of the Accounting Regulations according to the
International Financial Reporting Standards**

AND

THE INDEPENDENT AUDITOR'S REPORT

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INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION ON 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	147.763	144.613
Intangible assets	5	1.043	1.858
Investment property	6	7.930	6.987
Long-term financial assets	7	140	228
Total non-current assets		156.876	153.686
Current assets			
Inventories	10	82.368	67.925
Trade receivables and other receivables	8;9	68.376	46.640
Cash and cash equivalents	11	167.545	163.886
Total current assets		318.289	278.451
Receivables regarding deferred profit tax	17	11.132	10.564
Prepaid expenses	31	504	491
Total assets		486.801	443.192
COMPANY EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	48.729	48.729
Current result	12	79.921	53.170
Result carried-forward	12	58.324	57.524
Other reserves	12	166.395	110.843
Deferred income tax recognized based on own equity	17	(12.195)	(7.961)
Distribution of profit for legal reserve	12	(26.035)	(9.338)
Total company equity	12	315.139	252.967
Prepaid income			
Subsidies for investments	14	10.239	12.677
Deferred income	31	-	28
Total prepaid income		10.239	12.705
Long-term liabilities			
Liabilities regarding deferred income tax	17	16.055	12.690
Other long-term liabilities	16	45	51
Total long-term liabilities		16.100	12.741
Long-term provisions	13	95.796	75.825
Current liabilities			
Trade liabilities	15	21.197	29.515
Liability with current income tax	23	2.357	1.522
Other current liabilities	16	9.218	8.553
Total current liabilities		32.772	39.590
Short-term provisions	13	16.755	49.364
Total provisions		112.551	125.189
Total liabilities		48.872	52.331
Total company equity, prepaid income, liabilities and provisions		486.801	443.192

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF PROFIT OR LOSS
ON 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 December 2018	31 December 2017
Operating income			
Income from sales	19	353.413	340.172
Other income	19	3.473	3.632
Income related to the inventories of finished goods and work in progress	19	12.528	10.420
Income from production of assets	19	1.645	1.287
Income from operating subsidies	19	186	-
Total operating income		371.245	355.511
Operating expenses			
Material expenses	20	(124.124)	(128.002)
Expenses with employees' benefits	20	(114.974)	(108.629)
Expenses regarding amortization of assets	20	(25.307)	(24.275)
Adjustments regarding current assets	20	(5.106)	1.337
Adjustments regarding provisions	20	12.638	(945)
Expenses regarding external services	20	(26.659)	(30.629)
Other expenses	20	(4.636)	(4.228)
Total operating expenses		(288.168)	(295.371)
Profit/loss from operating activity		83.077	60.140
Financial income	21	7.806	4.413
Financial expenses	22	(3.463)	(5.766)
Financial profit/loss		4.343	(1.353)
Profit before tax		87.420	58.787
Tax on current and deferred profit	17;23	(7.499)	(5.617)
Net profit of the period		79.921	53.170

**General Director,
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AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF OTHER ELEMENTS OF
GLOBAL RESULT ON 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	31 December 2018	31 December 2017
Net profit of the financial year	79.921	53.170
Deferred income tax recognized on company equity according to O.M.F.P. 2844/2016	(3.435)	(406)
Other elements on the global result	(3.435)	(406)
Total global result of the period	76.486	52.764

**General Director,
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**Financial Director,
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AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF THE MODIFICATION OF COMPANY EQUITY
FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Share capital	Reserves	Deferred income tax recognized on equity	Result carried forward	Result of the period	Total equity
Global result						
A. Balance on 1 January 2018	48.729	110.843	(7.961)	57.524	43.832	252.967
Profit of the period					79.921	79.921
Other elements of global result						
Deferred income tax recognized on the account of equity			(4.235)	800	-	(3.435)
Distribution of the profit of 2017 on the destinations decided by the shareholders in OGMS from the 19 April 2018 (Note 12)				43.832	(43.832)	-
Distribution of the profit of 2018 for the legal reserves in gross amount		26.035			(26.035)	-
Total global result relating to the period		26.035	(4.235)	44.632	10.054	76.486
Reserves distributed from the profit of 2017		29.518		(29.518)		-
Dividends related to 2017, paid to the shareholders (Note 32)				(14.314)		(14.314)
Transactions with the shareholders directly recognized in equity		29.518		(43.832)		(14.314)
B. Balance on 31 December 2018	48.729	166.396	(12.196)	58.324	53.886	315.139
C. Modifications on own equity (NOTE 12)	0	55.553	(4.235)	800	10.054	62.172

* Note: The result of the prior period is 53.170 thousand lei and is influenced by allocation of the profit on the legal reserves in amount of 9.338 thousand lei.

**General Director,
Grigore Filip**

**Financial Director,
Doru Damaschin**

AEROSTAR S.A. BACĂU
INDIVIDUAL STATEMENT OF CASH FLOWS (direct method)
FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2018
(unless specified otherwise, all amounts are stated in thousand lei)

	Note	31 December 2018	31 December 2017
CASH FLOWS FROM OPERATIONS			
collected from customers		352.279	347.140
taxes and excises recovered from State Budget		5.329	5.824
payments to suppliers and employees		(253.029)	(250.453)
payment of taxes, contributions and dues to State Budget		(50.851)	(52.366)
payment of profit tax		(7.275)	(8.342)
NET CASH FROM OPERATIONS	27	46.453	41.803
CASH FLOWS FROM INVESTMENTS			
interest collected from bank deposits formed		3.057	530
dividends received from subsidiaries		202	189
collected from sales of property, plant and equipment		18	90
interest collected from loans granted		59	4
instalments collected from loans granted		5	6
payments for purchasing property, plant and equipment and intangible assets		(32.669)	(27.597)
NET CASH FROM INVESTMENTS	27	(29.328)	(26.778)
CASH FLOWS FROM FINANCING ACTIVITIES			
dividends paid but unclaimed		47	73
gross dividends paid		(13.658)	(13.289)
NET CASH FROM FINANCING ACTIVITIES	27	(13.611)	(13.216)
Net increase of cash and cash equivalents		3.514	1.809
Cash and cash equivalents at the beginning of the period		163.886	163.153
Effect of the exchange rate variation over the cash and cash equivalents	27	146	(1.076)
Cash and cash equivalents at the end of the period	11	167.545	163.886

General Director,
GRIGORE FILIP

Financial Director,
DORU DAMASCHIN

AEROSTAR S.A. BACAU
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED AT 31 DECEMBER 2018
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NOTE 1 - DESCRIPTION OF THE COMPANY

AEROSTAR was established in 1953 and acts in accordance with the Romanian law.

AEROSTAR S.A. operations take place at its registered headquarters located in Bacau, no.9 Condorilor Street, code 600302. According to the Decision of the Board of Directors no.2/14.12.2017, the establishment of a secondary place of business was approved without legal personality (work place) in Iasi, on 25B Aeroportului Street.

The main activity field 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 Bacau Trade Register (under number J04/1137/1991), with the current name S.C. "AEROSTAR S.A." and the individual identification code 950531, the European Unique Identifier (EUID) code ROONRC J04/1137/1991.

The Company is listed on the Bucharest Stock Exchange under the ARS code, and the record of its shares and shareholders is kept, as provided by law, by S.C. Depozitarul Central S.A. Bucharest.

During the year 2018, there was no subscription of new shares, nor of any participation certificates, convertible bonds, warranties, options or similar rights.

In terms of accounting regulations, AEROSTAR S.A. is the subsidiary of the company IAROM S.A. and, therefore, the parent company that consolidates the financial statements of the group is S.C. IAROM S.A., with the individual identification code 1555301, having its registered headquarters in Bucharest, 39 Aerogarii Boulevard. The consolidated financial statements for the financial year 2017 were submitted to A.N.A.F. under registration number 150489860/22.08.2018. Copies of the consolidated financial statements can be obtained from the headquarters of the parent company, IAROM S.A. The parent company will prepare and publish a set of consolidated financial statements in accordance with the applicable accounting regulations, for the financial year ended 31.12.2018.

The company has a sole segment of operations in accordance with IFRS 8 and no distinct financial information is available for various components of the entity. The information regarding the sales by categories of products and markets are presented in detail in the Report of the Board of Directors.

The company's policy is focused on maintaining a solid capital basis in order to support the continuous development of the Company and accomplish its strategic objectives.

The company will continue to act firmly so as to ensure the sustainability of its investments and business growth.

The strategy adopted develops the main object of activity of AEROSTAR, so that the aeronautical field represents the major part of the turnover. The general objective is the annual growth of the company's turnover while increasing customer satisfaction. The specific objectives which supports the general objective comprises the continued organic development of the company: the development of the centres of excellence through further modernization, investments and continuous improvement programs and organizational culture development.

The company equity entirely covers the financing needs of production and achievement of the investment volume. Through its dividend policy, the company develops its equity as the sales and investment volume are increasing.

During 2018, the company did not use loan capital and neither equity contribution from the shareholders.

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NOTE 2 - ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

2.1. Estimates

The preparation and presentation of the individual financial statements in accordance with IFRS requires the use of estimates, judgements and assumptions affecting the implementation of the accounting policies as well as the reported value of the assets, liabilities, revenues and expenses.

The estimates and judgements are made based on the historic experience as well as on a series of factors considered adequate and reasonable. The accounting estimates and judgements are continuously updated and are based on reasonable expectations with respect to future probable events. The reported accounting values of the assets, the liabilities that cannot be determined or obtained from other sources are based on these estimates considered adequate by the company's management.

Such estimates, as well as the reasoning and assumptions behind them are reviewed on a regular basis and the result thereof is registered in the time period when the estimate was reviewed.

Any change in accounting estimates will be recognized prospectively by its inclusion in the result:

- of the period in which the change occurs if it affects only the respective time period; or
- of the period in which the change occurs and of the subsequent periods, if the change also affects such periods.

The company uses estimates in order to determine:

- the uncertain customers and the adjustments for impairment of related receivables;
- the value of the provisions for risks and expenses to set up at the end of a time period (month, quarter, year) for litigations, for the dismantling of property, plant and equipment, for restructuring, for collateral granted to customers, for obligations towards manpower and other obligations;
- the adjustments for impairment of property, plant and equipment and intangible assets. At the end of each reporting period, the company estimates whether there is any impairment. If such signs are identified, the recoverable amount of the asset is estimated to determine the extent of impairment (if any).
- the lifetimes of property, plant and equipment and intangible fixed assets. The company reviews the estimated periods of use of tangible and intangible fixed assets at least at the end of each financial year to determine the adequacy.
- the inventories of raw materials and materials requiring to set up adjustments for impairment.
- deferred taxes.

