

# Valuation report - Excerpt

**IAR S.A**

## 1. SUMMARY OF THE MAIN FACTS AND CONCLUSIONS

<i>Scope of the valuation</i>	Estimation of the market value of the shares of IAR S.A, used in the procedure of withdrawal of a minority shareholder. The appointment was made on the basis of Resolution no. 5144 / 08.03.2018 File 9622 / 19.02.2018 National Trade Register Office. The withdrawal action takes place in accordance with the provisions of art. 134 of Law 31/1990, corroborated with art. 91 of Law 24/2017.  The enterprise value (definition according to SEV 200): the total amount of equity plus the amount of its interest-bearing loans / debt minus any cash / cash equivalents available to pay up such debts.
<i>Subject of the appraisal:</i>	IAR S.A. with headquarters in Braşov County, 34, Hermann Oberth Street, Fiscal Code EN 1132930, J8 / 4/1991, www.iar.ro
<i>Participation submitted to valuation</i>	Minority interest% of the equity of the valuation subject.
<i>Activity of the analysed company:</i>	The company IAR SA has as its main activity the Manufacture of aircraft and spacecraft, according to NACE code 3030.
<i>Valuation instructions</i>	According to the DRS contract no.440 / 23.03.2018
<i>Premises of the appraisal:</i>	The company was assessed on the assumption of the principle of continuity of activity.
<i>Type of the estimated value:</i>	The Fair Value as defined in the Standards on valuation of goods, edition 2018, in line with IVS (International Valuation Standards) - edition 2013, SEV 104 paragraph 50 Types of value defined in IVS - Fair value:  <b>"The fair value is the estimated price for the transfer of an asset or liability between identified, knowledgeable and resolute parties, a price that reflects the interests of those parties"</b>
<i>Date of the valuation:</i>	31.12.2017
<i>Assumptions and special assumptions</i>	The main assumptions and special assumptions that have been taken into account in the preparation of this valuation report are detailed in subchapter 1.8.
<i>Results of the valuation</i>	Income approach (DCF method) – 11.18 lei / share.  Approach through the market – 10.95 lei / share
<i>Conclusions of the valuation:</i>	<b>The fair value</b> of a share owned by the Company IAR SA, usable for the purpose of estimating the <b>"Price paid by an issuer to the shareholder exercising the right to withdraw from the company"</b> estimated in accordance with the valuation standards for the 2018

issue, is 11.18 lei / share.

The request for withdrawal is invoked based on

art. 134 of Law 31/1990 republished. (4) *The price paid by the company for the shares of the person exerting the right of withdrawal shall be determined by an independent certified expert as **the average value resulting from the application of at least two valuation methods recognized by the legislation in force at the date valuation***

respectively, based on

art. 91 of Law 24/2017. According to this law, (1) *By way of derogation from the provisions of art. 134 of the Law no. 31/1990, the price paid by an issuer to the shareholder who exerts the right to withdraw from the company is determined by an independent valuator registered with the A.S.F. and in line with the **international valuation standards**.*

The company is traded on the capital market, and in such situations that fall under the ASF regulations, no discounts for lack of control or lack of liquidity / merchantability are applied in the valuation to withdraw minority shareholders. A particular situation of this kind is also provided in the Goods Valuation Standards 2018 VALUATION GUIDE - GEV 600 Enterprise Valuation Art. 64 Particular cases: **"In the case of the valuation of shares issued by an enterprise, made to withdraw from trading, no discounts are applied for the lack of control, i.e. for the lack of liquidity / merchantability"**

**DARIAN DRS SA**  
**Adrian Popa-Bochis**  
**Managing Partner**

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## 2. TERMS OF REFERENCE TO THE VALUATION

### 2.1 Identification and competence of the valuator

The appraisal outlined in this report was made by SC DARIAN DRS SA and no significant assistance from any other person other than those identified below was received:

- the property / company was inspected by Doina Nicolau, holder of identification card ANEVAR no. 14686, being accompanied by Banea Neculai
- the other stages of the valuation process were conducted by Andrei Bucur, no. 11002, Șerban Ana-Maria with identification card ANEVAR no. 18574, Emilia Fintoiu with identification card ANEVAR 18730, Doina Nicolau with IC number 14686.
- observance of the internal quality procedures of DARIAN DRS SA, was verified by Andreea Suciachi MAA EI identification card 16425

The valuator is qualified and competent to carry out this valuation, which can be verified by interested parties in the Association's Scoreboard (<http://nou.anevar.ro/pagini/tablou-asociatiei>).

The statements made and supported in this report are true and correct; the analyses, opinions and conclusions presented are limited only by the assumptions (including the special ones) considered and they are the analyses, opinions and personal conclusions of the Valuator, being professionally unbiased. In conducting the entire valuation process that led to the reported opinion, the Valuator was not constrained or influenced in any way. The amount of payment for this report has nothing to do with the statement in relation to a certain value (valuation) or range of values that favor any stakeholder and is not affected by the occurrence of a subsequent event. The Valuator has no present or future interest in the ownership of the present valuation report and no interest or influence on the parties involved. Thus the valuator could offer an objective and impartial value.

Valuator Doina Nicolau  
Authorized Valuator EI, EPI, EBM  
ANEVAR Member

Valuator Ana-Maria Șerban  
Authorized Valuator EPI  
ANEVAR Member

Valuator Emilia Fintoiu  
Authorized Valuator EPI  
ANEVAR Member

Valuator Andrei Bucur  
Authorized Valuator EBM  
ANEVAR Member

### 2.2 Identification of the client and any other designated users

According to the contract and the data recorded in the Valuator's own database, this Appraisal Report can only be used by the IAR S.A. Company as Client and Consignee and contains appropriate information only for their needs.

The valuator shall not transmit copies of this report or parts thereof, to any third party unless it has been

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<sup>1</sup> SC DARIAN DRS SA, together with the identified valutors, carry a general name of "The Valuator" in the frame of this report.

designated in writing as a possible user and cannot be held responsible for any damage caused to the parties the right where a third party would own and use such a copy. The Valuator's responsibility is only for the designated users and cannot be extended to any third party.

### 2.3 Purpose of the valuation

This valuation report will be used solely for the purpose of complying with the contractual provisions as set out in the Service Contract no. 440 /23.03.2018.

The purpose of the valuation is to estimate the market value of the shares of IAR Company S.A. with a view to selling the shares held by the minority shareholder in the withdrawal procedure. Appointment was made on the basis of Resolution No. 5144 / 08.03.2018 File 9622 / 19.02.2018 National Trade Register Office. The withdrawal action takes place in accordance with the provisions of art. 134 of Law 31/1990, corroborated with art. 91 of Law 24/2017.

The valuation report may not be used for any purpose other than the declared one; the valuator assumes no responsibility and under no other circumstance or context in which the valuation report could be used.

### 2.4 Identifying the asset or liability under valuation

In accordance with the contract and data stored in its own database of the Valuator, the object of the valuation refers to the entire equity of the company IAR S.A., based in Brasov, 34, Hermann Oberth Street, Fiscal Code EN 1132930, J8 / 4/1991, [www.iar.ro](http://www.iar.ro).

The Company IAR SA is a joint stock company, having a share capital of 47,197,132.50 lei allocated to 18,787,853 nominative shares with a nominal value of 2.5 lei / share.

### 2.5 Value type

It is essential that the type (s) of the value be appropriate to the terms of reference and the purpose of the valuation, because the type of value may influence or dictate the selection of valuation methods, input and hypothesis, and ultimately the valuer's conclusion.

The request for withdrawal is invoked based on

- i) art. 134 of Law 31/1990 republished. (4) The price paid by the company for the shares of the person exerting the right of withdrawal shall be determined by an independent authorized expert as ***the average value resulting from the application of at least two valuation methods recognized by the law in force at date of the valuation***

respectively, based on

- ii) art. 91 of Law 24/2017. According to this law, (1) By way of derogation from the provisions of art. 134 of the Law no. 31/1990, the price paid by an issuer to the shareholder who exerts the right to withdraw from the company is determined by an independent valuator registered with the A.S.F. and in line with the ***international valuation standards***.

In this context, the type of value appropriate to the terms of reference and the purpose of the valuation is the **Fair Value**. Under valuation standards 2018 SEV 104 paragraph 50 Types of value defined in IVS - Equity:

**"The fair value is the estimated price for the transfer of an asset or liability between identified, knowledgeable and resolute parties, a price that reflects the interests of those parties"**

The fair value requires a price estimate that is fair for both specific parties identified, taking into account the advantages or disadvantages that each party will obtain from the transaction.

This value, as a rule, due to the volatility of market conditions, is limited to the date of valuation and cannot be achieved in the event of future default, when both market conditions and sales situations may differ from this point in time.

The valuation report is valid in economic, fiscal, legal and political terms as of the date of its drafting. If these conditions change, the conclusions of this report may lose their validity.

According to the valuator's confidence level in the accuracy of the results, the numerical expression of the final indication on the fair value was rounded to thousands of full euros. Additionally, the value conversion was made in LEI, at a rate of 4.6597 RON per EURO, valid as at 31.12.2017, the result being rounded. The validity of the expression of the value in the two currencies, as well as the balance between them, are valid at the time of expressing the opinion, the subsequent evolution of the value being different in the two coins.

## **2.6 Date of valuation**

The conclusion on the recommended value as a final opinion in this valuation report was determined in the context of the specific market conditions of December 2017; date of valuation is 31.12.2017; the exchange rate valid on this date is 4.6597 RON for 1 EUR. The date of the report is 25.04.2018.

## **2.7 Documentation required to carry out the valuation**

Upon the valuation process, which is synonymous with the preliminary discussions with the company's management, the Valuator had access to the company's financial statements and other elements that could influence the valuation process.

## **2.8 Nature and source of the information used**

### **A. Information received from the client**

- Secured information
  - the company's financial statements for the period from 31.12.2015 to 31.12.2017
  - an analytical balance as of 31.12.2017
  - centralized information within the questionnaire on:
    - the company's operational activity
    - the commercial activity of the company
    - the legal status of the company and its patrimony
    - the patrimonial situation
    - assets in exploitation / out of exploitation

The responsibility for such information lies entirely with the Customer.

