

ANNUAL REPORT

under N.C.T.S. Regulation no. 1/2006 for the financial year 2016

Date of the report: 27.04.2017

Denomination IAR S.A.

Registered Office: No. 1, Aeroportului 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. COMPANY'S ACTIVITY

1.1.a. The core activity of the company

The main activity performed by the company is that set out in Class 3316 - "Repair and maintenance of aircraft and spacecraft", as part of group 331 "Repair of metal fabricated items, repair of machinery and equipment" division 33 "Repair, maintenance and installation of machinery and equipment."

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 - CANE, 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 restructuring of the Aeronautics Construction Enterprise Ghimbav, the legal basis for constitution being the G D. 1200/1990.

1.1.c. Mergers or significant reorganization during the financial year 2016 - not applicable.

1.1.d. Purchases or disposals of assets

In 2016, IAR S.A. 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 956,268 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 2016 show that IAR S.A. registered profit both from operating activity (labour) and from its overall activity, the company continuing to be a profitable company.

1.1.1. Items of general evaluation

At the end of 2016, the major financial indicators registered by IAR S.A. are as follows:

INDICATOR	IEB PROVISIONS 2016 (lei)	ACHIEVEMENTS 2016 (lei)
1. Net turnover	89.180.000	152.096.365
2. Sold output	89.080.000	139.118.880
3. Total revenues, of which:	92.910.000	163.482.756
- operating revenue	91.530.000	159.739.443
- financial revenue	1.380.000	3.743.313
4. Total expenses, of which:	88.310.000	145.187.056
- operating expenses	87.310.000	143.986.087
- financial expenses	1.000.000	1.200.969
of which: interests	-	-
5. Gross profit	4.600.000	18.295.700
6. Net profit	3.464.000	12.213.227

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 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 military products namely for maintenance works of the structure 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, modernization 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 - 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.

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 Administration and Interior
- Airbus Helicopter Romania S.A. (former Eurocopter Romania S.A.)

For them, 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 Ministry of Defence signed a commercial agreement covering the revitalization and modernization of IAR 330L Puma. Information regarding this contract:

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

Sales by product type on the local market	Percentage of total sales on the local market			
	year 2013	year 2014	year 2015	year 2016
IAR 330 PUMA helicopters upgrade+ Overhaul, IAR 316B helicopters Overhaul, IAR 330 and 316B Helic.revisions	13,85%	64,28%	70,85%	52,22%
spare parts and services for helicopters	45,94%	15,11%	16,45%	36,01%
Aircraft –related miscellaneous	15,18%	15,89%	7,27%	6,76%
Non-aircraft-related miscellaneous	25,03%	4,72%	5,43%	5,01%

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 them, 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			
	year2013	year 2014	year 2015	year 2016
upgraded helicopters	0.00%	0.00%	0.00%	0,00%
spare parts and services for the helicopters	99.78%	100.00%	100.00%	100,00%
airplanes – spare parts and repair services	0.22%	0.00%	0.00%	0,00%

The share of each product/service of all sales in the historical period:

Sales by type of product	Percentage of total sales			
	year 2013	year 2014	year2015	year2016
IAR 330 PUMA helicopters upgrade+ Overhaul, IAR 316B helicopters Overhaul.	-	56.26%	60.75%	57,39%
IAR 330 and 316B Helic.revisions, spare parts and services for helicopters	76.59%	22.65%	27.73%	32,12%
Aircraft-related miscellaneous	8.90%	16.69%	6.55%	6,03%
Non-aircraft –related miscellaneous	14.51%	4.40%	4.97%	4,46%

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.:

- attends 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
- attends to increase the volume of orders and services under the Follow on Support Contract concluded with the Lebanon Air Force for its fleet of Puma SM 330 helicopters
- 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 2016 was achieved both on the local market (89.18% of total sales), as well as on the external market (10.82% 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 2016 amounted to 3.736,54 thousand euros, the equivalent of 16.860,81 thousand lei. The export achievements in 2016 have increased compared to the previous year's achievements.

Comparing the period 2013-2016, 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
Year2013	0%	99,78%	0,22%
Year2014	0%	100,00%	0%
Year 2015	0%	100,00%	0%
Year 2016	0%	100,00%	0%

b. Sales on the local market

Locally there were developed and implemented in 2016 orders and contracts amounting to 138.976,17 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): 111.269,29 thousand lei (VAT excluded),
2. various local customers: 27.706,08 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.

2. The finalization of the discussions with Airbus Helicopters Industry regarding:

- the involvement of the IAR SA in the series production program of structural parts and electrical wiring for H215 helicopters which will be produced by Airbus Helicopter in its new investment on the IAR Brasov platform
- the involvement of the IAR S.A. in the customization activities / MRO to H215 helicopters that will be produced in the future at Brasov and which will be purchased by entities which belong to the National Defence System, Public Order and National Security.

- 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 SUA – S92, UH 60L, NH Industries (European corporation) – NH 90, Kazan Rusia – 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.A.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:

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

On the 31st of December 2016, the company had the following personnel structure which does not differ substantially from the years 2014 and 2015:

- chief executives	2
- heads of departments	17
- higher education	81
- specialized secondary education	17
- foremen	7
- technical quality inspectors	8
- workers	185
- clerks	9

The average age of the personnel employed in IAR S.A. at the end of 2016 was 53,1 years for men and 52,4 years for women. On the 31st of December 2016, men represented 79,32% 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 32,33 years.

