

AEROSTAR S.A.



AEROSTAR S.A. HALF-YEAR REPORT AT 30.06.2020



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THE REPORT OF THE BOARD OF DIRECTORS AT 30.06.2020

Introduction

The current Report of the Board of Directors is prepared in accordance with Law no. 24/2017 dd. 21.03.2017 regarding the issuers of financial instruments and market operations and Regulation no. 5/2018 of the Financial Supervisory Authority (ASF) regarding the issuers of financial instruments and market operations, Annex 14 and Annex 12 respectively.

The scope of this report of the Board of Directors on AEROSTAR's business for the first half of the year 2020 is to inform the investors regarding the modifications in the company's position and performance which took place between January-June 2020 as well as regarding the predictable evolutions in the aviation and defence industry market and regarding the company's growth and development opportunities.

Also, the report comprises a description of the relevant aspects with reference to AEROSTAR's positioning in the situation of the Covid-19 pandemic.

AEROSTAR prepares the individual financial statements in accordance with the international financial reporting standards IFRS.

The individual financial statements at 30 June 2020 are accompanied by the review report of the statutory financial auditor.

According to the classification of the activities from the national economy, the main object of activity of AEROSTAR is manufacture of aircraft and spaceships – CAEN code 3030. The main field of activity is production.

MESSAGE OF THE PRESIDENT & GENERAL DIRECTOR**With reference to AEROSTAR's positioning in the context of the Covid-19 pandemic**

The first half of the year 2020 was under the mark of the Covid-19 pandemic, a major challenge which impacts on all the aspects of our life while the risks of Covid-19 infection are permanent, at our place and around the world. We evaluated the economic consequences as long term and persisting long after the pandemic is over.

Starting with the date of 16 March 2020 and 14 April 2020, respectively, the emergency state was set on Romania's territory by presidential decree, then the state of alert and the relaxation supposed by the termination of the emergency state on the date of 15 May 2020.

At AEROSTAR level, the option to continue the activity meant the adaptation to the new context, firm and effective actions to manage this special situation of an exceptional nature.

In the second quarter of 2020, the downturn of the global economy and the drastic effects on the aviation industry got obvious. Many companies and jobs in the industry disappeared already.

For these very reasons, our option has been made to continue the activity in AEROSTAR, to protect our production capacity, maintaining as much as we can the manpower and the qualifications and approvals held by the company and the people.

We have been communicating constantly and consistently with all the relevant interested parties- authorities, regular capital market institutions, shareholders, customers and employees in connection with the company's positioning in the context of the Covid-19 pandemic.

We took actions in accordance with our continuity plan and we will continue to apply the adequate strategy consistently, step by step, to preserve the resources and capabilities of the company with a view to capitalize on them when the economy is relaunching.

The Board of Directors whose mandate was extended through the decisions of the GMS on 9 July 2020, will continue the application of the strategy and required measures for the management of this difficult timeperiod, full of challenges. The stabilization of the situation is important for resuming the economic activities.

Grigore FILIP

President & General Director

AEROSTAR'S PROFILE, GENERAL ELEMENTS

AEROSTAR's main field of activity is production.

The main object of activity of the company is "Manufacturing of aircraft and spaceships" – code CAEN 3030.

AEROSTAR is part of the national defence industry in accordance with Law no. 232/2016.

AEROSTAR's main business lines are:

- **manufacturing of aeronautical products**
- **MRO civil aviation**
- **defence systems, aero, ground and navy.**

These activities are in the category of „manufacturing industry” according to the Romanian labour legislation.

AEROSTAR S.A. is the successor of Uzina de Reparatii Avioane (Aircraft Repair Plant) (UM 03767) established through the government decree HCM 1165 dated 17 April 1953, Bucharest.

Throughout this period, since 1953 to date and further on, AEROSTAR has operated in conditions of continuity.

The unique identification code at European level (EUID) is ROONRC.J04/1137/1991 and the LEI identification code as a legal entity is 315700G9KRN3B7XDBB73.

KEY FIGURES

AEROSTAR prepares the individual financial statements in accordance with the international financial reporting standards (IFRS).

	MU	30.06.2020	30.06.2019
Share capital	thousand lei	48.729	48.729
Turnover	thousand lei	161.863	176.779
○ export sales	thousand lei	130.762	153.028
	%	81%	87%
Actual headcount, of which:	no	1.918	1.913
- own employees	no	1.803	1815
- attracted through temporary labour agent	no	115	98
Net Profit	thousand lei	31.776	28.473
Cash Flow	thousand lei	200.426	178.453

General Liquidity	-	9,72	8,49
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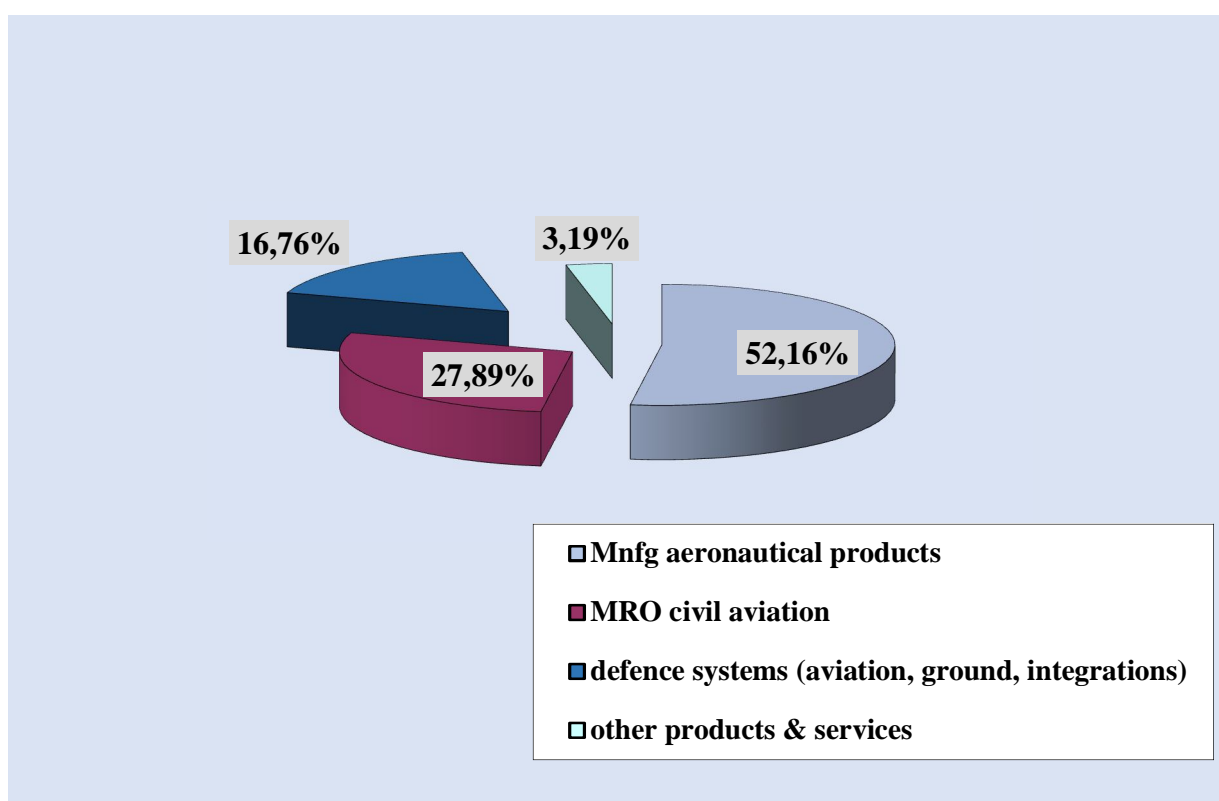
Investment Expenses From company funds	thousand lei	30.472	7.393
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	Result
Current Liquidity Indicator	9,72
Indebtness Rate	0
Rate of Clients Debits	64
Rate of Immobilization Assets	0,87
General Solvency Rate	14,88
Rate of Financial Return	0,08
Net Profit Rate	19,63 %
Net Treasury	26.473 thousand lei

The exchange rates of the national currency for first half of 2020:

	MU	30.06.2020	30.06.2019
Average exchange rate EURO/3 months	lei/euro	4,8157	4,7408
Average exchange rate USD/3 months	lei/USD	4,3723	4,1949
Average exchange rate GBP/3 months	lei/GBP	5,5138	5,4280
Inflation	%	1,55	2,98

Contribution of AEROSTAR's main business lines in total sales in first half of 2020



THE SHARE “AEROSTAR” (ARS)

The shares of AEROSTAR S.A. Bacau are traded since 1998 on the regular market under the administration of the Bucharest Stock Exchange.

The issuer AEROSTAR S.A. Bacau is registered with the following data: unique registration code 950531, code ISIN ROAEROACNOR5, ARS stock exchange symbol, all the shares issued being in the standard category.

Aerostar shares-in figures	30.06.2020	30.06.2019	30.06.2018
Number of shares	152.277.450	152.277.450	152.277.450
Nominal value per share (lei)	0,32	0,32	0,32
Company equity (lei)	374.540.852	327.032.447	281.966.899
Price at the end of the period (lei) *)	3,80	5,05	4,90
Stock Exchange Capitalisation (lei)	578.654.310	769.001.123	746.159.506
Maximum price (lei) *)	5,70	5,10	5,36
Minimum price (lei) *)	3,00	4,78	4,65
Result per share (lei)	0,209	0,187	0,299

source*): Monthly Bulletin of the Bucharest Stock Exchange

Indicator MBR (market to book ratio)	1,5	2,4	2,6
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The indicator which provides information on the investors' interest in the companies listed on the stock exchange is the market capitalization in relation to the company's equity (MBR).

A value above one of the MBR indicator is specific to companies well rated on the stock exchange and which are under the investors' attention.

As such, the company Aerostar S.A. Bacău continues to be an attractive company for investors and other interested persons, even in the background of the strong fluctuations of the reference price for the ARS shares during the first half of the year, under the influence of the current unfavourable economic situation where the company operates.

The monthly evolution of the reference price for ARS shares during first half 2020 (lei/share):



The highest price decrease of ARS shares occurred in March 2020 (-28,69%).

During the first half of 2020 there was no company programme to buy its own shares.

During the first half of 2020 Aerostar did not issue bonds or other similar securities. During the first half of 2020 no new subscriptions of shares were made, nor participation certificates, convertible bonds, options or similar rights.

MAIN EVENTS DURING FIRST HALF OF 2020

- At the date of 11 March 2020, the World Health Organization declared the new coronavirus Covid-19 pandemic while starting with the date of 16 March 2020 the emergency state was set on Romania's territory by presidential decree.

The alert status on Romania's territory and the expected relaxation were enstated by the termination of the emergency status at the date of 15 May 2020.

- At the date of 16 March 2020 the yearly negotiation was concluded with reference to the employees benefits. The impact of the salaries increase on the costs of the year 2020 will exceed 8 million lei.
- At the date of 21 April 2020 took place the Extraordinary General Meeting of the Shareholders and the Ordinary General Meeting of the Shareholders in accordance with the legal provisions applicable.

In the Ordinary General Meeting of the Shareholders of 21 April 2020, Aerostar shareholders approved:

The distribution of the net profit of financial year 2019 on the following destinations:

- the legal reserve of the reinvested profit in amount of	11.674.595,35 lei;
- Allocation to reserves in amount of	34.500.000,00 lei;
- Allocation as dividends in amount of	19.796.068,50 lei

and a gross dividend per share: 0,13 lei, corresponding to a share with a nominal value of 0,32 lei.

The payment of the dividends for the financial year 2019 was made starting with the date of 23 June 2020 through Depozitarul Central in accordance with the applicable legal provisions (art. 86 para 5 of the Law 24/2017 and art. 177 of the ASF Regulations no 5/2018) in the specific securities accounts or directly at CEC Bank S.A. (the payment agent designated by AEROSTAR), as applicable.

The shareholders entitled to receive the dividends distributed from the net profit of the financial year 2019 are those listed in the consolidated Record of the shareholders as at the date of 04.06.2020 – Record Date (approved by the Ordinary GMS held on 21.04.2020). The „Ex date” was set for the date of 03.06.2020.

- **At the date of 5 June 2020**, the updated forecast for the company results for the year 2020 was made through the following press release transmitted to the Bucharest Stock Exchange and the Financial Supervisory Authority Bucharest.

Contents of the press release dated 5 June 2020

In connection with the updated forecast for the company results for the year 2020

Taking into account the obligation of the company AEROSTAR S.A. to inform the investors on the capital market on a regular basis and given the new context of the economic crisis generated by the COVID-19 pandemic, the management of the company AEROSTAR S.A. appreciates its impact on the aviation industry as a high concern.

The Budget of the General Activity for the year 2020 as approved in the GMS held on the date of 11 December 2019 was fundamented on the economic premises as known in the month of November 2019, when there was no indication of a possible future pandemic.

In the assessment of the risk factors which could impact on the evolution of AEROSTAR's business in the year 2020, we did not provide for the effects of a global economic crisis as it is the crisis caused by the COVID-19 pandemic.

The inset of the global economic crisis during the first quarter of the year 2020 gathered widespreading momentum day by day and certainly the effects of the crisis will be resented all along the year 2020 while the return to the 2019 situation will take a few years. The economic crisis had an unprecedented ample impact on the aviation industry.

The big airline operators in the European and world aviation industry reduced their activity in a drastic manner focusing on the operations to reduce the costs and ensure

survival in order to be able to benefit during the relaunching period to come after the crisis.

Our current estimates lead to a turnover significantly reduced in the field of manufacturing of parts, subassemblies and equipment for the big global commercial aircraft programmes, but also in the field of MRO services.

This will entail a reduction in sales in the year 2020 with around 100 million lei, down to 278 million lei. The company will keep its production capabilities unaffected and shall keep the manpower and their related qualifications but will use partly the legal solution of furloughs.