Presentation of information

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

2.2. Errors

Errors may arise in recognizing, evaluating, presenting or describing the items of the financial statements.

The company corrects retrospectively the significant errors of the previous period in the first set of financial statements whose publication was approved after discovering them, by:

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- restatement of comparative amounts for the prior period in which the error occurred, or
- if the error occurred before the prior period, by restatement of the opening balances of assets, liabilities and equity for the previous presented period.

In the event of an error being identified, the company shall disclose the following information:

- the nature of the error for the prior period;
- the value of the adjustment for each of the previously presented period, to the possible extent:
 - for each item - row affected from the financial statement;
 - for the basic result and diluted per share.
- the amount of the correction at the beginning of the first period, previously presented;
- if retrospective reprocessing is impossible for a specific prior period, the circumstances that lead to the existence of such circumstance and a description of how and when such error was corrected.

2.3. Changes in the accounting policies

The change 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 change:

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

Applying changes in Accounting Policies:

- The entity takes into account a change in the accounting policy that results from the initial implementation of an IFRS in accordance with the specific transitory provisions, if any, of that IFRS; and
- When the entity changes an accounting policy to the initial application of an IFRS that does not include specific transitory provisions.

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, in the explicative notes the following:

- the title of IFRS;
- the nature of the accounting policy change;
- when it is the case, the fact that the change is made as an effect of the transitory dispositions and a description of these transitory provisions;
- for the current period and for each prior period, the amount of adjustments for each affected element from the situation of the financial position, to the extent possible

When it is impossible to determine the specific effects for one or more accounting prior periods, the Company will apply the new accounting policy of assets and liabilities for the first period for which retrospective application is possible, that may also be the current period.

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When a voluntary change of the accounting policy has an effect over the current or prior period, the company presents in the explicative notes:

- the nature of the change of accounting policy;
- the reasons for which the application of the new accounting policy offers more reliable and relevant information;
- for the current period and for each prior period, the amount of the adjustments for each affected item from the financial position, to the extent possible.

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NOTE 3 - ACCOUNTING AND EVALUATION PRINCIPLES

3.1. Basis for the preparation and presentation of financial statements

The individual financial statements of AEROSTAR SA are prepared in accordance with the provisions of:

➤ the International Financial Reporting Standards (IFRS) adopted by the European Union;

✓ ***Adopting for the first time the new and reviewed standards***

- Adoption of IFRS 9 *Financial Instruments* (into effect starting with 1st January 2018) together with the modifications of the International Financial Reporting Standards, in accordance with IFRS 9.
The standard supersedes IAS 39 *Financial instruments* and introduces new requirements regarding classification, evaluation and presentation of the assets and financial liabilities.
- Adoption of IFRS 15 *Revenues from Contracts with Customers*, which supersedes Standards IAS 11; IAS 18 and IFRIC13; IFRIC15; IFRIC18 and SIC31 Interpretations. IFRS 15 is applied starting with 1 January 2018, together with the modifications of the International Accounting Standards correlated with IFRS 15;
- Amendments to IFRS *Revenues from Contracts with Customers*, into effect starting with 1 January 2018

The standard establishes a new model of recognition of the revenues from the contracts with the customers in five steps. Also, the regulations are applied for the recognition and evaluation of the gains and losses from the non-financial assets sales. They include new classification requirements and a more detailed presentation requirements of the contracts with the customers, including execution obligations, modifications of the assets and liabilities balance accounts, reasonings used and estimations. The company has adopted the new standard for the accounting statements of the financial year 2018 without requiring the retreatment of the financial statements of 2017, due to the following considerations:

- The impact of the new standard on the company's key figures is limited because the revenues were recognized at the moment of the transfer of the control from the seller to the buyer.
 - Exception: revenues from the services provided evaluated according to IAS 18, depending on the contract's stage, their amount in 2017 being 477 thousand lei, revenues which were unrecognized at the end of the financial year, in order to early apply IFRS 15.
 - Amendments to IFRS 4 *Insurance Contracts* which are applied starting with 01.01.2018;
 - The modifications of the standards IAS 28 *Investment in Associates and Joint Ventures* IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 12 *Disclosure of Interests in Other Entities*, entered into force starting with the financial year 2018;
 - Modifications to IFRS 2 *Share-based Payment* entered into effect starting with the financial year 2018;
 - Amendments to the Standard IAS *Investment Property* entered into effect in 2018;
 - A new interpretation entered to IFRIC 22 *Foreign Currency Transactions and Advance Consideration* starting with the financial year 2018.
- ✓ ***Standards (Modifications to Standards) and interpretations adopted by the Committee for the International Accounting Standards and by the European Union through the Regulations issued but not yet in effect:***

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- Adopting IFRS 16 *Leases* (in effect since 1 January 2019) together with the modifications with the International Accounting Standards, in accordance with IFRS 16.
- Adopting the IFRIC 23 *Uncertainty over Income Tax Treatments* of the Committee for the Standards which enter in force starting with 1 January 2019.

The company evaluates the potential effects of the new Standards and amendments brought by the International Financial Accounting Standards and according to the initial estimates, provides that these will not significantly impact its financial statements.

- Accounting Law no. 82/1991, republished, as subsequently amended and supplemented;
- O.M.F.P. no. 881/2012 on the application of International Financial Reporting Standards by companies whose securities are admitted to trading on a regulated market;
- O.M.F.P. no. 2.844/2016 on the approval of the Accounting Regulations conforming to the International Financial Reporting Standards;
- O.M.F.P. no. 2.861/2009 for the approval of the Norms regarding the organization and execution of the inventories of elements such as assets, debts and own capital;
- O.M.F.P. no. 1.826/2003 on the approval of the Explanatory Memorandum regarding some measures of organization and management of the business accounting;
- O.M.F.P. no. 2.634/2015 regarding the financial accounting documents, including subsequent amendments and additions.

The accounting is kept in Romanian and in the national currency.

The accounting for transactions in foreign currency is carried out both in national currency and in foreign currency.

The financial year is the calendar year.

The financial statements are prepared and reported in thousand lei and all values are rounded to the nearest thousand lei. Due to rounding, the numbers presented do not always accurately reflect the totals provided, and the percentages do not accurately reflect absolute figures.

The financial statements are prepared based on historical cost.

The financial statements are presented in accordance with IAS 1 "*Presentation of Financial Statements*". The Company has opted for a presentation by nature and liquidity in the statement of financial position and a presentation of income and expenses by nature in the statement of profit or loss, considering that these methods offer information that is relevant to the Company's situation.

3.2. Applied Accounting Policies

Aerostar SA describes the accounting policies applied in each of the notes to the individual financial statements and avoids repeating the text of the standard, unless it is considered relevant to understanding the content of the note.

The most significant accounting policies are presented below:

- **Accounting Policies regarding property, plant and equipment**

The Company has chosen the cost-based model as accounting policy. After recognition as an asset, the **property, plant and equipment** are accounted at their cost less aggregate impairment and any aggregate impairment losses.

The depreciated cost is allocated systematically over the useful life of the asset and represents the cost of the asset less the residual value.

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Taking into account the specific activity and the types of property, plant and equipment in the patrimony of the company, it was considered that the residual values of the property, plant and equipment are insignificant. Practically, the residual value was calculated at the level of metal waste that may be valued after deduction of dismantling, disassembly and sales expenses.

The impairment methods and useful life are reviewed at least at the end of each financial year and are appropriately adjusted. The useful lifetimes are determined by the commission made up of company's specialists. Any changes are accounted prospectively.

Subsequent expenditures related to property, plant and equipment are added to the net value of the good, when:

- they have as an effect the improvement of the initial technical parameters;
- are the sources of future economic benefits materialized by cash-flows that are supplementary to those initially estimated; and
- can be reliably assessed.

The benefits are realized directly through the increase of revenues and indirectly through reducing maintenance and operating expenses.

All other repair and maintenance expenses performed to ensure the continued use of the property, plant and equipment are recognized in profit or loss when they are carried out. These are performed in order to keep the initial technical parameters.

The spare parts are generally accounted for as inventories and recognized as expense when consumed. If the spare parts and service equipment, with significant values, may only be used in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment if the initial acquisition cost (upon commissioning) of the replaced part can be determined.

To decide whether the recognition is done separately, on separate components, each case is analysed using professional reasoning.

The property, plant and equipment to be used in production or in administrative activities are presented in the situation of the financial position of cost, less any loss accumulated from impairment. Such assets are classified in the respective asset classes when they are completed and ready for use in the manner desired by the management, for the intended purpose.

The management of the company has set an amount for the capitalization of assets at 2.500 lei. All purchases below this amount will be considered as expenses of the period.

Exceptions: Computers are considered to be impaired property, plant and equipment, irrespective of the amount of inventory inflow and will depreciate over expected useful life set by the receiving department. Also, work tools and devices are also accounted for as inventories and recognized as expenses of the period when consumed, irrespective of their initial value, taking into account that they have a useful lifetime less than a year, as well as their degree of specialization (intended to be used for a particular type of product/ service).

In case of internally generated **intangible assets**, the phases of the production are clearly separated, namely:

- *The research phase.* The research costs are treated as expenses of the period

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- *The development phase.* The development costs are registered as an intangible asset, if the following conditions are demonstrated:
 - the technical feasibility of completing the asset, so that it is available for use or sell;
 - the availability of adequate resources - financial, human, financial - to complete the development;
 - the intention to complete and use or sell the intangible asset;
 - the ability to use or sell the asset;
 - how the asset will generate future economic value;
 - the ability to assess costs.

If the company cannot distinguish between the research phase and the development phase of an internal project to create an intangible asset, the company treats the costs of the project as being exclusively incurred during the research phase.

The company has chosen as accounting policy the cost model that requires that the intangible assets to be valued at their net asset value, equal to their cost, except the accumulated impairment and any impairment losses, for those assets.

An **investment property** is initially valued according to its cost, including any other directly attributable expenses. After the initial recognition, the company has opted for the cost model for all its investments property in accordance with the provisions of IAS 16 for that model.

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

The transfers between categories do not change the accounting value of transferred property and do not change the cost of that property for the purpose of evaluation or presenting the information.

The investment property is amortized according to the same rules as for the property, plant and equipment.

In the category of **financial assets**, are highlighted:

- Shares held in affiliated companies.
- Other property, plant and equipment.
- Long-term loans as well as interest on them. In this category are included the amounts granted to third parties based on interest-rate contracts, according to the law.
- Other fixed liabilities as well as interests related to them. This category includes collateral, deposits and bills placed with third parties, receivables related to financial leasing contracts.