Of the total employees of the company, 65,74% 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 2016, 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

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. 157 of 31.12.2013 issued by the Water Management System Brasov, valid until 31.12.2016
- Authorization No.71 of 22.01.2013 on greenhouse gas emissions 2013-2020, issued by the Ministry of Environment, Water and Forests.

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.

During 2016 the company submitted to the competent authorities, the requests based on which the following regulatory acts have been obtained for the new investment "Fitting an existing space into a pickling workshop for aircraft structures and simple parts ": the approval certificate number 56 / 07.04.2016 issued by the Water Management System Brasov and the decision nr. 240 / 05.18.2016 of the Agency for Environment Protection Brasov. After the completion of works and the notification of the authorities, the current environmental permits will be reviewed.

Environmental protection activities during 2016 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. During 2016 there were no breaches of the measured values of pollutants emitted to the limit values. 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. activate a design department, with which the company performs 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, for the issued bank guarantees, the company has negotiated fixed-cost contracts.

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 S.N.A.O.P.S.N. /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.

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 offset programs.

However, if IAR SA becomes 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 four years is as follows:

Indicator	Analysed period			
	31.12.2013	31.12.2014	31.12.2015	31.12.2016
Current liquidity indicator	17,24	4,87	4,64	4,99
Immediate liquidity indicator	10,49	2,81	3,38	3,53

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.

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.

Given the objectives declared, in 2016 the upgrading of the production capacity in which activities were carried out, continued.

Actions taken in this regard have resulted in:

- 1) repairs made to the existing tangible assets:
 - arranging a pickling workshop,
 - refurbishing of the surface treatment workshop.
- 2) procurement of production accessories, small equipment, EMCs, the most important from these being: traction-compression car, metallizing facility, floors washer, device for washing engines, trailers, group pumping water machine for working at heights,
- 3) procurement of IT products - the upgrading of the hardware and software components – action which will be realized in three stages. In 2016 there was bought personals computers with licensed software. The action will continue until the end of 2017.

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. In accordance with the approvals given by the governing bodies competent (general meeting of Shareholders, respectively,

Board of Directors), four of these assets can be capitalized by rental / sale (Machining Workshop and technical annex; Repair and Maintenance Workshop, Warehouses and Self Maintenance Workshop; Expanded Storage buildings, Painting Workshop, Heat Treatment and Carpentry workshop with the technical Annex) and 19 other assets (construction) will be demolished.

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 the Second World War), for which the proceedings of cassation and demolition shall be 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 2016 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	x		

<p>independent. Each independent member of the Board of Directors or of the Supervisory Board, as appropriate, must 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	x		

of legal standards and generally accepted internal audit standards. The Audit Committee must receive and assess reports of the internal audit team.			
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. 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.	x		

<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>	x		
	x		
	x		
	x		
	x		
	x		
	x		
	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 on the website of the company.</p>	x		
<p>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</p>		x	A policy regarding forecasts will be developed in the latter half of 2017

quarterly reports. The policy on forecasts will be published on the website of the company.			
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 five 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	38	engineer	<i>Head of the Energetic Inspection Office at FDFEE Electrica Transilvania Sud S.A.</i>	10.10.2014-12.09.2017

2.	Claudia Maria BAICU	Member	43	lawyer	Manager - Legal Dep., Post-privatization - DPAPS MECRMA	10.10.2014-12.09.2017
3.	Ioan TOMA	Member	62	lawyer	Legal Advisor at INCAS Bucharest	10.10.2014-12.09.2017
4.	Răzvan POPA	Member	38	journalist	Local counselor, Bv City Council	10.10.2014-12.09.2017
5.	Liliana STUPARU	Member	62	economist	Superior counselor DIAPS MECRMA	01.04.2010-13.07.2016
6.	Sorana Rodica BACIU	Member	49	economist	Stat Secretary	13.07.2016-09.12.2017

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 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 manager of IAR SA has held the following management / leadership positions:

PERIOD	COMPANY / POSITION OCCUPIED
February 2016 –December 2016	SMART SA - Member of the Board of Directors
October 2014 - present	IAR SA - Member of the Board of Directors
February 2014 - present	the Moldomin SA Company – 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 interests in the Ministry of Economy, Trade and Relations with the Business Environment, currently holding the position of Director of the Legal Directorate, Post-privatization.

3. Since 2010 Mr. Ioan Toma, independent and non-executive manager 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 manager of IAR SA, 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. Stuparu Liliana, non-executive manager of IAR SA has held the following management / leadership positions:

PERIOD	COMPANY / POSITION OCCUPIED
March 2010 – July 2016	IAR SA - Member of the Board of Directors
2010 - July 2016	ARSENAL Reșița SA – BD Member
March 2010 - July 2016	ELECTROMECHANICA Ploiești SA- Representative of the Ministry of Economy, Trade and Relations with the Business Environment in the GSM

Ms. Liliana Stuparu has the following training and professional experience:

- long-term studies: The Academy of Economic Studies in Bucharest during 2001 - 2005
- short-term studies: Master's Degree in International Business at the Academy of Economic Studies, Faculty of International Economic Relations in the period 2008 - 2010
- experience: 14 years of business in the field of defense industry:
 - negotiation and monitoring of intergovernmental agreements
 - expert on defense and national security matters
 - macroeconomic analysis

- national representative in NATO/the Working Group on industrial safety, industrial resources

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

PERIOD	COMPANY / POSITION OCCUPIED
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 training and professional experience:

- long-term studies: The Academy of Economic Studies in Bucharest, Master's Degree in International Commerce, 1992
- short-term studies: 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

3.2.2. Committees of the Board of Directors of IAR S.A.

Advisory Committees established under the Board of Directors of IAR SA have the following membership:

- 01.01.2016-13.07.2016:

- the Audit Committee:
 - Mrs. Liliana STUPARU – Member
 - Mrs. Claudia BAICU - Member
 - Mr. Ioan TOMA – President
- the Nomination and Remuneration Committee:
 - Mr. Ion Rareș POPESCU – Member
 - Mr. Răzvan POPA – Member

- 13.07.2016-20.10.2016:

- the Audit Committee:
 - Mrs. Claudia BAICU - Member
 - Mr. Ioan TOMA – President
- the Nomination and Remuneration Committee:
 - Mr. Ion Rareș POPESCU – Member
 - Mr. Răzvan POPA – Member

- 21.10.2016-31.12.2016:

- the Audit Committee:
 - Mrs. Sorana Rodica BACIU - Member
 - Mr. Ioan TOMA– President
 - Mr. Răzvan POPA - Member
- the Nomination and Remuneration Committee:
 - Mr. Ion Rareș POPESCU – Member
 - Mrs. Claudia BAICU – Member

3.2.3. Responsibilities of the Board of Directors and advisory committees of the Board

The responsibilities of the Board of Directors and the advisory committees are amply detailed in both the Internal Regulation of the Board of Directors and in IAR SA's Constitutive Act.

The Internal Regulations of the Board of Directors, which is posted on the company's website and can be consulted by those interested, contains terms of reference that are compliant with the Corporate Governance Code of the Bucharest Stock Exchange and include at least provisions concerning:

- the responsibilities of the Board of Directors, of the committees of the Board, of the executive management and of the key functions within the company,
- the management of conflicts of interest by the managers, including the obligation incumbent upon the company's managers to notify the Board of any conflicts of interest that have arisen or may arise and to refrain from participating in discussions (including no-show, except where the no-show would prevent the formation of the quorum) and to vote for a decision on the matter that is giving rise to that conflict of interest
- the presentation by managers of the information on any relation to a shareholder holding, directly or indirectly, shares representing more than 5% of all voting rights of the company,
- the evaluation of the Board of Directors.

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

The activity carried out in 2016 by both the Board of Directors of IAR SA and by its advisory committees, is summarized in the following table:

No. of meetings →	THE BOARD OF DIRECTORS	THE AUDIT COMMITTEE	THE NOMINATION AND REMUNERATION COMMITTEE
Name and Surname ↓	10	3	2
Ion Rareș POPESCU	8		2
Claudia Maria BAICU	8	2	
Ioan TOMA	9	3	
Răzvan POPA	5	1	2
Liliana STUPARU	3	1	
Sorana BACIU	1	1	

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, through a 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.

During 2016, the Board of Directors approached in its meetings various topics of interest to the company, such as:

- suspending, beginning with 13.01.2016, of the contract of mandate signed by Mr. eng. Neculai BANEA - CEO of IAR SA, as a result of his appointment as Secretary of State in the Ministry of Economy, Trade and Relations with Business Environment;
- empowering, from the same date, of Mr. ec. Ion Dumitrescu – Economic and Commercial Executive Director with the power of representation of the company, at the level of the General Director competences
- the approval of the activities program for the financial year 2016 - during January 2016;
- the approval of the annual income and expenditure budget for the year 2016 - during January 2016;
- the approval of the Internal Regulation of the Board of Directors – during January 2016;
- preparation of the current report regarding the Statement of compliance of IAR SA in 2016 to the provisions of the Code of Corporate Governance of BSE – during January 2016;
- the approval of the annual investment program in 2016 - in March 2016;
- 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;

- the approval of the proposals regarding the cassation of the assets (buildings) which has become available to the company after its reorganization and being not relevant for the present or future development of the company, if they can't be recovered through rental or sale and represents a danger to the surrounding perimeter security due to their state of disrepair - during May and June 2016
- the approval of the proposals regarding the valuation of the fixed assets - buildings and installations - which are not used in current activities of the company and are of no interest to the future development of the company – during June, July and October 2016;
- the approval of the Collective Labor Contract – during June 2016;
- 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 2016, after the approval of the IEB 2016;
- 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 2016;
 - b) the preparation and discussion of important issues in the Company's activity;
 - c) the presence of managers in the Board meetings and relevant advisory committees and their constructive involvement in discussions and decision-making.

The purpose of Board evaluation in 2016 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 2016, 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 2016 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 the taking/giving of bribes;

By the activity that took place during 2016, 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 2015, 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 2016, 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 in 2014 by applying the provisions of GO no. 26/2013 and GEO 109/2011, subject to the GSM decision no. 02/08.01.2014 and 02/14.03.2016, 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 Manager of IAR SA:

- the non-executive members of the Board of Directors of IAR SA are granted a gross fixed monthly allowance of 2,397 lei, representing the average of gross monthly average salaries, during the 12 months prior to their appointment, in the machinery construction field- manufacture of other transport and maintenance of aircraft and spacecraft ", communicated by INSSE
- the members of the Council's advisory committees did not receive money for their activities in these committees
- the upper limit fixed Remuneration due IAR SA General Director of the Company is the value appropriate representing six times the average monthly gross average wage for the last 12 months prior to His appointment (01.2015-12.2015), communicated by the INSSE for activity "Machine Building - Repair and maintenance of aircraft and spacecraft (corresponding to the activities of IAR SA)
- in 2016, the monthly fixed amount of the General Director remuneration has not been modified according to the OGSM Decision no. 2/14.03.2016, since his contract of mandate was suspended with effect from 13.01.2016
- the remuneration of both, Board of Director members and General Manager of IAR SA, does not include a variable component
- special pension rights and/or benefits are not provided.