- Information on which the value conclusion is based:
  - Predicted revenue and expense items for the company under review, based on the data provided by the company's management.
  - Any relevant data whose consideration may influence the outcome of the applied methods  
This information was taken by the Valuator as a result of comparison with those resulting from market research; for significant differences, adjustments were applied.

### **B. Information collected by the Valuator**

- Data on the evolution of players in the aircraft manufacturers sector and adjacent branches; in conjunction with the evolution of the market as a whole.
- Market players data (EBITDA margins, business figures, working capital, etc.)

The Valuator used only the information and documents he/she had at his/her disposal to estimate the value, possibly with the existence of other information or documents that the Valuator was unaware of.

The Valuator has obtained information, opinions, estimates from sources considered to be correct and reliable, but does not assume any responsibility if they prove to be incorrect;

## **2.9 Assumptions and special assumptions**

The value stated in the valuation report is estimated under the conditions of the following assumptions, and especially if the situations referred to below do not result in any restrictions other than those expressly stated in the report and the impact of which is expressly written that it was taken into account. If it is shown that at least one of the assumptions as per which the report is made and which are detailed below is not valid, the estimated value becomes invalidated.

The main assumptions that have been taken into account in the preparation of this valuation report are as follows:

### 1. Assumptions

- ✓ The legal aspects are based solely on the information and documents provided by the representatives of the IAR S.A Company through the specialized personnel regarding the company's patrimonial-economic situation and were presented without additional inquiries or investigations. Ownership of shares is considered valid and marketable;
- ✓ The information provided by third parties is believed to be reliable but is not provided with guarantees of accuracy;
- ✓ Sites are assumed to comply with all zoning and use regulations and restrictions, unless a non-compliance has been identified and taken into account in this report;
- ✓ The Valuator did not carry out an inspection of the tangible fixed assets in operation or those proposed for disposal. We did not perform a building analysis, nor did we inspect those parts that are covered, unexpanded or inaccessible, which are considered to be in good technical condition. We cannot express our opinion on the technical condition of uninspected parts and this report should not be understood as validating the integrity of the structure or system of buildings;
- ✓ From the information held by the valuator, there is no indication of the existence of natural or chemical contamination at the time of the valuation that affects the value of the analyzed properties or neighboring properties. The valuator is not aware of any inspections or reports that indicate the presence of contaminants or hazardous materials. Values are estimated on the assumption that there is no such thing. If it is subsequently established that there is a contamination on any property or any other neighboring land or that any means which could contaminate it are put into operation, it could lead to a decrease in the reported value;
- ✓ We did not conduct any investigation to establish the existence of contaminants. It is assumed that there are no hidden or inappropriate conditions of real estate and machinery, soil, or structure to influence the value. The valuator assumes no responsibility for such conditions or for obtaining the necessary studies to discover them;
- ✓ The current situation of the company valued and the purpose of this valuation were the basis for selecting the valuation methods for estimating the fair value;
- ✓ The analysis of the financial statements of the company subject to valuation under this report does not imply that we have conducted an audit, limited review or due diligence for this company. We assume no responsibility for the completeness, accuracy or exactness of any financial information received from or on behalf of the company;
- ✓ It has been assumed that the current legislation will be maintained and no changes that may occur in the next period are taken into account;
- ✓ The Valuator used only the information he/she had at his/her disposal to estimate the value, and there may be other information that the Valuator was unaware of.
- ✓ Entry into possession of a copy of this report does not imply the right to publish it;
- ✓ The valuator, by the nature of his / her work, is not obliged to continue to provide advice or to testify



- in court regarding the company in question;
- ✓ Neither this report nor its parts (especially conclusions about the values, the identity of the Valuator) should be published or advertised without the prior agreement of the parties mentioned in the appendix;
  - ✓ Any estimated value in the report applies to the entire company, and any division or distribution of fractional interest value will invalidate the estimated value, unless such disclosure was provided in the report.
  - ✓ The valuation report is valid in economic, fiscal, legal and political terms from the date of its drafting. If these conditions change, the conclusions of this report may lose their validity.
  - ✓ This valuation report does not represent the inventory of tangible assets, the valuation was carried out solely on the basis of the list and information received from the client / owner's representatives.
  - ✓ The Valuer used only the information he had at his disposal to estimate the value, possibly with the existence of other information that the Valuer was unaware of. Any inconsistencies that have arisen for this reason or the non-fulfillment of the hypotheses taken into account require a review of the valuation and, if necessary, the quantitative valuation of the differences.

The present valuation process that is the subject of this synthesis was drafted on the basis of the following special assumptions:

- ✓ Investments in progress, remaining unfinished as a result of the NB3 development program of the company in Brasov, in partnership with the former USSR, of the helicopter Ka 126 were kept in Accountancy Value and registered as assets outside exploitation. Due to the lack of typo-dimensional information and recoverable materials, they were retained in the Book Value. If the information is available to the Valuator for ongoing investments, their value will need to be reconsidered
- ✓ The value of the holdings held in other companies was taken to book value; we did not have other information and financial statements at 31.12.2017
- ✓ Unmanaged stocks over the past 5 years and hard to sell were considered net zero recoverable value. In case the valuator provides typo-dimensional information and type of material, their value will have to be reconsidered

## **2.10 Restrictions on use, distribution or publication**

The valuation report, in whole or in part, or any other reference to it, may not be published or included in a document intended for publicity without the prior written consent of the Valuer specifying the form and context in which it will appear. The publication, in part or in full, and its use by persons other than those referred to above, entails the termination of contractual obligations. Also, the entry into the possession of a third party of a copy of this report does not imply the right to publish it.

## **2.11 Declaration of conformity of EVS assessment**

General Standards:

- The definitions and concepts on which this assessment is based are those in EVS 100 - General Framework (IVS - General Framework)
- The valuation mission was defined in accordance with the provisions of the SEV 101 - Terms of Reference (IVS 101) and conducted in accordance with the provisions of EVS 102 - Implementation (IVS 102)

- This valuation is prepared in accordance with the requirements of EVS 103 - Reporting (IVS 103).
- SEV 104- Types of Value
- EVS 400- Verification of the valuation

Asset Standards:

- The subject of the valuation being a company (company IAR SA), the valuation process also took into account the provisions of EVS 230 - Real estate rights (IVS 230), GEV 630 - Real estate valuation, SEV 200 - Enterprises and participations in enterprises (IVS 200), GEV 600 - Enterprise Valuation, SEV 220 - Machinery, Equipment and Installations (IVS 220), GEV 620 - Valuation of movable goods of machines, equipment, installations and stock.

According to the contractual provisions and valuation instructions, no deviation from any of these standards was required.

### **2.12 Description of the report**

The valuation report is a narrative, detailed, compiled in accordance with EVS 103 and includes, in addition to the terms of reference, a description of all relevant data, facts, analyses, calculations and judgments on which the opinion on the reported value was based, no exclusion or deviation from that Standard.

## 2. PRESENTATION OF DATA - DIAGNOSTIC ANALYSIS

Detailed information can be found in the valuation report. This is the summary.

### 2.13 General presentation

Name of the company: IAR S.A.

Headquarters: Ghimbav City, 34, Hermann Oberth Street, county: Braşov

Website: [www.iar.ro](http://www.iar.ro)

Office of the Trade Registry no. J8 / 4/1991

Sole registration code RO1132930

#### Other objects of activity :

The main activity carried out by the company is that provided for in class 3030 - "Manufacture of aircraft and spacecraft", belonging to group 303 - "Manufacture of aircraft and spacecraft", division 30 "Manufacture of other transport equipment"

**The object of activity (both main and secondary)**, stipulated by the Constitutive Act of IAR SA, consists of activities defined and codified in accordance with the Classification of Activities in the National Economy - NACE, as updated by the Order no. 337 / 20.04.2007, issued by the President of the National Institute of Statistics.

Short presentation:

- IAR S.A. was founded on January 28, 1991, through the restructuring of the Ghimbav Aeronautical Construction Company, the legal foundation being H.G. 1200/1990.
- There is no question of significant mergers or reorganisations during the financial year 2017
- In 2017, IAR S.A. has neither alienated assets nor acquired valuable assets in relation to its share capital.
- The economic and financial results recorded by the company at the end of 2017 show that IAR S.A. has made profit both from its operating activity and from the whole of its activity, and the company continues to be a profitable company. (data presented according to the Auditors' Report 2017)

### 2.14 Organization type

IAR S.A is organized as a joint stock company. At the date of the valuation the subscribed and paid-up share capital is 47,197,132.50 lei (divided into 18,787,853 shares with a nominal value of **2.5 lei / share**). Data taken from the constitutive act and published on the bvb.ro site, IARV symbol.

### 2.15 Owners

The share capital, at the date of the valuation, according to the information provided by the client in the valuation questionnaire, is held by the following shareholders:

Shareholder	Number of shares owned	Share in the share capital
The Romanian State		
through the Ministry of Economy	12,250,488	64.89%
Other shareholders	6,628,365	35.11%

Based on the public information, presented on the Bucharest Stock Exchange website, the following evolution of the trading of the shares of IAR Company S.A. during the year 2017 can be found:

Total no. of transactions	Total no. of transacted shares	Total value of transacted shares (lei)	Price variation (%)
7,695	2,354,955	20,062,723.68	+25%

It can be seen that the market value of shares of IAR Company S.A. resulting from the transactions carried out during 2017, found a positive evolution, reaching a minimum of 6.50 lei / share and a maximum of 10.90 lei / share. Data taken from the Annual Report 2017.

## **2.16 Legal diagnosis**

### **2.16.1 Organization of exploitation activity**

IAR S.A. Brasov is a traditional aeronautical company, founded on August 6, 1925 as joint stock company, it was the "first Romanian airplane factory", bearing the name "Romanian Aeronautic Industry-IAR Braşov".

As a result of the successive development of this plant, by licensing and owning several types of aircraft, it becomes, in 1939, an aviation concern by manufacturing structures, engines, avionics, armament installations.