The reduction of the operational expenses takes into account both keeping the economic balances but also to preserve the company capabilities in all the domains in order to be able to get the fruits in the economic rebound period which will follow after the mitigation of the economic crisis. We envisage to preserve the manpower, their qualifications, skills and authorisations as well as all the existing certifications and approvals of the quality, environmental and production and other systems as well.

Nevertheless for the periods of inactivity we will apply the legal provisions and part of the employees will be under furlough (“technical unemployment”) which will lead to a reduction of the expenses with manpower.

In these conditions we estimate that the result of the year 2020 will be reduced with around 33 milion lei down to a net profit of 10 milion lei.

Grigore FILIP
President & General Director

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- **At the date of 5 June 2020**, AEROSTAR’s Board of Directors convened the Ordinary General Meeting of the Shareholders for the date of **09 July 2020**, for the election of the BoD members following their mandate expiry.

EVENTS AFTER THE REPORTING DATE

- **At the date of 9 July 2020** took place the Ordinary General Meeting of the Shareholders in accordance with the legal provisions applicable.

The Ordinary General Meeting of the Shareholders on the date of 9 July 2020 decided by secret voting the election- the mandate extension as members of the Board of Directors for a period of 4 years, starting with 11.07.2020 until 10.07.2024, of the following persons:

- **Grigore FILIP**
- **Doru DAMASCHIN**
- **Mihail-Nicolae TONCEA**
- **Liviu-Claudiu DOROȘ**
- **Daniel VÎRNĂ**

- **At the date of 13 July 2020**, following the decision of AEROSTAR's Board of Directors the Ordinary general meeting of the Shareholders was convened for the date of **13 August 2020**, for appointing the Audit Committee, as per art. 65 of the Law no 162/2017 with reference to the statutory auditing of the annual financial statements and the consolidated annual financial statements.

- **At the date of 7 August 2020**, the Ministry of National Defence of Romania released the following press release:

"Today, the 07 August 2020, the collaboration protocol was signed between the General Staff of the Romanian Air Force and the company S.C. Aerostar S.A., appointed as Maintenance Centre for the F-16 aircraft, thus contributing to the development and continuation of a close cooperation between the national defence industry and the Ministry of the National Defence.

Aerostar S.A., with a presence of over 60 years on the national territory and a history of cooperation with the Romanian Air Force by participating in military aviation programmes of outstanding scope and scale, designated as the F-16 Maintenance Centre, provides the concentration of all the required resources in a single maintenance centre on Romania's territory both for the lifetime regeneration and the upgrade of the F-16 aircraft.

In the context of allocating 2% of the GDP to the budget of the Ministry of National Defence, the strategic vision of Romania's Government is to reconnect the national defence industry to the technological development pace required to participate with competitive products in the major acquisition programmes performed by Romania's Army".

Based on the law 232/2016 with reference to the national defence industry, the Government of Romania designated AEROSTAR as early as December 2018 as the Maintenance Centre for the F-16 aircraft in the inventory of the Romanian Army.

The collaboration protocol between the Ministry of National Defence of Romania and the company AEROSTAR has an operational character with the settling role as to the activities jointly performed with the international partners in Romania's F-16 programme.

THE BUSINESS MODEL

In the context of the measures taken to secure and protect the health of the population and the emergency situation declared in Romania starting with the date of 16 March 2020, AEROSTAR's option was to implement the continuity plan and take all the necessary actions in order to prevent and control the effects of the Covid-19 infection.

AEROSTAR business is in the category of activities specific for the manufacturing industry, with a significant digital contribution in the administration of the company resources.

Under the special conditions of an exceptional character of the Covid-19 pandemic, the business model of the company was not modified but the operational model-how the activities activities are executed, was adjusted in relation to the specific features of the flows of activities.

The value proposed by Aerostar on the market is created in the core business, in the field of aviation and defence, with the main business lines:

- manufacture of aeronautical products;
- civil aviation MRO;
- defence systems, aviation, ground and naval.

The management has adopted an integrated business model based on the systemic and the process-based approach and on RISK based thinking.

AEROSTAR operates on the market as an independent company, totally respecting the national and international legislation applicable.

The production activities are performed based on commercial contracts agreed with the customers, these being final integrators and/or users/ final beneficiaries from the aeronautical and defence industry.

After 1990, during the years, and in 2020 as well, no significant modifications of the business model adopted were performed.

The Notes to the Financial Statements describe how the financial reporting reflects the business model adopted by the company in accordance with IFRS.

The context of the organization and interested parties for AEROSTAR

The impact made by the risks of Covid-19 infection on all the aspects of the social and economic life, as well as the unprecedented changes thus generated, require a systemic, preventive and proactive approach in relation to all the components and functions of the company

To achieve AEROSTAR's objectives, the factors contributing to the decision-making process, must be aware and able to assume multiple aspects present both in the internal and external context of the company under the form of issues, situations, events which can arise in the future and which may have an impact on obtaining the results intended.

Both for understanding the organization's context and the determination of the external and internal aspects, as well as for the identification of the interested parties, the guidelines of the ISO 9001 international standard were used.

The external and internal relevant aspects which were identified can impact on fulfilling the mission and the strategic objectives, and can affect the company's ability to realise the results wanted for its management system.

The interested parties were identified based on the impact which their requirements could have on the company's ability to fulfil its objectives, as well as on its ability to fulfil the Customers' requirements and applicable regulations.

The elements of risk based management thinking, fundamented on understanding Aerostar as an organization and the context in which it operates.

The general framework for the risk treatment is based on understanding the needs and expectations of the interested parties for the achievement of the organization's planned results.

The risks are understood as uncertainties to satisfy the requirements and expectations of the interested parties, under the effect of certain factors which derive from the context in which the organization operates.

The aspects identified as part of the **external context** of AEROSTAR are: **political, economic, social, technical, legal and environmental, as well as sanitary.**

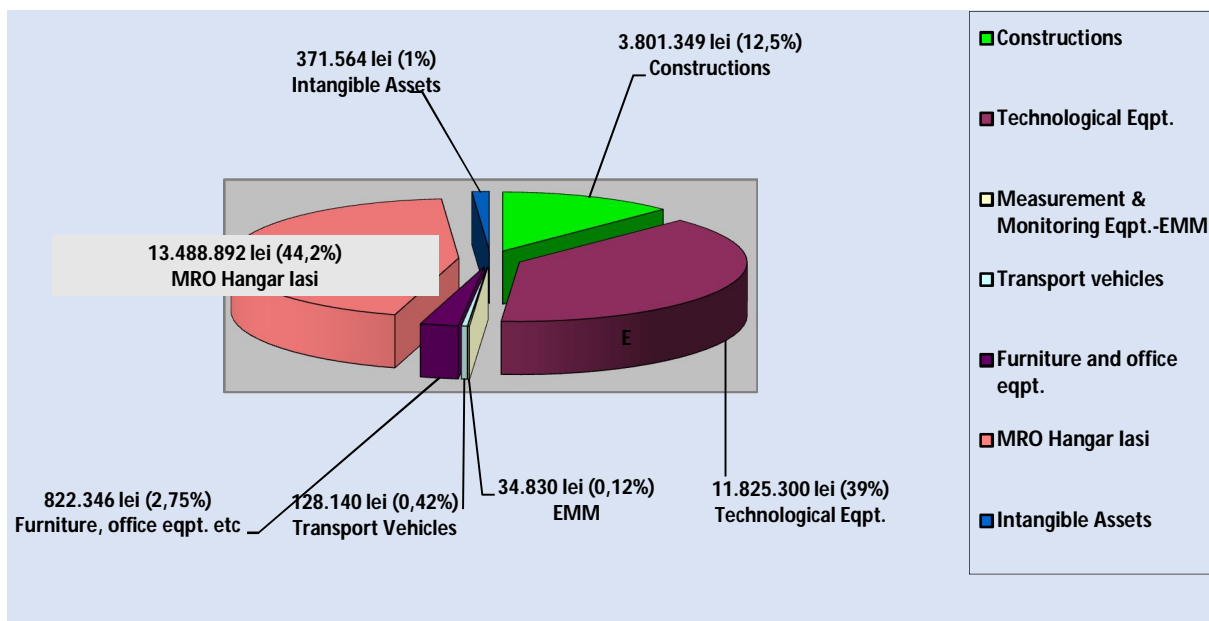
The aspects identified as part of the **internal context** of AEROSTAR are: **human resource, infrastructure, capabilities and authorizations, governance, but also the organizational performance.**

The relevant interested parties which were identified are: **customers, employees, investors, applicable technical and regulatory authorities, certification bodies, suppliers, educational establishments, trade unions, the local community and the state.**

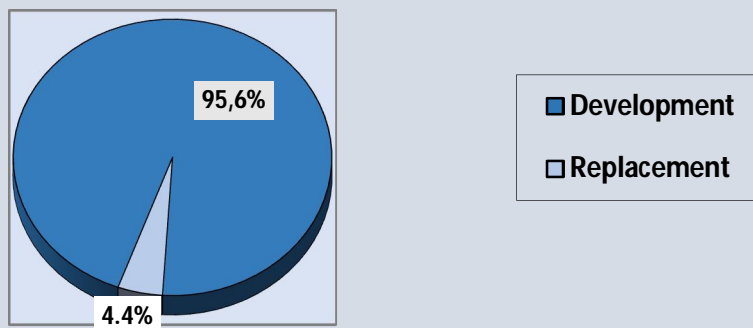
INVESTMENTS DURING THE FIRST HALF OF 2020

The total investment expenses made during the first half of this year are in amount of 30.472.420 lei.

The synthetic situation of the investment expenses on categories of fixed assets is shown in the structure below:



Contribution of development and replacement investments in total investment expenses, first half of 2020



AEROSTAR BUSINESS DURING FIRST HALF OF 2020

In the first half of 2020, AEROSTAR operated in continuity conditions.

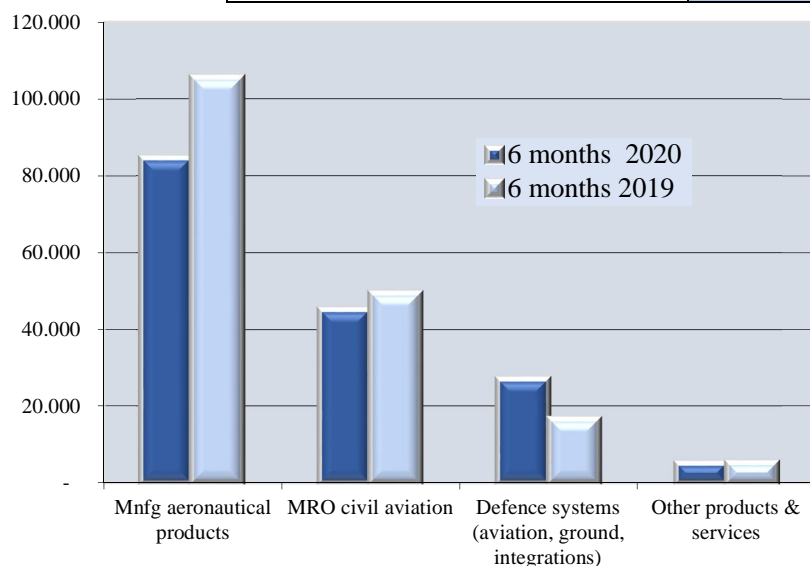
AEROSTAR Sales

The turnover during the first quarter of 2020 was in amount of 161.863 thousand lei, of which the sales on the export market was the equivalent of 130.762 thousand lei, representing 81% of the total.

The sales on the domestic market were in amount of 31.101 thousand lei.

The comparative chart of the sales on products and services is indicated below:

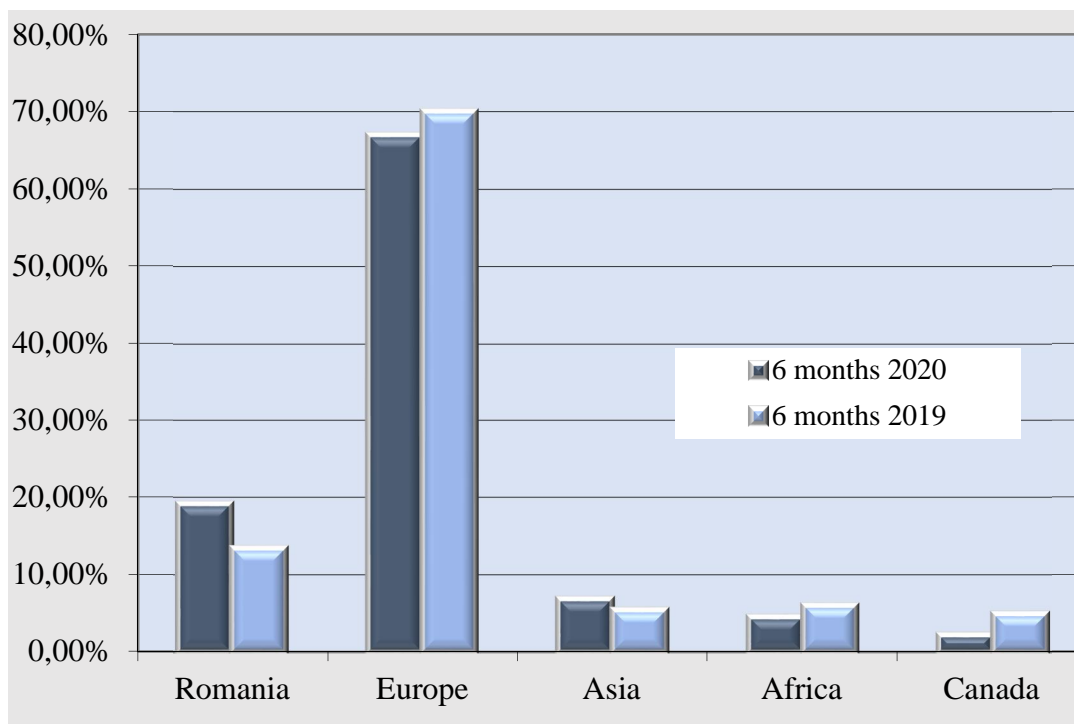
thousand lei	6 months 2020	6 months 2019
Mnfg aviation products	84.431	105.398
MRO civil aviation	45.138	49.366
Defence Systems (aviation, ground, integrations)	27.134	16.661
Other products & services	5.160	5.354



Aerostar's sales were made on a global market of a large geographic spread both in the civil and in the defence sector.