A document containing 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 2016, 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 Audit 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 2016:

- 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 2016 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 endurances 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 executive management of the company,
 - 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.

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 the last year emerges:

The total number of transactions	The total number of traded shares	The total value of traded shares (lei)	The price variation (%)
1116	169.590	1.282.934,12	+27,89%

It may be noted that the market value of the IAR's shares, resulting from all the transactions carried out during 2016 developed positively, increasing from a minimum of 4,75 lei / share, recorded in early July, to a maximum of 7,54 lei / share, recorded on 30.12.2016, the when the executive management of IAR informed the investors and the shareholders that the company has signed with the Ministry of National Defense an significant commercial contract, which will run between 2017 and 2019.

Analyzing the above chart can be seen how the share price has been significantly influenced by:

- Share trading on BSE
- 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 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 15.06.2015.

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 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 15.06.2016.

For 2016, 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 6.230.000 lei in dividends, representing 55,14.% of the net profit by the end of the year. The result of calculations show that in 2016 the gross dividend per share is 0,33 lei.

The dividend payment date will be 06.07.2017, which will be paid via Depozitarul Central SA to the shareholders registered in the register of shareholders on 15.06.2017, 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, pursuant to Art. 67 of Law 31/1990, republished, with subsequent amendments and supplements to approve prescribing unpaid dividends for the year 2012, 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 and the proposal for their registration under "other income" - account 758 under the law provisions.

The date of prescribing these amounts will be 30.06.2017.

3.4.3. Purchase activities of own shares - not applicable.

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 / 03.30.2009, valid until 31.12.2018.

Taking into the consideration the fact that the Romanian Prime Minister appointed Mr Banea as State Secretary at the Ministry of Economy, Trade and Relations with Business Environment, by Decision No 11 / 01.12.2016, the Board of Directors of the Company IAR SA approved the following:

- the contract of mandate No 425 / 30.03.2009, under which Mr. Neculai BANEĂ assures the operational management of the company, will be suspended beginning with 13/01/2016, for the duration of his mandate as State Secretary
- during the suspension of the contract of mandate No. 425 / 30.03.2009, Mr. Ion Dumitrescu - Economic and Commercial Executive Director of IAR SA will exercise the duties of management and company's representation which are in the General Director competence.

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 2016, IAR S.A.'s executive management was provided as follows:

- **Commercial and Economic Executive Director: ec. Ion DUMITRESCU**
- **Development and Production Executive Manager:- until 29.02.2016 - eng. Andrei LÖRINCZ**
- beginning with 01.03.2016– eng Ioan CHIRITA

Those executives directors have the status of clerks 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 hold the following shares of the share capital of the IAR S.A. Company:

- 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. Andrei LÖRINCZ: 0,0062133% 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: 0% of the share capital.

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 2016 COMPARED TO THE LAST 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	31.12.2013	31.12.2014	31.12.2015	31.12.2016
I. Fixed assets	43714509	42.174.920	64.300.563	63.452.322
Stocks	31915365	48.280.247	36.624.387	48.459.209
Debentures	31325882	20.441.103	18.109.861	35.270.452
Cash and banking accounts	2502907	39.608.353	80.163.837	82.101.001
Short-term financial investments	15738105	6.053.816		-
II. Circulating assets	81482259	114.383.519	134.898.085	165.830.662
III. Expenses reg. in advance				
TOTAL ASSETS	125196768	156.558.439	199.198.648	229.282.984
Share capital	47197132	47.197.132	47.197.132	47.197.132
Reserves from reevaluation	3139331	3.139.331	26.044.409	26.044.409
Reserves	13677836	14.295.832	16.718.205	23.389.191
Profit	1669429	5.713.001	11.961.550	12.213.227
Loss				
Reported result	3951194	3.951.194	3.951.194	3.951.194
Profit distribution		368.257		1.266.063
I Shareholder's equity	69634922	73.928.233	105.872.490	111.529.090
II Provisions for risks and expenses	44154754	52.881.824	58.187.433	78.639.188
Loans and assimilated debts				
Suppliers	1951087	8.597.325	3.661.501	12.565.273
Creditor clients	1053843	2.465.455	5.683.198	9.250.766
Other debts	8401473	18.685.573	25.789.577	17.297.125
III Total payables	11406403	29.748.353	35.134.276	39.113.164
IV Settlement accounts	689	29	4.449	1.542
TOTAL LIABILITIES	125196768	156.558.439	199.198.648	229.282.984

The share of fixed assets in the total assets was 33,9% in 2012, 34,92% in 2013, 26,94% in 2014, 32,28% in 2015 and 27,67% in 2016.