Among the famous achievements of that period are Morane-Saulnier, Savoia-Marchetti, Messerschmidt, PZL, IAR 47, IAR 80, IAR 81, and others.

The tradition of the IAR is reborn in 1968, when ICA GHIMBAV, the current IAR SA, was set up for the purpose of helicopter, gliders, motorgliders and airplane manufacturing, which mainly co-operated with Western companies such as Aerospatiale and Turbomeca in France, Britten Norman in the UK.

In 1970, IAR S.A. Brasov becomes the only helicopter manufacturer in Romania, both military and civilian. Since 1978, it has remained the world's only manufacturer of the Puma helicopter military version, whose license agreement was signed in 1974.

IAR S.A. Brasov has produced and delivered more than 360 Puma and Alouette III helicopters under the Aerospatiale license (today integrated with Airbus Helicopters former Eurocopter SAS), 830 gliders and motorgliders, as well as 136 light aircraft in their own design.

Aviation products made since the establishment of IAR S.A. are: gliders and motorgliders (IS-23A, 7/12, 28, 29B, 29D, 24, 29E, 28B, 28B2, 29D2, 30, 32, 33, 28M2GR, 28M2G, 822, 823, 825, 827, 828, 831, 35, 46), helicopters (IAR316B ALOUETTE III, IAR330 PUMA, IAR317 AIRFOX, KA126, IAR330 PUMA upgraded according to Socat / SM / Naval / NATO / VIP programs).

Currently, IAR SA is a company specialized in maintenance, repair, overhaul (MRO), upgrade for 330 Puma helicopters and 316B Alouette III, the main activity as per NACE Code is 3030-Manufacture of aircraft and spacecraft as well as class 3316 of the NACE Code - "Repair and maintenance of aircraft and spacecraft".

IAR S.A. has the experience, certifications and full capacity to develop, manufacture and maintain aeronautical products.

IAR S.A. Brasov develops upgrading programs, performs periodic inspections, overhauls and ground and flight tests; provides multiple after sales services: maintenance, spare parts and equipment replacement, technical assistance; trains pilots and technicians; "Follow-on-Support" program for the Puma and Alouette III helicopters.

Also, IAR S.A. is involved in the manufacture of assemblies, subassemblies and parts for various manufacturers in the world aeronautical industry (aircraft structures, electrical wiring, etc.).

The main beneficiaries of the Puma and Alouette III helicopters manufactured / repaired in Brasov are: the Ministry of National Defense (Air Force and Naval Forces in Romania), the Romanian Intelligence Service, the Ministry of Interior, Eurocopter (Airbus Helicopters), Denel - South African Republic, the Air Force of the UAE, Pakistan Armed Forces and Forces, Sudan Air Force (1982-1984), Ivory Coast Defense Ministry, Lebanon Air Force, Oman Air Force, etc.

The Quality System implemented from the development phase to the Customer Support is certified in

accordance with SR EN ISO 9001: 2008 and SR EN ISO 9100: 2010 standards. IAR SA is an EASA Part 145 Authorized Maintenance Center and for Manufacturing under EASA Part 21. IAR S.A., a company whose shares are traded on the BVB as of 14.07.2015 (symbol "IARV", ISIN "ROIARVACNOR1"), is one of the pillars of the aviation industry in Romania.

## **2.17 Financial diagnosis**

The economic and financial analysis of the company IAR S.A. represents a methodological study of the situation and the evolution of the commercial company, regarding the financial structure and the profitability, starting from the balance sheet, the results account, the annexes thereto, corresponding to the period 2015-2017, made available by the management of the company. When making the analysis, we considered only the accounting records of the **IAR S.A.** In this context, this analysis aims to capture the main aspects of **IAR SA's** business from an economical and financial point of view, to interpret their evolution and to observe the trends that future evolution can fit. The analysis responds to general demands claimed by the context in which it is developed.

An important tool of the financial analysis is the analysis of the indicators that represent the ratio between two positions or groups either from the balance sheet or from the profit and loss account or one of the balance sheet and the other from the profit and loss account.

The financial analysis was conducted on a comparative basis, analyzing the subject with the average market levels. The comparative group was selected according to relevance and used several data sources: Infionals, Amadeus databases. The purpose of this comparative financial analysis was to highlight the differences in performance between the company and other similar companies operating on that market. It was made clear that the legislative environment and the regulation of the construction and repair of aircraft might differ from one country to another, with significant impact on the performance of the companies analyzed.

## **2.18 SWOT ANALYSIS**

The purpose of the SWOT analysis is to highlight the conclusions, analyses of the internal environment resulting from Strengths and Weaknesses, and the conclusions of the external environment analysis concretized in Opportunities and Threats.

The strengths of a firm are those advantages that it has in comparison to other companies in the branch or other companies in the locality. Weaknesses represent those unsatisfactory parts of the company's activity compared to similar companies in the branch or companies in the region.

The opportunities the external environment presents for a particular firm are those environmental data that can contribute to the company's business development and can have positive influences on it. The risks or hazards of the external environment are those aspects of the company's evolving environment that can adversely affect its business.

## **ANALYSIS OF THE INTERNAL ENVIRONMENT**

### **STRENGTHS:**

- + The age and the recognition of the company on the specific market;
  - + Constant customer portfolio (both external and internal) based on a long-term relationship;
  - + Very good liquidity and solvency rates;
  - + Does not have a high degree of indebtedness to financial institutions;
  - + Major investments in location and asset modernization and rehabilitation
- 
- + The company has implemented the Quality Management System (SMQ). The quality management

system implemented in IAR S.A. is certified by AEROQ Bucharest both in accordance with SR EN 9100 (Certificate No. 004A - originally issued in 2008 and renewed annually) and in compliance with the SR EN 9001 standard (Certificate No. 007 originally issued in 1997 and renewed annually).

- + IAR S.A. is authorized by the Romanian Civil Aeronautical Authority, both as an EASA Part 21G production organization (Certificate RO.21G.0006/2009, annually renewed), and as an EASA Part 145 maintenance organization (Certificate RO.145.009/2009, annually renewed)
- + The Company is certified by Airbus Helicopters Romania SA as a supplier for Military or maintenance structure for Puma and Alouette III helicopters, equipment maintenance for Puma helicopters, manufacturing parts for Puma and Alouette III helicopters, testing laboratory, metrology, and for manufacturing spare parts and subassemblies for Airbus Helicopters, former Eurocopter SA (Certified initially in 2010 and yearly renewed).
- + IAR SA is certified by the military body within the Ministry of National Defense of Romania-OMCAS in accordance with the requirements of NATO-AQAP2110 for design and production of aircraft systems and equipment aviation, upgrade of aeronautical products, parts for aircraft checks, testing, maintenance and repair of aeronautical products (Certificate no. 11 initially issued in 2012, renewed on the 03.06.2016 valid through 02.06.2018).
- + Since 2004, the company has made a profit
- + The technical condition of the production lines and equipment is generally good, which allows the execution of the activity according to the standards in the field
- + Stability of qualified staff
- + Experienced staff of over 20 years in helicopter systems and installations and integrating new systems into the helicopter base configuration.

#### WEAKNESSES:

- The range of products it offers is limited
- Active in relatively specialized markets
- The need for massive investments in relation to the turnover achieved
- Dependency of the company on a single customer or group of customers. Internal beneficiaries of IAR Company S.A. products and services are components of the National System of Defense, Public Order and National Security (M.O.D., MIA and RIS). In order to fulfill the conditions for the operability of the helicopter fleets held by these internal customers, it is necessary to carry out, with a certain periodicity a series of works and services for maintenance / repairs / overhauls / upgrade, so the budgetary allocations for these institutions have a strong impact on IAR SA

#### **EXTERNAL ENVIRONMENTAL ANALYSIS**

##### OPPORTUNITIES taken from the auditors' report in 2017

##### **- internal market**

1. The manufacturing of spare parts (for SA316 B Alouette III and SA330 Puma products) and aircraft components could significantly increase in the coming years through Airbus Helicopter Romania S.A. (formerly Eurocopter Romania S.A.) for the international distribution chain of Airbus Helicopter.

2. Involvement of IAR SA in the future helicopter acquisition programs of the institutions within the National Defense System

##### a) multi-role helicopter program, medium-heavy class

The involvement of IAR SA in the multi-role helicopter program will be made in accordance with the provisions of the General Agreement no. EBOO.6.17.026 / ERB signed by Airbus Helicopters and IAR SA on 13.04.2017 and having as object the industrial and commercial cooperation regarding the execution H215M Helicopter Customization Works, Manufacturing of Subassemblies and

Maintenance works (MRO) throughout the lifecycle of this helicopter.

IAR SA will be the first contractor in relationship with the MOD to purchase this type of helicopter, and will be authorized by Airbus Helicopters as the H215M Helicopter Customization Center.

b) attack helicopter program

Considering that the Government of Romania has submitted to the American Government a request for offer and availability for helicopters produced by Bell Helicopters TEXTRON and for the implementation of the Memorandum of Understanding signed on 20.05.2016 by Bell Helicopters TEXTRON and IAR SA, in October 2017, the parties concluded a "Shared Transition Study Agreement", the general purpose of which is to make a joint assessment of the possibility of assembling, delivery and logistic support for the AH1Z VIPER attack helicopters.

IAR SA could be involved in logistic support, maintenance, repairs, capital repairs, schooling and even final assembly of helicopters that would be purchased by the Romanian Government.

**- the external market**

- a) Support products services for the helicopter fleets in Pakistan, the United Arab Emirates, Lebanon and Oman will continue in the coming years on the basis of follow-on support contracts signed or undergoing signing by IAR S.A. with the beneficiaries in these countries.
- b) IAR S.A. is considering the takeover of offset obligations related to public procurement contracts concluded by the Romanian governmental bodies with foreign companies.
- c) Conclusion of IAR SA's offers to complete the equipping of the 330 Puma SM helicopters owned by the Pakistani Defense Ministry and the Lebanese Defense Ministry can significantly influence the volume of exports on both relations.

**RISKS:**

Below we present associated risks and data about the subject company:

**Currency risk:** The Company is exposed to exchange rate fluctuations for disposals, receivables and payables denominated in other currencies, mainly USD and Euro.

