

ANNUAL REPORT

under N.C.T.S. Regulation no. 1/2006 for the financial year 2017

Date of the report: 27.04.2018

Denomination IAR S.A.

Registered Office: No. 34, Herman OBERTH Street, Ghimbav city, Brasov county

Telephone/ fax number: 0268-475107; 0268-476981

Sole Registration Code with the Trade Registry: 1132930

Serial number in the Trade Registry: J08/IV/21.01.1991.

Regulated market where the issued securities are traded: The Bucharest Stock Exchange, the Equities Sector - Standard Class actions

Subscribed and paid capital: 47,197,132. 50 RON

The main characteristics of the securities issued by the company: 18,878,853 nominal shares, dematerialized, having a nominal value of 2.50 lei each.

1. ANALYSIS OF IAR S.A.'S ACTIVITY

1.1.a. The core activity of the company

The main activity carried out by the company is the one set out in Class 3030 - "Manufacturing of aircraft and spaceships", which belongs to Group 303 - "Manufacturing of aircraft and spaceships", division 30 – "Manufacturing of other means of transport"

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

1.1.b. IAR S.A. was founded on 28.01.1991 by the reorganization of the Aeronautics Manufacturing Enterprise Ghimbav, the legal basis for constitution being the G.D. 1200/1990.

1.1.c. Mergers or significant reorganization during the financial year 2017 - not applicable.

1.1.d. Purchases or disposals of assets

In 2017, IAR S.A. Company did not alienate nor did it acquire assets of significant value relative to its share capital.

During the year under review, the company made purchases of accessories, small equipment and IT products, amounting 3.202.745 lei. Such acquisitions are set out in section 2.1.

1.1.e. The economic and financial results registered by the company at the end of 2017 show that IAR S.A. registered profit incurred both by its operational activity (labour) and by its overall activity, the company continuing to be a profitable company.

1.1.1. Items of general evaluation

At the end of 2017, the major financial indicators registered by IAR S.A. are as follows:

INDICATOR	IEB PROVISIONS 2017 (lei)	ACHIEVEMENTS 2017 (lei)
1. Net turnover	138.834.000	192.724.954
2. Sold output	133.734.000	167.735.650
3. Total revenues, of which:	165.000.000	206.592.170
- operating revenue	162.450.000	203.346.051
- financial revenue	2.550.000	3.246.119
4. Total expenses, of which:	156.000.000	176.335.159
- operating expenses	154.000.000	172.993.270
- financial expenses	2.000.000	3.341.889
of which: interests		70.152
5. Gross profit	9.000.000	30.257.011
6. Net profit	7.632.000	24.191.976

About the quality management system (QMS) implemented in IAR S.A., we state the following:

- the quality management system implemented at 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 according to SR EN 9001 (certificate no. 007 originally issued in 1997 and renewed annually).
- IAR S.A. is authorized by the Romanian Civil Aeronautical Authority, both as an organization of production under EASA PART 21G (Certificate RO.21G.0006/2009, renewed annually) and as a maintenance organization under the EASA PART 145 (Certificate RO.145.009/2009 renewed annually)
- The company is certified by Airbus Helicopters Romania SA as a supplier for the military products namely for maintenance works on the airframes of Puma and Alouette III helicopters, PUMA helicopter equipment maintenance, manufacturing of spare parts for Puma and Alouette III helicopters, laboratory testing, metrology, and for manufacturing of spare parts and subassemblies for Airbus Helicopters, former Eurocopter SAS (initially Certified in 2010 and renewed annually).
- 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 the design and production of aircraft systems and equipment for aviation, upgrade of aeronautical products, spare parts for aircraft, checks, testing, maintenance and repair of aeronautical products (Certificate no. 11 originally issued in 2012, renewed at 03.06.2016, valid until 02.06.2018).

1.1.2. Technical level assessment of IAR S.A.

1.1.2.1. The main products manufactured and services provided

The products and services offer of the company may be structured as it follows:

- **IAR 330L Puma helicopters** (SNIAS AEROSPACE license, currently Airbus Helicopter): second hand and related services (manufacturing of spare parts, maintenance, repairs, upgrades, training pilots and technicians, technical assistance);
- **IAR 330L Puma SOCAT, SOCAT NATO and NAVAL helicopters:** 330 L Puma helicopter upgrade with an advanced system of avionics and weaponry SOCAT, SOCAT NATO and NAVAL;
- **330 PUMA SM helicopters:** upgrade of the 330 Puma helicopter with Makila 1A1 engines, 4-axis autopilot, new avionics integrated system, monitoring system of the operating parameters of the engine, etc.
- **IAR 316 B Alouette III helicopters** (SNIAS AEROSPACE license, currently Airbus Helicopters): second hand and related services (manufacturing of spare parts, maintenance, repairs, overhauls, upgrades, training pilots and technicians, technical assistance, etc)

The dynamics of the products' offer is a consequence of the following actions:

- cessation, in recent years, of the IAR 316B Alouette III single-engine, light helicopter manufacturing (the

main reason – reaching the life limit) and of the IAR 330 PUMA helicopter, mainly due to the fact that the manufacturing of the new engines TURMO IVCA and of the mechanical assemblies ceased.

- progress in recent years, of the following upgrade programs:
 - IAR 330L Puma helicopter upgrade with SOCAT, NATO and NAVAL systems;
 - SA/IAR 330 Puma helicopter upgrade to the version SA 330 SM;
 - IAR 330 L Puma Search&Rescue version upgrade.

1.1.2.2. Sales Markets

a. Current markets

The national market (Romania)

The main local customers of the company's products are:

- The Components of the National Defence System, Public Order and National Security: the Ministry of National Defense, the Romanian Intelligence Service, the Ministry of Interior
- Airbus Helicopter Romania S.A. (former Eurocopter Romania S.A.)

For the above-mentioned, IAR S.A. runs maintenance, repair and overhaul services for 316B Alouette III and IAR IAR 330 Puma helicopter fleets held by local beneficiaries (M.O.D, M.A.I., R.I.S.), as well as upgrade services, according to requirements of their beneficiaries.

IAR SA cooperates with the joint venture company Airbus Helicopters Romania S.A.(former Eurocopter Romania S.A.), by providing maintenance and repair services for helicopter parts, as well as providing spare parts for the SA 316B Alouette III and SA 330 Puma helicopters for own use.

On 12/29/2016 **IAR SA and the Ministry of Defence** signed a commercial agreement covering the **retrofit and upgrade of 7 IAR 330L Puma**, belonging to the Air Chief of Staff, in the search&rescue version.

Information regarding this contract:

- **Beneficiary: Ministry of Defense - UM 02 550 Bucharest**
- **Duration: 2016-2019,**
- **Value: 313.147.730 lei, without VAT.**

In 2017, the work under this contract started, both for the basic helicopter overhaul operations and for the design of integration of new systems and equipment to be installed on the basic helicopter in view of meeting the operational research-rescue requirements.

At the end of 2017 contracts were signed with the Air Force Staff, finishing by the end of 2018 in the amount of 68,832.98 thousand lei.

Also in 2017, Framework Agreements with the National Security System (MI and RIS) have been concluded over a 4-year period aiming at upgrading the IAR 330 Puma helicopters as well as the repair, maintenance and supply of spare parts and mechanical assemblies required to maintain the IAR 330 Puma and IAR 316B Alouette helicopters.

Sales by product type on the local market	Percentage of total sales on the local market			
	y. 2014	y. 2015	y. 2016	y. 2017
IAR 330 PUMA helicopters upgrade+ Overhaul, IAR 316B helicopters Overhaul, IAR 330 and 316B Helic.revisions	64,28%	70,85%	52,22%	50,55%
Spare parts and services for helicopters	15,11%	16,45%	36,01%	47,32%
Aircraft –related miscellaneous	15,89%	7,27%	6,76%	0,15%
Non-aircraft-related miscellaneous	4,72%	5,43%	5,01%	1,98%

International market

The main external customers / markets for the company's products are:

- DGP GHQ UAE ARMED FORCES – UNITED ARAB EMIRATES
- Royal Air Force of Oman - OMAN
- Lebanese Air Force - LEBANON
- Pakistani Army/ Aviation (by AEROTEH SA) - PAKISTAN
- Indonesian Air Force (by PT CITRA AVIATAMA DIRGANTARA) -INDONESIA
- AIRBUS HELICOPTERS FRANCE/GERMANY (by AIRBUS HELICOPTER ROMANIA S.A. (former Eurocopter România S.A.)– FRANCE/ GERMANY

For the above-mentioned, IAR S.A. runs maintenance, repairs and overhauls, spare parts supply and services for 316B Alouette III and IAR IAR 330 Puma helicopter fleets held by external beneficiaries.

IAR SA provides maintenance and repair of helicopters components services, spare parts for the SA 316B Alouette III and SA 330 Puma helicopters for the supply chain of AIRBUS HELICOPTERS.

Sales by product type on the external market	Percentage of total sales on the external market			
	y. 2014	y. 2015	y. 2016	y. 2017
upgraded helicopters	0,00%	0,00%	0,00%	0,00%
spare parts and services for the helicopters	100,00%	100,00%	100,00%	100,00%
airplanes – spare parts and repair services	0,00%	0,00%	0,00%	0,00%

The pro-rata of each product/service of all sales in the historical period:

Sales by type of product	Percentage of total sales			
	y. 2014	y. 2015	y. 2016	y. 2017
IAR 330 PUMA and IAR 316B helicopters upgrade+ Overhaul, IAR 330 PUMA and IAR 316B helicopters revisions.	56,26%	60,75%	57,39%	38,46%
IAR 330 and 316B Helic.revisions, spare parts and services for helicopters	22,65%	27,73%	32,12%	59,63%
Aircraft-related miscellaneous	16,69%	6,55%	6,03%	0,12%
Non-aircraft –related miscellaneous	4,40%	4,97%	4,46%	1,78%

b. Potential markets

Potential local market

IAR SA aims to ensure service maintenance, repair and overhaul services for 316B Alouette III and IAR 330 Puma helicopter fleets held by local beneficiaries (M.O.D., M.A.I., R.I.S.), as well as upgrade services, according to requirements of their beneficiaries.

IAR SA aims to continue in the future its cooperation with the joint venture company Airbus Helicopters Romania S.A.(former Eurocopter Romania S.A.), by providing maintenance and repair services for helicopter parts, as well as providing spare parts for the SA 316B Alouette III and SA 330 Puma helicopters for own use and for the supply chain of Airbus Helicopters.

IAR SA is keen to become an authorized supplier for Airbus Helicopters regarding the customization of H215 helicopters which will be procured by the Ministry of Defence as well as for structural assemblies and specific electrical wiring of SuperPuma MK1 helicopters which will be manufactured in Brasov.

IAR SA is also concerned with the involvement in meeting the currently existing off-set obligations and that will result following the initiation of strategic programs to equip the public institutions in Romania in the following directions:

- a) manufacturing of aircraft structures activities
- b) manufacturing activities for aircraft electrical wiring
- c) other aviation-profiled activities.

Potential external market

IAR S.A.:

- aims to the conclusion of a "Follow on Support" contract with the Pakistani Ministry of Defense to support IAR / SA 330 Puma, 330 Puma SM and IAR/ SA 316B Alouette III helicopter fleets owned by this country
- aims to conclude an overhaul / upgrade contract for the 330 Puma SM helicopter fleet owned by Pakistani Aviation Army.
- aims to conclude an "Follow on Support" contract with the United Arab Emirates Ministry of Defense to support the 330 Puma MS helicopter fleet owned by this country
- aims to conclude an overhaul / upgrade contract for the 330 Puma SM helicopter fleet owned by the Joint Aviation Command - UAE.
- attends to increase the volume of orders and services under the Follow on Support Contract concluded with the Lebanese Air Force for its fleet of Puma SM 330 helicopters
- aims to conclude an overhaul / upgrade contract for the 330 Puma SM helicopter fleet owned by the Lebanese Air Forces
- intends to remain present on the Omani market (Royal Air Force of Oman) and on the Indonesian market (Indonesian Airforces) for the SA 330 Puma L helicopter fleet service
- attends to the conclusion of contracts for manufacturing spare parts/assemblies with various companies in the European aeronautics industry.