b) the profit and loss account

lei

THE PROFIT AND LOSS ACCOUNT	31.12.2013	31.12.2014	31.12.2015	31.12.2016
Income from the sale of goods	2044299	133.334	259.463	12.977.485
Sold production	33354192	101.550.359	130.632.741	139.118.880
Turnover	35398491	101.683.693	130.892.204	152.096.365
Income from the stored production– S.C.	5207894	15.752.521		
Income from the stored production – S.D.			9.613.230	2.218.242
Other operating income	25757	1.187.494	338.781	9.861.320
OPERATING INCOME –TOTAL	40632142	118.623.708	121.617.755	159.739.443
Expenditure on goods, com discounts received	1235498	169.077	235.138	10.667.879
Expenditure on raw mat. and consumable mat.	19157329	76.161.337	65.569.774	85.297.152
Expenditure on water and energy	1504140	1.421.071	1.459.007	1.609.629
Other mat. expenditure	293647	310.906	375.551	411.798
External services-related expenses	3443429	4.537.774	5.265.285	5.518.861
Duties, taxes and similar levies-related expenses	139699	300.791	373.587	360.806
Salaries-expenses	10297740	13.503.702	14.084.658	16.490.087
Insurance and social protection-related expenses	2768376	3.482.494	3.195.267	3.816.717
Staff-related expenses	13066116	16.986.196	17.279.925	20.306.804
Compensation, environment and transferred assets-related expenses	12065	362.571	20.195.281	318.442
Expenditure on provisions reduced by income from provisions	2287828	9.673.056	5.124.250	15.574.752
Expenditure on the amortization and, constitution and provisions adjustments	800308	1.251.598	1.328.454	3.915.663
Tangible assets re-assessment-related expenses			513.141	0
Adjustments to circulating assets	0	1.125	0	0
EXPENDITURE ON OPERATING -TOTAL	41940059	111.175.502	117.720.679	143.986.087
RESULT FROM OPERATING - PROFIT	-1307917	7.448.206	3.897.076	15.753.356
TOTAL INCOME	45815495	120.832.085	136.053.144	163.482.756
TOTAL EXPENDITURE	43645702	112.695.915	118.618.020	145.187.056
GROSS RESULT - PROFIT	2169793	8.136.170	17.435.124	18.295.700

The share of operating costs in the total expenditure: in 2012 is 96,57%, in 2013 is 96,10%, in 2014 is 98,65%, in 2015 is 99,24% and in 2016 is 99,17%.

The share of operating income in the total income: in 2012 is 90,11%, in 2013 is 88,69%, in 2014 is 98,17%, in 2015 is 89,39% and in 2016 97,71%.

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 2016, the workload of production capacities has averaged 105%.

c) **cash flows** - the available funds of the company on 31.12.2016 were 82.101.001 lei.

4.2. ELEMENTS OF FINANCIAL-ACCOUNTING MANAGEMENT

In 2016 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. 27/26.08.2016.

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 2016.

After having carried out the inventory, the following were found:

- in the chapter "unfinished production" each command was analyzed, establishing that the value of orders in progress on 31.08.2016 was 20.161.067 lei, having the following structure:

- basic production (including technical plan activities))	20.049.092 lei
- auxiliary production	111.985 lei
- in the "materials" and "inventory items and TETs" chapters were found no differences.
- at the "fixed assets" chapter, according to the minutes, no additions or reductions were found.

Following the inventory action, the committees proposed, as appropriate:

- the cassation of fixed assets;
- drafting a decision to transfer fixed assets registered as inventory items to inventory items, according to the law;
- preparing movement notes for fixed assets proposed to be transferred to other departments.
- liquid assets, letters of guarantee, letters of credit and other valuables were inventoried under the cash balances of the accounts by the confrontation with the account statements issued by the bank and the Treasury;
- claims and liabilities to third parties have been identified by verification and confirmation based on the receivable and payable balances statements of receivable and payable accounts, according to the account statement or to mutual written scores.

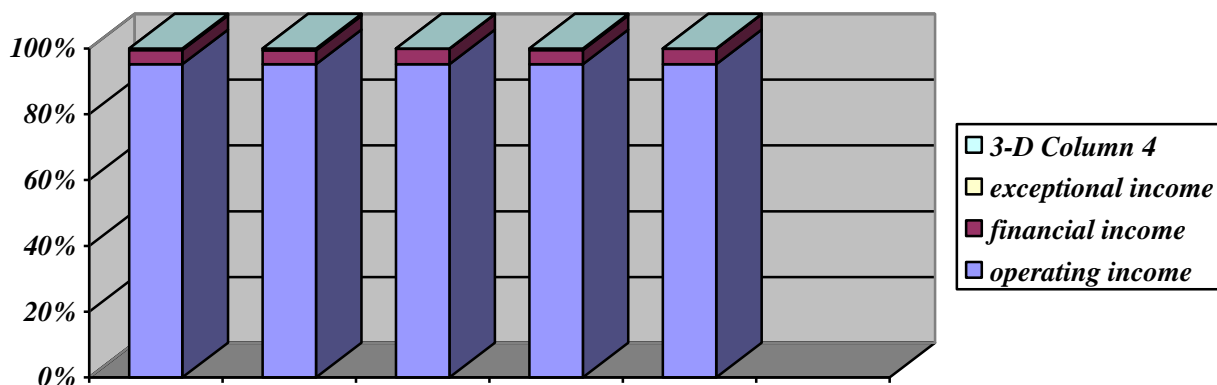
IAR SA's balance sheet for the period 01.01.2016-31.12.2016 was compiled based on the trial balance accounts that were registered in all economic and financial operations based on legal documents drawn up, on the principles and by the provisions of the Accounting Law no. 82 / 1991 approved the company's 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:

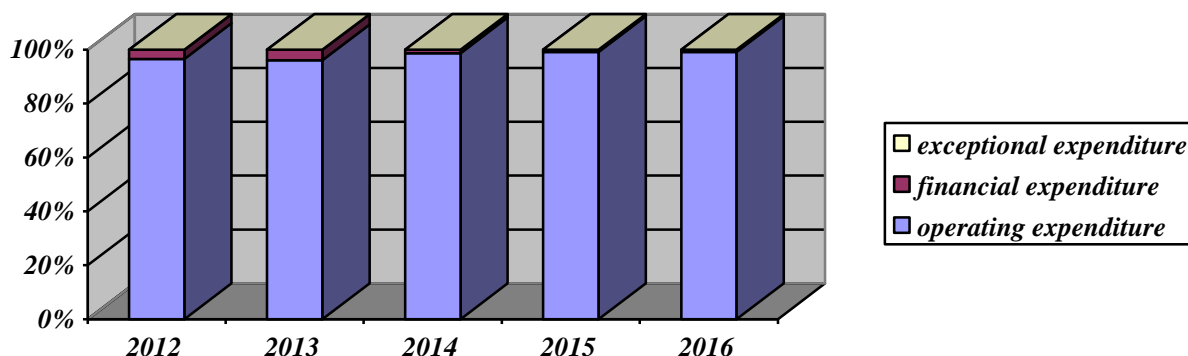
	%				
	2012	2013	2014	2015	2016
Operating income	90,12	88,69	98,17	89,39	97,71
Financial income	9,88	11,31	1,83	10,61	2,29
Exceptional income	0	0	0	0	0

The main share, respectively 97,71% of total revenues achieved by the company in 2016, is represented by the income from operating activities.



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

	%				
	2012	2013	2014	2015	2016
Operating expenditure	96,57	96,10	98,70	99,24	99,17
Financial expenditure	3,43	3,90	1,30	0,76	0,83
Exceptional expenditure	0	0	0	0	0



The main share, respectively 99,17% of total expenditure made by the company in 2016, is the expenditure on operating activities.

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

✓ ASSETS

The value of the intangible assets as at 31.12.2016 is of 63,452 thousand lei and represents the value of the value of intangible assets, tangible assets affected by the depreciation and the financial assets.

We mention that the tangible assets were evaluated according to the evaluation report "reevaluation of tangible assets Group 1 belonging to IAR SA, on 30/11/2015", prepared by Romcontrol SA, Bucharest, Brasov Agency.

Other tangible assets titles are maintained in the amount of 5,430 thousand lei on 31.12.2016 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 stock value on 31.12.2016 is 48,459 thousand lei, increasing by 32.31 % compared to the last year, mainly driven by the significant increase of the raw materials and consumables, from 20,262 thousand lei as at 31.12.2015, to 33,799 thousand lei as at 31.12.2016.

We mention that the production in progress has registered a decrease by 2,786 thousand lei, determined by the finalization and delivery of products that are the object of the subsequent contract 4/2016 concluded with the MoD, MU 01836 Otopeni.

✓ **RECEIVABLES**

On 31.12.2016 the situation of the receivables is as follows:

	lei
Total receivables	35.270.452
- commercial receivables	34.457.051
- long-term receivables	-
- paid deposits	515.028
- other receivables, of which:	298.373
• Other taxes-excises	120.706
• Sundry debtors	38.658

• Interests to be received	98.538
• VAT to be recovered	-
• Other receivables related to the personnel	1.542
• Undue VAT	16.008
• Contribution for leaves and indemnities	22.921

In the total receivables, the largest share is held by trade receivables in the amount of 34,457 thousand lei, respectively 97.69%.

The most important receivables are:

- TURBOMECANICA :	3,179 thousand lei;
- CITRA AVIATAMA DIRGANTARA INDONESIA	4,201 thousand lei;
- BANK GUARANTEE LETTER FOR DOWNPAYMENT	4,928 thousand lei;
- AEROTEH	5,500 thousand lei;
- GOOD PERFORMANCE BANK GUARANTEE LETTER	15,965 thousand lei

✓ 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 2016 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.

Their value of set-up/increased provisions for the analyzed year is 57,736 thousand lei, presenting them in the following structure:

- provision for performance guarantees granted to local customers under contracts concluded with them, amounting to 4,774 thousand lei;
- provision for employees participation to profit, amounting to 1,079 thousand lei;
- provision for receivables depreciation, amounting to 134 thousand lei;
- provision for retirement bonuses, in value of 333 thousand lei;
- provision for off-set penalties, in value of 4,785 thousand lei;
- provision for risk coverage, good-execution guarantees for the contracts concluded in 2016, in value of 46,631 thousand lei;

Also, provisions in the amount of 42,161 thousand lei have been canceled or diminished by the resumption on income, as follows:

- provision for performance guarantees granted to local customers, amounting to 11,976 thousand lei;
- provision for the depreciation of raw materials, goods amounting to 84 thousand lei;
- provision for the depreciation of unfinished production, amounting to 642 thousand lei;
- provision for receivables, amounting to 4,286 thousand lei;
- provision for employees participation to profit, amounting to 1,150 thousand lei;
- provision for the retirement bonus, amounting to 96 thousand lei;
- *provision for performance guarantees granted to the Compensation Office, amounting to 1,825 thousand lei;*
- provision for external customers guarantees (UAE), amounting to 22,102 thousand lei;

Thus, the adjustments for provisions represent in 2016 the amount of 15,575 thousand lei.

✓ SHAREHOLDERS' EQUITIES

The equity on 31.12.2016 is 111,529 thousand lei and shows an increase by 5.43% compared to 2015 (from 105.872 thousand lei in 2015 to 111,529 thousand lei in 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:	39,114,706
• financial debts	0
• trade debts	12,565,273
• creditor customers	9,250,766
• incomes registered in advance	1,542
• other debts to: personnel, budget, social insurance, unemployment fund	3,984,150
• payable VAT	6,662,081
• Other creditors, of which the Unemployment Agency: ... lei	5,912,090
• other debts - dividends	738,804

The largest share in the total payables is represented by:

- trade payables, in the amount of 12,565 thousand lei, respectively 32,12 % 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:

- - AEROTEH SA 7,202 thousand lei;
- - TURBOMECANICA 423 thousand lei;
- - ROCKWELL COLLINS 1,746 thousand lei;
- - BREEZE EASTERN 396 thousand lei,
- payable VAT in the amount of 6,662 thousand lei
- The position "other creditors", in the amount of 5,912 thousand lei, respectively 15,11 % of total debts.