The long-term financial assets recognized as an asset are measured at the cost of acquisition or at the amount set in their acquisition contract.

The long-term financial assets are presented in the statement of the financial position at the incoming value, less any recognized impairment losses.

- **Accounting policies on inventory items**

The registration of inventories is recorded at the time of the transfer of risks and benefits.

The calculations of those inventories that are not usually fungible and of those goods or services, products are determined by specific identification of their individual costs.

At the inventory outflow and of those active fungible, those are assessed and recorded in the accounting by applying the FIFO method.

Periodically, the management of the company approves the level of the normal technological losses. The inventory is kept according to quantity and value, by applying the permanent inventory method.

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The value adjustments are made for the current assets of the inventory, upon each reporting period, based on the age of inventories, of the resolutions given by the inventory commissions and/ or by the management of the business modules, for the presentation of assets at the lowest value between cost and net achievable value.

- **Accounting policies on company's liabilities**

Company's liabilities are highlighted in the accounting based on third parties accounts. Suppliers and other liabilities accounts are kept by category, as well as by each individual or legal entity. Income tax to be paid is recognized as a liability within the limit of the unpaid amount.

The registration in the accounting of the excise duties and special funds included in prices or tariffs is made based on the corresponding liabilities accounts, without transferring through the income and expenses accounts.

Operations that cannot be separately recorded in the appropriate accounts and for which further clarification is required are recorded in a separate account 473 *Accounts settled from operations under clarification*.

Foreign currency liabilities are recorded in the accounting both in RON as well as in foreign currency.

A liability is classified as a short-term liability, also called current liability when:

- it is expected to be settled in the normal course of the company's operating cycle, or
- it is due within 12 months from the balance sheet's date.

All other liabilities are classified as long-term liabilities.

Liabilities that are payable over a term longer than 12 months are long-term liabilities.

Are also considered to be interest-bearing long-term liabilities even when they are due within 12 months of the date of the financial statements, if:

- a) the initial term was for a period longer than 12 months; and
- b) there is a refinancing or rescheduling agreement that is concluded before the date of the financial statements.

- **Accounting policies on company's receivables**

Receivables include:

- trade receivables, which are amounts owed by customers for goods sold or services rendered in the normal course of the activity;
- commercial revenue (effects) to be collected, third party instruments;
- amounts owed by the employees or affiliated companies
- advance payments to the suppliers of property, plant and equipment, of goods and services;
- receivables related to manpower and state budget.

Receivables are accounted for under the accrual basis, according to the legal or contractual provisions.

Customer accounting is kept on categories (internal customers for services and products, as well as external customers for services and products) and on each natural or legal person.

Receivables settled in foreign currency or in RON according to the foreign exchange rate:

Receivables in foreign currencies, which are the result of the company's transaction, are recorded both in RON, as well as in foreign currency.

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

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Impairment of receivables with prescribed collection deadlines is performed only after all legal steps have been taken, for their settlement.

The uncertain receivables are recorded separately in the account 4118 Uncertain customers when the payment term stipulated in the contract has exceeded by more than 30 days or there is a dispute with the customer.

In the annual financial statements, receivables are valued and presented in the value which is likely to receive.

When a receivable from a customer was not collected in full at the payment term stipulated in the contract, there are recorded impairment adjustments to the terms and percentages approved by the Board of Directors in the Accounting Policy Manual.

- **Accounting Policies for Revenue Recognition**

In the revenue-related category are included both the revenues received or to be received in own name, as well as gains from any source.

Revenues are classified as follows:

- ✓ revenues from operations;
- ✓ financial revenues.

The revenue is recognized on an accrual basis.

The revenue is measured at the fair value of the amount received or to be received. The sales revenue is diminished for returns, commercial rebates and other similar discounts.

Revenues from operations include:

- revenues from sales (goods, services, commodities, residual products);
- revenues related to the cost of product inventories;
- revenues from the production of property, plant and equipment;
- revenues from changes in adjustments of assets respectively from impairments or reversals of provisions;
- other operating revenues.

Revenues from the sale of goods are recorded when all of the following conditions are met:

- the company has transferred to the buyer the control on the goods in question;
- the company does not retain the continuous managerial involvement to the level usually associated with the ownership or the actual control over the sold goods;
- the amount of revenue can be accurately assessed;
- it is likely that the economic benefits associated with the transaction will be directed to the entity;
- the costs incurred or to be incurred in connection with the transaction can be precisely measured.

Specifically, the income from the sale of goods are recognized when the company transferred to the buyer the control on the goods in question.

Revenues from rendering of services

The service contracts in the company's portfolio are usually contracts with execution at a specific time, which coincides with the delivery of goods subject to the rendering of services.

As a result, the revenues from the rendering of services are registered when the following conditions are met:

- the company had transferred to the customer the control over the services rendered;

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- the amount of the revenue can be accurately measured;
- it is probable that the economic benefits associated with the transaction will be directed to the entity;

If the result cannot be estimated, the revenue is recognized up to the recoverable amount.

The **rental revenues** from real estate investments are recognized in the income statement on a straight-line basis over the period of the lease.

The **financial revenues** include interest revenue, foreign exchange revenue, dividend revenue and other financial revenue.

The **interest revenues** are recognized in the income statement on the basis of accrual accounting using the effective interest method. The interest revenues generated by a financial asset are recognized when it is probable that the company will obtain an economic benefit and when that revenue can be measured accurately.

The **dividend revenues** generated by investments are recognized when the shareholder's right to receive payment has been determined. The company records dividend revenues at the gross amount that includes dividend tax (when it is the case), which is recognized as income tax expense.

- **Accounting policies for provisions**

Provisions are recognized when the company has a present obligation (legal or implicit) as a result of a past event, it is probable that the company will be required to settle the obligation and a reliable estimate of the amount of the obligation.

The value recognized as provision is the best estimation that can be made regarding the amount required to settle the current obligation at the end of the reporting period, taking into account the risks and uncertainties around the obligation.

The accounting for provisions is kept on the basis of the nature, the purpose or the object for which they were set up.

Provisions for collateral

The company makes provision for collateral when the products or services covered by the collateral are sold.

The amount of the provision is based on historical or contractual information about the collateral granted and is estimated by the share of all possible results with the probability of the realization of each.

Provisions for Risk and Expense

When identifying risks and expenses that the events that occur or are occurring make them probable and whose object is determined with certainty but whose realization is uncertain, the company hedges these risks by making provisions.

The provisions for risks and expense are constituted for items such as litigations, fines, penalties, compensations, damages and other uncertainties.

Provisions for the decommissioning of property, plant and equipment

When the initial recognition of a property, plant and equipment is estimated, the cost of dismantling, removing the item and restoring the site where it is located, as a consequential cost of using the item over a certain period of time.

These consequential costs are reflected by the constitution of a provision that is recorded in the income statement during the lifetime of the property, plant and equipment, by including it in the impairment expense.

The revision of the estimates for the decommissioning and restoration provision is determined by the annual review of the dismantling costs. The Committee of specialists from the company,

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appointed by decision, establishes, on a regular basis, whether the initial estimates of dismantling costs are appropriate.

Provisions for the employees' benefits

Are recognised for the benefits of the employees granted in accordance with the applicable Collective Labour Agreement, only if:

- the entity has the legal and constructive obligation to make such payments as an outcome of past events; and
- can be achieved a reliable estimate of the obligation.

The provisions are reanalysed at the end of each reporting period, in order to present the most appropriate current estimation.

• **Accounting Policies on grants and other non-refundable funds**

The subsidies are distinctly reflected:

- government grants;
- non-refundable subsidies in the form of grants;
- other amounts received in the form of grants.

Grants are recognized at their approved value. Grants received as non-monetary assets are recognized at fair value.

Government grants are initially recorded as deferred revenue at fair value when there is reasonable assurance that it will be received and the Company will respect the conditions associated with the grant.

Grants that compensate the Company for the expenditures incurred are systematically recorded in the income statement, in the same periods in which expenses are recorded. Grants that compensate the company for the cost of an asset are recorded on a systematic basis in the income statement over the entire lifetime of the asset.

Grants related to income are recorded on a systematic basis as revenues from the periods corresponding to the related expenditures that these grants are to compensate.

In case that, during a specific period, a grant is received for expenses that have not yet been incurred, the subsidies received do not represent income for that current period. They are recognized in the accrual accounting as advance income and are resumed in the income account as the incurred expenses compensate the surplus.

• **Accounting policies for the production of goods and services**

The accounts management in Aerostar is based on the applicable legal provisions and the manual of procedures and work instructions specific to the management accounting, adapted to the specific activity of the Company.

The management accounting consists of:

- collecting direct, indirect and ancillary costs by their nature;
- indirect cost allocation;
- direct and indirect costs deduction.

The purpose of the management accounting is principally to determine the result on production orders or services and on each organizational structure.

According to the accounts regulations, the following items are recognized in the cost of goods, works and services that are recognized as expenses of the period in which they occurred:

- a) material losses, labour or other production costs related to scrap and undercapacity load work costs;
- b) general administration expenses.

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The calculation method used in Aerostar is the method based on orders.

This method is suitable for individual and serial production. The object of record and calculate the cost within this method is the order launched for a certain quantity (batch) of products.

The production costs are collected directly on each order (those that are direct) or by distribution (the indirect ones).

The actual cost per unitary product are calculated upon completion of the order by dividing the production costs collected from the respective order to the quantity of products produced on the order.

The orders are launched at a planned price, as applicable.

In case of orders related to export sales the price is expressed in RON by converting the currency to the budgeted foreign exchange rate.

In applying the accounting policies, the Company issues procedures, instructions and work dispositions approved by the executive management.

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NOTE 4 – TRANSACTIONS IN FOREIGN CURRENCIES

AEROSTAR considers the Romanian LEU as the functional currency and the financial statements are presented in thousand LEI.

The currency transactions are recorded at the exchange rate of the functional currency at the date of the transaction.

At the end of the Financial Position Statement, the assets and financial liabilities denominated in foreign currency are evaluated in the functional currency using the exchange rate, communicated by the Romanian National Bank, valid on that date:

Currency	31.12.2018
EUR (Euro)	4,6639
USD (American Dollar)	4,0736
GBP (British pound)	5,1931

The favourable and unfavourable exchange rates differences which result from the settlement of the assets and financial liabilities denominated in foreign currency are recognized in the Profit or Loss Statement for the financial year in which they occur.