1.1.2.4. New products in question, which will need a substantial amount of assets affected to in the financial year 2017:- not applicable

1.1.3. Evaluation of technical and material supply

Given that the manufacturing/repair of aircraft fully complies with both requirements on materials and on equipment used, and with the requirements under which suppliers must have specific authorization, technical and material supply was made mainly from import, from certified suppliers.

IAR S.A. chose established, world-renowned companies as **external suppliers**, such as Airbus Helicopters, Collins, Thales, Sagem, Turbomeca, etc., reassuring thus the contractual relationship that the company has therewith.

The main **local suppliers** are, on the one hand, those working in the field of aeronautics (Turbomecanica SA, Aerotech SA and Aerofina SA in Bucharest, Aerostar SA Bacau, Airbus Helicopter Romania SA) and, on the other hand, suppliers of raw materials which meet the quality standards required by manufacturing licenses used by IAR S.A..

Long-lasting cooperation with local providers confer the security of contractual relationships concluded by IAR S.A. with them.

Prices are established through direct negotiations with the suppliers.

The company ensures its utilities, under contract, from Electrica S.A. Brasov Branch - electricity, Distrigaz S.A. Brasov Branch - methane gas, R.A. Olt Water Directorate Rm Valcea, S.G.A. Brasov - water.

1.1.4. Evaluation of the sales activity

1.1.4.1. The evolution of sales on the local and external markets. Perspectives

Capitalization of the company's products in 2017 was achieved both on the local market (89.98% of total sales), as well as on the external market (10.02% of total sales).

a. Export activity

Export sales actions were conducted on the following distinct relationships: RAF Oman, Lebanon MOD, Indonesian Air Force, Sofema France, GHQ UAE.

The value of exports under the orders and contracts of 2017 amounted to 4.258,55 thousand euros, the equivalent of 19.322,79 thousand lei. The export achievements in 2017 have increased compared to the previous year's achievements.

Comparing the period 2014-2017, in terms of types of product recovery, shows the following changes in the exports' structure:

% of achieved annual export	upgraded helicopters	spare parts and services for helicopters	airplanes - spare parts and repairs
Anul 2014	0%	100,00%	0%
Anul 2015	0%	100,00%	0%
Anul 2016	0%	100,00%	0%
Anul 2017	0%	100,00%	0%

b. Sales on the local market

Locally there were developed and implemented in 2017 orders and contracts amounting to 173.517,83 thousand lei (VAT excluded). This value represents helicopters upgrade, product, repairs / overhauls of helicopters, spare parts, services, technical assistance and materials as follows:

1. the National Security System components (MOD, MAI, RIS): 136.670,45 thousand lei (VAT excluded),
2. various local customers: 36.847,38 thousand lei (VAT excluded).

c. Opportunities. The prospect of sales on medium and long term - the local market

1. Manufacturing of spare parts (for SA 316 B Alouette III and SA330 Puma products) and aircraft components could increase significantly in the next years through Airbus Helicopters Romania S.A. (former Eurocopter Romania S.A.), for the international distribution chain of Airbus Helicopters.

1 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 Framework 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 of H215M Helicopter Customization Works, Subassembly Manufacturing and Maintenance works (MRO) throughout the lifecycle of this helicopter.

IAR SA will be the first contractor in relationship with the Romanian 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 Romanian Government has submitted to the American Government a request for offer and availability for helicopters manufactured 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 "Transition Study Agreement", the overall 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 may be involved in logistic support, maintenance, repair, overhaul, training and even final assembly of the helicopters to be purchased by the Romanian Government.

- the external market

- 1** The "product support" services for Pakistan, UAE, Lebanon and Oman helicopter fleets will continue in the next years, based on the follow on support contracts signed or to be signed by IAR S.A. with the beneficiaries from these countries.
- 2** IAR S.A. plans to take over the off-set obligations relating to public procurement contracts concluded by the Romanian government bodies with foreign companies.
- 3** IAR SA offers materialization on completing the equipment of 330 Puma SM helicopters owned by the Pakistani Ministry of Defence and the Lebanese Ministry of Defence could materially affect the export volumes for the two relationships.

1.1.4.2. The competitive situation in the business environment of the IAR S.A. Company

The main competitors of the IAR S.A. Company's products are the following:

Crt .no.	Product or group of products	Competitor	
		on the local market	on the external market
1	PUMA helicopter	Airbus Helicopters with H215, Ukraine and Russia (Aviakon and Kazan Helicopters) with Mi-8, Mi-17	Airbus Helicopters – H215/H225, Sikorsky USA – S92, UH 60L, NH Industries (European corporation) – NH 90, Kazan Russia – MI 17
2	IAR316B helicopter (currently, IAR S.A. no longer offers newly manufactured IAR316B helicopters)	Airbus Helicopters SAS – AS 350/355, EC120, EC135/635, EC 155, Bell Helicopter Textron – Bell427, Bell 429i, Bell430, Bell412, Bell206, Bell407, Agusta Italy – A109 Power, A119 Koala, Robinson USA – R44, R22, MDHelicopters Belgium – MD500/600	Airbus Helicopters SAS – AS 350/355, EC120, EC135/635, EC 155, Bell Helicopter Textron – Bell427, Bell 429i, Bell430, Bell412, Bell206, Bell407, Agusta Italia – A109 Power, A119 Koala, Robinson USA – R44, R22, MDHelicopters Belgium – MD500/600

1.1.4.3 The dependence of the company on a single customer or on a group of customers

The local beneficiaries of IAR S.A.'s products and services are components of the National Defence System, Public Order and National Security (M.O.D., M.I. and R.I.S.).

In order to observe the conditions for maintaining the airworthiness of the helicopter fleets owned by these local customers, it is necessary to periodically perform maintenance/repair/overhaul works and services, so that the budget allocations for these institutions have a strong impact on IAR S.A..

1.1.5. Assessment of the company's employees/ personnel

1.1.5.a The number and level of training of the company's employees. The unionisation degree

In the organization structure of IAR S.A. the following can be identified:

- a) the departments directly subordinated to the General Manager of IAR S.A., including the Quality Department;
- b) the Development-Production Division, which includes the design, software / calculation/certification departments and training departments/production follow-up, engineering, production facilities;
- c) the Economic and Commercial Division, which includes the economic and commercial departments.

On the 31st of December 2017, the company had the following personnel structure which does not differ substantially from the years 2015 and 2016:

- chief executives	2
- heads of departments	17
- upper education	93
- specialized secondary education	18
- foremen	8

- technical quality inspectors	10
- workers	199
- administrative personnel	8

The average age of the personnel employed in IAR S.A. at the end of 2017 was **52.34 years for men** and **50,59 years for women**. On the 31st of December 2017, **men represented 78.6% of the total personnel**, the difference being represented by women. At the same time, **the experience in aviation of IAR S.A. 's personnel was of 33 years**.

Of the total employees of the company, 36.05% are members of the Free Independent Union "ICA".

1.1.5.b Relationship between the manager and employees. Conflicting elements.

The foundation of labor relations within IAR S.A is the Collective Labor Agreement applicable at company level. Both the Management and the Executive Boards of IAR S.A. consistently showed an attitude of cooperation and understanding towards the employees of the company and, therefore, the representatives of F.I.U. "ICA". During 2017, in IAR S.A., no labor disputes or conflicting elements were recorded.

1.1.6. Assessment of the impact of IAR S.A.'s core business on the environment in 2017

IAR SA's activity is regulated in terms of environmental protection by three authorizations issued by the competent authorities:

- Integrated Environmental Authorization no. BV1 of 18/07/2014 issued by the Environmental Protection Agency Brasov, valid until 18.07.2024
- Water Management Authorization no. 26 of 10.03.2017 issued by the Water Management System Brasov, valid until 10.03.2020
- Authorization No.71 of 22.01.2013 on greenhouse gas emissions 2013-2020, **issued by the Ministry of Environment**. By decision 1/4048 / VT / 20.11.2017 issued by the Ministry of Environment, the National Environmental Protection Agency decided that the IAR SA plant should no longer be subject to the Green House Gas Emissions Trading Scheme (EU ETS) for 2013 – 2020. At the same time, on the same date, the greenhouse gas emission permit no. 71 / 22.01.2013 for the period 2013-2020 shall cease its validity.

In these regulatory acts are set the conditions and operating parameters for existing activities, ensuring that the unit complies with the provisions concerning integrated pollution prevention and control.

Environmental protection activities during 2017 were conducted in accordance with the specific requirements of environmental legislation and requirements of three environmental permits held by IAR SA.

To this end, the company has monitored the quality of the environment: water, air, soil, in collaboration with companies and accredited laboratories: ECOSIMPLEX NOVA Bucharest for air emissions, ECOBREF Brasov soil quality and audits specialty ECOIND Bucharest evacuated wastewater analysis, TEKKO INDUSTRY LOGISTIK for acquisition and disposal of hazardous waste resulting from the activity of the company. In 2017 the minimum 2% value for ammoniacal nitrogen in the wastewater has been exceeded as a result of the modification of certain parameters in the Water Management Authorization. For this, the implementation of the Ydro Process method with SC TEMACO IMPEX SRL started at the treatment plant. All required reports were made by both the authorization and other reports and statements required by the Brasov Environmental Protection Agency, the National Agency for Environmental Protection, the Ministry of Environment, the Ministry of Water and Forests, the Water Management System Brasov.

During checks on the line of environmental protection and environmental law compliance made by the Environment Guard - Brasov County Commission, the Romanian Waters National Administration -Division Olt Basin and the Water Management System Brasov, it was found that IAR SA met their environmental obligations.

1.1.7. Evaluation of the research and development activities – the company does not carry out research and development activities, thus having no necessity in applying specific policies in this field.

In IAR S.A. there is a design department, which supports the company in the helicopter upgrade projects, according to contractual requirements.

1.1.8. Evaluation of the company's activity on risk management

By nature of the activities carried out, the company is exposed to various risks, which include: currency risk, interest rate risk, liquidity risk, financial crisis.

The currency risk: The Company is exposed to fluctuations in the exchange rate for the cash, receivables and liabilities entered in other currencies, mainly USD and Euro.

The Company has transactions in other currencies than the functional currency (Ron), i.e. Euro and USD. The company, depending on its possibilities, at a certain time, using different currencies, buys the respective currencies that it needs to complete the necessary import payments from different suppliers.

The Company did not use derivative financial instruments for protection against currency fluctuations.

The interest rate risk: The operating cash flows of the company are not affected by movements of the interest rate on the banking market, since currently the company has no open credit, nor any intention to open one.

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

The liquidity risk (cash-flow): The company's management has applied and applies a prudent liquidity risk management, pursuing continuously the maintenance of sufficient cash in order to be able to meet all due payments.

- The management of the company, depending on the current situation on the market, made arrangements for continuation of work in terms of profitability.
- The Company conducts business relationships only with renowned third parties.
- As shown in the Internal Regulation of the Board of Directors of IAR SA, the company has established an effective framework for risk identifying, monitoring and management.
The executive management of the Company has implemented a risk management system, which is described in chapter 3 - The corporate governance statement.
- The Company is not subject to any patrimonial legal claims.

The company's management has sought and constantly seeks to minimize potential adverse effects, associated to presented risk factors, on the financial performance of the company.

1.1.9. Elements of perspective on the company's activity

1.1.9.a Presentation and analysis of trends, items, events or uncertainty factors that affect or could affect the company's liquidity compared to the same period last year

IAR S.A. concluded in 2016 a multi-annual agreement for revitalization and upgrades on the IAR 330 Puma helicopters of the Romanian Air Force, which will run between 2016 and 2019.

IAR S.A. has the ability and experience to carry out such a contract, given the experience of similar programs developed in the last 15 years in domestic and foreign markets.