We mention that the main share is represented by the main creditors – the Unemployment Agency, in the amount of 5,903 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 739 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,

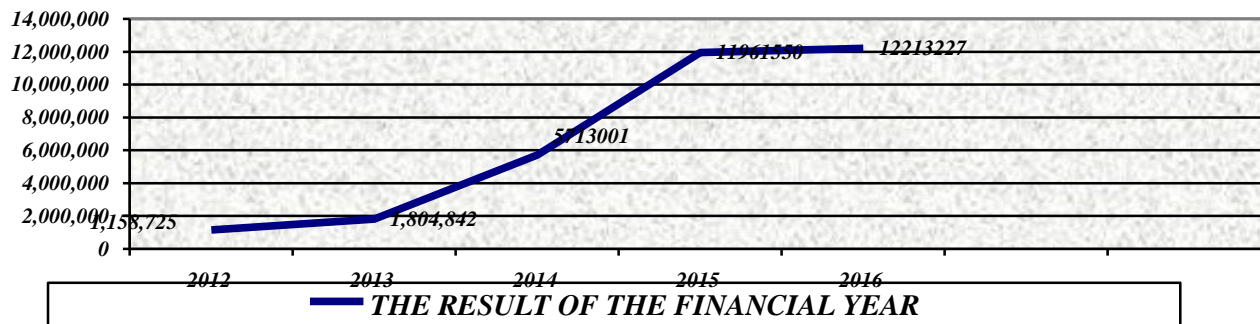
The company's payables (including "advance recorded incomes" in value of 1542 lei) at the end of 2016 are worth 39,115 thousand lei, of which short-term debts worth 5,903 thousand lei + 1,5 thousand lei incomes from downpayments are current debts, whose chargeability is consistent with the legal and contractual deadlines stipulated in the Fiscal Code,

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 33,670 thousand lei, amount which represents 22,1 % of the turnover,

We mention that IAR S,A, doesn't have outstanding payments on 31.12.2016.

The evolution of economic and financial results of the company in the period 2012-2016 is as follows:

	2012	2013	2014	2015	2016
Net profit (lei)	1,158,725	1,669,429	5,713,001	11,961,550	12,213,227
Loss (lei)	-	-	-	-	-



At the end of 2016, 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 914,785 lei

THE ANALYSIS OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS

A, Current liquidity ratio:

$$\frac{\text{Current assets}}{\text{Current debts}} = \frac{165,830,662}{33,209,717} = 4,99\%$$

B, Liquidity coverage ratio:

$$\frac{\text{Current assets-stocks}}{\text{Current debts}} = \frac{117,371,453}{33,209,717} = 3,53\%$$

C, Efficiency indicators:

1, The financial rate of return

$$\frac{\text{Net profit}}{\text{Equity}} \times 100 = \frac{12,213,227}{111,529,090} = 10,95\%$$

2, The rate of return on advanced capital

$$\frac{\text{Current result}}{\text{Fixed assets+current assets}} = \frac{18,295,700}{229,282,984} = 7,97\%$$

3, The profit rate

$$\frac{\text{Gross profit}}{\text{Turnover}} = \frac{18,295,700}{152,096,365} = 12,02 \%$$

4, The rotation speed of debits-customers

$$\frac{\text{Medium balance of customers} \times 365}{\text{Turnover}} = \frac{12,969,534 \times 365}{152,096,365} = 31,12 \text{ days}$$

5, The rotation speed of fixed assets

$$\frac{\text{Turnover}}{\text{Fixed assets}} = \frac{152,096,365}{63,452,322} = 2,39 \text{ times}$$

6, The rotation speed of total assets

$$\frac{\text{Turnover}}{\text{Total assets}} = \frac{152,096,365}{229,282,984} = 0,66 \text{ times}$$

7, The total amount invested in 2016 was 3,114 thousand lei,

The financial-accounting statement complies with the documents attached to this annual report: the financial statements of 31,12,2016 and the financial auditor's report for the financial year 2016,

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

THE CHAIRMAN of the BOARD of DIRECTORS
Ion Rareș POPESCU

GENERAL DIRECTOR
Neculai BANEĂ

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	- AIRBUS HELICOPTERS 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 teh shareholders.

STATEMENT

The undersigned Ion Rares POPESCU – Chairman of the Board of Directors of IAR S.A., hereby certify, under the penalties stipulated in art. 326 Criminal Code, regarding false statements, that, based on the information they I have, I take responsibility for preparing the financial statements and confirm that to the best of my knowledge:

- the annual financial-accounting statements 2016 have been set up as per the applicable accounting standards, OMF 2844/2016 for the approval of accounting regulations compliant with International Financial Reporting Standards (IFRS)**
- the annual financial-accounting statements as at 31.12.2016 provide a complete image that complies with the reality of the assets, liabilities, financial positions, profit and loss account, financial performance and other information on the Company's activity carried out by IAR SA, headquartered in the town of Ghimbav, 1, Aeroportului Street, the county of Brasov, registered with the Registry of Commerce under no. J08 / 4/1991, Sole Registration Number - 1132930, fiscal attribute R,**
- the Annual Report 2016, prepared according to NCTS Regulation No. 1/2006, correctly and accurately presents the information about the company IAR S.A.**

Ion Rares POPESCU

.....