Considering that 76% from the turnover registered in the reporting period is denominated in USD and EUR, while a significant part of the operating costs is denominated in LEI, the foreign exchange rates variations will affect both its net incomes as well as the financial position as expressed in the functional currency.

In the reporting period the net currency exposure resulted as a difference between the amounts collected from the financial assets and the payment of the financial liabilities denominated in that currency are presented as follows:

Year 2018	Thousand EUR	Thousand USD	Thousand GBP
Collected from financial assets	16.616	46.376	0
Payments of financial liabilities	(11.797)	(16.818)	(613)
Foreign Currency Net Exposure	4.819	29.558	(613)

In the reporting period, the quartely variation of the foreign exchange rate USD/LEU with:
-2,65% 1st quarter 2018 – beginning of the year 2018,
+2,90% 2nd quarter 2018 – 1st quarter 2018,
+2,47% 3rd quarter 2018 – 2nd quarter 2018,
+2,22% 4th quarter 2018 – 3rd quarter 2018,
has determined the registration of a financial profit from favourable exchange rate differences of 1.269 thousand LEI.

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NOTE 5 - INTANGIBLE ASSETS

	31 December 2018			01 January 2018		
	Gross values	Depreciation/ Impairment	Net accounting value	Gross value	Depreciation/ Impairment	Net accounting value
Capitalized development costs	152	(152)	0	89	(89)	0
Licences /Trade marks	4.902	(3.926)	976	4.602	(3.122)	1.480
Other intangible assets	1.413	(1.346)	67	1.196	(818)	378
Total	6.467	5.424	1.043	5.887	4.029	1.858

Net accounting value

	Balance on 1 January 2018	Increase	Reclassification	Disposals	Depreciation/ Impairment during the period	Balance on 30 December 2018
Capitalized development costs	0	152	0	0	(152)	0
Licenses	1.480	327	0	0	(831)	976
Other intangible assets	378	217	0	0	(528)	67
Total	1.858	696	0	0	(1.511)	1.043

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

- Development expenses
- Licences
- Other intangible assets

The software programmes are registered in other intangible assets.

The estimated useful lifetimes of intangible assets are established in years.

The useful lifetimes are established by committees of specialists from the company.

The fiscal durations of operation of the intangible assets are stipulated 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 assets in the balance sheet account as on 31.12.2018 are not depreciated and no adjustments were made for the depreciation thereof.

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

The value of the completely amortized software licenses on 31 Decembrie 2018 and which are still in use is 1.496 thousand LEI.

All the intangible assets recorded in the balance sheet as on 31 Decembrie 2018 are property of AEROSTAR.

Increases in gross values of intangible assets were obtained by: **696**

• capitalization of the development expenses fully financed by Aerostar	152
• development of the IT management system of production-AEROPROD	217
• purchasing of software licences	327

In the reporting period there were no entering of licences generated internally or acquired through business combinations.

In the reporting period there were no assets classified as held for sale in accordance with IFRS 5.

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NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

The Property, plant and equipment on 31 December 2018 and 01 January 2018 comprise the following:

	31 December 2018			01 January 2018		
	Gross values	Depreciation	Net accounting value	Gross values	Depreciation	Net accounting value
Land	28.401	0	28.401	28.433	-	28.433
Constructions	55.736	16.922	38.814	54.160	12.256	41.904
Technological equipment and transport	149.601	70.623	78.978	119.436	52.550	66.886
Other equipment and office equipment	1.348	466	882	937	353	584
Investment property	10.260	2.330	7.930	8.810	1.823	6.987
Property, plant and equipment under construction	687	-	687	6.806	0	6.806
Total	246.033	90.341	155.692	218.582	66.982	151.600

Net accounting value

	Balance on 1 January 2018	Increase	Reclassification	Disposal/Transfer	Depreciation	Balance on 31 December 2018
Land	28.433	0	0	(32)	0	28.401
Constructions	41.904	1.579	0	0	(4.669)	38.814
Technological equipment and vehicles	66.886	30.640	0	(42)	(18.506)	78.978
Other equipment and office equipment	584	412	0	0	(114)	882
Investment property	6.987	1.450	0	0	(507)	7.930
Property, plant and equipment under construction	6.806	27.955	0	(34.074)	0	687
Total	151.600	62.036	0	(34.148)	(23.796)	155.692

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Property, Plant and Equipment are evaluated at their acquisition or production costs minus cumulative depreciation and the impairment losses.

These items are amortized by the Company using the linear method.

Depreciation expenses are recognised in the profit and loss statement.

The following useful lives are assumed:

- constructions	30-50 years
- technological equipment	4-25 years
- vehicles	4-18 years
- other property, plant and equipment	2-18 years
- investment property	25-50 years

The useful lives are established by committees formed by Company's specialists. The useful lifetimes of the Property, Plant and Equipment were reviewed at September 2018.

The fiscal useful lives of the Property, Plant and Equipment are stipulated by the fiscal legislation on assets.

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

The investment property contains a number of 11 real estate – buildings and related lands which are rented to third parties based on renting contracts.

The value of renting incomes in 2018 was of 1.991 thousand lei (12 months 2017: 1.884 thousand lei).

At the date of transition to IFRS, the Company has estimated and included in the cost of the Property, Plant and Equipment the costs estimated with their decommissioning at the end of a 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 Property, Plant and Equipment, by inclusion in the depreciation expense.

The depreciation of an asset begins when the asset is available 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 depreciation 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 - Impairment of assets, the company proceeded to the identification of any signs of impairment of Property, Plant and Equipment, taking into consideration external and internal sources of information.

External source of information

Market value (market capitalization) has registered a growth of 3 % on 31 December 2018 compared to 31 December 2017.

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The indicator which offers information regarding the interest from the investors in the company listed on the capital market is the market capitalization reported to company equity (MBR).

AEROSTAR continues to register a very good value of the indicator, obtained by the top-rated companies on the capital market which present interest from the investors.

<u>MBR-Market indicator to book ratio</u>	<u>31.12.2018</u>	<u>31.12.2017</u>
Stock exchange capitalization/ company equity	2,3	2,8

Internal source of information:

- the economic performance of the assets is good, all the immobilizations in operation bring benefits to the company

- in the reporting period no changes occurred with adverse effects on the extent and manner in which the assets are used. The rotation of immobilizations (Turnover/Property, Plant and Equipment – indicator monthly monitored) has been at the same level (2,25 rotations) in comparison with the similar prior period (2,21 rotations).

In conclusion, the Property, Plant and Equipment in the balance sheet on 31.12.2018 are not depreciated and no significant depreciation indicators were identified.

The gross accounting value of the fully depreciated Property, Plant and Equipment which were still in operation on 31 December 2018 is of 6.379 thousand lei.

On 31.12.2018 no mortgages were set on tangible real estate assets in the property of AEROSTAR S.A.

Increases in gross values of the Property, Plant and Equipment, achieved by:
62.036

acquisition on technical equipment, hardware equipment, equipment of measuring and control, modernization of buildings etc	34.074
• investments performed in 2018	27.955
• immobilization found plus inventory	7

Decreases in gross values of Property, Plant and Equipment, achieved by:
34.148

• the transfer of the immobilizations in progress under Property, Plant and Equipment following their placing in service;	34.074
• derecognition of certain Property, Plant and Equipment, due to the fact that the company no longer expects future economic benefits from their use;	42
• expropriation, for a public use cause, of a land surface of 452 m ² owned by AEROSTAR – to realize the investment objective of local interest, „Rehabilitation of the Aeroportului Street”.	32

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NOTE 7- FINANCIAL ASSETS

	Shares held in affiliated entities	Other immobilized securities	Long-term loans	Other receivables - supply bonds	Total
On 1 January 2018	14	92	87	35	228
Increases/Decreases	-	-	(87)	(1)	(88)
On 31 December 2018	14	92	-	34	140

Details of the entity's investments on 31.12.2018 in other companies are the following:

Subsidiary name/ Registered headquarter	CAEN code	No. of shares/ shares issued	Voting rights (%) held	Value of shares held by Aerostar (thousand lei)	Financial Information Related to 2017				
					Company's Share capital	Reserve	Net profit	Nominal value/ share	Net asset/share
Airpro Consult SRL Bacau Condorilor Street no.9	- main activity according to CAEN code 7820	100	100%	10	10	55	106	0,1	1,7
Foar SRL Bacau Condorilor Street no.9	- main activity according to CAEN code 7739	800	51%	4	8	1.739	219	0,01	2,5
ATF S.A Bacau Condorilor Street no.9	- main activity according to CAEN code 2822	20.000	45,75%	92	200	38	1	0,01	0,013
TOTAL	X	X	X	106	218	1.832	326	x	x

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AEROSTAR's share contribution in these companies is registered based on cost.

In 2018, the company recorded no modifications i.e. no increases/decreases as to the shareholding percentage, maintaining the same influence as in 2017.

All companies in which AEROSTAR holds shares are registered in Romania.

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NOTE 8 - TRADE RECEIVABLES

	31 December 2018	31 December 2017
TRADE RECEIVABLES OF WHICH:		
Customers, of which:	54.909	38.050
Domestic customers	9.735	4.470
Foreign customers	45.174	33.580
Uncertain customers	32	1.162
Adjustments for impairment of receivables - customers	(16)	(1.162)
Suppliers – debtors	10.559	6.371
Effects to receive from customers	161	-
Other fixed liabilities with due date less than 12 months	-	132
TOTAL TRADE RECEIVABLES	65.645	44.553

In accordance with the provisions from the Accounting Policies Manual, to cover the non-recovery risk of the amounts that represent the uncertain trade receivables, the company registers adjustments for the depreciation of the uncertain customers in percentage of 50% from the value of the receivables not collected on time if the due date is between 30 days and 180 days and it is in percentage of 100% from the value of the receivables with the due date longer than 180 days. On 31 December 2018 the company has registered only adjustments for the depreciation of the uncertain customers in percentage of 50% from the value of the receivables not collected, having no receivables with due date exceeding 180 days.

When determining the recoverability of a trade receivable, the changes considered were those occurred in the customer's credit rating from the time when the credit was granted till the time of reporting.

Debtors-suppliers have a discount limit in the year 2019.

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 December 2018.

The favourable and unfavourable exchange rates differences between the exchange market rate, to which are accounted the receivables in currency, and the market exchange rate communicated by the National Bank of Romania available for the end of 30 December 2018, were recorded in the related income or expense account.