The evolution on the main sales market:

	6 months 2020	6 months 2019
Romania	19,21%	13,44%
Europe	66,96%	70,00%
Asia	6,93%	5,49%
Africa	4,62%	6,10%
Canada	2,28%	4,97%



The business environment, a context based review

As a major supplier of products and services in the aeronautical industry, AEROSTAR operates in a very sensitive, interconnected environment. In this context, the viewpoints, decisions and actions of our interested parties have a significant impact on the success of our business.

- **Modifications of the external aspects in the organization's context**

With reference to the external aspects, the main evolutions during first half of 2020 are:

With reference to the international context:

The Brexit process was extended, the effective date being 31 January 2020. From a commercial point of view, the situation remains the same until 31 December 2020, the negotiation term of the bilateral agreement.

At the mid-year 2020, the status of the negotiations indicate that the EU should prepare for the no-deal Brexit, which might generate major trade turbulences, as well as in the field of travel and transportation.

The company's action is to monitor the negotiations' evolution in order to evaluate the real impact for Aerostar's activities.

The impact can be related to cost increases due to the customs duties and import taxes, an extended duration of the purchasing process due to the formalities, as well as due to shipment and transport.

The commercial measures implemented by the EU, especially in relation to USA, started in 2018, with the additional taxation of the semi-finished aluminium sheet imports from USA, and continued in 2019 with safeguard taxes for the imports of certain steel semi-finished goods. These measures directly lead to costs increase. Avoiding the additional or safeguarding taxes by using specific commercial procedures like inward processing approval, with discharge in the EU, is not possible for aviation either. The only case is using an inward processing authorization with discharge outside the UE, for purchasing operations related to programmes where Aerostar's customer is non-EU.

Aerostar's action is to search for European sources for materials.

The restrictive measures for the imports from Russia were maintained. Aerostar actions are to comply with the restrictions and search for alternative sources.

The USA measure to implement taxes for the UE aircraft imports may lead to relocating a higher number of aircraft on the final assembly line in USA, consequently, a possible relocation of a part of the supply chain in USA, which may contribute to reduce Aerostar's market share access.

The impact of the Covid-19 pandemic already affects important sectors of the economy and global markets. Severe reductions of the activities and orders take place in the the global supply chains, most affected being Asia, Europe and North America.

In a short while all the short and mid-term forecasts in the aeronautical sector were smashed off by the realities associated to Covid-19, which already take the form of a predictable recession: important aircraft manufacturing orders are cancelled or deferred, production is stopped in multiple facilities around the world, quasi disappearance of the passengers air traffic.

In the first quarter, ICAO's forecast, the International Civil Aviation Organization- the specialized agency of the United Nations, indicates for the next 6 months a reduction of the passenger numbers down to 1,2 billion and a reduction of the international passengers transport capacity with 2/3 during the first 9 months of the year 2020;

At six months, the reduction of the global revenues of the commercial airlines as forecasted by IATA (International Air Transport Association) is 50% for the entire year 2020 as a result of how serious the travel restrictions are and the global recession, as well as due to the changes in the passengers conduct.

The recently published data show that, if in early April, 61% of the passengers used to declare they would travel again in a few months after the pandemic ends, at the beginning of June, their number is as low as 45%. Two thirds of them envisage the travel reduction in the future- irrespective the reason, holidays, visits to family and friends or for business.

The already installed symptoms of the economic and financial degradation add to this situation at a rapid pace: a severe lack of liquidities, unemployment and uncertainty, the absence of a perspective on the duration of this crisis.

In accordance with the official reports from organizations, entities and the global supply chains in the aeronautical sector, the main impacts determined by the pandemic are:

- Cancellation of a significant number of passenger aircraft, shutdown of activities and factories
- All the suppliers in the supply chains are affected: slowdown of the activities, temporary shutdown but also business reorganizations, take-over or divestitures
- Complete or temporary shutdowns or on indefinite periods
- Both Airbus and Boeing announced significant reductions of the production rates in several commercial- passenger aircraft manufacturing programmes
- Loss of jobs either by furloughs or temporary unemployment, or voluntary leaves or forced by the economic situation
- It was announced by Airbus cutting 15.000 jobs within one year in order to be able to secure the company's future.

At Airbus wing centre at Broughton in Great Britain, layoffs were announced exceeding 3000 furloughs.

- Boeing announced personnel layoffs at the level of 10% of its manpower to 15% in the commercial aircraft manufacturing sector
- Job cuttings were announced on all segments of the aeronautical industry.

- Notifications of termination or deferral to receive parts and subassemblies from several main customers/ the supply chains of the main aviation programmes
- The airlines suspend their activities as a result of the travel bans and of the lack of passengers; they also renounce the scheduled maintenance work. Massive interventions and state aid are urged for the salvation of the airline operators
- The state aid is largely perceived as a salvation solution for business survival
- The global manufacturers such as Airbus and Boeing, but the airline operators as well, make plans for reorganization and layoff of personnel in their effort to provide critical liquidities for the restart of the economic activity.

Air connectivity is critical for the sustainable economic development and the data on the stabilization of the situation are critical for planning the economic rebound and relaunch after Covid-19.

Aviation is one of the most affected fields of activity by the lockdown, travel restrictions and social distancing.

Predictability is as low as never, further on.

With reference to the legislative context:

The law has been adopted which allows Romania to purchase from Portugal another five F-16 aircraft. Taking into consideration that in 2018 Aerostar was nominated by the Romanian State as the national maintenance centre for the F-16 aircraft, Aerostar's action is to prepare to fulfil this role including in terms of the procurement aspects.

The Ordinance no. 6/28.01.2020 was adopted; this comprises modifications and new requirements how to maintain the non-transfer register and the goods register, regarding the inventories at customers' disposition.

Aerostar's action is to comply with the new requirements.

The contract was signed for the modernization of the runway of George Enescu Airport of Bacau.

Aerostar action is to correlate the scheduling of aircraft inputs coming for maintenance work, with the progress of the runway work.

Starting with the date of 16 March 2020 the emergency state was set on Romania's territory by presidential decree for an initial duration of 30 days as a result of the epidemiologic situation

The legal restrictions imposed by the emergency situation and the military ordinances lead to the reduction of the transport capacity and slowdown of the merchandise traffic.

Delays occurred in the movement of the goods both ways: from suppliers and towards the customers.

The stabilization of the situation is important for resuming the economic activities.

With reference to the economic context:

The minimum wage was increased, the EUR/RON and USD/RON exchange rate increased, the price of utilities as well. This may lead to an increase of the purchasing price from Romania, including the increase of the production costs.

Aerostar's action is to secure the prices on a term as long as possible, on a yearly or multiannual basis.

At six months, the reduction of the global revenues of the commercial airlines as forecasted by IATA (International Air Transport Association) is 50% for the entire year 2020 as a result of how serious the travel restrictions are and the global recession, as well as due to the changes in the passengers conduct.

For the entire year 2020 IATA's forecast updated in June, as to the effectiveness of the investments (Return on Invested Capital), indicates losses of almost 17% globally and losses of 21,5 billion USD at European level.

The impact of the Covid-19 pandemic, the production reduction in the aeronautical sector affects the supply chains at global scale.

With reference to the global competitive environment:

- The certification and production of the 737MAX aircraft
At 1 July 2020, FAA and Boeing announced ending the certification flights for B737 MAX. However the entry into service is a duration process and is no longer a priority preoccupation in the present market context.
- The manufacturing of the A380 aircraft was terminated
- After giving up the F5X certification and launching of the F6X concept, Dassault announced the beginning of the flight test programme for the future aircraft in the year 2021 and maintaining the year 2022 as the milestone for the entry into service.
- Restructuring of the company Bombardier following the decision to renounce the C Series and shutting down 4 plants from Ireland and Morocco

- Airbus updated the perspective to reduce the production and deliveries with approximately 40% in the next two years, announcing a production rate of 40 aircraft per month for A320, the best seller of the Airbus aircraft.
However the recent declarations dated 14 July indicate the possibility to stop the production of narrow-body aircraft for two years. The rate of deliveries of the year 2019 will not be reached probably earlier than 2023 to 2025, although the recovery at this category will possibly be quicker than for the wide-body aircraft.
- Boeing gives up the agreements initiated in the year 2018 for the acquisition of 80% of Embraer's commercial aircraft business.
- The lockout and the passenger traffic restrictions in whatever form affected profoundly all the global players.

With reference to the technical context:

The Covid-19 pandemic is associated with the alerts related to the risks of cyber attacks aiming to get advantages in the context of the entities focusing on the pandemic subject.

Focus on cybersecurity

The company's action on this line consists in the continuous improvement of the internal policies and procedures for securing the processes.

The computer network within Aerostar is formed from an assembly of hardware and software equipment, interconnected through the data network, with the purpose of data transmission, storing and sharing the resources between the internal users from the company.

The network infrastructure is permanently monitored in order to reduce production interruptions and provide for easy access to digital format data, including for the field equipment.

- **Modifications of the internal aspects in the organizations's context**

Regarding the internal aspects, the following evolutions occurred during Q1 2020:

From the point of view of human resources:

The impact of the Covid-19 pandemic is first of all of social essence, generating already profound changes in the mode of living but also in the temporary perception on the priorities and values hierarchy.

The educational and training, formation and professional training processes are affected.

The market labour does not provide sufficient manpower with the specific qualifications and competences needed in the field of the aviation and defence industry.

The action consists in improving the recruitment, selection and training processes of the personnel, partnership agreements with educational institutions in order to provide training and qualifications in the required fields.

Also, actions of integration and development of the organizational culture are required, in order to ensure the inclusion of young employees and their level of competence and qualifications to execute the company's contracts.

In the conditions where the production in the field of manufacturing aviation parts, subassemblies and equipment and in the field of MRO services, the decision of the company is to keep its production capabilities unaffected and maintain the manpower and their qualifications and partly use the legal furlows solution („technical unemployment”).

We envisage to preserve the qualifications and approvals of the personnel, as well as all the certifications and authorizations of the existing quality, environment, production systems.

For the current year the management announced not to initiate restructuring and job cuts measures and before layoffs all the other measures would be taken, including hiring no new employees, freezing salaries, reduction of supplementary work hours, temporary work and reduction of several other types of expenses.

Actions are necessary for the integration and development of the organizational culture to ensure the inclusion of the young employees and provide the level of competences and qualifications for the execution of the contracts while keeping at the same time the relaunch and growth capacity when the effects of the pandemic cease.

In the field of work safety and health, AEROSTAR initiated its migration to the new ISO 45000: 2018 standard in parallel with full compliance with the legal requirements and those of the standard OHSAS 18001, in all work related aspects.

Detailed information can be found in the chapter **Our Employees**.

From the point of view of the infrastructure:

The sustainable use of the resources and the energy efficiency

During first half of 2020, the actions were continued to rehabilitate the transport network for the waste water resulted from certain technological processes.

The industrial water is entirely provided from company's own water wells.

From the point of view of the capabilities and authorizations:

All the authorizations, certifications and accreditations held were maintained.

Detailed information can be found in the chapter **Quality and Environment**.

From the point of view of governance:

Multiple modifications occurred in the field of geopolitical, economic, legislative, fiscal, technical, in the competition global environment, with impact on the company's activities.

The action is to identify and evaluate all the impacts, to implement compliance measures or mechanisms in order to mitigate the adverse effects, or to take advantage of the opportunities, as the case may be.

The action envisages the continuous adaptation of the management system to have effective actions in relation to these changes, the proper allocation of the responsibilities and roles in relation to the changes, but also provide an inclusive character of the organizational culture for the adherence to the necessary measures.

From the point of view of the organization's performance:

While the company cannot be outside of the evolutions which affect the entire industry and commercial aviation specifically, the performance of the organization will be affected with a delay whose length is not yet defined but which depends on the mode of action in the context of a market with brake on but having long manufacturing cycles, is strongly innovative and organically oriented towards the future.

There are few optimistic scenarios on the market conduct after the pandemic.

The action is to develop the company's footprint as well, in activities which are not specific for AEROSTAR.

The economic performance indicators of the company are at a very good level and are presented at the section **Key Figures**.

MAIN BUSINESS LINES

AEROSTAR has pursued a growth and development strategy of its core business in the field of the aviation and defence industry.

AEROSTAR's footprint is recognized in Europe's aviation industry and not only, being a significant supplier in global manufacturing programmes but also in the field of heavy maintenance for commercial aircraft.

During the first half of 2020, the activities were executed in conditions of continuity, the measures of response and adaptation to the sanitary crisis and social distancing restrictions being implemented as early as 25 February 2020.

Manufacturing aeronautical products

AEROSTAR is the leader in Romania for the manufacturing of aviation products, being a supplier recognized in the supply chain of multiple global programmes.

Aerostar is part of the supply chain of the main global programmes with a significant success rate.

In the Airbus supply chain, Aerostar's current position is Tier 2 as an aerostructures supplier, having the Airbus supplier code as early as 2007, and subsequently also the supplier code from GKN Aerospace.

Aerostar is a strategic Tier 1 supplier for SAFRAN Landing Systems for subassemblies, hydraulic systems and actuators, landing gears, for multiple aircraft programmes such as: Airbus, Boeing, Dassault or Gulfstream.

The parts, subassemblies and products manufactured by Aerostar are found on various aircraft subassemblies or systems.

We manufacture structure assemblies for the aircraft wing, parts and subassemblies for the aircraft fuselage, but also machined parts, actuators and mechanical assemblies for the landing gears of the aircraft.