The company also has transactions in other currencies than the functional currency (Ron), ie in euros and dollars. The company, depending on its availability, at a given moment in different currencies, buys the currencies it needs to make payments for active completion of imports from different vendors. The Company did not use derivative financial instruments to protect against fluctuations in the exchange rate.

**Interest rate risk:** The Company's operating cash flows are not affected by changes in the interest rate on the banking market, as the company currently has fixed rate negotiated contracts for the issued bank guarantees.

IAR S.A. exposure to the risk of changes in the interest rate on its bank deposits is insignificant, mainly due to the low interest rates on bank deposits in lei.

**Liquidity risk:** The management of the Company has provided and provides prudent liquidity risk management, continuously pursuing sufficient cash maintenance so that it can honor on time all due payments.

**Legislative environment:** Policies and policy instability, products and services that the company exploits both internally and externally are primarily intended for state budget users that are part of the national security and security systems. That is why the volume of contracts depends on budget allocations.

## 4. THE COMPANY VALUATION

The approaches recommended by the 2017 Estimation of Goods Standards, which are in line with IVS (International Valuation Standards) 2013, for the valuation of an enterprise are:

- ✓ Income-based approach
- ✓ Market-based approach
- ✓ Asset-based approach. It is only recommended for start-ups or for companies that do not observe the activity continuation principle.

### 4.1 INCOME-BASED APPROACH

It is assumed that the company's value is estimated on the basis of future free cash flow that the current shareholders could expect in terms of business continuity. The method is based on a concept of summing up the current earnings related to both the explicit and the non-explicit predictions, which are obtained by forecasting the financial results taking into account all the information available to the management and the majority shareholder of the company at the valuation date. This approach will also recognize the value of the contribution of distinct non-identifiable intangible assets (brand, goodwill, or badwill) that cannot be taken into account in the asset-based approach.

The company's main activity has been and still generates profit; the revenue and expenditure budget focuses on management's expectations regarding the entity's future development in relation to current economic conditions. The income-based approach was applied based on the revenue and expenditure budget prepared by the company's management and verified by the valuator with market data related to the EBITDA operational margin, respectively the expected evolution of the field.

The two methods used in this approach are:

- The net cash flow method updated
- The income capitalization method.

The updated net cash flow method was applied to capture both the impact of the evolution of the specific market and the alignment of the company's business with a trend of stability in terms of business turnover.

The discounted cash flow (DCF) assessment method is based on the ability of the business to generate positive cash flows that are ultimately available to investors.

The main steps of the method are:

- ✓ Substantiation of revenue and expenditure forecasts
- ✓ Estimation of the discount rate
- ✓ Estimation of the financial flows available to investors for an explicit period
- ✓ Estimation of the residual value
- ✓ Update of the financial flows and of the residual value
- ✓ Adding non-operating assets (off exploitation)
- ✓ Obtaining the value of shareholders' equity after deducting the amount of net financial liabilities
- ✓ Dividing the share capital value into the number of shares resulting in the market value of a share.

#### **Substantiation of revenue and expenditure forecasts**

IAR S.A. forecasts were made based on the components of the Income and Expense Budget drawn up by the



company's management. Annexed to the valuation report itself. Account was taken of the current situation of the company, the history of the activity and the information known at the time of the valuation of the future evolution of the specific market. The predicted statements included: turnover, the main categories of operational expenditure and the possible profit.

The premises of the method are:

- The 3-year forecast according to the budget approved and received from the customer. It has been assumed that after this period, the evolution of the business would fit into a quasi-maintenance trend. In addition, we consider that this is the time-span for which the degree of accuracy of forecasts can remain within acceptable limits as to the future development of the enterprise.
- The projected budget and financial flows were prepared based on the estimated budget provided by IAR SA, based on signed or negotiated contracts, and consistent with the historical evolution and production capacities installed, as well as with the specific market trends as they are presented at the valuation date
- As the income and expenditure budget is denominated in nominal terms, all indicators were expressed in nominal value - lei, taking into account the inflation rate published by the Macroeconomic Forecasting Commission
- The results of this approach are valid subject to specific non-fulfillment of some of the elements taken into account, for reasons unlikely to be taken into account at the time of the valuation.

Financial flows available to investors were estimated from:

- Income and Expense Budget estimated by the company's management.
- Investment activity.
- Variation in the working capital.

Here we present the estimation of financial flows available to investors, which was used in the income-based approach:

(lei)	DCF Historical values						
	2015	2016	2017	An 1	An 2	An 3	VT
Total income (nominal currency)	121,617,755	159,739,443	203,346,051	250,000,000	254,750,000	203,800,000	208,895,000
% nominal increase		31.3%	27.3%	22.9%	1.9%	-20.0%	2.5%
Operational Costs	111,267,975	124,495,672	160,378,220	208,353,000	218,751,312	174,901,312	173,433,800
% CA	-91.5%	-77.9%	-78.9%	-83.3%	-85.9%	-85.8%	-83.0%
<b>EBITDA</b>	<b>10,349,780</b>	<b>35,243,771</b>	<b>42,967,831</b>	<b>41,647,000</b>	<b>35,998,688</b>	<b>28,898,688</b>	<b>35,461,200</b>
% total incomes	8.5%	22.1%	21.1%	16.7%	14.1%	14.2%	17.0%
Minus: Amortiz. And Provision (tangible and intangible assets)	1,328,454	3,915,663	4,416,362	4,600,000	5,100,000	5,700,000	5,842,500
Minus: current assets value adjustment	0	0	0	0	0	0	0
Minus: Adjustments on provisions for risks and expenses	5,124,250	15,574,752	8,198,688	15,509,337	8,198,688	8,198,688	14,100,413
% Total income	5.3%	12.2%	6.2%	6.2%	6.2%	6.2%	6.8%
<b>EBIT</b>	<b>3,897,076</b>	<b>15,753,356</b>	<b>30,352,781</b>	<b>21,537,663</b>	<b>22,700,000</b>	<b>15,000,000</b>	<b>15,518,288</b>
Minus: Tax on profit	5,473,574	6,082,473	6,065,035	3,446,026	3,632,000	2,400,000	2,482,926
Ebit / CA %	3%	10%	15%	9%	9%	7%	7%
<b>Net operational profit (EBIT – Tax on profit)</b>	<b>-1,576,498</b>	<b>9,670,883</b>	<b>24,287,746</b>	<b>18,091,637</b>	<b>19,068,000</b>	<b>12,600,000</b>	<b>13,035,362</b>
Plus: Amortization and depreciation	1,328,454	3,915,663	4,416,362	4,600,000	5,100,000	5,700,000	5,842,500
Minus: investments in assets		3,000,000	6,200,000	10,000,000	12,000,000	14,000,000	5,842,500
Capx / dep		1.07%	3.05%	4%	5%	7%	4%
Minus: variation of net work capital		57%	140%	217%	235%	246%	100%
<b>Cash flows available to the investors</b>				<b>10,523,692</b>	<b>1,875,783</b>	<b>-20,120,237</b>	<b>2,012,024</b>
				<b>2,167,945</b>	<b>10,292,217</b>	<b>24,420,237</b>	<b>11,023,338</b>

## Income and Expenditure Budget

The income and expenditure budget for the period 2018 - 2020 was estimated starting from managerial

expectations regarding the future evolution of the activity of the analyzed entity. The net turnover of the company is generated by the products / services presented in Chapter 3.8.2 among which we briefly mention that at the end of 2017 contracts were signed with the Air Force Staff, being finalized by the end of 2018 at the value of 68,832.98 thousand lei.

Also in 2017, Framework Agreements with the National Security System (MIA and RIS) were concluded for a period of 4 years, aiming at the upgrade of the IAR 330 Puma helicopters as well as the repair, maintenance and supply of spare parts and mechanical assemblies required to maintain IAR 330 Puma and IAR 316B Alouette helicopters.

The forecasts for the period 2018 - 2020 were analyzed by the valuator based on a series of market indicators such as EBITDA margin, the expected evolution of the sector, etc. As a result of this verification we can conclude the following:

- Income is generally driven by a steady growth trend of approx. 22-27%, in line with the expected evolution of the sector.
- The turnover was forecast taking into account the earliest contracts as of the valuation date. According to the data received from the management of the company: for the year 2019, the estimation was based on reliable revenues amounting to 60% of the total IEB, and for 2020, the estimate is based on revenues from contracts under negotiation.
- The EBITDA operating margin in the historical period, respectively 2015-2017, is 17.5%, above the market average in some financial years, therefore, the average operational margin on the market (reasonable EER efficiency) was used perpetually, to eliminate temporary concessions, temporarily advantageous contracts.
- At the specific market level, the EBITDA margin was 13.6-17.4%. Following data filtering and selection of companies with a high level of comparability, 17.4% was used, see chapter 3.11 for the selection criteria

Profitability indicators	2015	2016	2017	MARKET Infinancials	MARKET Amadeus Romania, CAEN 3030	MARKET Amadeus UE, CAEN 3030, CA intre 100.000-200.000 th ron	TextronINC. Results as at 2017	Damodaran, Air Transport
EBITDA / CA	8%	23%	22%	14.0%	14.0%	17.4%	11.6%	13.6%

## Investment activity

CAPEX-type investments were made available by the customer, according to the budget approved by the company's management. The CAPEX level ensures that assets are kept in the current state and yield to support the expected Turnover. In the foreseeable forecast period, the CAPEX budget is 3-7% of CA slightly above the market level in 2020.

lei	2015	2016	2017	An 1	An 2	An 3
Total income (nominal currency)	121,617,755	159,739,443	203,346,051	254,750,000	250,000,000	203,800,000
Investments and assets	3,000,000		6,200,000	10,000,000	12,000,000	14,000,000
Capex/CA %	1.07%		3.05%	4%	5%	7%

In 2015-2016, due to the complexity of some objectives, the investment plan was carried out over two years. See details on investment in headline 3.8.7 Investment dynamics.

Capex% according to Professor Damodaran / Aerospace & Defense is 5.4%.