Running this agreement, in the next 3 years the company IAR will be able to load their production capacities and to ensure occupation of its highly specialized workforce, with positive effects on maintaining the manufacture capacity of its authorized subcontractors: Turbomecanica SA Bucharest, Aerostar SA Bacau, Aerotech SA Bucharest and Aerofina SA Bucharest.

As arises from the action program which puts into practice the development strategy of the national security industry in the aeronautic field:

- IAR S.A. will be involved in the national program for the purchase of helicopters by the institutions of the National Defence System /other budgetary institutions - a program for the next 10-20 years,
- IAR S.A. will take the necessary measures to become a national center for helicopters maintenance as per the Law 232 / 2016.

All measures contained in this program will influence positively, significantly, the dynamics of IAR S.A. on medium and long term.

In parallel, IAR S.A. is looking for orders from other aviation companies, including participation in covering their offset obligations.

However, should IAR SA become involved in the series manufacturing program of some subassemblies and electrical wiring for the H215 helicopters that are to be manufactured by Airbus Helicopters in its new investment on the IAR Brasov platform, the policies, strategies, activities and operations of the company will be significantly influenced.

In the future, IAR S.A. will continue to provide facilities and services for all economic agents within the Aeronautical Technology Park Brasov.

Also, IAR S.A. may initiate/participate in other programs within the Aeronautic Technology Park, in connection with starting the construction project of the International Airport Ghimbav - Brasov, such as the development of airport facilities, providing heliport services, involvement in programs for maintenance/upgrading of airplanes, assets rental.

Another possibility for the development of aviation activities provided by IAR S.A. arises from the company's adherence to Transylvania Aerospace Cluster.

The evolution of the **current liquidity** and **immediate liquidity** indicators over the last 4 years is as follows:

Indicator	Analysed period			
	31.12.2014	31.12.2015	31.12.2016	31.12.2017
Current liquidity indicator	4,87	4,64	4,99	12,63
Immediate liquidity indicator	2,81	3,38	3,53	7,26

1.1.9.b The presentation and analysis of the effects of capital expenditures, current or anticipated, on the financial statements of IAR SA compared to the same period last year – not applicable

1.1.9.c The presentation and analysis of the events, transactions, economic changes that significantly affect revenues from the core activity

Products and services that the company capitalizes both locally and for export are meant mainly for budgetary users who, basically, are part of the national systems of safety and security forces.

For this reason, the number of agreements depends heavily on the beneficiaries' needs, especially on the budgetary allocations related thereto.

Increasing the budget allocations for the Ministry of Defence at 2% of GDP will have positive effects on IAR SA, by increasing its activity and hence the company's annual business/net income.

In addition, implementing the development strategy of the security industry will significantly affect revenues from the core activity of the company.

Also, IAR SA offers materialization on completing the equipment of 330 Puma SM helicopters held by external beneficiaries of IAR S.A. could materially affect the export volumes.

If IAR SA becomes involved in the series manufacturing program of the helicopters that are to be purchased by Romania, the policies, strategies, activities and operations of the company will be significantly influenced.

2. TANGIBLE ASSETS OF THE COMPANY IAR S.A.

2.1 The location and characteristics of the main production capacities owned by IAR S.A.

Currently, IAR S.A.'s assets are initially placed into 8 buildings, distinctively highlighted in the patrimonial registers of the company.

The buildings inside the company have a different degree of physical wear, depending on the year they were put into use and on the upgrading works to which they were subjected.

The realization of the IAR 330 Puma SOCAT helicopters overhaul works, as well as the IAR 330 L Puma Search&Rescue retrofit and upgrade program, were conditioned by the extensive works of modernization of the production facilities and of their machinery / machine-tools/ equipment / test benches / control devices, etc.

To this it is added that much of the equipment and installations currently owned by the company have an advanced degree of physical and moral wear, requiring them to be replaced with new, cutting-edge ones.

In order to carry out these actions, the management of the company identified an investment requirement for 2017 worth 6.2 million lei, the financing being made from own sources.

Taking into account the stated objectives, in 2017 the actions taken resulted in:

- 1) rehabilitation / modernization works performed on existing tangible assets:
 - rehabilitation of the drinking water distribution network - first stage, which will continue in 2018,
 - replacing the roof of the general assembly hall,
 - changing / upgrading the sliding door of the general assembly hall,
 - setting up a space for heliport-specific activities (technical zebra),
 - expanding the fuel depot,
 - setting up / upgrade of the Metrology Laboratories,
 - setting-up / upgrade of the Mechanical Tests Laboratory,
 - finalizing the work started in 2016 for the setting-up of a pickling shop,
 - rehabilitation of the surface treatment workshop.
- 2) purchase of machine-tools, production accessories, small equipment, measurements and control devices, of which the most important are: saturated steam boiler with associated facilities, 290kVA three-phase generator group, two tractors for the runway and utility activities, pneumatic riveting, polishing and drilling machines, measurements and control devices (voltage and current source, thermocouple calibration furnace, thermometric bath, colourmeter, glossmeter, particle counter, dielectric rigidity tester)
- 3) purchase of IT products made / launched in 2017:
 - the acquisition and implementation of an ERP Enterprise Resource Planning System, which will be completed in 2018,
 - upgrading of hard and soft components.

The production capacities of IAR SA will undergo upgrades over the next few years through the investments to be made by ensuring the technical and technological conditions necessary for the development of the two future programs in which the company intends to be involved: multi-role helicopters and attack helicopters.

The unused assets after the reorganization of activities that occurred over time, which are not relevant to the current and medium term development of the company, are in conservation, and they will be valorised by rental or sale, as per the approvals given by competent management bodies.

2.2. The degree of wear of IAR S.A.'s properties

The general level of wear of IAR S.A.'s properties is as follows:

- the buildings and objectives in which the company currently operates have a wear rate between 30% and 35%;
- Fixed assets, inventory items and technological equipment used have a wear rate of between 25% and 90%;

Also:

- the wear rate is between 30% and 60% on the production buildings and other objectives in the construction category (buildings, roads and platforms) currently in conservation;
- the wear rate is 100% on the two disused production buildings (which are the only buildings that were built before 1968 – the year of setting up the company), for which the proceedings of demolition was initiated;
- external networks of heating, water/sewage, air, have a wear rate between 25% and 90%.

2.3 Issues of ownership of tangible assets owned by IAR S.A. - not applicable

3. The corporate governance statement

3.1. The statement of compliance with the Corporate Governance Code of BSE

The Statement of compliance of IAR SA in 2017 to the provisions of the Code of Corporate Governance of BSE is presented below:

The provisions of the Code of Corporate Governance	Complies	Does not, or only partially complies	Reason of the non-compliance
A1 - All companies must have an internal regulation of the Board which includes terms of reference/responsibilities of the Board and the key functions of the management of the company, which applies, inter alia, the General Principles from Section A.	x		
A2 - The provisions for managing conflicts of interest shall be included in the Board's Regulation. However, the Board members must notify the Board on any conflicts of interest that have arisen or may arise and refrain from participating in discussions (including by no show, unless that no show would prevent the formation of the quorum) and from the vote for adopting a decision on the matter which is the reason of the conflict of interest.	x		
A3 - The Board of Directors or the Supervisory Board must be composed of at least five members.	x		
A4 - The majority of the Board of Directors' members must have no executive function. At least one member of the Board of Directors or of the Supervisory Board must be independent in the case of companies in the Standard Category. For the companies in the Premium Category, no less than two non-executive members of the Board of Directors or of the Supervisory Board must be independent. Each independent member of the Board of Directors or of the Supervisory Board, as appropriate, must	x		

<p>submit a declaration at the time of his nomination for election or re-election and when there is any change in his status, indicating the elements on which it is considered that it is independent in terms of its character and judgment and based on the following criteria:</p> <p>A.4.1. he/she is not a General Manager/chief executive of the company or of a company controlled by it and has not held such a function in the last five (5) years;</p> <p>A.4.2. he/she is not an employee of the company or of a company controlled by it and has not held such a position in the last five (5) years;</p> <p>A.4.3. he/she does not receive and did not receive additional remuneration or other benefits from the company or companies controlled by it, in addition to those appertaining to a non-executive manager;</p> <p>A.4.4. he/she is or was not an employee or has or had during the previous year a contractual relationship with a significant shareholder of the company, a shareholder who controls more than 10% of the voting rights, or with a company controlled by him/her;</p> <p>A.4.5. he/she does not have and did not have in the previous year a business or a professional relationship with the company or a company controlled by it, either directly or as a customer, partner, shareholder, member of the Board/Manager, general manager/chief executive or employee of a company if, by its significant character, this relationship may affect its objectivity;</p> <p>A.4.6. he/she is not and has not been in the last three years the internal or external auditor or associate partner or employee of the current external financial auditor or of the internal auditor of the company or of a company controlled by him/her;</p> <p>A.4.7. he/she is not a general manager/chief executive of another company where another general manager/chief executive of the company is a non-executive manager;</p> <p>A.4.8. he/she hasn't been the company's non-executive manager for more than twelve years;</p> <p>A.4.9. he/she does not have family connections with a person in the cases referred to in paragraphs A.4.1. and A.4.4.</p>			
<p>A 5 - Other commitments and permanent professional obligations relating to a member of the Board, including executive and non-executive positions in the Board of some companies and non-profit institutions, must be disclosed to shareholders and potential investors before his/her nomination and during his/her mandate.</p>	x		
<p>A 6 Any member of the Board must provide information on any relation to a shareholder who holds directly or indirectly shares representing more than 5% of all voting rights. This obligation extends to any relationship which may affect the member's position on issues decided by Board.</p>	x		

A 7 - The company must appoint a secretary of the Board responsible for supporting the work of the Board.	x		
A 8 - The corporate governance statement will inform you if there was an evaluation of the Board under the President or the nomination committee and, if so, it will summarize the key measures and changes resulting from it. The company must have a policy / guide on the assessment of the Board including the purpose, criteria and frequency of the evaluation process.	x		
A 9 - The corporate governance statement must contain information regarding the number of Board meetings and committees over the past year, the participation of managers (in person and in absentia) and a report of the Board and committees on their activities.	x		
A 10 - The corporate governance statement must include information on the exact number of independent members of the Board of Directors or of the Supervisory Board.	x		
A 11 - The Premium Category companies Board should establish a nomination committee consisting of non-executive members, who will lead the nominations procedure of new members of the Board and make recommendations to the Board. Most members of the nomination committee must be independent.		x	Not applicable.
B 1 - The Board must establish an Audit Committee in which at least one member must be an independent non-executive manager. Most members, including the chairman, must have shown to have adequate qualifications relevant to the functions and responsibilities of the committee. At least one member of the Audit Committee must have accounting or auditing experience proven and appropriate. For companies in the Premium Category, the Audit Committee must be composed of at least three members and the majority of the Audit Committee members must be independent.	x		
B 2 - The chairman of the Audit Committee must be an independent non-executive member.	x		
B 3 - Among its responsibilities, the Audit Committee must conduct an annual evaluation of the internal control system.	x		
B 4 - The assessment must consider the effectiveness and scope of the internal audit function, the adequacy of the reports on the risk and internal control management submitted by the Audit Committee of the Board, the timeliness and effectiveness by which the executive management resolves the deficiencies or weaknesses identified during the domestic inspection and presentation of relevant reports to the Board.	x		
B 5 - The Audit Committee must assess conflicts of interest in connection with the transactions of the company and its subsidiaries with the related parties.	x		
B 6 - The Audit Committee must assess the effectiveness of the internal control and of the risk management system.	x		