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NOTE 9 - OTHER RECEIVABLES

	31 December 2018	31 December 2017
Receivables relating to manpower and similar accounts	8	30
Receivables related to the budget of social insurance and the state budget, of which:	2.416	1.573
– VAT to be recovered	958	768
– Non-chargeable VAT	49	154
– amounts to be recovered from the National Health System (allowances on medical leaves)	488	127
– Excise duty to be recovered related to the fuel used	826	504
– Operating subsidies to be collected	72	-
Interest to receive from bank deposits	156	346
Diverse debtors	252	233
Adjustments for the depreciation of the receivables – diverse debtors	(102)	(113)
Other receivables	1	18
TOTAL, OTHER RECEIVABLES	2.731	2.087

To cover the risk of non-recovery of the amounts representing certain categories of receivables—diverse debtors, the company registered adjustments for impairment of diverse debtors in amount of 102 thousand lei.

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NOTE 10 – INVENTORIES	31 December 2018	31 December 2017
of which:		
Raw materials	18.446	14.789
Consumables	32.621	25.444
Other materials	78	146
Semi-finished/ Forgings	1.907	-
Packaging	19	34
Finished products	25.624	17.796
Products and services in progress	23.446	23.271
Goods	-	0.6
Adjustments for impairment of inventories	(19.773)	(13.556)
	82.368	67.925
TOTAL		
Gross value of the inventory (unadjusted)	102.141	81.481

The inventories are assessed at the lowest value between the cost and the net achievable value.
The net achievable value is the estimated sale price for inventories minus all estimated costs for completion and the estimated costs required for the sale.

The cost of inventories includes: acquisition costs, conversion costs as well as other costs incurred to bring inventories to the state and in the place where they are currently found.

Adjustments of their value are made regularly based on the findings of the inventory commissions and/ or the managers of the production modules in order to present them at the lowest value between the cost and the net achievable value.

Within the Company, the goods which are considered to be depreciated are those that are older than the storage period established by internal decision of the Board of Directors.

The total value of inventories recognized as an expense during the period is of 113.943 thousand lei.

AEROSTAR holds inventories of finished products (buffer) at the levels contractually agreed with the customers.

AEROSTAR has no pledged inventories.

Starting with 01 January 2018, following the approval of the Board of Directors, the decision was made to voluntarily change the accounting policy for the assessment of the inventories at their exit from accounts, from the Weighted Average Cost to the FIFO method. The reasons for this change are:

- the new policy provides reliable and more relevant information on the effects of transactions on the financial position and financial performance of the Company;

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- the change of the initial terms (characterized by significant inflation and the volatility of the exchange rate) since the adoption of the Weighted Average Cost method;
- a better inventory tracking of the inventories and their traceability, by batches;
- a better performance in operating the IT applications for the management of production and inventories.

From the estimations made, the effects of this change of the accounting policy for the previous periods are not significant.

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NOTE 11 - CASH AND CASH EQUIVALENTS

At the end of the reporting period the cash and cash equivalents consisted in:

	31.12.2018	31.12.2017
Cash	9.931	6.546
Bank deposits	157.614	157.336
Exchange bills and trade effects to collect	0	4
Cash and cash equivalents in the cash-flow statement	167.545	163.886

The cash contains the current cash available cashier's desk and in banks;

The cash equivalents comprise:

- short-terms bank deposits
- exchange bills and trade effects (promissory notes) submitted to banks for collection.

The treasury balance is influenced by the prepaid amounts received from the customers.

There are no restrictions on the cash accounts in the banks.

The value of bank Credit facilities, usable as an overdraft, available for future operations, is of 2.500 thousand USD (10.184 thousand lei).

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NOTE 12 – COMPANY EQUITY

The company equity on 31 December 2018 is 315.139 thousand lei.

The net increase of the equity in 2018 in comparison with 2017 was 62.172 thousand lei.

The modifications of the main elements of the company equity incurred in 2018 in comparison with 2017 are the following:

- **The share capital remained unchanged**

On 31 December 2018, the share capital of AEROSTAR SA is 48.728.784 lei, divided in 152.277.450 shares having each a nominal value of 0,32 lei.

The structure of the company's shareholding on 31.12.2018 is the following:

Shareholder	Number of shares held	Participation held (% from share capital)
IAROM S.A. Bucharest	108.585.664	71,3078%
SIF MOLDOVA Bacau	22.919.887	15,0514%
Other shareholders	20.771.899	13,6408%
total	152.277.450	100,0%

- **The reserves increased with 55.553 thousand lei on the account of:**

- the distribution to reserves of the reinvested profit related to 2018 in gross amount of 26.035 thousand lei
- the distribution to reserves of the amount of 29.518 thousand lei related to the financial year 2017

- **Other capital elements have increased with the amount of 4.235 thousand lei on the account of the deferred income tax recognized in company equity.**

- **Result carried-forward:**

- has increased with:**

- 800 thousand lei on the account of the deferred profit tax recognized on the account of the company equity
- 43.832 thousand lei representing the profit to be distributed related to the financial year 2017, registered in the result carried forward until its distribution on the categories approved by the shareholders in the ordinary general meeting from 19 April 2018.

- and has decreased with the profit of the financial year 2017, distributed as follows:**

- to reserves in the amount of 29.518 thousand lei
- for dividends in the amount of 14.314 thousand lei

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The balance of the result carried-forward account on 31 December 2018, is of 58.324 thousand lei, comprising:

- the result carried forward coming from the use, on the date of the transition to IFRS, of the fair value as presumed cost = 34.559 thousand lei;
- the result carried-forward representing a surplus obtained from re-evaluation reserves, capitalized as the property, plant and equipment and intangible assets were amortized = 23.765 thousand lei;

• **The result of the period was of 79.921 thousand lei.**

During the period the amount of 43.832 thousand lei was registered, representing the distributable profit from the year 2017.

The amount of 10.054 thousand lei which influenced the company equity at 31.12.2018 represents the arithmetical difference between the result of the period (79.921 thousand lei) and the distributions of the period (69.867 thousand lei).

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NOTE 13 - PROVISIONS

	31 December 2017	Increases/ Set-up/ Reclassification of provisions	Reductions/ Resumed/ Reclassification of provisions	Differences from revaluation	31 December 2018
Total provisions	125.189	38.336	(51.955)	981	112.551
Provisions for bonds granted to customers	40.504	33.919	(35.783)	944	39.584
Provisions for decommissioning property, plant and equipment	16.116	0	(1)	0	16.115
Provisions for the employee benefits	5.754	4.408	(5.724)	0	4.438
Provisions for litigations	5.810	9	(700)	4	5.123
Other provisions	57.005	0	(9.747)	33	47.291
- of which:					
Long-term provisions	75.825	25.035	(6.010)	946	95.796
Provisions for bonds granted to customers	6.913	25.026	(5.577)	905	27.267
Provisions for decommissioning property, plant and equipment	16.116	0	(1)	0	16.115
Provisions for litigations	5.110	9	0	4	5.123
Other provisions	47.686	0	(432)	37	47.291
Short-term provisions	49.364	13.301	(45.945)	35	16.755
Provisions for bonds granted to customers	33.591	8.893	(30.206)	39	12.317
Provisions for employee benefits	5.754	4.408	(5.724)	0	4.438
Provisions for litigations	700	0	(700)	0	0
Other provisions	9.319	0	(9.315)	(4)	0

Provisions set up for bonds granted to customers

Provisions set up for bonds granted to customers are made to cover the non-conformance risks of the products sold and the services performed, in accordance with the contractual provisions.

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Provisions for decommissioning the Property, Plant and Equipment

Provision for decommissioning of property, especially buildings, are formed to cover the decommissioning costs, of removal of the elements and restoration of the locations in which are placed and included in their cost. The value was estimated using an update annual rate of 4,5%.

Provisions for benefits granted to employees

The provisions for benefits granted to employees are set for the bonus granted according to the clauses of the applicable Collective Labour Agreement (bonus for the end of the financial year, for the end of the production year, for performance) and for the annual holidays leave not taken by the employees in the previous year.

Provisions for litigations

Provisions for litigations are set for probable indemnities payable by the company to a former employee, or to a commercial partner respectively.

The provisions are reanalysed at the end of each reporting period and are adjusted in order to reflect the best estimation of the probable payments.

Other provisions

In *Other provisions* category are found the provisions set for:

- covering of risks specific to the aviation industry, such as: risk of hidden defects, risk of discovering quality incidents which can cause damage.
- coverage of some expenses regarding the Company's obligations towards A.J.O.F.M., based on O.U.G. 95/2002.

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NOTE 14 - SUBSIDIES

Subsidies related to the long-term assets

AEROSTAR registers the subsidies regarding the long-term assets in the category of income in advance.

	31.12.2018	31.12.2017
Balance on 1 January	12.677	15.001
Subsidies registered as revenues related to calculated amortization	(2.445)	(2.323)
Property, Plant and Equipment	7	19
Balance on 31 December	10.239	12.677

The subsidies related to the non-current 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 manufacturing and assembly capacities for aerostructures for civil aviation', performed 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', performed 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 mechanical processing and painting sectors by high performance investments', carried out between March to December 2015, the value of the subsidy received from the Ministry of European Funds (MFE) being of 8.299 thousand lei;

All investment projects in immobilized assets were implemented and finalized in accordance with the contractual provisions undertaken

The balance registered on 31 December 2018 in amount of 10.239 thousand lei represents the subsidies related to investments in immobilized assets which are to be recorded as income while the calculated amortization is registered as a cost, structured on the 3 contracts as follows:

1. contract no. 210304/22.04.2010: 2.100 thousand lei
2. contract no. 229226/14.06.2012: 2.524 thousand lei
3. contract no. 5IM/013/24.03.2015: 5.590 thousand lei

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NOTE 15 - COMMERCIAL DEBTS

	31 December 2018	31 December 2017
Prepaid amounts collected on customers' account	2.264	4.896
Domestic customers-creditors	69	3.985
Foreign customers-creditors	2.195	911
Supplier, of which:	18.933	24.580
Domestic suppliers	5.545	9.269
Foreign suppliers	10.023	11.540
Suppliers-invoices not arrived	1.956	1.803
Suppliers of non-current assets	1.409	1.968
Commercial effects to pay	-	39
Total commercial debts	21.197	29.515

The payments in advance collected from the customers are for maintenance and aircraft work, with settlement date in 2019.

For the debts registered no mortgages were established.

The favourable or unfavourable exchange rate differences between the market exchange rate to which the debts in foreign currencies are registered and the market exchange rate communicated by the National Bank of Romania for closing the month of December 2018, were registered in the corresponding accounts of revenues or expenses.