## Amortization and depreciation

The budget received in the forecasting period is in the synthetic form, therefore data related to amortization

and provisions were required. They were presented in details by the Company, as follows:

6811 Operating Expenses on Depreciation of Fixed Assets 4,600 thousand ROL / Year 2018

6812 Exploitation expenses related to operating expenses 19,097 thousand Lei / year 2018

At the same time, we analyzed the relation between amortization and capex in the specific market, based on Prof. Damodaran's information:

Capex/Dep	
Damodaran Aerospace/Defense	117.39%
Damodaran Air transport	126.53%

The amortization flow takes into account fixed asset receptions from the previous period. Perpetually, we worked with 4% of our turnover.

A peculiarity of the field of activity in which the company operates is represented by the setting-up of provisions. According to the Financial Diagnosis chapter, these are for:

- According to Article 26 "Provisions / Adjustments for Impairment and Reserves", airline companies in Romania have the obligation to make provisions for covering the maintenance and repair costs of the aircraft fleet and its related components, according to the aircraft maintenance programs, duly approved by the Romanian Civil Aeronautical Authority.
- provision for goodwill guarantees granted to internal customers under the contracts concluded therewith,
- provision for employee participation to profit,
- provision for depreciation of raw material stocks,
- provision for retirement bonuses,
- provision for hedging, guarantees of good execution of the concluded contracts
- provision for finished goods stocks,

Therefore, the earnings achieved also have an impact on this balance sheet item. We analyzed the evolution of the balance sheet item Adjustments on provisions in historical and forecasted terms.

In the estimation of Cash Flows at the disposal of investors, in the provisions chapter, the net flows considered as the difference between the provisioned provisions and the provisions reversed during the period, according to the situation recorded in December 2017, were taken over. Perpetually, we kept the same level / ratio respectively 6 , 8% equal to the historical average.

### **Variation in the working capital**

The share of working capital, unaffected by the intragroup activity (which in some cases represents sources of financing) and other debts such as payable dividends, is above the median found on the market (historical median 39.5% for the analyzed company versus the 37% in the case of other similar companies in Romania). In what follows, we summarize the estimated working capital (WK) for each year of forecast:

Working Capital (lei)	2015	2016	2017	medie	An 1	An 2	An 3	VT
Receivables	18,109,861	35,270,452	93,019,623					
Stocks	36,624,387	48,459,209	115,650,817					
Expenses paid in advance	0	0	0					
<b>Total current assets</b>	<b>54,734,248</b>	<b>83,729,661</b>	<b>208,670,440</b>					
% CA	42%	55%	108%					
Commercial debts	3,661,501	12,565,273	113,056,740					
Cummulated debts	5,683,198	9,250,766	49,969					
Other debts	19,730,683	11,395,220	7,362,018					
<b>Total current debts</b>	<b>29,075,382</b>	<b>33,211,259</b>	<b>120,468,727</b>					
% CA	22%	22%	63%					
<b>Work capital</b>	<b>25,658,866</b>	<b>50,518,402</b>	<b>88,201,713</b>	<b>54,792,994</b>	<b>98,725,405</b>	<b>100,601,187</b>	<b>80,480,950</b>	<b>82,492,974</b>
% CA	19.6%	33.2%	45.8%	39.5%	39.5%	39.5%	39.5%	39.5%

As far as the year 2017 is concerned, the advances received on the orders account (419) were also taken into account in the operational debts. Also, compensatory payments are assimilated to wage obligations, therefore they have been considered as operating challenges.

According to the Amadeus database we have:

WC %	Source	
	Amadeus.4 comparable	27.95%
	Amadeus CA, NACE, Ro	30.75%
	Amadeus, Eu, 3030, CA between 150.000-200.000 thron	36.68%

### Estimation of the update rate

In what follows we present the estimation of the discount rate that was used in the income-based approach.

Considering that the discount rate or otherwise, the cost of invested capital is not directly observable, various models, assumptions and approximations have been developed leading to the corresponding value. Thus, the most widely used path currently used is the WACC (Weighted Average Cost of Capital), which is considered Cost of Equity, estimated by the CAPM (Capital Asset Pricing Model) model, corroborated with the Cost of Debt and the average market debt ratio for the Debt / Equity indicator .

### Estimation of Cost of Equity

The calculation relation for the Cost of Equity estimation through CAPM is:

$$R_a = R_f + ERP \times \beta_{adj} + CRP + SP + \alpha$$

where,  $R_a$  –update rate

$R_f$  – risk-free base rate

ERP – market risk premium

$\beta_{adj}$  - adjusted coefficient of systematic risk assessment

CRP – country risk premium

SP – the size risk premium

$\alpha$  – risk premium that is strictly related to the company and the projected forecasting scenario

Applying this approach rigorously in Romania is difficult due to the lack or insufficiency of public information regarding the estimation of the main components and here we refer in particular to **the risk premium** and the  **$\beta$  coefficient**.

We mention that the financial flows available to investors were made in nominal terms; so the estimated update rate is a nominal one (considering the expected inflation).

Below we will estimate each of the 6 components of the upgrade rate:

### 1. Risk-free base rate (R<sub>f</sub>)

The risk-free rate and market risk premium, like other components of the cost of equity, are forward-looking concepts. The cost of capital is a forward-looking concept explained by the fact that in the valuation (for example, a company), it is estimated the present value of future profitable benefits from holding the company.

The risk-free base rate is that investment which determines the remuneration of the capital invested under minimum risk (the current interest rate on long-term government bonds - at the valuation date). For companies operating in Europe, a nominal risk-free base rate is considered to be the maturity yield of government bonds issued by AAA rated and matured at least 10 years matched with the expected inflation of the euro or the national currency (in the country where the company operates).

In fluctuation periods, where risk-free rates record the very low value due to central bank money market interventions, analysts take into account the "normalization" of the risk-free rate. "Normalization" means the estimation of a risk-free rate that reflects as close as possible to the reality the sustainable medium yields of government bonds<sup>4</sup>.

### 2. Risk-free base rate (R<sub>f</sub>)

The risk-free base rate is that investment that determines the remuneration of the invested capital under minimal risk conditions. For companies operating in Romania the risk-free base rate was calculated:

- maturity yield on government bonds issued for Germany maturing at 30 years (yield at the valuation date: 1.16%), of which the long-term inflation rate of 2.4% for Germany was lowered and added, at the long-term inflation rate for Romania in the long term (2.5%), resulting in a base rate of nominal value for the national currency of 1.26%:

Rata de baza fara risc			
Nr. crt.	Denumire indicator macroeconomic	Valoare	Sursa
1	Randamentul la scadență a obligațiunilor de stat emise in <b>Germania</b> și maturitate la 30 ani	1.16%	<a href="http://www.bloomberg.com/markets/rates-bonds/government-bonds/germany/">http://www.bloomberg.com/markets/rates-bonds/government-bonds/germany/</a>
2	Rata de inflație previzionată pentru <b>Germania</b> pe termen lung	2.40%	<a href="https://tradingeconomics.com/germany/forecast">https://tradingeconomics.com/germany/forecast</a>
3	Inflatie previzionata pentru <b>Romania</b> pe termen lung	2.50%	<a href="https://tradingeconomics.com/romania/inflation-cpi/forecast">https://tradingeconomics.com/romania/inflation-cpi/forecast</a>

R <sub>f</sub> =	1.26%
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<sup>4</sup><http://www.duffandphelps.com/assets/pdfs/publications/valuation/coc/erp-and-rfr-recommendation-jan-31-2016.pdf>

### 3. Market risk premium

For the estimation of the market risk premium, the market risk premium for a mature market (ERP) is the country risk of Romania (CRP).

$$(R_m - R_f) = ERP + CRP$$

Where:

ERP - risk premium for a mature market

CRP - Romania's Country Risk Premium

Risk premium of the market			
Nr. crt.	Macroeconomic indicator	Value	Source
1	Risk premium for a mature market for December 2017	5.00%	Damodaran study: <a href="http://pages.stern.nyu.edu/~adamodar/">http://pages.stern.nyu.edu/~adamodar/</a> KPMG and Duff&Phelps studies
2	Romania's Country Risk Premium, updated in December 2017	3.13%	Damodaran study: Section "Country Risk Premium" <a href="http://www.stern.nyu.edu/~adamodar/pc/datasets/ctryprem.xls">http://www.stern.nyu.edu/~adamodar/pc/datasets/ctryprem.xls</a>

$(R_m - R_f) =$	8.13%
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### 4. Coefficient $\beta$

5. The database of <http://pages.stern.nyu.edu/~adamodar/> was used to estimate the coefficient  $\beta$ . In this variant, unlevered beta for comparable companies is:

D/E	18.1	Duff & Phelps, Air Freight & Logistics, WORLD
Unlevered beta	0.84	Duff & Phelps, Air Freight & Logistics, WORLD
D/E	21	Duff & Phelps, Aerospace & Defense, World
Unlevered beta	0.98	Duff & Phelps, Aerospace & Defense, World
D/E	20.76	Damodaran Aerospace/Defense
Unlevered beta	1.07	Damodaran Aerospace/Defense

Damodaran Aerospace / Defense used in the calculus:

The systematic risk assessment coefficient			
No.	Name of macroeconomic indicator	Value	Source
1	Unlevered $\beta$ ( $\beta_u$ )	0.98	"Levered and Unlevered Betas by Industry" <a href="http://www.stern.nyu.edu/%">http://www.stern.nyu.edu/%</a>
2	Debt/ Equity market (D/E)	21.00%	

### 5. Coefficient $\alpha$

We considered an alpha additional risk of 1%. The specific risk basis is based on the identification and quantification of risk-specific risk factors that were not included in the systemic risk. In the literature and in the valuation curve, a specific risk is estimated on a scale from 0 to 5, (where 0 represents low risk and 5 - high risk) and having a certain weight in the specific risk economy. In other words, the particular alpha risk is a weighed risk among several identified and risk-weighted individuals. In our situation, we have identified the following specific factors: Supplier dependence, some products are

made under the Airbus Helicopters license, Key Staff Dependency - General Manager of the company whose mandate expires this year, Competition intensity and customer concentration (preponderant clients government).