B 7 - The Audit Committee must monitor the application of legal standards and generally accepted internal audit standards. The Audit Committee must receive and assess reports of the internal audit team.	x		
B 8 - Whenever the Code mentions reports or analyzes initiated by the Audit Committee, these must be followed by periodic reports (at least annually) or adhoc that must be submitted later to the Board	x		
B 9 - No shareholder may be given preferential treatment in relation to other shareholders and their affiliates.	x		
B 10 - The Board must adopt a policy to ensure that any transaction of the company with any of the companies with which it has close relations whose value is equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the Board following a binding opinion of the audit committee of the Board and disclosed correctly to shareholders and potential investors, to the extent that these transactions fall within the category of events which are subject to reporting requirements.	x		
B 11 - Internal audits must be conducted by a separate structural division (internal auditing) of the company or by hiring an independent third party entity.	x		
B 12 - In order to ensure the fulfillment of the main functions of the internal audit department, it should report functionally to the Board through the audit committee. For administrative purposes and within the obligations of the management to monitor and reduce risks, it must report directly to the general manager.	x		
C 1 - The company must publish on its website the remuneration policy and include a statement in the annual report on the implementation of the remuneration policy during the annual period under analysis. The remuneration policy must be formulated so as to allow shareholders to understand the principles and arguments underlying the remuneration of the Board, the General Manager and the Executive Board in the dualistic system. It should describe the running of the process and the decision making process regarding remuneration, detailing components of the remuneration of the executive management (such as salary, annual bonus, long-term incentives linked to shareholder value, benefits in kind, pension and others) and describe purpose, principles and assumptions underlying each component (including the general performance criteria related to all forms of variable remuneration). In addition, the remuneration policy should specify the length of the Executive Manager's contract, the period of notice stipulated in the contract, and any compensation for unjust dismissal.	x		

The report on remuneration must present the implementation of the remuneration policy for the individuals identified in the remuneration policy during the annual period under analysis. Any significant change occurred in the remuneration policy must be timely published on the website of the company.			
<p>D 1 - The company must set up an Investor Relations service - indicating to the public the individual / individuals in charge or the organization unit. In addition to the information required by the law, the company must include on its website a section dedicated to Investor Relations, both in Romanian and in English, with all relevant information of interest to investors, including:</p> <p>D 1.1 - The main corporate regulations: the constitutive act, the procedures for shareholders assemblies;</p> <p>D 1.2 - The professional resumes of the company's management members, other professional commitments of the Board members, including executive and non-executive positions in the boards of directors of companies or non-profit institutions;</p> <p>D 1.3 - The current reports and periodic reports (quarterly, half-yearly and yearly) - at least those specified in paragraph D.8 - including current reports with detailed information on non-compliance with this Code;</p> <p>D 1.4 - Information on shareholders assemblies: the agenda and the information materials that support the nominations for election to the Board, together with their professional resumes; the shareholders questions about items on the agenda and responses of the company, including decisions taken;</p> <p>D 1.5 - Information on corporate events such as payment of dividends and other distributions to shareholders, or other events that lead to the acquisition or the limitation of rights of a shareholder, including the deadlines and principles for such operations. The information will be published within a period which allows investors to take investment decisions;</p> <p>D 1.6 - The name and contact details of the person who can provide, upon request, relevant information;</p> <p>D 1.7 - The company presentation (eg. the presentations for investors, the quarterly results presentations etc.), the financial statements (quarterly, half-yearly, yearly), audit reports and annual reports.</p>	<p>x</p> <p>x</p> <p>x</p> <p>x</p> <p>x</p> <p>x</p> <p>x</p> <p>x</p>		
D 2 - The company will have an annual dividend distribution policy or other benefits for shareholders, proposed by the General Manager or by the Executive Board and adopted by the Board, as a set of guidelines that the company intends to follow on the distribution of net profits. The annual dividend distribution policy to shareholders will be published	x		

on the website of the company.			
D 3 - The company will adopt a policy regarding forecasts, whether they are made public or not. The forecasts refer to quantified findings studies aimed at determining the overall impact of a number of factors relating to a future period (so called hypotheses): by its nature, this project has a high level of uncertainty, actual results may differ significantly from forecasts initially presented. The policy on expectations will determine the frequency and content of the period covered by the forecast. If published, the forecasts can only be included in the annual, half-yearly or quarterly reports. The policy on forecasts will be published on the website of the company.	x		
D 4 - The general assemblies of shareholders' rules should not limit the participation of shareholders in general meetings and the exercise of their rights. The changes in the rules come into force at the earliest, starting with the next GSM.	x		
D 5 - The external auditors will attend the general meeting of shareholders when their reports are presented in such meetings.	x		
D 6 - The board will present to the annual general meeting of shareholders a brief assessment of internal control systems and management of significant risks and opinions on issues subject to the decision of the general meeting.	x		
D 7 - Any specialist, consultant, expert or financial analyst may attend the shareholders' meeting based on a prior invitation from the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board shall decide the contrary.	x		
D 8 - The quarterly and half-yearly financial reports will include information both in Romanian and in English on the key factors that influence changes in the level of sales, the operational profit, the net profit and other financial indicators relevant both from one quarter to another, and from a year to another.	x		
D9 - A company will organize at least two meetings/conference calls with analysts and investors every year. The information presented on these occasions will be published in the investor relations section on the website of the company at the time of meetings/conference calls.		x	
D 10 - If a company supports various forms of artistic and cultural expression, sporting, educational or scientific activities and considers their impact on the innovative nature and competitiveness of the company are part of the mission and its development strategy, it will publish the policy on its work in this area.			Not applicable

3.2. Information on the membership, responsibilities and activities of the Board and of the committees

3.2.1. The Board of Directors of IAR S.A. consists of 5 members.

a. Membership, qualifications and experience

Crt. no.	Name and Surname	Position in the IAR SA Company	Age	Qualification	Position	The period of the current mandate
1.	Ion Rareș POPESCU	Chairman of the Board	39	engineer	Head of the Energetic Inspection Office at FDFEE Electrica Transilvania Sud S.A	10.10.2014-09.12.2017
2.	Claudia Maria BAICU	Member	44	jurist	Manager - Legal Dep. - DPAPS ME	10.10.2014-10.04.2018
		Chairman of the Board				09.12.2017-10.04.2018
3.	Ioan TOMA	Member	62	jurist	Legal Advisor at INCAS Bucharest	10.10.2014-09.12.2017
4.	Răzvan POPA	Member	38	jurnalist	Consilier local, Consiliul Local Bv	10.10.2014-09.12.2017
5.	Măriuca-Oana PISTOL	Member	40	economist	Head of Office DPAPS - ME	12.10.2017-10.04.2018
6.	Sorana Rodica BACIU	Member	48	economist	State Secretary – Prime Minister Office	13.07.2016-09.12.2017
7.	Alexandru BUȘCU	Administrator	58	Economist	MOD retired, Local Counselor	27.04.2017-10.04.2018

None of the above nominees: has any agreement, understanding or connection with others, under which he/she has been appointed as manager of IAR S.A.; he/she did not enter into any transaction with IAR S.A.; he/she did not participate in the share capital of IAR S.A..

b. The professional experience of IAR S.A. Board members

1. Since 2010 **Mr. Rares Ion Popescu, independent and non-executive manager and Chairman of the Board of IAR SA until the 09.12.2017** has held the following management/leadership positions:

PERIOD	COMPANY / POSITION OCCUPIED
October 2014 - present	-IAR SA- Chairman of the Board
May 2014 – March 2015	CNCIR SA- Manager
March – September 2014	ELECTRICA SA- Manager
January 2010 – April 2013	GOSCOM CETATEA RASNOV SA- Manager

Mr.Rares Ion Popescu has the following training and professional experience:

- long-term studies: Transylvania University of Brasov, Faculty of Materials Science and Engineering in the period 1997 – 2002
- short-term studies:
 - October 2014 - present: **Doctoral school** - Thesis: Study on improving the quality of electricity for energy efficiency
 - 2008-2010: **Master's degree/MA** - Energy Management at the Faculty of Electrical Engineering and Computer Science in the period 2008 – 2010
 - Various postgraduate courses, including:

- 09.2014-12.2014 The National Defense University "Carol I", the National Defence College-dissertation on "Energy Security in the context of sustainable development "
- 09.2014-10.2014 Nanyang Technological University, Center for Continuing Education, course "Clean Energy and Emission Reduction"
- experience: preparing and supervising internal documentation to the listing process, the IPO of the Electrica SA company - non-executive member of the Board of Directors

2. Since 2010 Ms. Claudia Baicu, non-executive member of the Board of IAR SA and Chairman of the Board of Directors of IAR SA , as of 09.12.2017, has held the following management / leadership positions:

PERIOD	COMPANY / POSITION OCCUPIED
February 2016 – December 2016	SMART SA - Administrator
October 2014 - present	IAR SA – Member in the Board of Directors
February 2014 - present	Societatea Moldomin SA – Special manager

Ms. Claudia Maria Baicu has the following training and professional experience:

- long-term studies: Bachelor of Laws (University of Bucharest, Faculty of Law - 1997) graduated from the Faculty of Law of the Christian University Dimitrie Cantemir Bucharest 1993-1997
- short-term studies:
 - Master's degree in Business Law, Titu Maiorescu University, Bucharest 2005 – 2006
 - Master's degree in Law Conflict Mediation, Titu Maiorescu University, Bucharest 2007 - 2008
- **experience: Since 2004 Ms. Claudia Baicu is working in the Department for Privatization and Management of the State-owned - Ministry of Economy, currently holding the position of Director of the Legal Directorate.**

3. Since 2010 Mr. Ioan Toma, independent and non-executive member of the Board of IAR SA, has not held any administrative / management position in any other company.

The professional experience of Mr. Ioan Toma is presented below:

PERIOD	COMPANY / POSITION OCCUPIED
October 2014 - present	IAR SA - Member of the Board of Directors
2006 – 2007	SC Nicolina SA Iași – Special manager
2004 - 2005	SC Moldoplast SA Iași – Special manager
1998 - 2007	SC INAV SA București – Secretary of the Board of Directors

Mr. Ioan Toma has the following training and professional experience:

- long-term studies: Alexandru Ioan Cuza University - Faculty of Law - Bachelor's Degree in 1981
- short-term studies: Nicolae Titulescu University Bucharest - Master's degree in Business Law - Dissertation – 2008

Mr. Ioan Toma is an insolvency practitioner, UNPIR member since 1999

4. Since 2010 Mr. Răzvan Popa, independent and non-executive member of the Board of IAR SA, until 13.09.2017, has not held any administrative / management position in any other company.

The professional experience of Mr. Răzvan Popa is presented below:

PERIOD	COMPANY / POSITION OCCUPIED
October 2014 - present	IAR SA - Member of the Board of Directors
June 2012 – July 2014	Brasov City Hall - Deputy Mayor
2010–2012 and June 2014-present	Brasov County Council - Counselor
2009 - 2010	County Youth Directorate - Deputy Director

Mr. Razvan Popa graduated from the Journalism Faculty at the University Lucian Blaga Sibiu.