There is a large diversity of the parts and materials from which they are manufactured and the technologies used, the number of different part numbers being around 10.000.

Aerostar also pursues to have a diversified portfolio of final programmes to supply for, with a good spread of the products and geographical markets.

Our products are fitted on aircraft such as Airbus, Boeing, Bombardier, Dassault or Gulfstream.

Following the concentration of production in the large global supply chains in aviation, growing the portfolio of customers, programmes and products warrants a solid position on the market and overcomes the difficulties arising from stopping certain programmes, as it happened with the Airbus A380 aircraft and with the cancellation of the F5X programme.

Increasing the production volume as a subcontractor for parts, aerostructures and equipment for the civil aviation by using modern technologies specific to metal processing: aluminium, titan, steel, a.o. is based on the partnership with our customers.

A pylon of the competitive advantage is the **Special Processes Centre**, where the main preoccupation is to introduce the state-of-the-art practice and standards requested by Aerostar's customers.

New manufacturing processes were qualified in order to make parts and subassemblies from stainless steel and titanium, steel and copper alloys, high-resistance steels, including the local application of such coatings.

A special attention is focused on the compliance with the European regulations in the field of environmental protection – regulation known under the name of REACH.

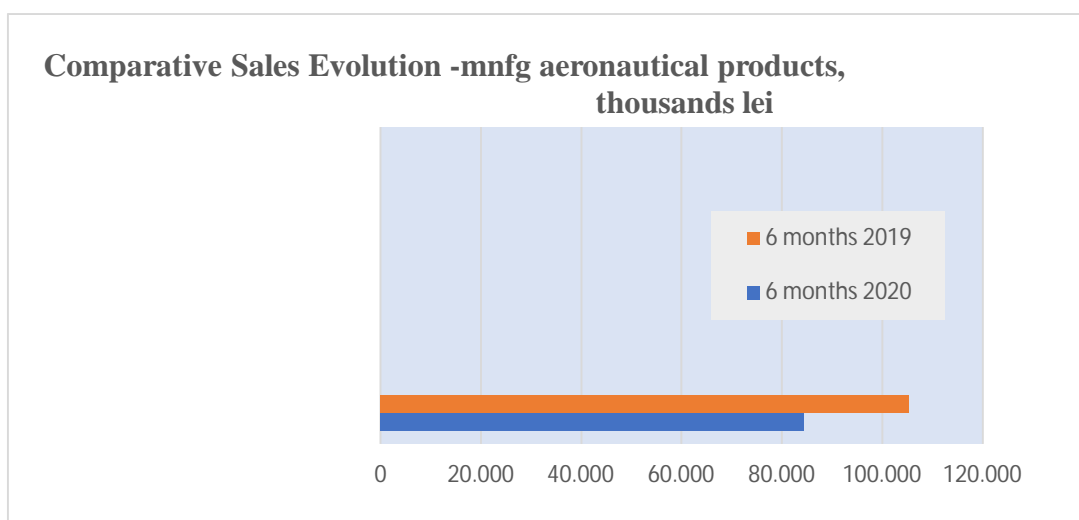
The manufacturing processes use CNC equipment with up to 7 axes; a modern infrastructure and software applications are in place, which use the digital transfer of the data required for the manufacturing of the parts (Model Based Definition), production planning and control (MRP2).

The actions to improve the agility at reduced production time and minimal risks when production volume grows are focusing on IT applications for production management and on continuous improvement.

The investments in non-pollutant and low energy consumption technologies, implemented in an integrated manner for the upgrade and extension of the production capacity, ensures the increasing the competitiveness.

In the context of the crisis generated by the Covid-19 pandemic in the global supply chains, severe reductions of the activities and orders occurred, the most affected being the plants in Asia, North America and Europe.

As a result of the impact in the aeronautical industry AEROSTAR received notifications of termination or deferral to receive parts and subassemblies from several main customers such as GKN Aerospace, Avcorp, Safran.



The production restructuring or the reduced delivery rates in the main programmes where Aerostar has a significant exposure impact on the production management. These aspects are related to the continuity for the capabilities, authorizations and certifications, competences and the key personnel, production on stock and the required economic balance levers.

MRO Civil Aviation

AEROSTAR has built a significant footprint as business volume in the field of MRO civil aviation, being the main independent supplier of heavy maintenance in Romania and in this geographical area for the commercial aircraft Airbus 320 and Boeing 737 family, with a significant impact on the local development.

Aerostar's MRO business for commercial aircraft is anchored in the sector market defined as the growth core, the Airbus 320 and Boeing 737 aircraft.

Aerostar's MRO civil aviation centre extended its customer base as well as its range of capabilities.

Starting from the Part 145 approval from the RoCAA, a full member of the European Aviation Safety Agency (EASA), Aerostar's maintenance base has consolidated and developed its market position and obtained a large range of approvals from the civil aviation authorities of multiple countries outside the European Union, including the USA authority FAA.

The extension of the authorization scope increases the market potential, allowing Aerostar to compete for work from customers whose aircraft are under other jurisdictions.

Obtaining the EASA certificate of authorisation as a Part 21J Design Organization, to perform minor repair and modifications projects for large civil aircraft, has the purpose to increase the added value for our customers.

The experience accumulated in heavy maintenance is the basis for the development of the future civil aviation MRO Centre- Part 145 in Iasi.

At the same time, the profile as a regional Centre of Excellence in the field of civil aircraft maintenance has been consolidated and this is a pole of sustainable development with a significant growth.

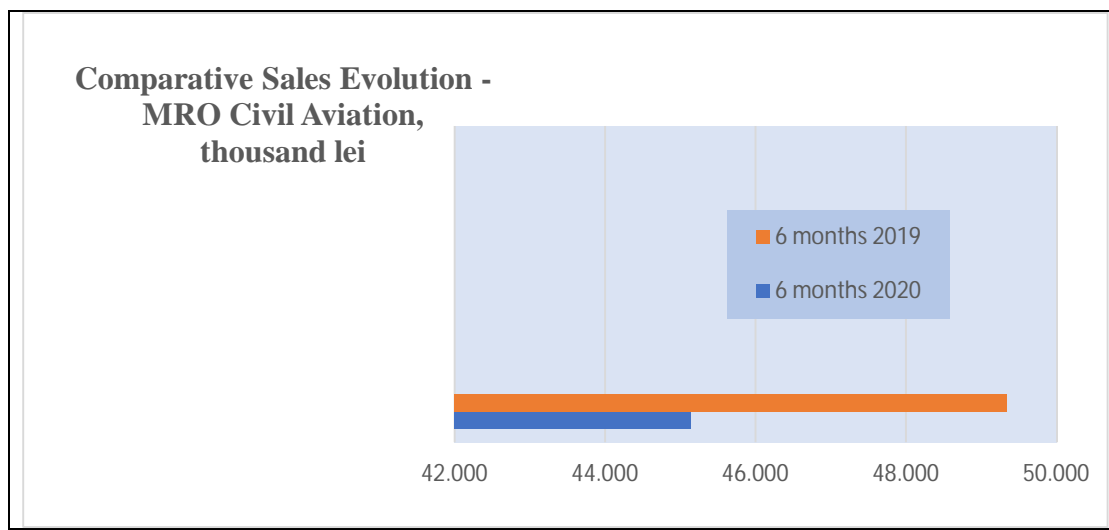
The most significant investment is for the **maintenance centre** for the Airbus 320 and Boeing 737 aircraft, in the perimeter of the Iasi airport.

The total value of the investment for the future maintenance centre in Iasi for commercial aircraft is around 10 million euro.

With reference to the manpower for the future maintenance centre for commercial aircraft Boeing 737 and Airbus A320, the training of the technicians and engineers, is performed by coordinating with the training activities for the MRO Centre in Bacau.

As a consequence of the reductions in air transport activities, notifications were received from several air operators giving up the planned maintenance of their Boeing 737 și Airbus A320 aircraft.

The actions performed by the company to lever on the pandemic effects take into account the mix of work for passenger and cargo aircraft, the seasonal character of the maintenance work and instruction, improvement training measures for the personnel in order to be better prepared at the moment of the economic recovery.



Systems for Defence

The market positioning held by AEROSTAR in the field of defence systems in the aero, ground and navy category, is first of all in relation to the position of first rank supplier to the Romanian Ministry of National Defence.

In the field of defence systems, AEROSTAR is active in upgrade, integration and maintenance programmes for military aviation and defence systems, further on with focus on certain platform types for which it has expertise proven in traditional programmes, and new upgrade or integration programmes as well: military aircraft, launching systems and primary and secondary radar systems.

In the pursuit to strengthen its position on the international market, in the spirit of the Mission established as early as 1953 and then updated in the context of the market evolutions, Aerostar closely follows the opportunities relevant for the national security.

The solutions supplied capitalize the synergy of Aerostar's industrial capabilities and create Value for the Customers.

The competitive advantage of the company is stronger given the features proven as a centre of excellence in the management of international co-operation projects and programmes.

AEROSTAR is part of the national defence industry in accordance with the law 232/2016, having the status of an authorised economic operator registered in the Unique Registry of the economic operators and capacities for production and/or services for defence.

In accordance with this law, the Government of Romania designated Aerostar as early as December 2018 as the maintenance centre for the F-16 aircraft in the inventory of the Romanian army.

AEROSTAR entered into its role and initiated the investments in order to set the required capabilities. The maintenance centre for the F-16 aircraft develops progressively by allocating and training the personnel, manufacturing and acquisition of jigs and test benches and creating its own infrastructure for the maintenance of this aircraft type.

The estimated value of this investment is over 10 million Euro.

In the aerospace field Aerostar opened a path considered significant, not only in the role of manufacturer of mechanical parts, components and subassemblies, but also as a supplier of build-to-spec solutions for mechanical ground support equipment, with complex, deployable configurations, with applications in the field of satellites.

The market position in the field of the launching and radar systems

AEROSTAR has constantly developed the capabilities required to consolidate its position as a supplier and also its expertise in the field of the launching systems, platforms and the launching and fire command and control components –production of launchers, maintenance and logistic support, upgrades.

Starting with the manufacturing of 122 mm launchers, subsequently upgraded to NATO standards, this experience was gained during multiple programmes, manufacturing, repair and successive upgrades, integrations of artillery systems in service with the Romanian Army or for the platforms of other beneficiaries, or technological demonstrators financed from company's own sources, in the category of advanced launching and artillery systems.

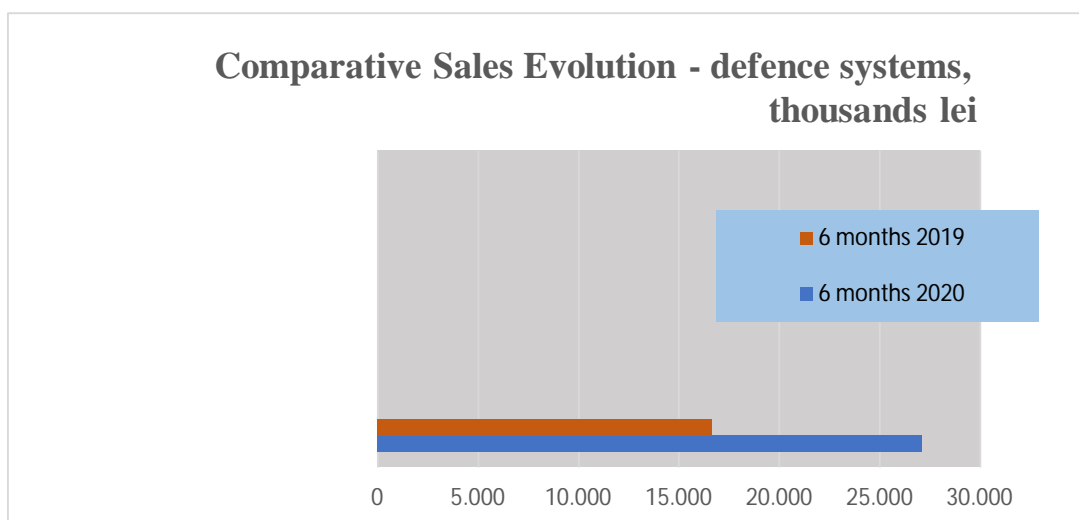
AEROSTAR is part of Raytheon's global supply chain as an authorized supplier for the Patriot systems and operates to develop and consolidate this position.

During this year, Aerostar entered on the Preferred Suppliers List (PSL) and is approved to compete for Raytheon's new machining programmes.

Aerostar is the only company from Romania which has developed repair and upgrade technologies for primary and secondary radar systems, IFF type identification systems, and has its own infrastructure and capacities necessary to perform these activities.

Designated and agreed as sole supplier for the IFF systems installed on operational platforms from the army, AEROSTAR successfully implemented Mode 4 IFF equipment on different platforms (aircraft, helicopters, naval, terrestrial and aerial defence systems) and has implemented Mode 5 as of 2020, in accordance with the requirements and necessities of the RoMoND.

As early as 2018 Aerostar went through the qualification process with Thales EURAM Spain and is key industrial partner in Romania for THALES Group.



QUALITY, A COMPETITIVE ADVANTAGE

Following the analysis of the quality and environment management system, the quality policy and the environment policy were reconfirmed.

The objectives have been set for the quality and environment management system for the year 2020 in the first quarter of the year 2020.

Following the audit performed by the representatives of the Military Body for Certification, Accreditation and Surveillance (OMCAS) of the RoMoND, Aerostar recertified its quality management system.

Also, based on the follow-up audits – executed by the teams of auditors of the certification bodies, all the certifications of the integrated quality and environment management system were maintained.

The activities with impact on the environment were kept under control by internal inspections and by the monitoring and measurements made in accordance with the provisions in the environment authorisation held.

During the first half of the year 2020 the current monitoring was performed for the waste water and subsoil water indicators.