### COE Estimate - Cost of Ownership (Kcpr) :

The cost of equity was estimated as follows:

<b>Kcpr</b>	=	<b>Rf</b>	+	<b>(Rm-Rf)</b>	*	<b>β</b>	+	<b>α</b>
Kcpr	=	1.26%	+	8.13%	*	1.19	+	1.0%
<b>Kcpr =</b>		<b>11.90%</b>						

According to the analysis presented above, the cost of own capital is 11.9%.

### Estimated Weighted Average Cost of Capital (WACC)

The calculus is:

$$WACC = Kcpr * E / (D + E) + Kdat * D / (D + E) * (1 - imp/p)$$

where

Kcpr –the cost of own equity

Kdat –the cost of borrowed capital

Imp/p –tax rate on profit

E –equity

D –total debts

Imp/p –tax rate on profit

a.  $E / (E + E)$  estimate:

The estimation was based on the relationship:  $E / (D + E) = 1 / (1 + D / E)$

b. Estimation  $D / (D + E)$ :

The estimation was based on the relation:  $D / (D + E) = 1 - E / (D + E)$

$E / (D + E) = 1 / (1 + D/E)$
-------------------------------

Estimation E/(D+E)			
No.	Name of macroeconomic indicator	Value	Source
1	Debt / Equity market (D/E)	21.00%	The Damodaran study: the section "Levered and Unlevered Betas by Industry" <a href="http://www.stern.nyu.edu/%7Eadamodar/pc/datasets/betaEurope.xls">http://www.stern.nyu.edu/%7Eadamodar/pc/datasets/betaEurope.xls</a>

$E / (D + E) =$	82.6%
-----------------	-------

$D / (D + E) = 1 - E / (D + E)$
---------------------------------

$D / (D + E) =$	17.4%
-----------------	-------

c. Estimated cost of borrowed capital (Kdat)

Date	New loans to non-financial corporations
Dec. 2017	5.08

Source:

d. Estimated WACC update rate (weighted average cost of capital)

The resulting **weighted average cost of capital (WACC)** is **10.58%**

<b>WACC</b>	=	<b>Kcpr</b>	*	<b>E/(D+E)</b>	+	<b>Kdat</b>	*	<b>D/(D+E)</b>	*	<b>(1-imp/p)</b>
WACC	=	11.90%	*	82.64%	+	5.08%	*	17.4%	*	84%
<b>WACC</b>					=					<b>10.58%</b>

According to the Duff & Phelps database, the weighted average capital cost for the Aerospace & Defense sector is 9.7%

### Estimation of the financial flows available to investors

**Financial Flows to Investors (CFI)** are composed as main parts of Operating Flows and Investment Flows. Under the CFI (Cash-flow available to investors), the flows related to the financing activity are not taken into account.

The flow from the current activity has as input the gross profit of the current activity and as output, the profit tax and the changes in the working capital structure (the variation of the working capital requirement). The gross profit and corporation tax were taken from the projected budget. The changes in the working capital structure were estimated according to the provisions of the previous subchapters.

Investment Flows - CAPEX Investments were estimated by the Valuator based on customer forecasts for the 2018-2020 period, CAPEX level, which ensures that the assets are kept in the current state and yield to support the expected evolution of the Turnover

In the following we present the financial flows at the disposal of the up-to-date investors, respectively the terminal value:



(lei)	DCF						
	Valori istorice			An 1	An 2	An 3	VT
	2015	2016	2017				
Total venituri (moneda nominala)	121,617,755	159,739,443	203,346,051	250,000,000	254,750,000	203,800,000	208,895,000
% creștere nominala		31.3%	27.3%	22.9%	1.9%	-20.0%	2.5%
Costuri operaționale	111,267,975	124,495,672	160,378,220	208,353,000	218,751,312	174,901,312	173,433,800
% CA	-91.5%	-77.9%	-78.9%	-83.3%	-85.9%	-85.8%	-83.0%
<b>EBITDA</b>	<b>10,349,780</b>	<b>35,243,771</b>	<b>42,967,831</b>	<b>41,647,000</b>	<b>35,998,688</b>	<b>28,898,688</b>	<b>35,461,200</b>
% Total venituri	8.5%	22.1%	21.1%	16.7%	14.1%	14.2%	17.0%
Minus : Amortiz. și proviz. (imob. corp. și necorp.)	1,328,454	3,915,663	4,416,362	4,600,000	5,100,000	5,700,000	5,842,500
Minus : Ajustarea valorii activelor circulante	0	0	0	0	0	0	0
Minus : Ajustări privind proviz. pentru riscuri și cheltuieli	5,124,250	15,574,752	8,198,688	15,509,337	8,198,688	8,198,688	14,100,413
% Total venituri	5.3%	12.2%	6.2%	6.2%	6.2%	6.2%	6.8%
<b>EBIT</b>	<b>3,897,076</b>	<b>15,753,356</b>	<b>30,352,781</b>	<b>21,537,663</b>	<b>22,700,000</b>	<b>15,000,000</b>	<b>15,518,288</b>
Minus : Impozit pe profit	5,473,574	6,082,473	6,065,035	3,446,026	3,632,000	2,400,000	2,482,926
Ebit/CA %	3%	10%	15%	9%	9%	7%	7%
Plus : Amortizare și depreciere	1,328,454	3,915,663	4,416,362	4,600,000	5,100,000	5,700,000	5,842,500
Minus : Investiții în imobilizări	3,000,000		6,200,000	10,000,000	12,000,000	14,000,000	5,842,500
		1.07%	3.05%	4%	5%	7%	4%
Capx/dep		57%	140%	217%	235%	246%	100%
Minus : Variația capitalului de lucru net				10,523,692	1,875,783	-20,120,237	2,012,024
<b>Fluxuri de numerar la dispoziția investitorilor</b>				<b>2,167,945</b>	<b>10,292,217</b>	<b>24,420,237</b>	<b>11,023,338</b>
WACC	10.58%						
Perioada de actualizare				1.0	2.0	3.0	
Factorul de actualizare				0.90	0.82	0.74	
<b>Fluxuri de numerar actualizate</b>				<b>1,960,597</b>	<b>8,417,616</b>	<b>18,062,178</b>	

### Estimation of terminal value

The **terminal (residual) value** is an important component of value estimation by the DCF method, which is the business value of the non-explicit prediction period. In view of the continuity of business, we estimated the residual value by capitalizing the cash flow available to investors for the first year of the non-explicit forecast period, also taking into account the estimated annual growth rate for that period of 2.5% (assimilated to term inflation long for the national currency).

The terminal value was estimated based on the Gordon-Shapiro model:

$$V_T = \frac{CFN_{t+1}}{k-g}$$

Where:

CFN<sub>t+1</sub> = the net cash flow in the first year following the explicit forecasting period

k = update rate

g = predicted annual growth rate for perpetual CF growth

### Estimation of the Constant Growth Rate (g)

The constant growth rate (g) was projected using the following method: considering the reinvestment rate and the financial profitability, based on the following model:  $g = b * ROE$ , b - profit reinvestment rate, ROE - financial profitability.

Considering the estimated update rate of 10.58% and i.e. the 2.5% constant expected increase, the capitalization rate used to estimate the terminal value is **8.08%**.

Hereinafter we present the updated terminal value:

<b>Terminal value (lei)</b>	
Cash flows – terminal year	11,023,338
Constant grterminal year - g	2.5%
EBITDA - terminal year	35,461,200
Terminal value	136,499,126
Update period	3.0
Update factor	0.74
<b>Updated terminal value</b>	<b>100,960,178</b>
<i>%company value</i>	<i>78%</i>

#### 2.17.4 Estimation of the market value of equity

Summing up the updated cash flow from the explicit prediction period with the updated terminal value results in EV (Enterprise Value).

The value of EV was added the net debts of:

- + Financial debts, from which the amount of 746,744 lei was paid for dividends
- Assets out of exploitation:

In the following, we summarize the net debt ratio (ROL):

<b>Output</b>		<b>M. U.</b>
<b>Company value</b>		
Updated cash-flows	28,993,528	
<b>Terminal value</b>	152,060,494	
Update factor	0.76	
<b>Updated terminal value</b>	<b>100,960,178</b>	
<i>% company value</i>	<i>78%</i>	
<hr/>		
Company value	129,400,569	
<b>Company value-majority package</b>	<b>129,400,569</b>	
Minus: Total Financial Debts	<b>746,744</b>	
Plus: Cash and non-operating assets	<b>81,468,261</b>	
Net debts	-80,721,517	
<b>Shareholders Capital Value – majority package</b>	<b>210,122,090</b>	<b>lei</b>

Non-operating assets consist of:

- Cash availability = 63,574,862 lei (Petty-cash and accounts with banks)
- Respectively the following goods

<b>Assets in exces</b>		<b>Remarks</b>
Buildings and associated lands in conservation / demolition / scrapping	12,012,534.38	1-Real estate valuation. CALCULATION SHEET IN ANNEX 4.5
Stocks with minimal capitalization, no movement in the past 5 years	0	They have been assimilated to net achievement value 0 primarily because they are uninterrupted in the past 5 years and have a minimal potential for capitalization. No weight / material information was received. At the company level,

		there is a policy on the provisioning of different stock categories. See Special Hypotheses
Equipment under conservation	84,389.00	2-The valuation of movable assets that do not participate in the turnover is presented in Appendix 2.
Financial assets	5,430,247.00	See the Special Hypotheses chapter. The net realizable amount taken into account is the Accountancy Value at 31.12.2017, audited financial statements
The ongoing investments remained unfinished following the termination in 1990 of NB3 development program of the company, which aimed at the realization in Brasov, in partnership with the former USSR, of the helicopter Ka 126	366,229.00	See Special Hypotheses, page 8
<b>Net Achievable Value</b>	<b>17,893,399,38</b>	<b>lei</b>

In the following we present the estimation of the share capital value based on the data summarized above:

Company value	129,400,569	
<b>Company value-majority package</b>	<b>129,400,569</b>	
Minus: Total Financial Debts	746,744	
Plus: Cash and non-operating assets	81,468,261	
Net debts	-80,721,517	
<b>Shareholders Capital Value – majority package</b>	<b>210,122,090</b>	<b>lei</b>
<b>Shareholders Capital Value – minority package after applying DLC</b>	<b>45,093,500</b>	<b>euro</b>
Number of shares	18,787,853	share
<b>Share/market value</b>	<b>11.18</b>	<b>lei/share</b>
<b>Multiplicators</b>		
Company value	129,400,569	lei
Turnover 2017	203,346,051	lei
EBITDA 2017	42,967,831	lei
<b>EV / CA</b>	<b>0.6x</b>	
<b>EV / EBITDA</b>	<b>3.4x</b>	

The company is traded on the capital market, and in such situations that fall under the ASF regulations, no discounts for lack of control or lack of liquidity / merchantability are applied in the valuation to withdraw minority shareholders.