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NOTE 16 - OTHER LIABILITIES

	31 December 2018	31 December 2017
Other current liabilities, of which:	9.218	8.553
• <i>Liabilities related to manpower and similar accounts</i>	<i>2.566</i>	<i>2.242</i>
• <i>Liabilities related to social security budget and state budget, of which:</i>	<i>4.709</i>	<i>4.503</i>
- VAT payable	1.165	1.451
- social insurance	2.604	2.016
- Labour safety contribution	166	-
- tax on salary type revenues	488	741
- contribution for disabled people, unemployed	128	102
• <i>Other liabilities, of which:</i>	<i>1.943</i>	<i>1.808</i>
- dividends	1.711	1.492
- diverse creditors	147	204
Other long-term liabilities	45	51

Dividends in balance at 31 December 2018, in amount of 1.711 thousand lei represent:

- 656 thousand lei, amount to be paid by AEROSTAR for the dividends related to 2017 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 557 thousand lei, amount to be paid by AEROSTAR for the dividends from 2016 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (paying agent designated by AEROSTAR);
- 498 thousand lei, amount to be paid by AEROSTAR for the dividends from 2015 to the shareholders who did not present at the offices of the paying agent CEC Bank S.A. (the paying agent designated by AEROSTAR).

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NOTE 17 - THE DEFERRED PROFIT TAX

The deferred tax is determined for the temporary differences which occur between the tax base of the assets and liabilities and their accounting basis. The deferred tax is calculated at a tax rate of 16% applicable to the temporary differences when resumed.

The Company estimated and registered liabilities regarding the deferred tax related to non-current assets (which results from differences between accounting and fiscal values, the different useful life, s.o.) and of the reserves and recognized receivables regarding the deferred tax related to the inventories, which were adjusted for depreciation, provisions for customer bonds, provisions for benefits granted to the employees and other provisions.

The structure of deferred income tax registered on 31.12.2018 is:

Liabilities from deferred tax

1. Liabilities related to deferred tax generated by the differences between accounting bases (bigger) and the fiscal ones (smaller) of the non-current assets	2.874
2. Liabilities related to the deferred tax concerning legal reserves	1.559
3. Liabilities on deferred tax related to reserves from the fiscal facility	11.561
4. Liabilities on deferred tax related to the reported result representing a surplus from revaluation reserves	61
Total liabilities from deferred tax	16.055

Receivables on deferred tax

1. Receivables on deferred tax related to other provisions set in 2010	925
2. Receivables on deferred tax related to provisions for bonds granted to customers set between 2014-2018	6.333
3. Receivables on deferred tax related to provisions for manpower benefits	710
4. Receivables on deferred tax related to the adjustments for depreciation of the inventories	3.164
Total receivables on deferred tax	11.132

The Company did not recognize receivables on deferred tax related to other provisions for the aviation industry risks due to an uncertainty regarding the fiscal deductibility of the expenses which may occur from the settlement of the obligations arising in the future periods. Therefore, the differences between the tax base and the accounting base would be null.

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NOTE 18 - FINANCIAL INSTRUMENTS

A financial instrument is any contract generating simultaneously a financial asset for an entity and a financial liability or an equity instrument for another entity.

The financial assets and liabilities 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
- trade receivables
- trade effects received
- immobilized receivables (bonds for third parties)
- loans granted with interest

The financial liabilities of AEROSTAR S.A. include:

- trade liabilities
- trade effects payable

On the reporting date AEROSTAR does not have financial liabilities concerning financial leasing, 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 (bank deposits) and trade receivables.

The cash and cash equivalents are placed only at first-rank bank institutions considered to have a high solvency rate.

In some cases, specific instruments of commercial credit risk decrease (receipts in advance, letters of payment bank security, confirmed export credentials).

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

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Exposure to credit risk

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

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

	31.12.2018	31.12.2017
Cash and cash equivalents	167.545	163.886
Trade receivables, net of adjustments for depreciation	54.176	37.602
Trade effects received	161	0
Immobilized receivables	34	168
Loans granted with interest	0	87
Total	221.916	201.743

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

	31.12.2018	31.12.2017
Domestic market	9.735	4.470
Euro zone countries	18.785	19.029
Great Britain	14.667	9.308
Other European countries	3.991	1.147
Other regions	6.998	3.648
Total	54.176	37.602

Depreciation adjustments

The timeframe structure of gross trade receivables on the reporting date was:

	Gross value 31.12.2018	Adjustments for depreciation 31.12.2018	Gross value 31.12.2017	Adjustments for depreciation 31.12.2017
In due time	53.458		37.547	
Past due, total of which:	734	16	1.217	1.162
1-30 days	0	0	13	13
31-60 days	222	16	817	772
61-90 days	4	0	99	89
91-120 days	0	0	98	98
Over 120 days	508	0	189	189
Over 1 year	0	0	1	1
Total	54.192	16	38.764	1.162

The movement in the adjustments for the depreciation of the trade receivables during the year is presented in the following table:

	31.12.2018	31.12.2017
Balance on 1 January	1.162	1.024
Adjustments set for depreciation	2.193	6.040
Adjustments for depreciations resumed as revenues	(3.339)	(5.902)
Balance on 31 December	16	1.162

On 31.12.2018, a percentage of 99,97% from the balance of trade receivables are related to customers which have a payment history.

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b) Liquidity risk

The liquidity risk is the risk that AEROSTAR encounters difficulties to meet the obligations associated to the financial liabilities which are settled by cash payments.

AEROSTAR's policy regarding this risk is to maintain an optimum level of liquidity so as to pay for the liabilities, as they become 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 reviewed monthly (general liquidity, immediate liquidity and rate of general solvency) against the budgeted levels.

Further, 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 review the contractual due dates of the financial liabilities, with a view to show the timeframe for the 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
31.12.2018	Trade liabilities payable	16.977	(16.977)	(12.719)	(3.078)	(1.180)
	Trade effects	0	0	0	0	0
31.12.2017	Trade liabilities	22.776	(22.776)	(14.836)	(5.793)	(2.147)
	Trade effects	39	(39)	(39)	0	0

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

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

On 31.12.2018 AEROSTAR has no records of overdue financial liabilities.

c) Foreign currency risk

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

Exposure to the foreign currency risk

AEROSTAR is exposed to the foreign currency risks, as 76% from the turnover recorded in the reporting period is denominated in USD and EUR, while a significant part of the operating expenses is denominated in lei.

So, Aerostar is exposed to the risk that the currency exchange rate variations will affect both its net income and its financial position as expressed in lei.

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The net exposure to the foreign currency risks of the financial assets and liabilities is presented on the basis of the accounting values denominated in foreign currency registered at the end of the reporting period:

31.12.2018	thousand EUR	thousand USD	thousand GBP
Cash and cash equivalents	1.681	1.304	17
Trade receivables	1.792	8.858	0
Trade liabilities	(770)	(1.513)	(64)
Net exposure in original currency	2.703	8.649	(47)

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/LEU.

Taking into consideration the evolution of USD/LEU exchange rate from the last 3 years (2016-2018), a relatively high volatility of (+/- 10%) can be observed.

Thus, a reasonably possible variation of the foreign exchange rate of +/- 10% may be envisaged to calculate at the end of the reporting period.

The effect of the reasonably possible variation of +/- 10% of the exchange rate USD/LEU over the financial result of AEROSTAR is calculated in the following table:

31.12.2018	
Net exposure in the currency of origin (thousand USD)	8.649
USD/LEU exchange rates	4,07
Net exposure in functional currency	35.201
Possible reasonable variation of exchange rate	+/- 10%
Effect of the variation on the financial result	+/- 3.520 thousand lei

d) Interest rate risk

For the reporting period AEROSTAR contracted a multi-product Credit Facility of 7.000 thousand USD, intended for financing the Company's operations, which includes:

- 1) Product A: 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) Product B: in amount of 7.000 thousand USD (subject to the aggregate amount used from Product A and product B does not exceed the value of the multi-product Credit Facility), usable under the form of a facility of issuing bonds as instruments to ensure collateral for the commercial contractual obligations by issuing bank bond letters and import Letters of Credit.

The bank interest is applicable only for the overdraft utilized from Product A in amount of 2,500 thousand USD.

As during the reporting period AEROSTAR did not use the Product A, the company revenues and cash flows are independent from the interest rate variations on the banking market.

On 31.12.2018, the level of bonds granted by AEROSTAR under commercial agreements, by issue of bank bond letters amounts to 1.522 thousand USD (equivalent to 6.200 thousand lei).

On 31.12.2018 no mortgages are set on the property assets in AEROSTAR ownership.

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NOTE 19 - OPERATING INCOME

	31 December 2018	31 December 2017
Revenues from sales, from which:	353.413	340.172
Revenues from product sales	189.964	187.880
Revenues from services supplied	157.560	145.632
Revenues from selling goods	3.298	4.086
Revenues from renting	2.156	2.024
Trade discounts granted	(18)	(2)
Revenues from other activities	453	552
Revenues related to inventories of products finished and in progress	12.528	10.420
Revenues from the production of fixed assets	1.645	1.287
Revenues from operating subsidies	186	-
Other revenues from operations	3.473	3.632
Total operating income	371.245	355.511

Starting with 1 January 2018 the company has adopted the new standard of IFRS 15 *Revenue from contracts with customers* for the accounting reports of the financial year 2018 without need of restating for the financial year 2017, due to the following considerations:

- The impact of the new standard over the key figures of the company was limited due to the fact that the revenues were already recognized at the moment of the transfer of control from the seller to the buyer;
- Exception: revenues from services performed evaluated according to IAS 18, depending on the stage of completion of the agreement, their value in 2017 being of 477 thousand lei, revenues which were derecognized at the end of the financial year, for the purposes of early applying IFRS 15.

The company obtained in 2018 revenues from subsidies that represent participation expenses at fairs and international expositions financed from the state budget, in amount of 36 thousand lei, respectively subsidies received to conclude apprenticeship contracts, in the amount of 150 thousand lei.