Aerostar S.A. complied with all its obligations arising from its GHG authorization:

- Prepared the monitoring report on the GHG emissions generated during the year 2019, the report being validated through the verification audit executed in January as to the number of GHG certificates for the emissions in 2019;
- Compliance into the sole European GHG Registry was completed in April when a number of 2382 certificates were returned.

Following the verification audit on the management of the greenhouse gas emissions (GHG) there was no nonconformity raised, the emissions related to the year 2019 being validated.

In March AEROSTAR made the proposal to return the GHG certificates with reference to the CO₂ emissions during 2019 - in the EU Registry for GHG.

The results of the inspections performed by the Environment Guard Bacau confirm Aerostar's compliance with the applicable legal and regulatory requirements.

From the viewpoint of social responsibility and sustainable development, Aerostar has set its objectives to improve its performance in the field of pollution prevention, sustainable use of the resources and climate change mitigation, following the guidelines of the standard SR ISO 26000 on social responsibility.

OUR EMPLOYEES

▪ Evaluation of manpower aspects, information about our employees

At 30.06.2020 AEROSTAR had an effective headcount of 1.918 employees, 115 of them employed through the temporary labour agent (AIRPRO CONSULT S.R.L.)

From the total 1.918 employees, 178 occupy management positions.

The average union membership rate in the company during first half of 2020 is 65%.

At 30.06.2020, the average seniority in the workplace is 11 years according to the Revisal data, and the average age of Aerostar employees was 46 years on total Aerostar and Airpro.

With reference to the general background, at 30.06.2020 the situation is as follows:

- employees with university background, of which:	596
- doctorate graduates:	11
- doctoral studies in progress:	6
- master degree:	137
- employees with post-high school education:	11
- employees with high school education:	1.311

AEROSTAR ended the first half of the year 2020 with a number of 1.918 employees, 115 of them employed through the temporary labour agent, with a total manpower fluctuation of 4,64%. Compared to the end of the year 2019, the number of employees is 40 employees lower.

▪ Labour relations and social dialogue

AEROSTAR has in place the Collective Labour Agreement valid for the time period 2019 – 2021 concluded with its employees represented according to Law no. 62/2011 on the social dialogue.

In March the yearly negotiation was concluded with reference to salaries, working conditions, holiday vouchers while the newly established salary scales are applicable starting with 01.04.2020.

- At the date of 6.07.2020, the following message was addressed to all the company employees in connection with the situation for the year 2020.

The contents of the communication dated 5 June 2020

In connection with the situation for the year 2020

**For all AEROSTAR employees,
Dear colleagues,**

COVID-19 has triggered an unexpected economic situation, full of risks and uncertainty, practically affecting all the aviation sectors and all countries.

The aviation industry was deeply affected and it is still difficult to predict the evolution of the impacts in the short and long term.

We have practically no possibility to influence the storm of recession that is also affecting us and the only solution is to harden ourselves in order to resist, as if a hurricane was heading towards us. We continue to prepare for this challenge, to protect the company on short and medium term, by also preserving the capacity to re-launch ourselves and to grow again, when better times will come.

The wise policy of allocating resources over the last few years has helped us, so the storm of the economic recession shall find us strong and firmly anchored in the globalized economic and production system. Yet in front of the hurricane you never feel ready enough.

I decided to protect our production capacity, keeping as long as we can the company's personnel and the employees' qualifications.

We used and we shall use all the legal levers and instruments, but we have to admit that the state support is very small and starting with June and also in the following months, the technical unemployment payment shall be performed entirely from Aerostar's funds.

Of course, our resources are limited, but we have set out to prevent restructuring measures and job cuts in 2020. Before we use job cuts, we will exhaust all the other measures, including the cessation of employment, the freezing of wages, temporary overtime cuts and many other types of expenditure.

It is a difficult period for Aerostar and for our employees, but it is good to know that we are not seeing a return to a better situation this year.

We hope that the situation will be clarified and we will have a better visibility on the future, at the beginning of 2021, in order to take the right steps to strengthen our long-term future.

You are recommend to carefully manage your personal resources so that you and your families suffer as little as possible from this crisis.

We have so far managed to deal well with this crisis, as a united team, serving the best interests of the company and its employees, and we need to find power to overcome even more difficult challenges in the future.

Please take care of your families at home and your family at Aerostar and stay safe.

Grigore FILIP
President & General Director

▪ Formation, training, professional development

AEROSTAR is authorized as a supplier of professional training by the Ministry of Education and Ministry of Work for aviation specific skills: fitters, aviation mechanic, aviation electromechanic and mechanic of aircraft engines.

During the first half of 2020, professional training courses were organized for the company's employees, as a matter of priority being to cover the trainings needs in the fields of interest for the production activities.

– Number of participations in professional formation programmes	2.840
– Number of employees in professional formation programmes	1.473
– Costs on the annual budget for training	428.862 lei

A number of 179 students from partner technical and technological high schools in Bacau executed practice programmes in AEROSTAR.

In June 2020 an apprenticeship programme for aircraft mechanics was completed, its duration was 2years.

- **Health and safety at work, labour conditions**

The company's health and safety management system is certified according to the standard OHSAS 18001: 2008.

The activities for the migration to the new standard SR ISO 45001: 2018, initiated in the year 2019, continued during the first half of the year 2020.

The strategic objective of the organization in the field of health and safety at work is „ZERO Accidents”.

During the first half of the year 2020, no work accident took place and implicitly no death accident.

Starting with the date of 25.02.2020, following the epidemiologic evolution at the level of the European states and in the neighbouring countries, in the context of the Covid-19 outbreak, AEROSTAR took measures to prevent and fight against the spreading of the coronavirus in several steps with a view to protect the employees, both from the work hygiene perspective as well as with respect to social distancing.

The company has in place a risk assessment plan and a plan for the prevention and protection in case of the new coronavirus.

Measures were taken to reorganize the work and alternative protection measures.

Operators with high incidence or high risk of disease

In the COVID-19 context, considering the need to minimize the exposure of the employees and delegates/visitors at the work place, in connection with the SARS-CoV-2 infection and fight against the risks thus induced, AEROSTAR informed and made the employees and delegates/visitors aware of the new coronavirus COVID-19 infection risk through multiple internal communication actions: dispositions, notes, warning materials/ specific announcements, releases of information.

With a view to protect the employees against the new coronavirus COVID-19 infection, AEROSTAR implemented a general measures plan with specific regulations applicable.

Aerostar provides anti-Covid-19 protection materials for the company employees in accordance with the general measures plan with the specific regulations applicable while for the subcontractors, in accordance with the Convention for the settlement of the responsibilities as to work health and safety, fire fighting security and prevention of incidents.

In order to ensure the employees work in full health and safety conditions, the internal emissions measurements were made by Aerostar's Toxicology Laboratory with calibrated equipment, as well as by the Public Health Authority of Bacau.

As a result of these policies and practice in place, there was no professional disease personnel or dangerous incident during the first half of the year 2020.

During the first half of the year 2020 the following indicators resulted as to work accidents:

As a result of the policies and practices applied, during 2019, there were no professional disease or dangerous incidents among the employees.

- number of accidents per 100.000 work hours	0,000%
- time lost due to the work accidents per 100.000 work hours	0,0%

TANGIBLE ASSETS

AEROSTAR's production facilities and capacities are located in Bacau, 9 Condorilor Street, postal code 600302, Romania, where there is also the registered headquarter of the company.

Aerostar has a secondary place of business, without legal personality at Iași, 25B Aeroportului Street.

Currently, AEROSTAR does not perform economic activities at this site.

Aerostar's production facilities and capacities are located in Bacau, 9 Condorilor Street, postal code 600302, Romania, where there is also the registered headquarter of the company.

The company owns in its property the land surface of 46,86 ha, with direct access to the European road E85.

Aerostar has direct access to the "George Enescu" airport's runway in Bacau.

At the registered headquarter there are all types of facilities required for the proper performance of the production activities according to the object of activity.

The production site comprises hangars, industrial buildings, technological testing benches, spaces for administrative and social activities. Also, the company holds spaces for office work such as technical and economical activities.

All these locations and facilities are maintained in good condition.

The built surface of the buildings is approximately 13,47 ha.

AEROSTAR assets are compliant with the health and safety and environment management system provisions, fully respecting the applicable legislation and occupational safety regulations, as well as the property protection and security requirements.

At 30 June 2020 the tangible assets held in property by AEROSTAR to perform the activities are in gross value of 273.581 thousand lei, which comprise the land, buildings, special constructions, installations, technological equipment, transport vehicles:

Category of tangible assets	Gross value (thousand lei)	Degree of wear (%)	Estimated useful life (years)
Land	29.085	N/A	N/A
Constructions	60.175	39,4%	30-50 years
Investment property	10.644	30,7%	25-50 years
Technical installations, of which:	170.654	57,9%	
• technological equipment	164.663	57,7%	4-25 years
• transport vehicles	5.991	63,5%	4-18 years
Other tangible assets	3.023	34,0%	2-18 years
TOTAL	273.581	46,4%	N/A

In the first half of 2020 no risks were identified related to the ownership over the tangible assets of the company.

MAIN SHAREHOLDERS

The main shareholders are IAROM S.A. Bucharest and SIF MOLDOVA S.A. Bacău.

Further to these, a large number of shareholders is added, natural and legal persons, under the significance threshold as specified in the regulations of the Financial Supervisory Authority and the Bucharest Stock Exchange.

According to the data from the Bucharest Stock Exchange, the shareholding structure (Source: Depozitarul Central at 31 December 2019) is presented below:

Shareholder	Number of shares held	Participation owned (% of the share capital)
IAROM S.A. Bucharest	108.672.786	71,3650
SIF MOLDOVA Bacău	22.919.887	15,0514
Other shareholders	20.684.777	13,5836
Total	152.277.450	100,0

There are no litigations with the persons mentioned earlier.

During the current year, there were no subscriptions of new shares, nor participation certificates, convertible bonds, options or similar rights.

RELATION WITH THE SHAREHOLDERS AND THE CAPITAL MARKET

AEROSTAR monitors the activity related to the evolution of ARS shares at Bucharest Stock Exchange without interfering in its operations with such activity.

In the relation with the shareholders, AEROSTAR took into account to protect and secure the rights of the shareholders, that is:

- to participate in the General Meetings directly or by representation– by providing them special proxy forms, voting bulletins by correspondence, other useful information;
- to have a fair treatment, no matter the stakeholdings;
- to receive dividends proportional with the holdings of each shareholder.

In the relation with the capital market, AEROSTAR fulfilled all the reporting obligations arising from the legal provisions by publishing the mandatory current and periodical reports in the electronic system of the Financial Supervisory Authority and of the Stock Exchange, on the internet page of the company and by press releases.

According to the provisions of the Corporate Governance Code, the continuous and periodical reports were simultaneously released, both in Romanian and English.

The shareholders can obtain information about AEROSTAR and its main events on the internet page www.aerostar.ro

Also, annual reports, as well as half-year and quarterly reports can be downloaded for the last five years, as well as the current reports and other useful information for the shareholders.

▪ **Aspects regarding the capital and administration of the company**

There were no modifications which affect the capital and administration of the company.

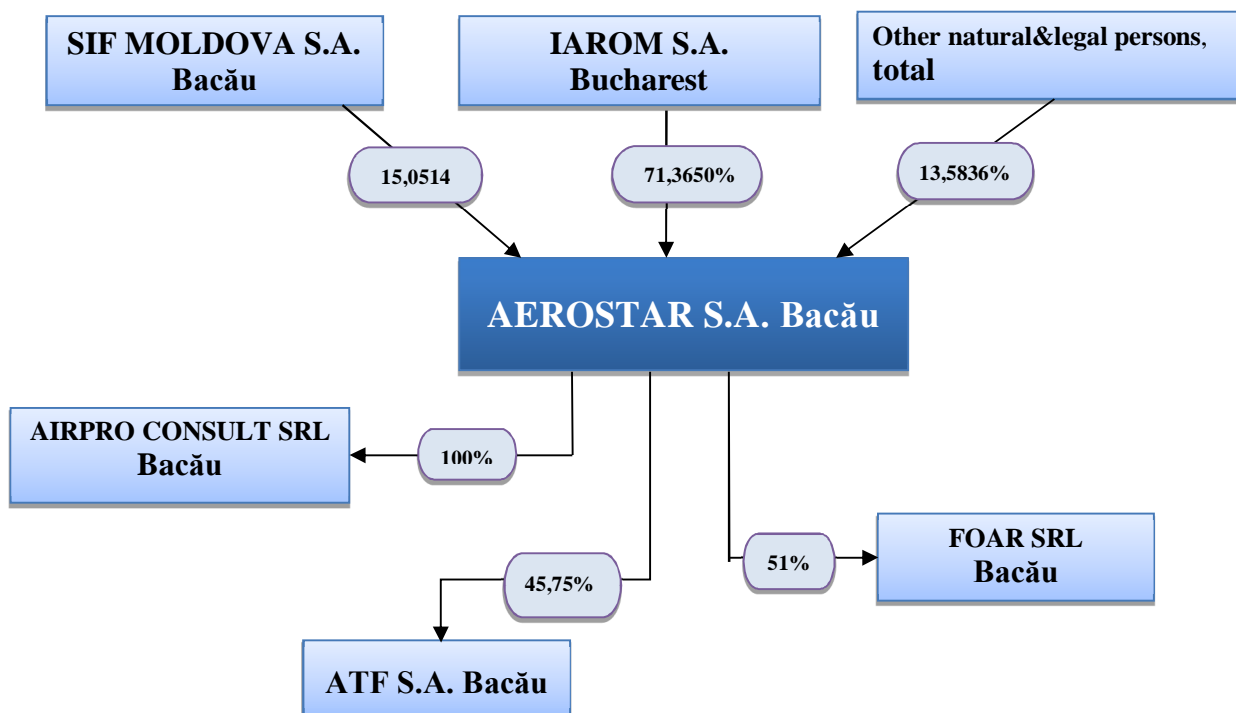
The company was not in the impossibility to respect its financial obligations during the period.