Thus, the fair value of an IAR share S.A. usable for the purpose of estimating "the price paid by an issuer to the shareholder exerting the right to withdraw from the company", by this approach is:

$$\text{The Fair } V_{DCF} = 11.18 \text{ lei/ share}$$

We mention that the subject company is listed on the stock exchange and according to www.BVB.ro, the last transaction made at the date of the report was 9.0 lei / share, with the maximum value of trading recorded in the last 12 months of 10.8 lei / share.

## 2.19 MARKET-BASED APPROACH

A market comparison approach involves comparing the rated entity with other similar and relevant entities that have been traded on the market, and ultimately estimating the value of the company evaluated using "conversion keys," or in other words, multiplier coefficients. Trading prices are analyzed using appropriate comparisons and in many situations are appropriately adjusted for comparisons between comparable companies as to the rated entity (subject company). The key elements of the transaction price differences are: the size of the companies (turnover, total assets or total capacities, stock market capitalization), the most recent transaction date (as of the valuation date), sales conditions, prices, the size of the share package, expected growth, profitability, date of establishment, etc.

The three methods used in this approach are:

- The method of comparison with share transactions of listed companies - involves the use as source of information of the capital market on which securities of comparable companies are traded;
- The method of comparison with transactions of unlisted companies - involves the use as a source of information of the market of mergers and acquisitions of enterprises as a whole;
- The method of comparison with previous transactions of own shares - involves the use as a source of information, of the history of trades in own shares (volume, closing price, etc.) if the company is listed and the sale price of a merger or takeover of a business subject, if the case.

From among the benchmarking methods, the benchmarking method for listed companies was applied to compare the listed companies with the information on comparable listed companies being more transparent than for takeovers and business combinations and leading to more relevant results market-based approach.

In essence, the method of comparison of shares transactions of public companies, taken as a basis of comparison, is part of those methods that use information provided by the stock exchange, which the valuer processes and adjusts to determine the market value of such companies. Companies listed on the stock exchange are evaluated on a daily basis through the demand-offer mechanism, in conjunction with the stock price level.

An observation to be made is related to the applicability of this method, namely that it is convincing only when sufficient market information is available. The credibility of this method is affected in the event of rapid changes in market conditions or rarely sold businesses / shares.

The method of comparisons with stock transactions of listed companies is based on the following hypotheses:

- Quotations of listed companies that are part of the same industry and are actively traded on a free market may be a relevant indication of value when companies meet the criteria of similarity and relevance to allow the correct and relevant application of the comparison method;
- The database [www.bvb.ro](http://www.bvb.ro) was searched for to identify comparables with the same field of activity, but there are few comparable companies listed on the Romanian stock exchange, with the statements published in 2017, and the variation coefficient is considerably high for all the stock market indicators, thus the market value that would be obtained, would not be reasonable.

Company	BVB Symbol	Statements published at	P/BV	Variation of the transaction price on the valuation date, (1 week)	Net turnover 2016 as per mfinante.ro, lei	Average no. of employees in 2016, s per mfinante.ro	PER	EPS
S IAR S.A	IARV	2017	1,56	1,10%	152.096.365	316	7.1	1.28
S.C Aerostar S.A	ARS	2017	3,69	-2.72%	356219105	1719	14.32	0.35
S.C Turbomecanica S.A	TBM	2017	2.25	0.89%	83030250	430	7.39	0.04
S.C AVIATIA UTILITARA BUCURESTI SA	AVUT	2017	1.52	-	3078931	38	32.27	0.04
SC. Avioane Craiova SA	AVIO	2017	-0.04	-35.71	23.378.109	255	-2.28	-8.28
	average		1.24				13	-2.0
	median		1.52				11	0.0
	deviation		1.17				15	4.2
	Variation coefficient		0.94				1.13	-2.15

The second way to choose relevant multipliers and similar businesses was to correlate information from multiple databases to create a sample of companies of high relevance at regional and international level.

The sources of information used in this approach were:

- Infinancials database
- Database published by Damodaran
- Amadeus database
- Reuters
- Duff&Phelps
- Bloomberg

Duff & Phelps, Reuters and Damodaran databases were used to analyze industry / sector specific indicators. With the help of the Amadeus databases, Infinancials has selected the sample of comparable companies taking into account several criteria such as: NACE code, location, turnover, etc.

### Stages of assessment

The market assessment process involves several stages, namely:

- ✚ **Establishing market-based assumptions.** This approach has been applied observing the principle of continued activity, therefore we have selected only those comparable companies that comply with this principle.
- ✚ **Choice of Multipliers:** Considering the size of the company's subject (Very Large company), we have chosen as the first criteria the Turnover and Ebitda% as they highlight the performance and potential of the company. At the same time, the P / Book, P / Sales, Ev / Ebit indicators were studied.
- ✚ Considering that some of the companies do not have the data published in 2017 and in 2017 the subject company recorded a maximum in both the turnover and the EBITDA margin, the 2016 financial variables were used and multipliers selected at 2016
- ✚ For the selection of the relevant multipliers the statistical analysis of the frequency distributions and the variation indicators was carried out. Thus, the EV / EBITda and EV / Sales multipliers were found to be relevant
- ✚ In the first phase, the intervals obtained with **unadjusted** multipliers are:
  - EV / EBITDA ranging from 10 to 14.66
  - EV / EBIT ranging between 16.19 - 27.48

- Sales range between 1.24 - 1.48
- Sales ranging between 1.3 - 3.19
- P / Book ranging from 1.53 to 2.94

Given that Romania has an increased country risk (Baa3), and countries with a stable economy have a lower associated risk, adjusted multipliers are expected to be lower.

It is necessary to present the initial data as the first starting point, but after the adjustments the minimum and maximum values may be half.

The extent of this range is quite high, as it is necessary to select comparables according to turnover, country of origin (selection of countries with a stable economy), the main activity of the company (in the case of companies operating in the service sector, logistics EV / Ebitda indicator is higher than 5, generally in the production sector the level is below 5).

- ✚ The advantage of using the Infincials database is its ability to filter and select more in-depth comparisons: the first selection was the object of activity. Considering the field in which the subject company activates, the specifics of the industry / industry as a whole, we have found that several lines of activity interpenetrate in the operational activity of comparable companies: renting, aircraft production, aircraft subassembly production, maintenance and repair.

Company	EfCode	Detalii companie
<b>Airbus Group SE</b>	30170EN	Airbus SE is involved in the design, manufacture, delivery and supply of aerospace products, space and related services. Through its subsidiaries, it operates through the following segments: Airbus Commercial Aircraft; Airbus Helicopters; Airbus Defense and Space; and Other / HQ / Consolidated.
<b>Saab AB</b>	30068SS	In Africa, leader in the field of defense and civil security in the countries in which it operates. Main objects of activity: aviation and support solutions.
<b>Dassault Aviation SA</b>	99037EF	It is a French company to build military, regional and business aircraft.
<b>Meggitt PLC</b>	91125EX	It is a British engineering business specializing in aerospace equipment.
<b>Latecoere SA</b>	30207EF	Latecoere SA is a French-based company mainly engaged in the production of aircraft equipment. The company manufactures aero-structures such as fuselage sections as well as passenger luggage and luggage for Airbus, Boeing, Dassault, Bombardier and Embraer. It also provides on-board electrical wiring and airplanes as well as camcorder systems. In addition, the company provides design and engineering services for its customers.
<b>MTU Aero Engines AG</b>	30845ED	MTU Aero Motors engine manufacturer engages in the development, manufacture and support of commercial and military aircraft engines in all push and power categories and stationary gas turbines.
<b>FACC AG</b>	40062EA	FACC AG (formerly Fischer Advanced Composite Components) is a Chinese-Austrian manufacturer of interior airplane components and not only.
<b>Safran SA</b>	00464EF	Safran SA is engaged in the design, manufacture and sale of aircraft and defense technology and communications. It operates through the following segments: Aerospace Propulsion, Aircraft Equipments, Defense, Security and Holding Company and others. The aerospace propulsion segment designs, develops, manufactures and markets propulsion systems for commercial jets, military transport, training and combat aircraft, rocket engines, civil and military helicopters, tactical missiles and drones. The Aircraft Equipment segment is specialized in mechanical, hydromechanical and electromechanical equipment. The defense segment includes all enterprises serving the naval, terrestrial and aviation industries.
<b>The Boeing Company</b>	30022NU	We recall the main sectors in which it operates, commercial airplanes, helicopter defense AH-6, AH-64, H-60, aerospace.
<b>Korea Aerospace Industries, Lt...</b>	41649FK	Co-development Bell 427 Bell 429., production KAI KUH-1 Surion and planes.
<b>Embraer S.A.</b>	31163LB	Brazilian civilian, military and private aircraft manufacturer. The company also provides services related to aeronautics.
<b>Textron Inc.</b>	30425NU	It has five divisions of which Bell. It is a leading manufacturer in the commercial and military aircraft industry, unmanned and unmanned, and the pioneer of the revolutionary tiltrotor aircraft.
<b>IAR SA</b>	40288ER	Subject company, unknown data on Infincials in 2016 and 2017
<b>AAR CORP.</b>	32653NU	AAR is an independent aviation provider to commercial and governmental customers in more than 100 countries
<b>Spirit AeroSystems Holdings In...</b>	40125NU	American company designs and builds airframes for both commercial and defense customers