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NOTE 20 – OPERATING EXPENSES

	31 December 2018	31 December 2017
Expenses with employee benefits, from which:	114.974	108.629
Salaries and allowances	103.827	83.419
Expenses with benefits in kind and expenses with ticket meals granted to employees	6.152	6.254
Expenses with social security	4.995	18.956
Expenses with raw materials and materials	103.587	106.717
Energy, water and gas	8.563	8.314
Other material expenses, of which:	11.974	12.971
Expenses with non-inventory materials	1.619	2.130
Expenses with goods	2.850	3.878
Expenses with packing	683	245
Expenses with other materials	6.822	6.718
Expenses with external services, from which:	26.659	30.629
Repairs	8.602	12.227
Transport costs	2.981	3.290
Commissions and fees	3.377	3.272
Travels, deployments	998	1.069
Renting expenses	769	770
Other expenses with services supplied by third parties	7.930	7.810
Trade discounts received	(28)	(18)
Amortizations	25.307	24.275
Increase/decrease of adjustments regarding provisions	(12.638)	945
Increase/decrease of adjustments regarding depreciation of current assets	5.106	(1.337)
Other operational expenses	4.664	4.246
Total operating expenses	288.168	295.371

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NOTE 21 - FINANCIAL INCOME

	31 December 2018	31 December 2017
Income from foreign currency exchange differences	4.732	3.334
Income from interest	2.873	890
Income from shares held in subsidiaries	201	189
Total financial income	7.806	4.413

The company is exposed to the currency risk generated mainly by the exchange differences USD/RON, with significant influences over the financial result.

Aspects regarding the Company's exposure to the risks generated by the financial instruments held are presented in *Note 18 Financial Instruments*.

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NOTE 22- FINANCIAL EXPENSES

	31 December 2018	31 December 2017
Expenses from exchange rate differences	3.463	5.766
Total financial expenses	3.463	5.766

In the financial expenses category the company only registers expenses from unfavourable exchange rates differences, it does not register expenses regarding financial investments assigned, with the interests or other financial expenses.

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NOTE 23 - TAX ON PROFIT

Tax on profit

The tax on profit is recognized in the statement of the profit or loss.

The tax on profit is the tax payable relating to the profit made in the current period, determined in accordance with the fiscal regulations applicable at the reporting date.

The profit tax rate applicable for 31.12.2018 was of 16% (the same rate was applied also for the financial year 2017).

31 December 2018

Gross accounting profit	87.420
Expenses with current tax on profit	8.085

Reconciliation of accounting profit with fiscal profit				Differences
Accounting revenues*	376.241	Fiscal incomes	335.411	-40.830
Accounting expenses*	289.262	Fiscal expenses	247.962	-41.300
Gross accounting profit, restated*	86.979	Fiscal profit	87.449	470
Accounting tax (16%)	13.917	Fiscal tax (16%)	13.992	75
Tax reductions	-	Tax reductions, from which:	5.907	+5.907
		• related to investments made acc.to Art. 22 Fiscal Code	4.165	+4.165
		• sponsoring	1.742	+1.742
Tax on final profit	13.917	Tax on final profit	8.085	-5.832
Applicable legal rate	16,00%	Legal rate applicable	16,00%	
Actual average tax rate, calculated on gross accounting profit, restated		9,30%		

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

The main factors which have affected the actual tax rate:

- the non-taxable income obtained from the recovery of certain non-deductible expenses, from which the income from certain provisions resumed for bonds/ collateral and for other risks in amount of 31.578 thousand lei and income from certain adjustments of value, resumed, regarding current assets in amount of 9.603 thousand lei;
- fiscal facilities representing the tax exemption on profit corresponding to the investments performed in accordance with Art.22 of the Fiscal Code, in amount of 4.165 thousand lei and sponsoring in amount of 1.742 thousand lei;
- Non-deductible expenses in fiscal terms (expenses concerning the set-up or increase of certain provisions and value adjustments regarding the current assets, which are non-deductible fiscally, expenses with fiscally non-deductible accounting amortization).

The company has registered at 31 December 2018 a liability regarding tax on current profit in the amount of 2.357 thousand lei related to fourth quarter of 2018.

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The tax specific to some activities

Starting with 01.01.2017 Aerostar S.A. became taxable for restaurant and public food supply activities. The specific tax related to the year 2018 was in the amount of 52 thousand lei.

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NOTE 24 – RESULT PER SHARE

The profit per basic share was calculated based on the profit which can be distributed 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	<u>31.12.2018</u>	<u>31.12.2017</u>
Profit distributable to ordinary shareholders	79.920.849	53.169.633
Number of ordinary shares	152.277.450	152.277.450
	<hr/>	<hr/>
Profit per share	<u>0,525</u>	<u>0,349</u>

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NOTE 25 - THE AVERAGE NUMBER OF EMPLOYEES

The average number of employees is 1.804 for the year 2018 and 1.834 for the year 2017.

To these is added an average number of employees attracted through the temporary employment agent and used in the production process of AEROSTAR.

The total personnel employed in the activity of AEROSTAR was:

	<u>year 2018</u>	<u>year 2017</u>
Total employees	1.936	2.031

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NOTE 26 - TRANSACTIONS WITH RELATED PARTIES

Acquisitions of goods and services	Year 2018	Year 2017
Airpro Consult SRL Bacău	7.593	9.252
Foar SRL Bacău	516	571
TOTAL	8.109	9.823
Sales of goods and services	Year 2018	Year 2017
Airpro Consult SRL Bacău	-	16
Foar SRL Bacău	2	4
TOTAL	2	20
Liabilities	Balance at 31.12.2018	Balance at 31.12.2017
Airpro Consult SRL Bacău	592	765
Foar SRL Bacău	30	33
TOTAL	622	798
Dividends collected by Aerostar	Year 2018	Year 2017
Airpro Consult SRL Bacău	90	97
Foar SRL Bacău	112	92
TOTAL	202	189

The transactions with the affiliated parties in 2018 consisted in:

- Services provided by AIRPRO CONSULT SRL Bacau to AEROSTAR SA Bacau for temporary manpower;
- Machinery rental services provided by FOAR SRL Bacau to AEROSTAR SA Bacau;
- Services provided by AEROSTAR SA Bacau to AIRPRO CONSULT SRL Bacau and FOAR SRL Bacau for space rental and supply of utilities
- Dividends collected by AEROSTAR SA from Airpro Consult SRL Bacău and from Foar SRL Bacău (NOTE 7).

In the period January – December 2018 no transactions were made with the company Aerostar Transporturi Feroviare SA Bacau, its activity being suspended from the year 2016. Starting with November 2018 the company changed its name in ATF SA.

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NOTE 27 – INFORMATION REGARDING CASH FLOW

The method used in the Cash Flow Statement is the direct method.

The cash flows situation represents the cash flows and cash equivalents classified on operating activities, of investment and financing, thus indicating how AEROSTAR generates and uses the cash and cash equivalents.

In the context of the Cash Flows Statement:

- the cash flows are the amounts collected and paid in cash and cash equivalents;
- the cash means the amounts available in banks and cashier's desk.
- the cash equivalents comprise the deposits formed in banks, bills and promissory notes filed in banks to be collected.

The treasury cash flows from the transactions performed in foreign currency are registered in the functional currency by applying over this value the exchange rate between the functional currency (LEU) and the foreign currency as on the date when the treasury cash flow was generated (date of making payments and collections).

The earnings and losses coming from the exchange rate variation are not treasury cash flows. Nevertheless, the effect of the exchange rate variation over the cash and equivalent held or due in foreign currency is reported in the treasury cash flows statement, but separately from the treasury cash flows coming from operations, investments and financing, with the purpose to reconcile the cash and cash equivalents at the beginning and at the end of the reporting period.

The operating activities are AEROSTAR's main cash-generating activities.

Therefore in 2018 the amounts collected from the customers were 352.279 thousand lei, from which 31.532 thousand lei represent the prepaid amounts from the customers, while the payments to the suppliers and employees were in the amount of 253.029 thousand lei.

The operating activity generated a net cash of 46.453 thousand lei.

To increase the operational capacity, through the acquisition of tangible and intangible immobilizations, an amount of 32.669 thousand lei was used from company's own sources.

The value of the treasury cash flows allocated in 2018 to increase the operating capacity represents 9% from the aggregate value of the cash used in the framework of operating, investment and financing activities.

As part of the financing activity, the amount of 13.658 thousand lei was paid, representing the dividends granted to the shareholders.

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NOTE 28 – LIABILITIES AND OTHER OFF-BALANCE ITEMS

Aerostar registers as off-balance items, the rights, liabilities and goods which are not recognized in the company assets and liabilities, i.e.:

	<u>31 December 2018</u>	<u>31 December 2017</u>
• Liabilities:		
○ Bonds granted to customers as letters of bank bonds	1.520	11.809
○ Bonds received from suppliers – as letters of bank bonds	11.636	43.311
• Goods, from which:		
○ inventories of other materials released for use (tooling, jigs, fixtures, protection equipment, measuring and control eqpt, technical library etc.)	26.552	25.026
○ material values received in consignment	1.826	1.799
○ tangible and intangible assets –obtained or purchased as a result of co-financed activity	4.151	4.151
○ material values received for processing/repairs	2.116	1.016
• Other values off-balance		
○ Liabilities for covering certain future obligations to A.J.O.F.M. based on OUG 95/2002 regarding the defence industry	5.782	6.215
○ Royalties, tenant activities, rents and other similar liabilities	2.335	2.382
○ debtors removed from accounts, yet still monitored	586	579
• Greenhouse Gas Emission Certificates	1.678	498

At the date of 31 December 2018, AEROSTAR had a number of 14.604 greenhouse gas emission certificates.

The market value from the last transaction day of a GES certificate was of 24,63 Euro, according to the TDR Energy market journal (in December 2018: 8,18 Euro).

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NOTE 29 – REMUNERATION OF THE DIRECTORS

On the date of 31 December 2018, the structure of AEROSTAR's Board of Directors remained unchanged in comparison with the one from 31 December 2017.

The Board of Directors of AEROSTAR S.A.:

	Surname and first name	Position	Profession
▪	FILIP GRIGORE	President of the Board of Directors	Aviation engineer
▪	DAMASCHIN DORU	Vice-president of the Board of Directors	Economist
▪	TONCEA MIHAIL - NICOLAE	Member of the Board of Directors	Aviation engineer
▪	DOROȘ LIVIU-CLAUDIU	Member of the Board of Directors	Economist
▪	VÎRNĂ DANIEL	Member of the Board of Directors	Legal Advisor

In 2018 AEROSTAR did not grant advance payments or credits to the members of the Board of Directors and did not make any liabilities on their account as a collateral of any kind.

The compensations of the Directors are approved by the General Meeting of the Shareholders.

In the Ordinary General Meeting from 13 December 2018 the shareholders of the company approved, to freeze the administrators's compensation for the year 2019 at the level agreed in the Ordinary General Meeting of Shareholders from 14 December 2017, namely:

- a net compensation for the BOD members of 4.500 lei
- a maximum level of the additional compensations for the executive members of the Board of Directors, of maximum 10 (ten)times the net remuneration, inclusively;
- empower the Board of Directors to negotiate the additional compensation with the executive members, within the maximum limit approved by the Ordinary General Meeting.