5. Since 2010 Ms. Măriuca Oana PISTOL, non-executive member of the Board of IAR SA, as of 12.10.2017, has held the following management / leadership positions:

PERIOD	COMPANY / POSITION OCCUPIED
October 2017 – present	IAR S.A. Member of the Board of Directors
June 2016 – present	Head of Companies Participations management Dept. – M.E.-D.P.A.P.S.
May 2016 – March 2017	IOR S.A. Member of the Board of Directors
October 2015 – March 2017	BAITA S.A. Member of the Board of Directors
October 2012 – August 2013	DAMILA AGRO SRL Sales manager

Ms. Măriuca-Oana PISTOL has the following professional experience:

- Long-term studies: The Academy of Economic Studies in Bucharest – The Faculty of Management, 2002
- Short-term studies:
 - Project management training – Ministry of Labour, Family, Social and the Elderly Protection, 2013
 - Expert in public procurement training - Ministry of Labour, Family, Social and the Elderly Protection, 2014
- experience: 13 years of expertise in management/leadership positions

6. Since 2010 Ms. Sorana-Rodica BACIU, non-executive member of the Board of IAR SA has held the following management / leadership positions:

PERIOD	COMPANY / POSITION OCCUPIED
January 2016 – October 2016	A.A.A.S. – Chairman of the Counselling& and Surveillance Committee
January 2015 – February 2016	ROMGAZ - Member of the Board of Directors
October 2014 – December 2015	ACGENIO – Business Administration- the budget and strategy responsibilities
December 2007 – September 2014	OMV PETROM – Strategy and the Relationship with Investors
July 2016 – present	IAR SA Member of the Board of Directors

Ms. Sorana Rodica BACIU has the following professional experience:

- long-term studies:
 - The Academy of Economic Studies in Bucharest, Master's Degree in International Commerce, 1992
 - McGill University Canada, Master's Degree in MA Economic Policy Management, 1997
- experience: 16 years of management and administration in the field of industry and banks/financial

7. Since 2010 Mr. Alexandru BUȘCU, non-executive member of the Board of IAR SA as of 27.04.2017, has held the following management / leadership positions:

PERIOD	COMPANY / POSITION OCCUPIED
January 2010 – August 2012	SC Prodinvest 99 SRL – Head of Production Hall
April 2017 – present day	SC ROMAERO SA – member of the Board of Directors

Mr. Alexandru BUȘCU has the following professional experience:

- long-term studies:
 - The Academy of Economic Studies in Bucharest between 2001 – 2005
 - Aviation Military School - Active Navigation Section (equivalent to higher technical education: Sub-engineering in Transport, Telecommunications and Meteorology)
- Short-term studies:
 - Staff training course in the management of the SOP - 2007-2013
 - Public procurement expert / public procurement training course / public procurement manager course
 - Occupational Health and Safety course
 - Squadron commander
- experience:
 - 3 years – consulting in the field of public procurement and project management for EU funding
 - 3 years – management in the industrial field

3.2.4. The activity of the Board of Directors and advisory committees within the Board

The activity carried out in 2017 by both the Board of Directors of IAR SA and by its advisory committees, is summarized in the following table:

No. of meetings →	<i>THE BOARD OF DIRECTORS</i>	<i>THE AUDIT COMMITTEE</i>	<i>THE NOMINATION AND REMUNERATION COMMITTEE</i>
Nume și Prenume ↓	13	3	2
Ion Rareș POPESCU	10		2
Claudia Maria BAICU	7		2
Ioan TOMA	10	3	
Răzvan POPA	2	1	
Alexandru BUȘCU	4		
Sorana Rodica BACIU	4	1	
Măriuca-Oana PISTOL	2		

When, for objective reasons, some of the Board members of IAR SA could not be present at one or more meetings of the Board, they were represented, by mandate, by the other Board members of the company.

The secretary of the Board of Directors of the Company is Ms. Aurelia SUMEDREA. She is also the secretary of the two advisory committees within the Board.

In 2017, the Board of Directors approached in its meetings various topics of interest to the company, such as:

- termination of suspension as of 19.01.2017, of the contract of mandate concluded between IAR SA and Mr. Neculai BANEA – January 2017;
- the approval of the activities program for the financial year 2017 – in March 2017;
- the endorsement of the annual income and expenditure budget for the year 2017 – in March 2017;
- the approval of the annual investment program in 2017 - in March 2017;

- the summarizing information on the work carried out by the company between the Board meetings - on the date of each meeting;
- the analysis and approval of financial statements: during April and November for quarterly statements, in July for the half-yearly statements and in March for the annual statements for the previous financial year;
- the development of the periodic (quarterly/half-yearly/annual) reports - together with the approval of financial statements for those periods;
- endorsement of the modifications proposals to the Constitutive Act;
- approval of the Framework Agreement between IAR SA and Airbus Helicopters;
- approval of the industrial hour value and of the company incurred household expenses in 2017
- the approval of the Collective Labor Contract – in May 2017;
- the analysis of the fulfillment of criteria and performance targets approved - with analysis and approval of periodic financial statements;
- the approval of the criteria and performance targets related to the current financial year- in April 2017, after the approval of the IEB 2017;
- any other analysis in the limits of the Board of Directors' prerogatives - in the moment of occurrence of such situations;
- the convening of the GSM for issues falling within its competence.

As provided in the Internal Regulations of the Board of Directors of IAR SA, under the leadership of its Chairman and in accordance with the best practices, the Board is considering conducting an annual self-evaluation of its performance, its committees and its cooperation with the managers, making, based on the evaluation results, the action plan necessary for the improvement of the board performances.

According to the principles taken into account:

- the Board's assessment took into account the balance between skills, experience, independence and knowledge of the Board, its diversity, the way the Board works as a whole and other factors relevant to its effectiveness;
- the evaluation of the board performances was realized making the combination of some methods, based on questionnaires, with other methods based on individuals and group interviews;
- the assessment process was focused primarily on the achievement of three objectives:
 - a) the assessment of the way in which the Board and its committees have operated during 2017;
 - b) the preparation and discussion of important issues in the Company's activity;
 - c) the presence of the management in the Board meetings and relevant advisory committees and their constructive involvement in discussions and decision-making.

The purpose of Board evaluation in 2017 was to show whether each member continues to contribute effectively and to demonstrate commitment to the role assumed (including allocation of time for Board meetings and committees, as well as any other duties).

As shown in the action plan elaborated in order to improve the Board performances, it is necessary to improve communication inside of the Board by conducting an electronic address through which all information which interested or are in connection with activity of the Board and its committees to be transmitted.

Through the activity that took place during 2017, the Audit Committee has sought to assist the Board in carrying out its duties mainly related to financial reporting, internal control and risk management. Also, the Audit Committee was assured that there is coordination between the internal and the external auditors of IAR SA.

The activities of this committee during 2017 focused on:

- the monitoring of the external auditor's independence, objectivity and effectiveness of the audit process;

- the monitoring and reviewing of the appropriateness and effectiveness of the internal audit function and internal financial controls in context of the entire risk management system of the Company;
- the monitoring of transactions between related parties (noting the absence of such transactions);
- the identification of persons affiliated with IAR SA (noting that there are no other individuals affiliated to IAR SA);
- the analysis of reports prepared by the internal auditor and the commission responsible for risk management at company level;
- the monitoring of the integrity of financial statements of the Company;
- the development of policies for detecting and preventing fraud and bribery;

By the activity that took place during 2017, the Nomination and the Remuneration Committees provided assistance to the Board of Directors in the following matter:

- the analysis of the way in which, in 2016, the criteria and performance targets have been met in relation to the mandate contract concluded with the General Manager of the Company
- the establishment, for the current year, of the respective criteria and performance targets.

The Nomination and the Remuneration Committees had an important role in monitoring the executive management of IAR SA during 2017, one of the criteria under which the evaluation of the way the General Manager of IAR SA provides the executive management of the company is the fulfillment of criteria and performance targets set out for each year of mandate.

It must be said that the Nomination and the Remuneration Committee members have conducted activities on remuneration in the context in which IAR SA, with majority state ownership, has been subjected to relevant legal regulations applicable to budgetary entities (majority state owned entities).

The principles on remuneration of the Board and of the General Manager of IAR SA, which were established by applying the provisions of GO no. 26/2013 and GEO 109/2011, subject to the GSM resolution no. 02/14.03.2016 and 11/28.11.2017, published in the Official Gazette of Romania, transmitted to ASF and BVB and posted on the website of IAR SA .

Complying to the principles on remuneration of the Board of Directors and of the General Director of IAR SA, in 2017:

- the non-executive members of the Board of Directors of IAR SA are granted
 - between January and November 2017, a monthly gross fixed indemnity amounting to 2,397 lei, representing the average monthly gross salaries for the last 12 months prior to their appointment, in the field of the machine building industry - manufacture of other means of transport and maintenance of aircraft and spacecraft CAEN CODE 3316, communicated by INSSE
 - in December 2017, a fixed monthly gross indemnity of 3933 lei, representing the average monthly gross salaries for the last 12 months prior to their appointment, in the field of the machine building industry - the manufacture of aircraft and spacecraft CODE 3030, communicated by INSSE
- the members of the Advisory Committees within the Board shall not be remunerated in addition to their work in the respective committees
- the upper limit of the fixed remuneration due to the General Director of IAR SA is the value corresponding to 6 times the average gross monthly salaries for the last 12 months prior to his appointment (01.2015-12.2015), communicated by the National Institute of Statistics for the Machine Construction Industry - Repair and Maintenance of Aerospace and Space Shuttles (corresponding to the main activity object of IAR SA)
 - the remuneration of the General Manager of IAR SA does not include a variable component
 - special pension rights and/or benefits are not provided.

The principles of the remuneration policy is posted on the website of the company.

3.3. Information on risk management and internal control

IAR SA has implemented an effective framework for risk identifying, monitoring and management. The risk management activity, which includes all processes concerning identifying, evaluating and assessing risks, establishing responsibilities, taking measures to mitigate or to anticipate them, periodic reviewing and monitoring of progress, is regulated procedurally in the Company in order to provide a method by which IAR's risk management becomes operational, so it can be streamlined and strengthened.

During the year 2017, by implementing the risk management system, the executive management of the company:

- identified key risks, by assessing and monitoring these risks in terms of potential impact and the probability of their materialization;
- monitored the activity of the commission responsible for risk management at company level;
- determined key risk indicators for monitoring the performance of the company in relation to the types of risks (eg., operational risk, human resources risk, legal risk, etc.);
- informed the Board of Directors, through the Auditors' Committee on the status of significant risks, including on the risk on the company's shares, in order to manage such risks.

The risk management system implemented in the IAR SA is complemented by an internal control system which during 2017:

- assured both exercising the internal control (excluding internal audit), as defined under the profile legislation in force and performed the detailed administrative control in all departments and divisions of the company
- foresaw an appropriate level of policies, procedures and processes to limit risks and the achievement of the company's envisaged objectives for the analyzed year,
- intended to provide reasonable assurance regarding the achievement of the objectives which fall into the following categories: effectiveness and efficiency of operations; the accuracy of financial reporting; compliance with the applicable laws and regulations.

The internal audit function, legally regulated, was provided in 2017 by an internal audit company, based on a service agreement, intended:

- to reasonably offer, objective and independent assurance both to the administrative management and to the executive management, according to which the organization, the company's policies and procedures are working effectively and as expected,
- to provide assurances regarding the effective implementation at the company level of the framework of risk management and of internal control system,
- to independently make decisions on matters of audit,
- to conduct, independently, activities from an operational perspective compared to other departments within the company and to the executive management of the Company,
- to develop risk plans, by consulting with:
 - o the commission responsible for risk management,
 - o the audit committee of the Board of Directors.
- to elaborate the justifying documents that are supported by the conclusions drawn by it while performing its activity.

3.4. Information regarding the shareholders

The share capital of IAR S.A. is 47,197,132.5 lei, representing a total of 18,878,853 nominal shares, with a nominal value of 2.5 lei each. Each share gives right to one vote in the general meeting of shareholders.

The record of IAR SA 's shareholders is held, under a service agreement by the Depozitarul Central SA. Company.

In IAR SA a department dedicated to handling all issues related to ownership of the company is organized and operates on: the evolution of the shareholder structure, rights arising from the IAR SA's shares, organizing of the general assemblies of shareholders, the dividend distribution, the relationship with the ASF, the BVB and the Depozitarul Central, any matters of corporate governance, as they are governed by the applicable law on capital market issuers whose securities are traded in the Bucharest Stock Exchange.

On the webpage of the company, www.iar.ro, are posted all the information that might be of interest to shareholders and to potential investors.

The information on the shareholder activity may also be obtained from any of the persons below, who work in this department, daily from 07:15 to 15:15:

1. eng. Aurelia SUMEDREA - tel 0268-475108, extension 1018
2. ec. Camelia CEAPRAZARU – tel 0268-475108, extension 1026
3. eng. Teodor STANCU – tel 0268-475108, extension 1023

3.4.1. Markets on which the shares issued by IAR S.A. are traded

The shares issued by IAR S.A. were traded on the Bucharest Stock Exchange, the Equity Sector - Standard Category shares – iarv symbol.