- ✚ Detecting similar and relevant businesses: The selection was made from different databases for those businesses whose economic and financial parameters are publicly available and reasonably accessible, as well as those businesses that have the field of activity, potential growth, profitability, similar to the subject matter. In addition, the primary criteria underlying the selection of comparables were: the market on which it operates, the products offered, the size of the enterprise. It is a matter of fact that the market on which the company operates is an international market, reelected in many countries in the European Union, with the main customers in the structure of the National Security System and international government entities.
- ✚ The selection of comparables also took into consideration the data provided by the customer, see Chapter 3.9.3.3. Mentioning that Airbus Helicopters SA is not listed and the parent company has been identified in the international database.
- ✚ By filtering the 15 companies initially selected, following a series of qualitative and quantitative criteria, four companies were eliminated due to a lack of data on multiplier coefficients (The Boeing Company, Korea Aerospace Industries, Spirit AeroSystems Holding)
- ✚ Airbus Group, Facc AG recording extreme values of indicators and limiting dispersion.
- ✚ When the market values of multipliers of companies operating in the same industry are close, it means that those multipliers are commonly used and preferred in the ratings of companies in the respective industry. Thus, multipliers with similar values for different types will be given greater importance than other multipliers with values that deviate from the average of the sector.
- ✚ In order to analyze the degree of dispersion, several statistical indicators were determined: average, median, standard deviation and variation coefficient. The standard deviation is used to determine the average variation ranges, these intervals being obtained by subtracting and adding the standard deviation to / from the sample mean. The variation coefficient has been used to determine the degree of confidence that is given to multipliers. A maximum threshold of 35% was considered for this indicator, so it may be considered relevant to use multipliers whose variation coefficient is lower than this threshold.
- ✚ If the variation coefficient = 0 the series is perfectly homogeneous, all the terms of the series are equal to each other and are equal to the mean: in this case there is no variation. If  $v \leq 5\%$ , the series is very homogeneous, the variance is very small, the average is very representative, and the grouping was very well executed (in the case of the frequency distribution series). If  $v \leq 35\%$ , the series is homogeneous. If  $v \geq 70-75\%$ , the series is heterogeneous, the variation is very high, the average is not representative, and the grouping needs to be rebuilt<sup>5</sup>.

<sup>5</sup> <http://www.ase.ro/upcpr/profesor/1825/UI7-Serii%20de%20distr.forma%20seriilor.pdf>

	Tara	E.V	EV/Net Sales	EVEBITDA	EVEBIT	P/Book	Total Risk Premium,	Ajustare risc de tara	Ev/Sales	Ev/Ebitda	EV/Ebit	P/Book
Company		Current (in millions USD)	Last	Last	Last	Last						
Saab AB	Suedia	4,599	1.23	13.17	18.26	2.80	5.69	64.51%	0.44	4.67	6.48	0.99
Dassault Aviation SA	Franta	15,334	2.56	7.36	23.97	3.41	6.40	72.56%	0.70	2.02	6.58	0.94
Meggitt PLC	UK	6,064	2.11	8.40	14.40	1.31	6.25	70.86%	0.61	2.45	4.20	0.38
Latecoere SA	Franta	635	0.78	9.92	14.27	1.29	6.40	72.56%	0.21	2.72	3.92	0.35
MTU Aero Engines AG	Germania	9,972	1.61	10.70	14.57	3.56	5.69	64.51%	0.57	3.80	5.17	1.26
Safran SA	Franta	45,899	2.10	7.99	11.33	3.44	6.40	72.56%	0.58	2.19	3.11	0.94
Textron Inc.	USA	17,857	1.26	13.07	19.08	2.69	5.69	64.51%	0.45	4.64	6.77	0.95
AAR CORP.	USA	1,668	0.94	12.59	20.96	1.66	5.69	64.51%	0.33	4.47	7.44	0.59
		media	1.57	10.40	17.11	2.52	6.03	0.68	0.49	3.37	5.46	0.80
		mediana	1.44	10.31	16.42	2.75	5.97	0.68	0.51	3.26	5.83	0.94
		abaterea	0.63096	2.36	4.18	0.97	0.36	0.04	0.16	1.15	1.58	0.32
		ccoficient variatie	0.40093	0.23	0.24	0.38	0.06	0.06	0.33	0.34	0.29	0.40
IAR SA	Romania	26	0.58	1.13	4.60	1.53	8.82					

- ✚ It is noted that the Ev / Ebitda and Ev / Sales multipliers have a close variation coefficient and



the P / Book is slightly above this level, 0.38 as compared to 0.23-0.24, so the first two multipliers have been taken into account in the calculus

- ✚ **Adjustment of multipliers for Country Risk Difference:** This adjustment was made because the selected comparisons are specific to international markets, with differences in the economic conditions in which businesses operate and possible differences in investor perceptions.
- ✚ Sorin Stan and Anghel Ion<sup>6</sup> believe that the lack of information and market transactions leads to the use of reference variables (in this case multipliers and comparable enterprises) in developed countries. In this case, these variables should be adjusted at least for country risk, otherwise their use is irrelevant. The same view is shared by Luis Pereiro. He considers multiples adjustments to be mandatory, as similar companies can be appraised differently according to the geographic area in which they operate. The differences are manifested between the financial reporting policies of different countries and, at the same time, between the capital markets in them. These capital markets differ because of the country risk differential perceived in different economic markets, or because markets can reap differently the same characteristics of a company.<sup>1</sup>.

Country	GDP (in billions)	Moody's rating	Adj. Default Spread	Total Risk Premium
Brazil	1774.7	Ba2	3.47%	9.96%
Romania	178	Baa3	2.54%	8.82%
United States	18038.6	Aaa	0.00%	5.69%
France	2418.8	Aa2	0.57%	6.40%
Germany	3363.4	Aaa	0.00%	5.69%
Sweden	494.6	Aaa	0.00%	5.69%
United Kingdom	2858	Aa1	0.46%	6.25%

- ✚ Given that the outcome of the Market Approach leads to the value of a minority package, a review premium was required in the context of the Refinement Terms of the valuation<sup>2</sup>.
- ✚ The control premium used in the calculations is 27% and is based on the Bvresources analysis (see data attached to the report).

For the size of the Control premium, we looked at several market studies. In the following we present the data extracted from BVResources sources, the sectors: Aircraft Manufacturing, Other Aircraft Parts and Auxiliary Equipment, MergerStat Control Premium: The average is 29.7% and the median of 27.4% for the analyzed period. We worked with a median of 27%.

Market-based approach		
	EV/ EBITDA	EV/Turnover
Multiplicator selectated at 2016	4.74	0.24
Pro rata	50%	50%
<b>Financial variable</b>	35,243,771	124,495,672
<b>Comapany value</b>	98,521,918	
Control premium	27%	
<b>Shareholders Capital Value after the Control Premium</b>	125,053,367	
Value of financial debts	746,744	
Cash and non-operating assets	81,468,261	
<b>Shareholders Capital Value</b>	205,774,880	

<sup>1</sup>Pereiro, L. E. (2006, April). The Practice of Investment Valuation in Emerging Markets : Evidence from Argentina. Journal of Multination Financial Management, 16(2), 160-183



Number of shares	18,787,853
<b>Market value / share</b>	<b>10.95</b>

So, in our opinion, the fair value of an IAR S.A. share usable for the purpose of estimating "The price paid by an issuer to the shareholder exerting the right to withdraw from the company" by this approach is:

$$\text{Fair } V_{\text{market}} = 10.95 \text{ lei/ share}$$

### 3. ANALYSIS OF RESULTS AND CONCLUSION ON THE VALUE

The valuation methods used were:

- ✓ *Income-based approach* - a general way of estimating the value of an enterprise, participations or shares by using one or more methods by which the value is estimated by converting anticipated benefits into capital value.
- ✓ *Market-based approach* - a general way of estimating the value of an enterprise, participations or shares by using one or more methods that compares the subject with other similar entities, equity interests or similar shares that have been sold

#### RESULTS OF THE APPLICATION OF THE INCOME-BASED APPROACH

Taking into account the aspects presented in the report, it can be considered that for the purpose of this valuation and the relevance of the data and information used to apply the valuation methods the outcome of **the income-based approach** is the most representative. Arguments on selecting the outcome of the income approach:

- ✓ The value obtained through the updated financial flows method takes into account both the potential of exploiting the company's assets based on the current activity within it and the impact of the intangible assets not clearly identifiable on the value of the company. The method is based on estimated cash flows according to the company's financial projections set up by the company management. Consequently, the value best reflects the expectations of potential investors about the company's future financial performance, under the reserves mentioned by the Valuator in presenting the application of the method, with reference to the risks that can have a significant impact on the evolution and future development of the company. Taking into account the aspects presented in the report, it can be considered that for the purpose of this valuation and the relevance of the data and information used in the application of the valuation methods, the result of the income approach, or of **the updated financial flow method**, is the most representative
- ✓ It takes into account all the specific aspects of the "IAR SA Company" activity, quantified by financial projections; this approach takes into account all elements of intangible assets that cannot be quantified separately;
- ✓ Financial forecasts have been prepared taking into account the current situation of the company, the history of the activity and the information known at the time of the assessment regarding the future evolution of the specific market and analyzed by us together with its management;
- ✓ Since the financial statements for 2017 are not available for all the companies in the sector, multiples and relevant benchmarking and benchmarking analyses may not be of high accuracy as at 2017 and require adjustments. At the same time, the expected evolution of the indicators and multipliers studied, the projection for 2017-2019, are not significant, so we used multipliers and financial variables calculations of 2016

The conclusions of applying the valuation approaches in line with the 2018 Benchmarking Standards incorporating the International Valuation Standards and the Terms of Reference of the assessment are:

- *Market Approach: 10.95 lei / share*
- *Income approach: 11.18 lei / share*

The fair value of an IAR S.A. share usable for the purpose of estimating "The price paid by an issuer to the shareholder exerting the right to withdraw from the company" is **11.18 lei / share**

**DARIAN DRS SA**  
Operations director, Adrian Popa-Bochis