There are no modifications regarding the rights of the shareholders. There was no major transaction concluded by the company with the persons with which the company operates in collaboration or in which such persons were involved in the relevant period.

No data or information or any prospect for a public offer for sale, documents of public offer for purchasing, voluntary take-over or of any other nature is available.

No notifications are available regarding reaching or exceeding the thresholds for holding the voting rights of AEROSTAR's shareholders.

**AEROSTAR's relation
with the parent company and AEROSTAR's related companies:**



During the first half of the year 2020 there was no merger or significant reorganization, neither of AEROSTAR or of the companies under AEROSTAR control.

RELATED PARTIES

At 30.06.2020, AEROSTAR participations in other companies are the following:

Name of the subsidiary/related company	Basic activity	No. of shares held by Aerostar	Voting rights	Value of Aerostar holding (thousand lei)	Financial information for the last financial year (2019) for which the financial statements of the related companies were approved		
					Sales (K lei)	Company capitals (K lei)	Net profit (K lei)
Airpro Consult SRL Bacău	CAEN code 7820	100	100%	10	8.051	162	65
Foar SRL Bacău	CAEN code 7739	408	51%	4	435	1.957	210
ATF S.A. Bacău	CAEN code 2822	9150	45,75%	92	-	279	5
TOTAL				106	8.486	2.398	280

Aerostar's holdings in these companies are registered on a cost basis.

During the first half of 2020, AEROSTAR did not register modifications such as increase/decrease of its contribution percentage, AEROSTAR maintaining the same influence as in 2019.

All the companies where Aerostar holds participations are registered in Romania.

The transactions with the related parties can be found in the Financial Statements at **Note 26**.

The General Meeting of the Shareholders on 21 April 2020 adopted the resolution for the dissolution of the company ATF S.A. At 30 June 2020, the dissolution process is under way.

AEROSTAR MANAGEMENT

- AEROSTAR's **Board of Directors, with the duration of the mandate from the date of 11.06.2016 to 10.07.2020**, elected during the Ordinary General Meeting of the Shareholders from 5 July 2016, was re-elected for a new mandate in the Ordinary General Meeting of the Shareholders from the date of 9 July 2020

The election was made through secret voting, the duration of the new 4 year mandate starting with the date of 11.07.2020 to 10.07.2024.

The Board of Directors has the following members:

Name and surname	Position	Background
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

The attributions and responsibilities of the Board of Directors are provided in the Constitutive Deed.

The direct participation of the administrators to the registered capital of the company is over 1%.

There is no agreement, understanding or family tie in connection with the nomination of the administrators of the company. There were no resignations or dismissals among the members of the Board of Directors, or in connection with the auditor.

There is no litigation between the company and the administrators with reference to their activity.

None of the administrators was involved in a litigation or administrative procedure with AEROSTAR during the last 5 years.

▪ Business Management

The administration of the company is in a unitary system.

The President of the Board of Directors is also the General Director of the company.

The executive management is provided by the General Director and the Financial Director.

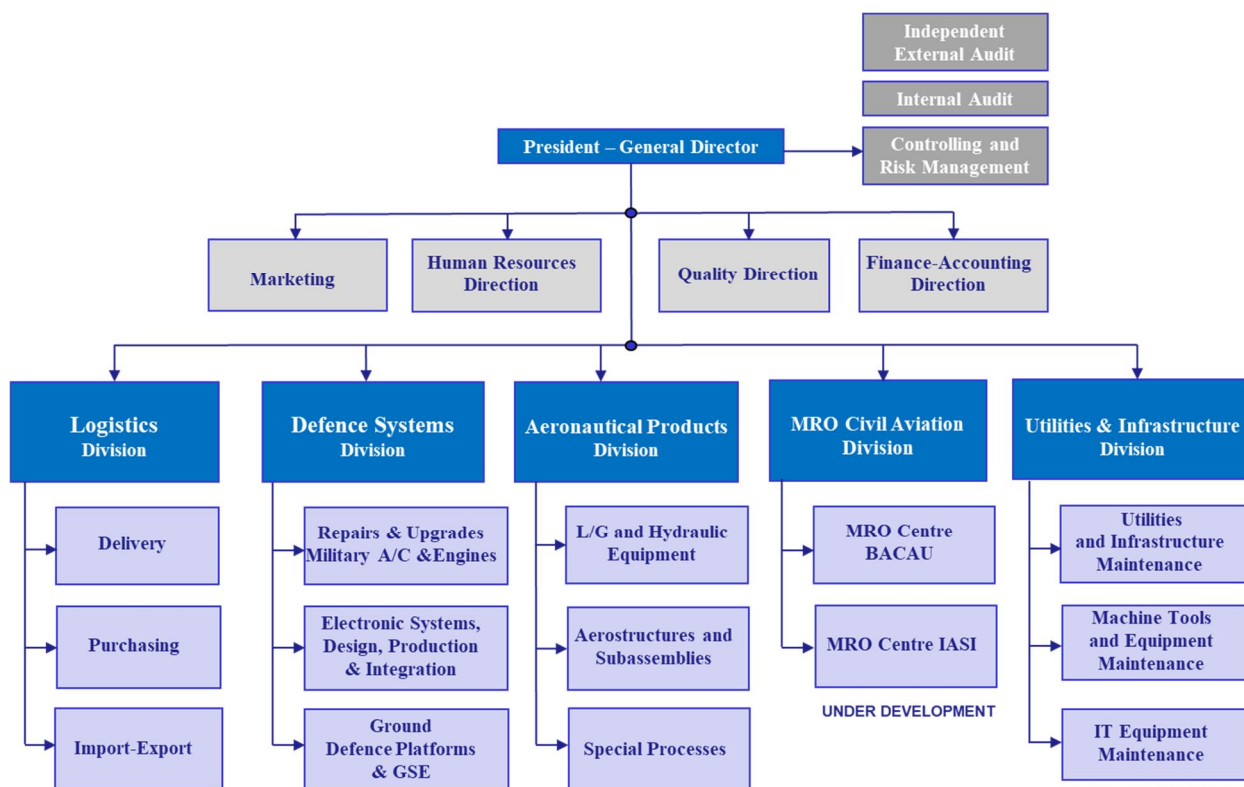
With reference to the organization and management system in Aerostar, the management structure at operational level provides the activities based on a divisional type organization, with accounts management centres in the areas of operations, auxiliary and functional activities.

The management structure at operational-executive level is completed with the other division and direction directors. There were no changes during the first half of 2020 regarding this structure.

AEROSTAR performs its object of activity using the common resources of the organization in an integrated mode. The organisational structure implemented since the start of 2018 in the company maintains the organisational principles and the use of resources in a unitary, competitive and integrated manner.

This organizational structure ensured the development of the capacities and capabilities in the field of civil aviation and defence as well as the investments required in this purpose.

The organizational structure implemented is represented as follows:



At 30.06.2020 the management structure which provides the management of the company functions subject to the division type organisation is:

Name and surname	Position
FILIP GRIGORE	General Director
DAMASCHIN DORU	Director Finance-Accounting
ROGOZ VASILE-LAURENȚIU	Quality Director
POPA DAN PAUL MĂLIN	Director HR
FILIP ALEXANDRU	Director Logistics Division
BUHAI OVIDIU	Director Defence Systems Division
IOSIPESCU ȘERBAN	Director Aeronautical Products Division
VELEȘCU IOAN-DAN	Director MRO Civil Aviation
BRANCHE CĂTĂLIN BOGDAN	Director Utilities & Infrastructure Div.

The direct participation of the executive management to the registered capital of the company is lower than 1%.

There are no litigations with the persons mentioned above.

CORPORATE GOVERNANCE

As a company listed on the Bucharest Stock Exchange, AEROSTAR S.A. follows the compliance with the principles and recommendations provided in the **Code of Corporate Governance of the Bucharest Stock Exchange** adopted on 11 September 2015.

At the same time, AEROSTAR's Corporate Governance System is in accordance with the provisions of the constitutive deed of the company and respects the dispositions of the law no. 31/1990 and 24/2017, the Regulation no. 5/2018 of the Financial Supervisory Authority.

The implementation of the corporate governance rules provides a transparent decision-making process, founded on clear rules and objectives meant to lead to the growth of the shareholders' trust in the company. AEROSTAR focuses on corporate governance, reviewing the level of compliance with the provision of the Corporate Governance Code issued by the Bucharest Stock Exchange entered in force on 4 January 2016.

In the nomination and selection of the candidates, the present Board of Directors can create a nomination committee, which will consider at least the following criteria: the involvement of the significant shareholders; solid expertise and experience in aerospace engineering, economics, legal, environment and social aspects management; moral and professional integrity; independence.

The diversity policy applied in relation to the administrative, management and supervisory bodies of the entity, e.g.: age, gender, education, professional experience, has as a priority objective to provide performance.

The corporate governance structures are:

- Shareholders – the General Meeting of Shareholders
- The Board of Directors
- The Audit Committee
- The Executive Management

The General Meeting of the Shareholders

The General Meeting of Shareholders is the main corporate body, with decision-making attributes for all the aspects specified in the Constitutive Deed.

The shareholders exercise their rights during the General Meeting of the Shareholders („GMS” or „General Meeting”).

The procedure for the organization and conduct of the general meeting of the shareholders is published on the internet page [www.aerostar.ro/ Investors Relation / Reference Documents](http://www.aerostar.ro/InvestorsRelation/ReferenceDocuments).

The shares of the company are indivisible and provide equal rights to their owners, any share entitles to one vote in the General Meeting of the Shareholders.

The General Meetings are convened by the Board of Directors with at least 30 days before the date established.

The General Meetings are ordinary and extraordinary. The Ordinary General Meeting is held at least once a year, no later than 4 months from the ending of the financial year, while the Extraordinary General Meeting is held whenever necessary.

In order to provide equal treatment and full and fair exercise of the rights of the shareholders, the company makes available all the relevant information with reference to the GMS and the resolutions adopted both in the regular communication system (national newspaper, reports to the Financial Supervisory Authority and BSE), as well as in the special section „Investors Relation” on company’s website, easily identifiable and accessible.

AEROSTAR does its best efforts, in compliance with the legal requirements in the field, to facilitate the participation of the shareholders in the General Meetings, as well as for the full exercise of their rights. The shareholders can participate and vote in the General Meeting in person, but also have the possibility to vote by proxy or by correspondence.

The General Meetings of the Shareholders are presided by the President of the Board of Directors, thus allowing an open and effective dialogue between the Directors and the shareholders.

Each company share held by a shareholder on the “record date” gives the right to receive dividends for the previous financial year, in the amount and terms set by the General Meeting of the Shareholders.

The approval competencies of the General Meetings of the Shareholders, the conditions for organizing and validations of the meetings are set out in the Constitutive Deed of the company, according to the applicable legal and regulatory framework.

The General Meetings of the Shareholders took place in full compliance with the Law 31/21990 regarding the companies, the Law 24/2018 regarding the capital market and the applicable regulations issued by FSA, as well as any applicable provision.

During the last years, the company distributed dividends to the shareholders and consolidated a dividend policy which provides satisfaction to the shareholders as well as resources for the development of the company.

In accordance with the legal provisions applicable, the claim to collect the dividends approved by the General Meeting of the Shareholders ceases to generate effects after the expiry of a period of three years calculated from the dividend’s “payment date” for each financial year.

In the first half of 2020 the company did not buy from its own shares and did not issue bonds or other securities.

No data or notifications are available with reference to exceeding the voting rights held by the shareholders in relation to attaining or exceeding the thresholds provided by law.

The Board of Directors

The election of the members of the Board of Directors is the exclusive attribute of the General Meeting of the Shareholders.

AEROSTAR's Board of Directors was elected for a period of 4 years (from 11.07.2020 until 10.07.2024) in the General Meeting of the Shareholders on 9 July 2020.

The attributions and responsibilities of the Board of Directors are provided in the Constitutive Deed and in the BoD Internal Regulations posted on the company's website www.aerostar.ro/Investors Relation.

The direct participation of the administrators to the registered capital of the company is over 1%.

The Board of Directors establishes the strategic orientation of the company and ensures its implementation in order to achieve a sustainable growth of Aerostar's value.

The Board of Directors is also responsible for ensuring compliance with all the applicable legal provisions, internal regulations, as well as for the adequacy of the risk management and control.

Aerostar's activity is governed by responsible corporate governance principles aimed to create sustainable values in all areas of its activities.

In the first half of 2020, five meetings of the Board of Directors were held.

There is no agreement, understanding or family tie in connection with the nomination of the administrators of the company. There were no resignations or dismissals among the members of the Board of Directors, or in connection with the auditor.

There is no litigation between the company and the directors regarding their activity. None of the administrators was involved in a litigation or administrative procedure with AEROSTAR during the last 5 years.

The audit committee

Based on the provisions of Corporate Governance Code in conjunction with the provisions of the Law no. 162/2017, an independent **audit committee** was established, formed from two members appointed by the General Meeting of the Shareholders on 19 April 2018.

The attributions of the independent audit committee are provided in the Internal Regulations of the audit committee, approved by the Board of Directors, completed with the provisions of the Law no. 162/2017 and the EU Regulation no. 537/2014, which is also on www.aerostar.ro/Investors Relation/Reference documents.

The audit committee meets regularly, at least four times per year, as well as exceptionally, if necessary.

The independent auditor appointed by the general meeting of shareholders is the company MAZARS Romania SRL, with headoffice in Bucharest, Pipera Business Tower, 5th floor, Dimitrie Pompeiu Boulevard no. 6E, code RO-020335, sector 2. Mazars' unique registration code is 6970597 and the registration number J40/756/1995 at the Bucharest Trade Register office.

As an audit company Mazar Romania SRL is registered in the electronic public register with the number 699/2007.