The evolution of the market value of the IAR S.A. Company's shares in 2016 is shown in the chart below:



From the analysis made based on public information posted on the BSE website the following evolution of IAR S.A.'s shares trading over 2017 emerges:

The total number of transactions	The total number of traded shares	The total value of traded shares (lei)	The price variation (%)
7.695	2.354.955	20.062.723,68	+25%

It may be noted that the market value of the IAR's shares, resulting from all the transactions carried out in 2017 developed positively, increasing from a minimum of 6.50 lei / share, to a maximum of 10.95 lei / share.

Analyzing the above chart one can see how the share price has been significantly influenced by informing just in time of the shareholders and investors regarding any significant event which concerns the company.

3.4.2. The amount of dividends paid by the IAR S.A. Company in the last three years

For 2013, the amount allocated to be shared as dividends to IAR S.A. shareholders was 1.419.690 lei, resulting in a gross dividend of 0,0752 lei per share. Also, by the resolution no. 5 / 24.04.2014 of the GSM, the general meeting of shareholders approved the prescription of unpaid dividends for the

financial years older than 3 years (including until 2009). Dividends were paid by bank transfer, pay office and Depozitarul Central, to shareholders registered in the register of shareholders on 15.05.2014.

For 2014, the amount allocated to be shared as dividends to IAR S.A. shareholders was 2.922.372 lei, resulting in a gross dividend of 0,1547 lei per share. In the same time, the OGSM has approved by Decision no. 3 / 27.04.2015, the prescription of the unpaid dividends for the financial year 2010 (more than 3 years old). Dividends were paid via S.C. Depozitarul Central S.A., to shareholders registered in the register of shareholders on 15.06.2015.

For 2015, the amount allocated to be shared as dividends to IAR S.A. shareholders was 6.556.626 lei, resulting in a gross dividend of 0,3473 lei per share. In the same time, the OGSM has approved by Decision no. 3 / 26.04.2016, the prescription of the unpaid dividends for the financial year 2011 (more than 3 years old). Dividends were paid via S.C. Depozitarul Central S.A., to shareholders registered in the register of shareholders on 15.06.2016.

For 2016, the amount allocated to be shared as dividends to IAR S.A. shareholders was 6.230.021 lei, resulting in a gross dividend of 0,33 lei per share. In the same time, the OGSM has approved by Decision no. 4 / 27.04.2017, the prescription of the unpaid dividends for the financial year 2012 (more than 3 years old). Dividends were paid via S.C. Depozitarul Central S.A., to shareholders registered in the register of shareholders on 15.06.2017.

For 2017, based on the provisions of the specific laws in force, the Board of Directors and the executive management of IAR S.A. propose the allocation of the amount of 4.247.742 lei in dividends. The result of calculations show that in 2017 the gross dividend per share is 0,225 lei.

The dividend payment date will be 06 or 09.07.2018, which will be paid via Depozitarul Central SA to the shareholders registered in the register of shareholders on 15.06.2018, identification date of shareholders who will be impacted by the GMS resolution approving the financial statements. Expenses incurred by the distribution of dividends shall be borne by the shareholders.

If:

- For objective reasons, (related either to not casing-in by some shareholders of the dividends owned by them and/or change of addresses or the very low total value of dividends due to some of the shareholders) some of the total amount of dividends to be distributed could not be paid,
- IAR S.A. fulfilled a legal obligation to disclose information relating to the distribution of dividends fixed by the general meeting of shareholders with the approval of the distribution of the annual profit made by the company and by publishing it in the press and on its website, in press releases issued on this subject and by transmitting these releases to the Financial Supervisory Authority and the BSE.

The Board of Directors and the executive management of IAR S.A. propose that the general meeting of shareholders to approve:

- prescribing unpaid dividends for the fiscal year 2013, which meets the condition for achieving the deadline of 3 years from the date of chargeability of distributed dividends stipulated by art. 2517 of the Civil Code
- the proposal for their registration under "other income" - account 758 under the law provisions.

The date of prescribing these amounts will be 30.06.2018.

3.4.3. Purchase activities of own shares

As communicated to the investors through the Information Report dated 15.02.2018, on 14.02.2018, the Board of Directors, examining the request of SIF III Transilvania regarding its withdrawal from the IAR SA Company based on the right conferred by art. 134 of the Companies Law 31/1990 republished, decided to start the procedure of selecting the independent evaluator approved by the ASF to prepare the report setting the value of the shares in the withdrawal procedure.

This request was filed by SIF III Transilvania following the issuance of the EGMS Decision no. 09 / 28.11.2017 approving the change of the former main business object of the company NACE code

3316 - Repair and maintenance of aircrafts and spacecraft, with the new main activity of the company, NACE code 3030 - Manufacture of aircraft and spacecraft.

The above change was due to the significant pro-rata increase in the aircraft manufacturing activity in total company sales, to the detriment of aircraft repair and maintenance, which thus became secondary.

Following this process, the company will acquire the shares stake in SIF III Transilvania, and the GMS will decide what will happen to such shares.

3.4.4. Subsidiaries of IAR S.A. - not applicable.

3.4.5. Issuance of shares or other debt instruments - not applicable

3.5. The operational management of IAR S.A.

In compliance with Law no. 31/1991, republished, as amended and supplemented, the leadership, organization, representation and management of the activity of IAR S.A. were ensured, in 2015, by **Mr. Eng. Neculai BANEĂ - GENERAL MANAGER**. He represented the company in relation to third parties and was responsible for how the company carried out acts of leadership under the mandate contract number E425 / 30. 03.2009, valid until 31.12.2018.

Mr. Neculai BANEĂ holds 0.00042375% of the shared capital (the share owned by assigning shares under the mass privatization process and as a result of shares acquisition on the RASDAQ market).

During 2017, IAR S.A.'s executive management was provided as follows:

- **Commercial and Economic Executive Director: ec. Ion DUMITRESCU**
- **Development – Production Executive Director: Eng. Ioan Alexandru CHIRIȚĂ.**

The respective executives are employees of the company (based on individual employment contracts signed with the company). None of the above nominees has any agreement, understanding or connection with others, under which they have been appointed to IAR S.A.'s management and was not involved in litigation or administrative procedures in the last 5 years.

The executives directors held the following shares of the share capital of the IAR S.A. Company, as at 31.12.2017:

- Mr. Ion DUMITRESCU: 0,00125537% of the share capital (the share owned by assigning shares under the mass privatization process and as a result of shares acquisition on the RASDAQ market)
- Mr Ioan CHIRITA: has no shares within IAR SA.

3.6. Litigation or administrative procedures regarding the activity of the people in the management of IAR S.A. – not applicable

4. FINANCIAL-ACCOUNTING STATEMENTS; FINANCIAL-ACCOUNTING ADMINISTRATION ELEMENTS

4.1. THE FINANCIAL-ACCOUNTING STATEMENT FOR 2017 COMPARED TO THE PREVIOUS 3 YEARS

The current financial and economic situation compared to the past three years is as follows:

a) balance sheet items

	lei			
BALANCE SHEET ITEMS	31.12.2014	31.12.2015	31.12.2016	31.12.2017
I. Fixed assets	42,174,920	64,300,563	63,452,322	63,588,814
Stocks	48,280,247	36,624,387	48,459,209	115,650,817
Debentures	20,441,103	18,109,861	35,270,452	93,019,623
Cash and banking accounts	39,608,353	80,163,837	82,101,001	63,574,862
Short-term financial investments	6,053,816		-	
II. Circulating assets	114,383,519	134,898,085	165,830,662	272,245,302
III. Expenses reg. in advance				
TOTAL ASSETS	156,558,439	199,198,648	229,282,984	335,834,116
Share capital	47,197,132	47,197,132	47,197,132	47,197,132
Reserves from reevaluation	3,139,331	26,044,409	26,044,409	26,044,409
Reserves	14,295,832	16,718,205	23,389,191	31,040,545
Profit	5,713,001	11,961,550	12,213,227	24,191,976
Loss				
Reported result	3,951,194	3,951,194	3,951,194	3,951,194
Profit distribution	368,257		1,266,063	2,934,211
I Shareholder's equity	73,928,233	105,872,490	111,529,090	129,491,045
II Provisions for risks and expenses	52,881,824	58,187,433	78,639,188	85,127,600
Loans and assimilated debts				
Suppliers	8,597,325	3,661,501	12,565,273	14,150,533
Creditor clients	2,465,455	5,683,198	9,250,766	93,994,288
Other debts	18,685,573	25,789,577	17,297,125	13,070,650
III Total payables	29,748,353	35,134,276	39,113,164	121,215,471
IV Settlement accounts	29	4,449	1,542	
TOTAL LIABILITIES	156,558,439	199,198,648	229,282,984	335,834,116

The share of fixed assets in the total assets was of 26.94%, in 2014, of 32.28 % in 2015, of 27.67% in 2016 and of 18.90% in 2017.

b) the profit and loss account

	lei			
THE PROFIT AND LOSS ACCOUNT	31.12.2014	31.12.2015	31.12.2016	31.12.2017
Income from the sale of goods	133,334	259,463	12,977,485	24,989,304
Sold production	101,550,359	130,632,741	139,118,880	167,735,650
Turnover	101,683,693	130,892,204	152,096,365	192,724,954
Income from the stored production – S.C.	15,752,521			10,285,478
Income from the stored production – S.D.		9,613,230	2,218,242	
Other operating income	1,187,494	338,781	9,861,320	335,619
OPERATING INCOME –TOTAL	118,623,708	121,617,755	159,739,443	203,346,051
Expenditure on goods, com discounts received	169,077	235,138	10,667,879	21,975,914
Expenditure on raw mat. and consumable mat.	76,161,337	65,569,774	85,297,152	102,902,438
Expenditure on water and energy	1,421,071	1,459,007	1,609,629	1,558,516
Other mat. expenditure	310,906	375,551	411,798	767,457
External services-related expenses	4,537,774	5,265,285	5,518,861	8,391,942
Duties, taxes and similar levies-related expenses	300,791	373,587	360,806	236,386
Salaries-expenses, participation to the company's profit, restaurant tickets	13,503,702	14,084,658	16,490,087	19,450,005

Insurance and social protection-related expenses	3,482,494	3,195,267	3,816,717	4,705,495
Staff-related expenses	16,986,196	17,279,925	20,306,804	24,155,500
Compensation, environment and transferred assets-related expenses	362,571	20,195,281	318,442	390,067
Expenditure on provisions reduced by income from provisions	9,673,056	5,124,250	15,574,752	8,198,688
Expenditure on the amortization and, constitution and provisions adjustments	1,251,598	1,328,454	3,915,663	4,416,362
Tangible assets re-assessment-related expenses		513,141	0	0
Adjustments to circulating assets	1,125	0	0	0
EXPENDITURE ON OPERATING -TOTAL	111,175,502	117,720,679	143,986,087	172,993,270
RESULT FROM OPERATING - PROFIT	7,448,206	3,897,076	15,753,356	30,352,781
TOTAL INCOME	120,832,085	136,053,144	163,482,756	206,592,170
TOTAL EXPENDITURE	112,695,915	118,618,020	145,187,056	176,335,159
GROSS RESULT - PROFIT	8,136,170	17,435,124	18,295,700	30,257,011

The share of operating costs in the total expenditure: in 2014 is 98.65%, in 2015, is 99.24 %, in 2016, is 99.17 % and in 2017 is 98.10%.

The share of operating income in the total income: in 2013 is 88.69 %, in 2014 is 98.17%, in 2015 is 89.39 %, in 2016, is 97.71 % and in 2017 is 98.42%.

The production of the company is based only on firm contracts and multiannual master agreements with secured end-users. The values of "turnover" and "income from stored production" indicators are given by the delivery schedule and the product transport modality agreed with the beneficiaries.

In 2017, **the workload of production capacities** has averaged 118%.

c) **cash flows** - the available funds of the company on 31.12.2017 were 63,574,862 lei.

4.2. ELEMENTS OF FINANCIAL-ACCOUNTING MANAGEMENT

In 2017 the financial and economic activity of the IAR S.A. was coordinated by the Commercial and Economic Executive Manager of the company.

The economic department is operated by specialized personnel with secondary and higher education.