The amount of the gross compensations for the members of the Board of Directors in 2018, by virtue of their responsibilities, was of 461,52 thousand lei.

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NOTE 30 –RISK MANAGEMENT

AEROSTAR is exposed to multiple risks and uncertainties which can affect its financial performance. The business lines performed by AEROSTAR, the operational results or the financial statements, may be affected by the materialization of the risk presented further.

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

Carrying out the risk management processes provides the identification, analysis, evaluation and management of risks in order to minimize their effects down to an agreed level.

However, risks and uncertainties can exist additional to the elements presented further on, which are currently unknown or considered insignificant, but which may affect in the future the business lines performed by AEROSTAR.

Operational Risk

It is the risk to incur losses or of failure to make the estimated profits determined by:

- performance of certain inadequate processes, systems and manpower or which failed to execute their function properly
- external events and actions: deterioration of the global economic conditions, natural catastrophies or other events which can affect AEROSTAR's assets.

To the **Operational Risk** it is also assimilated the **Legal Risk**, defined as the risk of loss, resulting from the fines, penalties and sanctions which can be in charge of AEROSTAR in case of non-application or misapplication of dispositions, legal or contractual regulations, as well as the fact that the rights and contractual obligations of AEROSTAR and/or of the business partner are not properly established.

Monitoring and disposal of the legal risk's effects is realised through a permanent information system regarding the legislativemodifications, as well as by organizing a review, endorsement and approval system of the terms and conditions included in the commercial agreements.

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

In addition, AEROSTAR aims, by setting provisions for risks and related expenses, to have its own funding to cover its risks of exposure.

Also, in order to minimize the operational risk, AEROSTAR annually renews, with companies of 1st tier insurance-reinsurance, a civil liability insurance contract related to the main business lines (manufacturing of aircraft products and maintenance for commercial aircraft).

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

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Cash and cash equivalents are placed only in 1st tier bank institutions, considered as having a high solvency rating.

The credit risk, including the risk of the country in which the customer operates its activity, is managed on each business partner. When necessary, specific instruments of credit risk mitigation 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 geographical area.

A presentation of the quantitative information regarding AEROSTAR's exposure to the credit risk is detailed in Note 18 (Financial Instruments) to the Financial Statements.

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

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

In order to reduce the liquidity risk, AEROSTAR keeps an annual cash-reserve in the form of a Credit Line usable under the form of an overdraft granted by banks of 2.500.000 USD. During the reporting period, AEROSTAR did not use the Credit Line, all the activities of the Company being financed from its own sources.

The **Market Risk** is the risk that the fair value or future cash flows of a financial statement will fluctuate due to the modifications of the market price.

The market risk comprises the price risk, exchange rate risk and the risk of the interest's rate.

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

The management of this risk is realised through:

- diversification of the portfolio of suppliers, which offers a larger leverage in negotiations in case the price of raw materials is increased by certain suppliers.
- long-term contract agreements, with provisions on fixed prices.

AEROSTAR is exposed to the exchange rate risk because 76% from the turnover is reported to USD and EUR, while a significant part of the operating expenses is denominated in lei.

Thus, AEROSTAR is exposed to the risk that the exchange rate variations shall affect both its net income, as well as its financial position, as they are expressed in lei.

A sensitivity analysis of AEROSTAR to the foreign exchange rate's variations is detailed in Note 18 (Financial Instruments) in the Financial Statements.

In the reporting period Aerostar did not register financial losses.

As far as the interest rate is concerned, due to the fact that AEROSTAR did not use the contracted Credit Line in the reported period, the income and cash flows are independent from the interest rate variation on the banking market.

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NOTE 31- EXPENSES AND INCOME IN ADVANCE

	31 December 2018	31 December 2017
Prepaid Expenses	504	491
Incomes registered in advance	0	28

The expenses made and income realized in the current period, but which relate to the future periods or financial exercises, are recorded distinctively in accounts, as prepaid expenses or income in advance, as applicable.

In the category **prepaid expenses**, the Company registered the amounts related to the periods or financial years to follow, representing: subscriptions, insurance policies, commissions, trade fairs and conferences participations, taxes and duties, on-line services, IT maintenance, etc., which are allocated on expenses, according to the due.

In the category **Income in advance**, the company registered during 2018 income related to the following periods for elements of financial fixed assets or operating subsidies, but which were fully recognized as income of the current period afterwards.

Therefore, on 31 December 2018 no income in advance is registered in accounts.

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NOTE 32- EVENTS AFTER THE REPORTING PERIOD

AEROSTAR S.A did not identify events after the reporting period which may impact the financial statements related to the financial year ended on 31 December 2018.

These individual financial statements which comprise: the statement of the financial position, the statement of the profit or loss, other elements of the global result, the statement of the company equity's modifications, the statement of the cash flows and the explicative notes of the financial statements were approved by the Board of Directors on 21 March 2018 and signed on the behalf of the Board of Directors by:

Grigore FILIP
President and General Director

Doru DAMASCHIN
Vicepresident and Financial Director

DECLARATION

The undersigned, GRIGORE FILIP, as President of the Board of Directors and General Director of AEROSTAR S.A. and DORU DAMASCHIN, as Vicepresident of the Board of Directors and Financial Director of AEROSTAR S.A., hereby undertake the responsibility for the preparation of the individual financial statements as on 31.12.2018, and we confirm hereby that:

- a) The accounting-financial statements for 2018, prepared in accordance with the applicable accounting standards, offer a fair image conforming with the reality of the assets, obligations, financial position, of the profit and loss account of Aerostar S.A. Bacău;**
- b) The report of the Board of Directors on the financial year 2018, prepared in accordance with the provisions of the Regulation no. 5/2018 issued by the Financial Supervisory Authority – Annex no 15 provides a correct review of the company's development and performances as well as a description of the main risks and uncertainties specific to the activity of Aerostar S.A. Bacău.**

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

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

Independent Auditor's Report*

(*This represents a non-official English translation of the original audit report issued in Romanian language)

To the shareholders of AEROSTAR S.A.

Report on the Audit of the Financial Statements

Opinion

1. We have audited the accompanying financial statements of **AEROSTAR S.A.** ("the Company"), with registered office in 9 Condorilor Street, Bacau, Romania, registered with the Trade Registry under no. J4/1137/1991 and having fiscal identification code RO950531, which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss, statement of other elements of the global result, statement of changes in equity and statement of cash flows for the financial year then ended, and explanatory notes to the financial statements, including a summary of significant accounting policies, presenting the following:
 - Net Assets / Total equity and reserves: RON 315,139 thousand
 - Net result of the year: RON 79,921 thousand (profit)
2. In our opinion, the accompanying financial statements of the Company present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended, in accordance with the provisions of the Order of the Ministry of Public Finance 2844/2016 for the approval of the Accounting Regulations compliant with the International Financial Reporting Standards, as subsequently amended ("OMFP 2844/2016") and as described in the accounting policies presented in the notes to the financial statements.

Basis for Opinion

3. We conducted our audit in accordance with the International Standards on Auditing ("ISA"), the EU Regulation No. 537/2014 of the European Parliament and of the Council of the European Union ("Regulation (EU) 537/2014") and with the Law 162/2017 ("Law"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") and in accordance with all other ethical requirements relevant for the audit of financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

4. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide an opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	Audit procedures performed to address the key audit matter
Correction of accounting errors	
<p>As disclosed in Note 13 to the financial statements, the Company has in balance at 31 December 2018 total provisions in amount of RON 112,551 thousand, out of which long-term provisions in amount of RON 95,796 thousand.</p> <p>Estimating a provision involves significant professional judgment from the Company's management with regard to the probable outcome of the relevant events and the quantification of the related probable liability.</p> <p>Due to the importance of the amounts reported in the Provisions and the fact that, by their nature, the provisions imply a significant degree of professional judgment, we consider that Provisions represent a key audit matter for the 2018 audit.</p>	<p>In order to obtain reasonable assurance we have performed the following procedures:</p> <ul style="list-style-type: none"> • We have reviewed the Company's current obligations under which provisions were recognized • We have reviewed the professional judgment used by the management of the Company in order to determine the probable outcome of the relevant events and the quantification of the related probable liability; • We have obtained, where appropriate, the point of view of the legal department of the Company regarding the probability of settling disputes in progress, as well as the best estimate of the consideration necessary to settle the probable liability arising from these disputes; • We have analyzed the maturity of the obligations that have generated the provisions and their classification in the short and long term.

Other matters

5. The financial statements prepared as at 31 December 2017 in accordance with OMFP 2844/2016 have been audited by another auditor, who issued an unmodified audit report thereon on 30 March 2018.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

6. The Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with OMFP 2844/2016 and with the accounting policies presented in the notes to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
8. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

9. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
10. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
11. As part of the audit process, we communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
12. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
13. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our

report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Conformity of the Administrators' Report with the Financial Statements

The Company's Administrators are responsible for the preparation and presentation, in accordance with the requirements of articles 15-19 from the Accounting Regulations approved by OMFP 2844/2016, of an Administrators' Report which is free from significant misstatements, and for such internal control as the Management considers necessary to enable the preparation of the Administrators' Report which shall be free from material inconsistencies, whether due to fraud or error.

The Administrators' Report is presented as an Annual Report and is not part of the Company's financial statements.

Our opinion on the accompanying financial statements does not cover the Administrators' Report.

In connection with our audit of the financial statements of the Company as at 31 December 2018, we have read the Administrators' Report attached to the financial statements and we report the following:

- a) we have not identified in the Administrators' Report any information which is not consistent, in all material respects, with the information presented in the accompanying financial statements;
- b) the Administrators' Report identified above includes, in all material respects, the information required by articles 15-19 from the Accounting Regulations approved by OMFP 2844/2016;
- c) based on our knowledge and understanding acquired during the audit of the financial statements for the year ended 31 December 2018 regarding the Company and its environment, we have not identified in the Administrators' Report any information that would be significantly misstated.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as auditors of the Company through the Decision from 19 April 2018 of the General Meeting of Shareholders ("GMS") to audit the financial statements of the Company for the financial years 2018-2020. Our uninterrupted engagement is of 3 years, covering the financial years ended from 31 December 2018 until 31 December 2020.

Consistency with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 19 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services, as referred to in Article 5(1) of Regulation (EU) No. 537/2014, were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

Bucharest, 21 March 2019

Vasile Andrian

Auditor registered in the Public Electronic Register under no. 1554 / 2004

On behalf of **MAZARS ROMANIA S.R.L.**

Audit firm registered in the Public Electronic Register under no. 699/2007.