▪ AEROSTAR's Code of Business Conduct & Ethics

AEROSTAR pursues the company principles and values in an honest and fair way, with integrity, while consistently acting to comply with the highest ethical standards in business, by adopting voluntarily for many years already AEROSTAR's Code of business conduct and ethics. This code is posted on the internet page of the company www.aerostar.ro and is part of the provisions of the work contract.

To the extent in which this Code requires a higher standard than the one required by the commercial practice or by the applicable laws, rules or regulations, we adhere to these higher standards. This code is mandatory for the administrators, employees and is adopted in all the aspects related to the employees, as well as in relation to the investors, customers, suppliers, representatives of the local community, other business partners.

The Board of Directors pays special attention to respecting the corporate governance principles in order to provide:

- Achieve performance in terms of the sustainable development of the company;
- accuracy and transparency of the decision-making process of the company;
- respect of shareholders' rights and their fair treatment by protecting and implementing their prerogatives in practice;
- transparency and access to information by periodically publishing the relevant financial and operational information.

The details about the compliance with the principles and recommendations provided in the Corporate Governance Code of the Bucharest Stock Exchange are provided as integral part of this report.

▪ Management of the conflicts of interest

According to the accounting regulations, AEROSTAR is a subsidiary of IAROM S.A. Aerostar presented in transparency conditions, according to the applicable regulations, the structure of the company's shareholding and related parties.

Also, Aerostar complies on term with the requirements of law 129/2019 regarding the real beneficiaries.

In relation to the significance thresholds provided in the specific legislation on the capital markets, there is no data available on *cross board membership* or about shares held by suppliers and other interested parties in Aerostar shareholding structure.

The performance evaluation of the BoD members is made in accordance with the provisions of the Internal Regulations of the Board of Directors.

▪ Executive Management

AEROSTAR's management is a unitary system, with the delegation of the executive management of the company to the General Director and to the Financial Director.

▪ The internal Control System

The internal control system of AEROSTAR comprises the following components:

- Accounts control
- Budgetary control
- Controlling
- Internal audit

▪ Accounts Control

In AEROSTAR there is a dedicated department responsible with accounts control. This department provides the inventory of all the elements related to assets, debts and company capitals in the company records.

The inventory activity was made in compliance with the legal provisions and company regulations.

The results of the inventory processes were registered in the company's accounting records.

No significant deviations were found compared to the scriptic records.

▪ Budgetary Control

The budgetary control is performed by the budget managers.

From the budgeting perspective, the company is organized in:

- profit centers
- cost centers.

There are budgets set in the company underlying activity programs, corresponding to the functions of the company.

The budgetary control provides:

- conformity with the values provided for each budgetary indicator
- fundamenting possible corrective actions

Quarterly, both the profit centers and the cost centers report to the executive management on the budgetary execution and on the necessary, due, effective and legal character of the expenses made by the company.

▪ Controlling

Controlling was implemented and constantly developed in AEROSTAR as a higher phase of the budgetary control.

Controlling also provides compliance with the mission statement and the strategic objectives of the company.

▪ Internal Audit

The company has organized the Internal Audit with members registered with the Chamber of Financial Auditors of Romania.

AEROSTAR's internal auditing activity is organized according to law, as a distinct compartment in the organizational structure, in accordance with the organizational chart.

The internal audit is directly subordinated to the Board of Directors and is an independent and objective activity for enforcement and consultancy, designated to evaluate and improve the company's operations.

The company management pursues to ensure that the established internal control function operates efficiently, effectively and sufficiently, in order to mitigate and eliminate the identified risks.

The internal auditing activity is conducted based on the annual activity program approved by the Board of Directors.

The internal audit tasks confirmed the positive impact of the internal audit activity on the activities performed in the company.

The internal audit reports are periodically submitted for the attention of the Board of Directors meetings.

▪ With reference to the non-financial reporting process

The Board of Directors has decided the compliance with the legislation by presenting the non-financial information in the form of a "**non-financial declaration**" included in the report of the Board of Directors and published at the same time with it.

The annual non-financial declaration is supported by collecting the data for review, evaluation, control and performance data of the organization throughout the year while the data reported in the quarterly report are relevant specifically for the respective period.

The global sanitary and economic crisis following the Covid-19 pandemic did not change AEROSTAR's commitment and did not determine any impact on the company's compliance with reference to social responsibility, environment, social and manpower aspects, human rights and anti-cooreuption and bribery combat, promotion of diversity.

The regulatory framework established by Aerostar for the non-financial declaration takes into consideration the following:

- AEROSTAR's Development Strategy for the 2018-2022 period, updated annually, as well as the effective way of reporting these aspects provided in company's Internal Organizational and Functioning Regulations: "**The Context of the organization and interested parties for Aerostar**"
- The Management System in Aerostar, the Quality and Environmental Management System, the Occupational Health and Safety Management System respectively, certified in accordance with the requirements of ISO 9001, ISO 14001, AS EN 9100, AQAP 2110 and OHSAS 18001 respectively.
- The requirements of Aerostar's customers
- The orientations described in the international standard for social responsibility ISO 26000
- The regulatory framework provided by the Romanian legislation
- The orientations described in the Communication from the European Commission - "Guidelines on non-financial reporting (methodology for reporting non-financial information) - 2017/C215/01".
- The orientations described in the Global Reporting Initiative (GRI) standards, without registering and declaring compliance with these standards.

Guided by business responsibility and the spirit of the business in the aviation and defence industry, Aerostar is faithful to the best practices from this field, and in accordance with the best practice of our business partners, Aerostar has been providing information, explanations and data in this category of non-financial information for many years.

Aerostar systematically informed interested parties related to non-financial aspects, which was considered, may contribute to understanding the domain in which the company operates and the way how company's business is conducted and organized.

Contact details regarding the non-financial reporting process are the same as for the current and regular reports of the company.

Through its strategy of continuous and sustainable development, AEROSTAR has undertaken the sustainable development and social responsibility objectives for business growth, through the modernization of the production systems, of the management systems for operations and business, and the organizational development in accordance with the evolutions in the global aviation industry.

The aviation industry is a leader in the responsible approach of the aspects related to environment, social and manpower aspects, human rights, anticorruption and bribery combat. Through ICAO (International Civil Aviation Organization), the specialized agency of the United Nations, 15 of the 17 sustainable development goals, as part of the UN - 2030 Agenda for Sustainable Development, are supported and goals for 2050-2060 are planned.

ICAO, to which Romania has joined, brings together 193 state members and groups from the industry and shares the vision of achieving a sustainable growth of the global civil aviation system.

The European Green Deal, the new European growth strategy presented by the European Commission in December 2019, offers a roadmap with actions covering all economic sectors and supports through investments the established goals for 2050.

Starting with 2022, based on the sustainability criteria of the business, which will be established starting from the classification of economic activities (taxonomy), specific indicators for each activity will be regulated by law.

Aerostar fully complies with the applicable national and international standards and regulations regarding the environment, social and manpower aspects, human rights, anticorruption and bribery combat and the promotion of diversity.

The Board of Directors determines the strategic orientation of the company and ensures its implementation in order to achieve a sustainable growth of Aerostar's value.

The Board of Directors is also responsible for ensuring compliance with all applicable legal provisions, internal regulations as well as for the adequate risk management and control.

The executive management closely coordinates the activities of the departments in charge with the economic, environment and social aspects of the company, and duly informs the Board of Directors in order to ensure long term development.

Aerostar's management system provides the framework for company's functioning and growth in safety and sustainable conditions, setting the goals, allocating and planning the resources, measuring the performance and setting the improvement actions.

- The responsibilities regarding quality and environmental aspects, as well as the risk management, are allocated/delegated to the Quality & Environment Director.
- The responsibilities regarding social and manpower aspects, occupational health and safety, the fight against discrimination and the promotion of diversity are allocated/delegated to the Human Resources Director; as an area of interference, these responsibilities correlate with:
- The responsibilities regarding compliance with the legislation, respecting human rights, anticorruption and bribery combat, which are allocated/delegated to the Legal Department.
- The responsibilities regarding the sustainable use of resources and reducing energy consumption are allocated/delegated to the Utilities & Infrastructure Division Director.

- The responsibilities regarding the conformance measures in connection with avoidance of money laundering are allocated/delegated to the Finance-Accounting Director.
- The responsibilities regarding the corporate governance are allocated/delegated to the general secretariat of the company.

For each mentioned aspect, control functions are allocated and reporting is made in the quarterly management reviews.

We are deeply committed to the continuous improvement of our economic performance in relation to our goals regarding the natural resources, responsible use of water and energy, waste recycling, reducing carbon emissions and the use of dangerous chemicals, all these aspects are of fundamental importance in all our activities.

Aerostar undertakes to continue to apply sustainable development strategies and to continuously improve its work practice in this field.

Aerostar undertakes furthermore:

- To communicate its environmental policy and strategy to all interested parties and to raise awareness amongst these parties of their own responsibilities towards environment;
- To comply fully and where possible to exceed the requirements of the applicable regulations and standards;
- To reduce energy consumption and GHG emissions;
- To reduce water consumption;
- To reduce waste resulting from its activities;
- To improve and develop the entire company's sites in order to avoid negative environmental impact;
- To avoid the use of environmentally-damaging substances, materials and processes and where this is not possible, to limit such use.

The customers' satisfaction, full safety for the users of our products and services, the continuous improvement and improving our environmental performance, are our principles of guidance.

Aerostar is fundamentally committed to:

- Applying sustainable development strategies, and continuously improve its work practices in this area;
- Comply fully and where possible to exceed the requirements of applicable regulations and standards;
- Respect and promote the policies related to environmental aspects, social and manpower aspects, as well as respecting the human rights;
- Fight against discrimination and promote diversity;
- Fight corruption and bribery.

We are aware of our responsibilities towards the environment, the civil society and our employees.

We respect human rights and the highest standards of business ethics.

We take the undertaking to be honest, correct and open in all our activities both in relation to our employees, and to our investors, clients, suppliers, representatives of the local community and other business partners.

We are confident that we will be able to achieve further on our objectives and we rely for that on the support of our employees who, as always, with passion and devotion, helped us to build a successful past and a promising future.

MANAGEMENT OF RISKS AND OPPORTUNITIES

The Risk Management System

AEROSTAR is exposed to multiple risks and uncertainties which can impact on its financial performance.

In AEROSTAR, the risk and opportunities management is integrated in the management and decision-making processes and is part of the basic and support processes of the company.

The organizational framework for the risks and opportunities management is adequate in relation to the internal and external context of the company.

The risk management envisages to keep the risks under control so that the company's risk exposure is maintained at an acceptable level.

The risk management process provides the identification, analysis, assessment and administration of the risks with a view to minimize their effects down to an agreed level.

The risk management process in Aerostar involves the systematic application of the procedures and practice regarding the communication and consultancy activities, assessment, treatment, monitoring, analysis, registration and reporting of the risks.

How to treat the risks involves balancing the costs and the efforts to implement the established measures, in relation to the derived benefits, subject to the compliance with the legal, regulatory or other requirements undertaken by AEROSTAR.

The effectiveness of the risk treatment actions is shown when the expected results are obtained following the implementation of the respective measures.

The top management set the authority and responsibilities at the proper levels in the company and allocated, respectively, the necessary resources for the risk management.

The proper involvement of the interested parties in the risk management permits to take into account their knowledge and points of view.

The effectiveness of the risk and opportunity management process is under management review on a yearly basis.

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

By adopting an integrated approach for the risk management, AEROSTAR has in place a robust risk management system.

The reconfiguration of the Management System and of the Quality Management System in AEROSTAR compliant with the latest editions of the standards ISO 9001 of 2015, AQAP 2110 of 2016, AS 9100 Rev D of 2016, SR EN ISO 14001 of 2016 places a particular focus on the risk management.

The recertification obtained after the external audit for each of these certifications and authorisations confirms the preoccupation and good practice implemented in AEROSTAR for the risk management.

AEROSTAR's risk based thinking approach envisages :

- Governance improvement;
- Create a culture proactive for improvement;
- Steady quality for the products and services supplied.

The management of risks is based on their assessment and treatment.

The management of opportunities is based on determining the effects of the capitalization of the risks, the identification of the potential risks associated, respectively.

For the identification of the risks and opportunities related to quality and the environment risks, the internal context, the external context and the relevant requirements of the interested parties were taken into account.

With reference to the previous elements, in order to identify the environment risks, also considered were the activities with impact on the environment and the company's conformance obligations.

In AEROSTAR, the evaluation of risks is a permanent activity and envisages:

- To identify new risks which did not show previously;
- To reassess persisting risks.

To decide how to treat the risks and opportunities the need was taken into account to balance the costs and efforts to implement the measures- in relation to the derived benefits- subject to compliance with the legal requirements, regulatory requirements or other undertakings assumed by the company.

Also, this takes into consideration the actions to treat the risks and opportunities to be proportional with the potential impact on the conformity of the products and services.

The plans to treat the risks are regularly monitored and the effectiveness of the measures is determined in relation to the results obtained following their implementation.

Main Quality and Environment risks and their management

Aerostar's environmental management system is certified according to the standard ISO 14001 and the environmental aspects treated cover the entire lifecycle of the product, starting from the raw material acquisition, design, production, transport / delivery, use, treatment at the end of the life cycle and reintegration into nature.

In Aerostar there is a unified mode to identify, evaluate and treat the risks of failure to meet the targets, for all the processes involved, starting from purchasing to delivery. The risks and mitigation actions are monitored and reported.

The verification of the risks is also done through internal audits carried out throughout the organization. From an operational point of view, the environmental aspects are also verified by operational controls performed by company's own analysts for environmental protection.

At company level, the main risks both on the line of compliance as well as on the line of the improvement of the environmental performance are related to carbon emissions and the use of dangerous chemicals.

Actions are established for both issues: risks mitigation and performance improvement.

Determining the significant environmental aspects is a continuous process and the life cycle perspective is applied in order to reduce the use of resources and reduce the pollution or reduce the waste in those stages of the product life cycle for which Aerostar has control or influence to the largest extent.