The entire financial-accounting activity took into account the following principles:

- the principle of prudence;
- the principle of consistency;
- the principle of going concern;
- the principle of matching;
- the principle of opening balance;
- the principle of offsetting;
- the principle of substance over form.

The general accounting principles underlying the accounting registration of operations, transactions, assessment of items presented in the annual financial statements and the financial statements are as follows:

The principle of prudence according to which assets and income shall not be overstated and liabilities and expenses understated. In the individual situation of the global result only the profit made on the date of the financial statements may be included.

In the financial statements all debts incurred in the current financial year or in the previous year are highlighted, even if they become obvious only between the date of the balance sheet and the date of their establishment.

In the financial statements all liabilities and potential losses arising in the current financial year or in the previous financial year are highlighted even if they become obvious only between the date of the balance sheet and the date of their establishment.

To this end the possible provisions, and liabilities resulting from a contract are also being considered. They shall stand in the balance sheet or in the explanatory notes by debt type.

All depreciation is taken into account, whether the result of the period is a loss or profit. The registration of adjustments for depreciation or value loss is made at the expense of expense accounts, regardless of their impact on the statement of the global result.

The principle of consistency: The assessment methods and accounting policies are applied consistently from one financial year to another.

The principle of going concern: The Company continues to operate normally, without going into liquidation or significant reduction of activity.

The principle of matching: the income and expenditure relating to the financial year are highlighted, regardless of the income collection date or the expenditure payment date.

The principle of valuation of asset and liability items according to which, components of assets and liabilities must be valued separately.

The principle of offsetting: The assets and liabilities, income and expenses are not offset unless offsetting is required or permitted by a standard or an interpretation.

The principle of substance over form according to which, the presentation of the amounts in the balance sheet and in the profit and loss account is taken based on the economic substance of the reported transaction or arrangement, and not only their legal form.

The IAR S.A. accounting, as the main instrument of knowledge, management and control of assets, provides chronological and systematic registration, processing and storage of information on the property situation, its outcomes, both for internal use and for the business relations with the customers, banks and tax authorities, etc..

IAR SA relies on double-entry accounting, in compliance with the Norms of the Ministry of Public Finance, compiling monthly reports, and at the end of the semester and at the end of the year presenting a balance sheet.

Accounting records are chronological and systematic, according to the chart of accounts and norms in force, any asset transaction being registered in an accompanying document.

The accounting registration of movable and fixed assets was carried at the acquisition value or production as appropriate.

The fixed assets accounting is made based on categories, on each item and on jobs.

The accounting of material values is made based on types of management, and within these, on the types of materials, tools, devices, checkers, etc.

The types of management are organized both at central and at the manufacturing divisions, by monthly compiling with the trial balance, which is facing the company's synthetic records.

In addition, the financial-accounting department is organized in order to obtain a process established to achieve high quality financial reporting. The roles and responsibilities are specifically defined and a control process is implemented in order to ensure fairness and accuracy of financial reporting process.

Regarding the **unfinished production**, this is organized based on production orders, technical plan and household expenses, and within them, on beneficiaries.

The accounting of providers, of customers, of other claims and obligations, is made by categories and, within them, by each natural or legal person.

The accounting income is made based on the kinds of income and expenditure according to their nature.

Monthly, to verify the correct recording in the accounting of property transactions, the synthetic balance checking is prepared, which on its turn is based on analytical balances on the accounts.

The property inventory was conducted in accordance with the legal regulations in force: Law 82/91 republished, OMPF 2861/2009 - on the rules for organizing and conducting the inventory of assets, liabilities and equity and by Decision no. 27/21.08.2017. The inventory aimed at establishing the actual status of the assets, liabilities and equities of the company and the goods and values owned by any title, belonging to other legal or natural persons, in drawing up the annual financial statements that must provide a true and fair view of the financial position and performance of IAR SA for the financial year 2017.

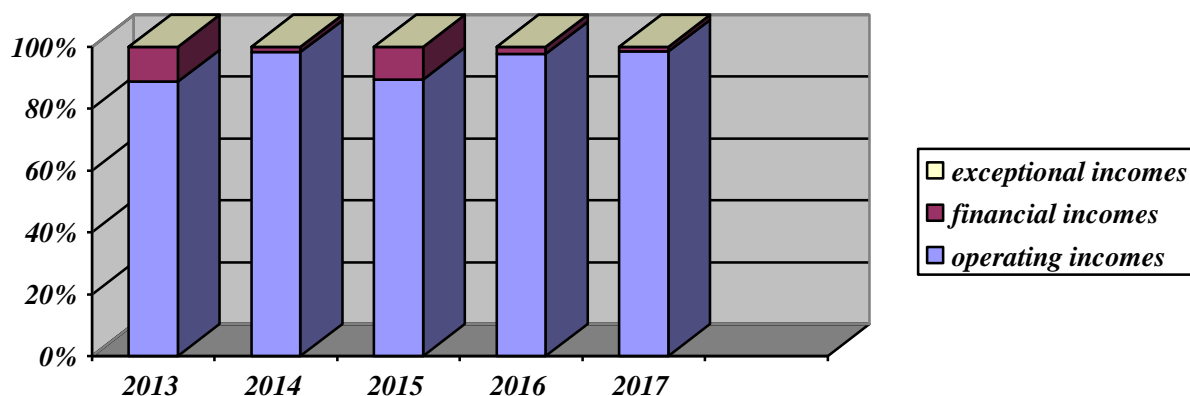
IAR SA's balance sheet for the period 01.01.2017-31.12.2017 was compiled based on the trial balance accounts that were registered in all economic and financial operations based on legal documents drawn up, on the principles and by the provisions of the Accounting Law no. 82 / 1991 approved the company's accounting policies and in compliance with the company's approved accounting regulations harmonized with the Directive no. IV of the European Economic Community, the MFO no. 2844/2016 for approving the Accounting regulations compliant with the International financial reporting standards, applicable to commercial companies whose securities are admitted to trading on a regulated market, as amended and supplemented and the Accounting law no. 82/1991, as amended and supplemented.

THE DEVELOPMENT OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS IN THE LAST 5 YEARS

The evolution of the components of the total income in the last 5 years is as follows:

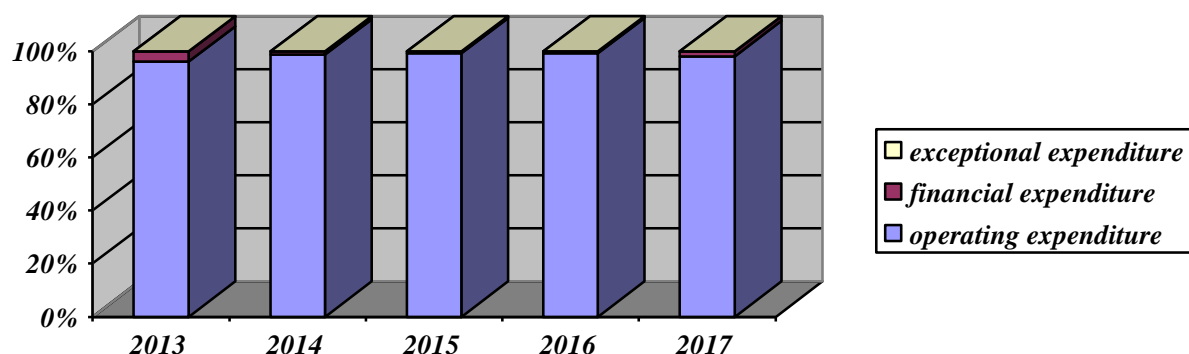
	2013	2014	2015	2016	2017
Operating income	88.69	98.17	89.39	97.71	98.42
Financial income	11.31	1.83	10.61	2.29	1.58
Exceptional income	0	0	0	0	0

The main share, respectively 98.42% of total revenues achieved by the company in 2017, is represented by the income from operating activities.



The evolution of the components of total expenditure in the last 5 years is as follows:

	%				
	2013	2014	2015	2016	2017
Operating expenditure	96.10	98.70	99.24	99.17	98.10
Financial expenditure	3.90	1.30	0.76	0.83	1.90
Exceptional expenditure	0	0	0	0	0



The main share, respectively 98.10% of total expenditure made by the company in 2017, is the expenditure on operating activities.

THE PATRIMONY OF IAR S.A. IS AS FOLLOWS:

✓ **ASSETS**

The value of non-current assets at 31.12.2017 is of 63,589 thousand Lei and represents the value of the intangible assets, the tangible fixed assets affected by the amortization value, as well as the financial assets.

We mention that the tangible assets were evaluated as per the "Re-assessment of tangible assets Group 1, belonging to IAR SA, on 30.11.2015" report, set up by Romcontrol SA, Bucharest, Brasov Agency.

Other tangible assets titles are maintained in the amount of 5,430 thousand lei on 31.12.2017 and they are:

- shareholder titles in SC Airbus Helicopters Romania SA: 5,390 thousand lei, representing 48.99997% of the share capital of the company;
- shareholder titles at SC Aerodrom "Iosif Silimon" SA: 39 thousand lei, representing 39% of the share capital of the company.
SC Aerodromul "Iosif Silimon" SA did not register any activity in 2014 and is under liquidation as decided by the shareholders.
- shareholder titles at the Sports Association "Aripile" Braşov: 200 lei, representing 25% of this association.
- shareholder titles at the National Aerospace Association for Nondestructive Control, RO-NANDTB, Bucharest: 1,000 lei, representing 16.67 %.

✓ **STOCKS**

In the stocks category are comprised:

- raw materials directly involved in the manufacturing of products and are found fully or partly in the finite product, either in their original or processed shape;
- consumables (auxiliary materials, fuel, packaging materials, spare parts and other consumables), which participate or support the manufacturing or operating process without usually being found in the finite product;

- inventory objects materials;
- products, namely:
 - semi-finite products;
 - finite products;
 - scrap, recoverable materials and waste;
 - merchandise;
 - packaging, including reusable packaging, purchased or manufactured, designed for sold products that can be temporarily stored by third parties, having the restitution obligation as stipulated in the agreements;
 - production in progress;
 - the goods in custody for processing or on consignment with third parties.

Certain stocks that were bought are reflected separately, for which risks and benefits were transferred, and are in the supply process.

The accounting of stocks is held quantitatively and qualitatively by using the perpetual inventory. In these circumstances, in the accounting are registered all incoming and outgoing transactions, which allow the establishment and knowledge, at all times, of the stocks, both in quantity and in value.

The value of the stocks at 31.12.2017 is 115,651 thousand lei, increased by 138.65% compared to the previous year, the causes being the following:

- the increase of the value of raw materials and materials by 45.20%

The increase of the stock of raw materials and consumables from the amount of 33,798,642 lei recorded at the end of 2016, at the value of 49,084,663 lei, is mainly due to the provision of the materials necessary for the execution of the subsequent contract No. 1 of 29.12.2016, to the Supply Framework Agreement No 37/2/042-C of 28.12.2016 "Retrofit and upgrade of IAR 330 L helicopters", as well as other commercial contracts concluded by the company.

In order to comply with the delivery schedule of the helicopters provided for in the contract, the contracting of the overhaul materials and services for all 7 helicopters was made, taking into account their long production cycle

- the increase in the production by 130.20%

The production in progress has increased from 7,308,320 lei, registered at the end of 2016, to the value of 16,825,449 lei, as a result of performing helicopter repair works after the execution schedules that ensure the observance of the delivery terms provided in commercial contracts with deliveries in the period 2018-2019

- the increase in the stock of finished goods and merchandise by 249.20%

The value of finished product stocks increased from 6,322,275 lei, registered at the end of 2016, to the amount of 22,079,539 lei, due to the completion at the end of 2017 of the products and services with delivery terms in the beginning of 2018 .

- the increase in the amounts granted to suppliers for the procurement of materials and equipment

These amounts increased from the amount of 1,029,972 lei, registered at the end of 2016, to the value of 27,661,166 lei, as a consequence of the payment of the downpayments stipulated in the contracts concluded by the company.