Main risks and their management in the area of Human Resources in the context of the Covid-19 pandemic

The priority is to provide safety for our employees at the work place.

The company has in place a risk assessment plan and a plan for the prevention and protection in case of the new coronavirus.

Measures were taken to reorganize the work and alternative protection measures.

The persons responsible were designated for the implementation, follow-up, proposal of new measures and execution of the measures against the spreading of the new coronavirus infections. Such persons coordinate the implementation of the supplementary measures related to the Covid-19 transmission and verify their effectiveness.

The lists were made with the zones in the company regarding the measures implemented in order to prevent the contamination risks and to secure the continuity in the Covid-19 context.

The programme with the measures for the mode of action to protect the employees against Covid-19 is updated and completed whenever modifications arise and this is made by implementing additional measures and control measures.

Taking into consideration the relaxation of the restrictions when the emergency situation ends, in order to counteract the increased risk of Covid-19 infection, the measures already implemented will be supplemented with additional measures such as general organizational measures, work hygiene and control of the implementation, organize the work to provide the distancing, alert measures for the regulations applicable.

Further details on the specific measures taken for the labour safety and security in the context of the Covid-19 pandemic are given in the chapter **Our Employees**.

Risk Treatment

AEROSTAR's business lines, its operational results or the financial situation of the company could be affected by the materialization of the risks presented.

The risks are structured as follows:

Operational risk, Credit Risk, Liquidity Risk and Market Risk.

The **Operational risk** is monitored through the intensive management system actions applied at all levels, and this process is supported by the used applications and implemented through the digitisation programme.

The main operational risk in the context of the Covid-19 pandemic might be the loss of control on the production system, leveraged by multiple securing measures throughout the operational processes.

Associated to the **Operational risk** is the **Risk connected to reaching the turnover value**, for which the management and the mitigation of the possible consequences are based on actions specific to the phases of the P-D-C-A (strategic planning on the business lines, diversification and scheduling on divisions, component subunits and on products, regular reviews at each management level, updating the scheduling if relevant aspects are identified given the organisational context).

These actions lead to the achievement of the production under contract and maintaining a low level of the **risk related to immobilizations of inventories** and of the **business' discontinuity risk**; a defining positive factor is the fact that the company has implemented a robust production management system assisted by adequate IT systems.

There are no risks regarding the production financing as the company operations are secured from its own funds.

The company has financial provisions for the risks which may arise.

The **Legal risk** is also associated to the **Operational risk**.

The highly varied range of AEROSTAR's suppliers and customers, covering multiple countries and continents, makes the legal risk extremely important, detailed and outlined by:

- **Risks regarding the geopolitical changes/ uncertainties due to the actions of the major global actors** (changes in the US Administration position in the field of economic trade and related commercial taxes, the Brexit Agreement execution and completion between Great Britain and the European Union with potential impact on the sales volume to UK companies, a.s.o.);
- **Risks regarding the tough commercial competitiveness**, in the competition contractual landscape in aviation, including the concentration of the customers;
- **Risks regarding the changes of the laws/ regulations regarding the legislation in force** (including anti-trust, anti-corruption, embargo/ sanctions legislation, etc).

The effects of the **legal risk** are monitored and eliminated by means of a permanent information update system about the legislative changes, as well as through a system for the review, endorsement and approval of the terms and conditions included in the commercial agreements.

AEROSTAR allocates and will continue to allocate funds for investment expenses, development and other operational expenses in order to prevent and administrate the **operational risk**, including for the **Lease risk** possible to arise.

We appreciate that currently the **operational risk** level in Aerostar is low.

Furthermore, AEROSTAR pursues to have available adequate capital, by setting provisions for risks and related expenses, company funds to cover its risks of exposure, also taking into account the possible **association/ partnerships risks**.

In this context, the emphasis is on the possible syncopes in the development and execution of certain programmes possible to be abandoned by the partners due to extraordinary events or to certain collaborations where additional delayed, postponed, unmaintainable Programmes may arise (**Risk of discontinuity of the Programmes' lifecycle**).

Also, by allocating adequate resources, the monitoring is focused on the mitigation of the possible dangers specific to cyber-attacks, including to minimize the resilience of the **Risk of failure of the computer system to operate in security and safety terms**.

With a strong and proactive organisational culture in the human resources area, with adequately budgeted programmes, AEROSTAR mitigates the **Risk related to the increased mobility of the manpower**, which leads to additional costs for the identification of skills and competences and for professional adaptation.

At the same time, the activity of the employees is monitored in order to react quickly and focused to the potential events related to **Psycho- social risks** (both stress, as well as harassment and/ or accusation of violence at work) and the Possible **Health and Occupational Safety Risks**, which are largely diminished because the company has an integrated management system (Quality – Environment- Occupational Health and Security), certified according to the standards in force.

In the context of Covid-19 pandemic, the company's continuity plan takes into account and is adequate in relation to the severity of the risks of public safety situation.

By following the laws specific to work and social protection, AEROSTAR records no possible **Risks related to pension funds**.

Also, in order to minimize the **Operational risk**, AEROSTAR annually renews the liability insurance contract with first rank insurance-reinsurance companies in connection with its main business lines (aviation products manufacturing and maintenance of commercial aircraft), knowing and respecting the provisions specific to the **Insurance risk** while the possible signs of influence on the organisation's reputation, the **Risk of affecting the image** of the company, are attentively monitored and mitigated.

The **Risk of affecting the company image** is mitigated by a continuous set of fundamented and correlated actions, communicated according to the legal regulations in force, taking into account the stakeholders' requirements and based on AEROSTAR's results.

The Credit Risk

The cash flows and the status of the amounts collected and paid for each partner are permanently monitored and controlled, maintaining a close relation with them, so we appreciate that this risk is very low.

The cash and cash equivalents are placed only in first rank banking institutions, considered to have high solvency.

The **Credit risk**, including the **Country risk** where the customer carries out the activity, is managed on each business partner.

When deemed necessary, the company requires specific credit risk mitigation tools (prepaid expenses, letters of credit with bank guarantee, confirmed export letters of credit).

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

However, there is a significant exposure to the global market of the Airbus programmes, a large share of the company's products being embedded in Airbus aircraft.

The crisis generated by the Covid-19 pandemic severely affects the global aviation industry. AEROSTAR takes action by measures integrated at the level of the management system for the administration of all the impacts and mitigate the effects of the crisis in aviation on the company's results on short and mid term.

The Liquidity Risk

In this period, this risk is practically non-existent.

For the administration of the **liquidity risk**, the cash flows are monitored and reviewed weekly, monthly, quarterly and annually in order to establish the estimated level of net modifications of the cash.

Such reviews provide the basis for the financing decisions and for the capital undertakings.

For the administration of the **liquidity risk**, AEROSTAR keeps an annual cash reserve in the form of a Credit Line usable as a bank overdraft in amount of 2.500.000 USD.

During the reporting period, AEROSTAR did not use the Credit Line, all the activities being financed from company's own funds.

The Market Risk

The market risk is relevant subject to the **price risk**, **currency risk** and **interest rate risk**.

AEROSTAR is mainly exposed to the **price risk** determined by the fluctuations of the price of raw materials and materials used in the production processes, due to some extraordinary events (the Brexit Agreement with an impact on the purchasing of materials from Great Britain, implementation of certain international sanctions with consequences on the limitation of the possibility to provide the necessary parts and materials, etc.), as well as the increase of the costs of specific duties for the import/export of metallic products (steel and/ or aluminium) to and from USA.

The management of this risk is made by:

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

AEROSTAR is exposed to the **currency risk** as over **81% of the turnover in the first half of 2020** is related to USD and EUR, while a considerable amount of the operational expenses is denominated in LEI.

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

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

The trend for the main risks and uncertainties for the following period

The impact of the Covid-19 pandemic already affects important sectors of the economy and global markets. Severe reductions of the activities and orders, in headcount employment as well, take place in the the global supply chains, most affected being Asia, Europe and North America.

In a short while all the short and mid-term forecasts in the aeronautical sector were smashed off by the realities associated to Covid-19, which already take the form of a predictable recession: important aircraft manufacturing orders are cancelled or quantities reduced, production is stopped in multiple facilities around the world, quasi extinct passengers air traffic.

The already installed symptoms of the economic and financial degradation add to this situation at a rapid pace: a severe lack of liquidities, unemployment and uncertainty, the absence of a perspective on the duration of this crisis.

Aviation is one of the most affected fields of activity from the lockdown, travel restrictions and social distancing.

At end of May the IATA Board declared the five principle for industry re-start and reconnecting the world by air transport in co-operation with ICAO, WHO, the industry, governments and other parts of the society.

These principles are:

- safety and security always first, and the implementation of a science-based biosecurity regime,
- ensure a flexible response as the crisis and science evolves as to this topic- the development of a predictable and effective approach to managing future border closures or mobility restrictions
- commitment to re-establish the capacity which can meet the demands of the economic recovery as quickly as possible and ensure that affordable transport will be available in the post-pandemic period
- cutting net carbon emissions to half of 2005 levels by 2050.
- Setting global standards necessary for an effective re-start of aviation, and recognition of such standards by the governments.

Until the effective implementation of such standards and their recognition by all the participants and decision-makers, the industry of flight is strongly affected by the crisis, with impact on the economy but also on the mobility freedom.

If initially the evaluation of the crisis in aviation did not indicate a stabilization before the end of the year 2020 at the earliest while there were scenarios projecting the deferred stabilization as late as until 2021-2022, now the expectations based on updated figures do not provide a recovery of the 2019 production rates earlier of the years 2023-2025.

There are scenarios which predict a demand of new civil aircraft down to 30-50% in the following decade, differentiated on programmes and major OEMs.

On short and mid term, the re-start perspective is based on the recent profile of the aviation market but currently there is only a limited visibility on the effects of the crisis and the timing to start the economic re-launch measures.

The aircraft of the future are profiling on a market structure yet unknown, with very low carbon emissions or not at all, with other technologies and other fuels, at cross-roads with other vehicles and technologies in the field of transportation, probably with another structure of the travel needs.

Due to the long production cycles in the field of aeronautical manufacturing, the effects of the crisis occur with a significant delay.

The increased risks generated by the relaxation of the restrictions in the period to follow add to the uncertainties and risks associated to the economic and sanitary crisis.

In this area, the main risks are highly complex touching to social psychology, fragmentation of the work experiences, pursuit of the marginal objectives against the collective objectives, or against the adherence to identifiable, largely recognized targets.

The extension of this state of facts affects the organizational culture.

A detailed description of these trends is available in the chapter **AEROSTAR Business during first half-year of 2020/ Modifications of the external aspects in the organization's context.**

For the following period, AEROSTAR does not foresee other significant risks, additional to the ones managed in the current period and presented as following:

The operational risk: the risk of registration of loss or failure to make the estimated profits is carefully monitored through the accounts management system applied.

In the context of the crisis generated by the Covid-19 pandemic in the global supply chains, severe reductions of the activities and orders occurred, the most affected being the plants in Asia, North America and Europe.

As a result of the impact in the aeronautical industry AEROSTAR received notifications of termination or deferral to receive parts and subassemblies from several main customers such as GKN Aerospace, Avcorp, Safran.

As a consequence of the reductions in air transport activities notifications were received from several air operators giving up the planned maintenance of their Boeing 737 și Airbus A320 aircraft.

The legal risk: the risk of loss due to fines, penalties and sanctions chargeable to AEROSTAR in case of failure to apply or misapplication of the dispositions, legal or contractual regulations. The internal control systems provide an effective management of these risks.

The credit risk: the risk that AEROSTAR suffers a financial loss as a result of a partner's failure to meet the contractual obligations is monitored by the methods of the management by programmes.

However, there may be risks and uncertainties in addition to those presented here, which are not currently known or are considered insignificant, but which in the future may affect Aerostar's business lines.

THE SUMMARY OF THE FINANCIAL SITUATION

	Thousands lei	
Summary of Assets, Company Equity, Debts and Provisions	30 June 2020	31 December 2019
Non-Current Assets	186.875	168.023
Circulating Assets	351.656	372.879
Prepaid expenses and receivables related to deferred profit tax	16.963	15.413
Total Assets	555.494	556.315
Company Equity	374.541	363.332
Provisions	117.505	119.019
Prepaid Income	6.853	9.047
Debts	56.595	64.917
Total company equity, prepaid income, debts & provisions	555.494	556.315

	Thousands lei	
Summary of Income, Expenses, Results	30 June 2020	30 June 2019
Operating Income, of which:	189.189	187.975
– sales income	161.863	176.779
Operating Expenses	(156.897)	(156.725)
Profit/loss from Operations	32.292	31.250
Financial Income	6.827	5.117
Financial Expenses	(2.546)	(2.298)
Financial Profit/Loss	4.281	2.819
Profit before tax	36.573	34.069
Tax on Current and Deferred Profit	(4.797)	(5.596)
Net Profit of the financial period	31.776	28.473

AEROSTAR'S SUSTAINABLE DEVELOPMENT WILL CONTINUE!

We are positive but act prudently in order to secure AEROSTAR's ability to manage the existing crisis so that we are well prepared when the activities are relaunched.

Our continuity plan takes into account and is adequate in relation to the severity of the public health situation but also the severity of the global economic downturn and its impact on the aviation and defence industry.

We are ready for the conservation of our resources for a considerable timeframe, to enhance the training level of our employees and use all our resources and the support which we can access.

We rely on the success of our adaptation effort and we will continue to apply consistently, step by step, the conservation strategy for the significant capabilities to be capitalized on long term.

The continuity plan in the situation of the Covid-19 pandemic provides the continuity and business growth while maintaining the mission and the objectives set.

On short and mid term we focus to keep our capabilities active and ready for relaunching.

The management system in the company is in a continuous adaptation process.

We act firmly and responsibly to provide full safety for our employees at the work place.

On behalf of the Board of Directors,

Grigore FILIP
President & General Director