✓ RECEIVABLES

On 31.12.2017 the situation of the receivables is as follows:

	lei
Total receivables	93,019,623
- commercial receivables	91,311,048
- long-term receivables	-
- paid deposits	1,176,193
- other receivables, of which:	532,382

• Other taxes-excises	229,750
• Sundry debtors	91,039
• Interests to be received	102,916
• VAT to be recovered	-
• Other receivables related to the personnel	102,593
• Undue VAT	1,299
• Contribution for leaves and indemnities	4,785

In the total receivables, the largest share is held by trade receivables in the amount of 91,311 thousand lei, respectively 98.16 %.

Of the total commercial receivables, 97.20% represents collateral deposits related to bank guarantee letters granted under commercial contracts as well as to guarantee the customs obligations.

✓ PROVISIONS

Provisions are intended to cover liabilities whose nature is clearly defined and which, at the balance sheet date, are likely to exist or it is certain that they will exist, but are uncertain in terms of the amount or the date when they will occur.

The accounting of provisions is kept on types, depending on the nature, purpose or object for which they were established.

In 2017 provisions have been established and increased in compliance with Article 26 of Law 227/2015, with Order no. 2844/2016 for approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market.

The set-up/increased provisions value in 2017 is of 14,527 thousand lei, presenting them in the following structure:

- provision for performance guarantees granted to local customers under contracts concluded with them, amounting to 2,842 thousand lei;
- provision for employees participation to profit, amounting to 1,526 thousand lei;
- provision for depreciation of raw materials stocks, amounting to 1,710 thousand lei
- provision for the retirement bonus, amounting to 1,197 thousand lei
- provision to cover risks, good performance guarantees for the contracts concluded in 2017, amounting to 6,883 thousand lei;
- provision for finite products stocks, amounting to 369 thousand lei.

Also, provisions in the amount of 6,329 thousand lei have been canceled or diminished by the resumption on income, as follows:

- provision for performance guarantees granted to local customers, amounting to 4,446 thousand lei;
- provision for employees participation to profit, amounting to 1,079 thousand lei;
- provision for the retirement bonus, amounting to 435 thousand lei;
- provision for finite products stocks, amounting to 369 thousand lei.

Thus, the adjustments for provisions represent in 2015 the amount of 8,198 thousand lei.

✓ SHAREHOLDERS' EQUITIES

The equity on 31.12.2017 is 129,491 thousand lei and shows an increase by 16.10 % compared to 2016.

✓ PAYABLES

The debts of the company stand out in the accounting based on the third parties accounts. The providers and other payables accounting is kept on categories and on each person or entity.

	lei
Total payables, including "incomes from downpayments":	121.215.471
• financial debts	0
• trade debts	14,150,533
• creditor customers	93,994,288
• incomes registered in advance	0
• other debts to: personnel, budget, social insurance, unemployment fund	2,178,054
• payable VAT	4,417,718
• other creditors, of which the Unemployment Agency: 5.719.491 lei	5,728,134
• other debts - dividends	746,744

The largest share in the total payables is represented by:

- trade payables, in the amount of 14,151 thousand lei, respectively 11.67 % of the total debts;
The trade payables are current debts in compliance with the terms stipulated in the commercial agreements, and the significant values are:
 - AEROSTAR BACAU 382 thousand lei;
 - AIRBUS HELICOPTERS ROMANIA 8,219 thousand lei;
 - AEROFINA 450 thousand lei;
 - REBOUND 581 thousand lei.
- payable VAT in the amount of 4,418 thousand lei
- The position "other creditors", in the amount of 5,728 thousand lei, respectively 4.72 % of total debts.

We mention that the main share is represented by the main creditors – the Unemployment Agency, in the amount of 5,719 thousand lei representing the compensation payments notified by the Unemployment Agency Brasov, in compliance with Decision No. 6 / 13.12.2010.

Regarding the debt to the County Agency for Territorial Employment and Labor (AJOFM), depending on the residence that the employees made redundant by the company had, which represents the compensation granted to the insurance of unemployment budget, of IAR SA's employees whose individual labor agreements were terminated by collective redundancies, under restructuring programs in 2009-2010, as a result of privatization and reorganization of the units in the defense industry, in compliance with Article 12 of GEO 95/2002, industry which includes also IAR SA (according to GD 0813/2002).

We must emphasize the fact that under Article 12, ind. 8 of GEO 95/2002 - "the amounts granted from the unemployment insurance fund as compensations will be recoverable from the economic agents in the defense industry, in the limit of 20 % of rental, sales of assets and shares' sales revenues in the share capital of companies."

Regarding the aspects noted above, it is clear that the amounts due as compensation payments have no due date expressly stated, these liabilities becoming due on the date and to the extent that IAR SA achieved revenues from the activities above.

Please note that these amounts do not bear interest, penalties or other system accessories.

- In the position "other payables" the amount of 747 thousand lei, represents dividends due to shareholders unpaid or paid and returned because of the impossibility of payment from their negligence, respectively the change of address or the communication of incomplete addresses.

The company's payables at the end of 2017 are worth 121,215 thousand lei, of which short-term debts worth 21,563 thousand lei are current debts, whose chargeability is consistent with the legal and contractual deadlines stipulated in the Fiscal Code.

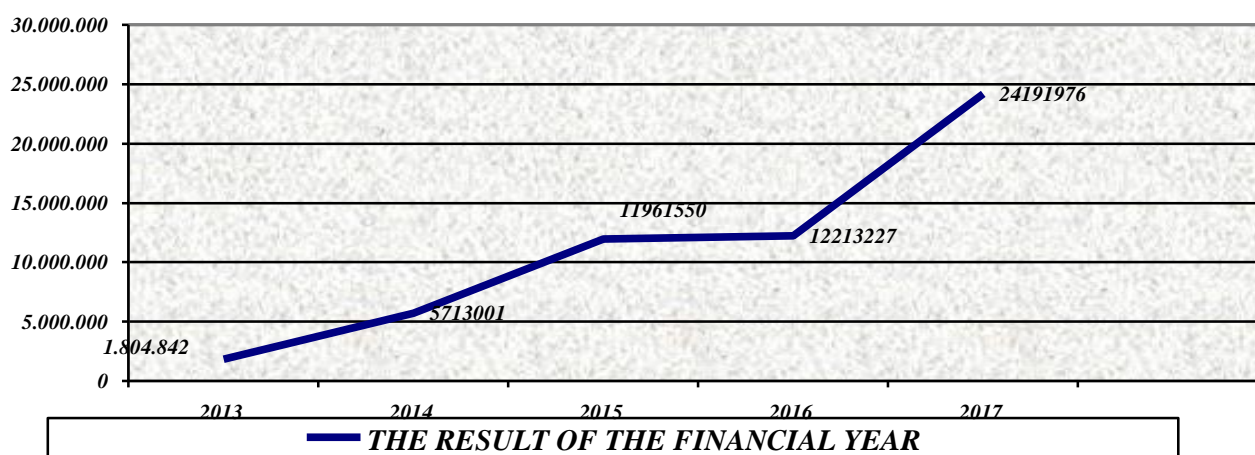
With reference to the long-term debts, the downpayment amounting to 93,944 thousand lei, related to the Supply Framework Agreement no. 37/2/042-C concluded between UM 02550 Bucharest and IAR SA, downpayment which will be settled according to the deliveries as per the schedule in the contract.

We mention that IAR SA paid on time and in full its obligations to the state budget and the budget of the State Social Insurance, as well as the local ones, in the amount of 41,554 thousand lei.

We mention that IAR S.A. doesn't have outstanding payments on 31.12.2017.

The evolution of economic and financial results of the company in the period 2013-2017 is as follows:

	2013	2014	2015	2016	2017
Net profit (lei)	1.669.429	5.713.001	11.961.550	12.213.227	24.191.976
Loss (lei)	-	-	-	-	-



At the end of 2017, according to the MoF Order 2844/2016, the Law 31/1990 and the Law No. 227/2015 as amended and supplemented, the legal deductible reserve was constituted from the profit, amounting to 1,512,850 lei.

THE ANALYSIS OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS

A. Current liquidity ratio:

$$\frac{\text{Current assets}}{\text{Current debts}} = \frac{272,245,302}{21,562,520} = 12.63\%$$

B. Liquidity coverage ratio:

$$\frac{\text{Current assets-stocks}}{\text{Current debts}} = \frac{156,594,485}{21,562,520} = 7.26\%$$

C. Efficiency indicators:

1. The financial rate of return

$$\frac{\text{Net profit}}{\text{Equity}} \times 100 = \frac{24,191,976}{129,491,045} = 18\%$$

2. The rate of return on advanced capital

$$\frac{\text{Current result}}{\text{Fixed assets} + \text{current assets}} = \frac{30,257,011}{335,834,116} = 9\%$$

3. The profit rate

$$\frac{\text{Gross profit}}{\text{Turnover}} = \frac{30,257,011}{92,724,954} = 15.69\%$$

4. The rotation speed of debits-customers

$$\frac{\text{Med. balance of customers} \times 365}{\text{Turnover}} = \frac{8,205,380 \times 365}{192,724,954} = 15.54 \text{ days}$$

5. The rotation speed of fixed assets

$$\frac{\text{Turnover}}{\text{Fixed assets}} = \frac{92,724,954}{63,588,814} = 3.03 \text{ times}$$

6. The rotation speed of total assets

$$\frac{\text{Turnover}}{\text{Total assets}} = \frac{192,724,954}{335,834,116} = 0.57 \text{ times}$$

7. The total amount invested in 2017 was 5,635 thousand lei.

The financial-accounting statement complies with the documents attached to this annual report: the financial statements of 31.12.2017 and the financial auditor's report for the financial year 2017.

5. ANNEXES: the list of companies in which IAR S.A. holds shares.

THE CHAIRMAN of the BOARD of DIRECTORS

Claudia Maria BAICU

GENERAL DIRECTOR

Eng. Neculai BANEA

List of companies in which IAR S.A. owns participations**1. IAR S.A. holds shares in AIRBUS HELICOPTERS ROMÂNIA S.A. as follows:**

Company name	Trade Registry registration number	Object of activity	% of the share capital owned by IAR S.A. in this company	Total value of the shares owned by IAR SA in this company (RON)	Partner in the joint venture
AIRBUS HELICOPTERS ROMÂNIA S.A.	J08/53/23.01.2002	Aircraft manufacturing and repair	48.99997	5,389,997	AIRBUS HELICOPTERS S.A.S.

The value of the participation is recorded in the accounting files at the nominal value per share of 0.10 lei.

AIRBUS HELICOPTERS ROMÂNIA SA is a closed company, its shares not being traded on the share market.

Its social headquarters is: 32, Hermann Oberth Street, Ghimbav, county of Braşov 507075, tel. 0268303000.

2. IAR S.A. owns shares in ASOCIAȚIA SPORTIVĂ ARIPILE BRAȘOV as follows:

Name	SRN	Object of activity	% of the social patrimony owned by IAR S.A. in this association	Total value of the participation owned by IAR SA in this association (RON)	Partners
ASOCIAȚIA SPORTIVĂ ARIPILE BRAȘOV	CUI 17504991	Sports activities – airmodelism and football	25	200 lei	- EUROCOPTER ROMANIA SA - CONSTRUCȚII AERONAUTICE SA - SLI ICA

3. IAR S.A. owns shares in ASOCIATIA NATIONALA AEROSPATIALA PENTRU CONTROLUL NEDISTRUCTIV, non-profit juridical body, non-governmental and independent, having as main scope the promotion and protection of the activity of nondestructive control, in the Romanian airspace industry.

The participation has a total value of 1,000 lei, representing 16.67 % of the share capital of the association.

4. IAR S.A. owns shares in SC AERODROM “IOSIF ȘILIMON” SA as follows:

- participation titles SC Aerodrom “Iosif Șilimon” SA: 39 thousand lei, representing 39 % of the share capital of this company.

SC Aerodromul “Iosif SILIMON” SA has not had any activity since 2014 and its liquidation is in progress as per the resolution of the shareholders.