CHAIRMAN OF THE BOARD OF DIRECTORS

STATEMENT

The undersigned Neculai BANEĂ – General Director of the Company IAR S.A., declare on my own responsibility, under the sanction provided by art. 326 of the Criminal Code regarding false statements that I take responsibility for the drawing up of the financial statements and confirm that, to my knowledge:

- the annual financial-accounting statements 2016 have been set up as per the applicable accounting standards, OMF 2844/2016 for the approval of accounting regulations compliant with International Financial Reporting Standards (IFRS)**
- the annual financial-accounting statements as at 31.12.2016 provide a complete image that complies with the reality of the assets, liabilities, financial positions, profit and loss account, financial performance and other information on the Company's activity carried out by IAR SA, headquartered in the town of Ghimbav, 1, Aeroportului Street, the county of Brasov, registered with the Registry of Commerce under no. J08 / 4/1991, Sole Registration Number - 1132930, fiscal attribute R,**
- the Annual Report 2016, prepared according to NCTS Regulation No. 1/2006, correctly and accurately presents the information about the company IAR S.A.**

Eng. Neculai BANEĂ

GENERAL DIRECTOR

STATEMENT

The undersigned Ion DUMITRESCU – Commercial and Economic Director of the Company IAR S.A., declare on my own responsibility, under the sanction provided by art. 326 of the Criminal Code regarding false statements that I take responsibility for the drawing up of the financial statements and confirm that:

- the annual financial-accounting statements 2016 have been set up as per the applicable accounting standards, OMF 2844/2016 for the approval of accounting regulations compliant with International Financial Reporting Standards (IFRS)**
- the annual financial-accounting statements as at 31.12.2016 provide a complete image that complies with the reality of the assets, liabilities, financial positions, profit and loss account, financial performance and other information on the Company's activity carried out by IAR SA, headquartered in the town of Ghimbav, 1, Aeroportului Street, the county of Brasov, registered with the Registry of Commerce under no. J08 / 4/1991, Sole Registration Number - 1132930, fiscal attribute R,**
- the Annual Report 2016, prepared according to NCTS Regulation No. 1/2006, correctly and accurately presents the information about the company IAR S.A.**

Ec. Ion DUMITRESCU

COMMERCIAL AND ECONOMIC DIRECTOR

IAR S.A. BRAȘOV

BALANCE SHEET 2016

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR CONCLUDED ON 31 DECEMBER 2016

Drawn up in accordance with:

Order of the Public Finance Ministry no. 2844 /2016 for the approval of

Accounting

Regulations in accordance with the International Financial Reporting

Standards (IFRS)

BALANCE SHEET 2016

	<u>Row</u>	<u>Note</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2016</u>
<u>A. Non current assets</u>				
I. INTANGIBLE ASSETS				
1. Set up expenses	1			
2. Development expenses	2			
3. Concessions, rights, patents, licenses, trade marks and other similar rights and other intangible assets	3		431.033	291.597
4. Goodwill	4			
5. Advances and intangible assets in progress	5			
TOTAL	6	1(a)	431.033	291.597
II. Tangible assets				
1. Land and buildings	7		56.371.706	55.433.235
2. Technical equipment & machinery	8		1.565.800	1.812.386
3. Other equipment & furniture	9		44.050	84.160
4. Advances and tangible assets in progress	10		446.864	395.093
5. Advances (acc. 4093)	10a		10.863	5.604
TOTAL	11	1(b)	58.439.283	57.730.478
III. Financial Investments				
1. Shares in subsidiaries	12			
2. Loans to subsidiaries	13			
3. Participating interests	14			
4. Loans to entities who own participating interests	15			
5. Investments held as non-current assets	16		5.430.247	5.430.247
6. Other loans	17			
TOTAL	18	1(c)	5.430.247	5.430.247
Non-current assets - Total	19		64.300.563	63.452.322
<u>b. Current assets</u>				
I. Inventories				
1. Raw materials and consumables	20		20.261.787	33.798.642
2. Work in progress	21		10.093.873	7.308.320
3. Finished goods and merchandise	22		5.317.075	6.322.275
4. Advances for inventory acquisition	23		951.652	1.029.972
TOTAL:	24		36.624.387	48.459.209
II. Receivables				
1. Trade receivables	25	12	17.224.127	34.457.051

IAR S.A. BRAȘOV

BALANCE SHEET 2016

2. Advances paid	26		693.785	515.028
3. Amounts receivable from participating interests	27			
4. Other receivables	28	13	191.949	298.373
5. Share capital called up but not paid up	29			
TOTAL	30		18.109.861	35.270.452

III. Short term investments

1. Shares in subsidiaries	31			
2. Other short term investments	32			
TOTAL	33			

IV. Cash and bank accounts	34	11	80.163.837	82.101.001
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Current assets - Total	35		134.898.085	165.830.662
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C. Prepayments **36**

D. Liabilities payable in a period of one year

1. Debenture loans	37			
2. Bank loans	38			
3. Advance payments from customers	39		5.683.198	9.250.766
4. Trade payables	40	14	3.661.501	12.565.273
5. Trade notes payable	41			
6. Amounts due to associates	42			
7. Amounts due to entities with participating interests	43			
8. Other payables, including debts to the state budget and social security budget	44	15	19.726.234	11.393.678
TOTAL	45		29.070.933	33.209.717

e. Current assets, net current liabilities	46		105.822.703	132.619.403
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f. Total assets minus current liabilities	47		170.123.266	196.071.725
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g. Amounts payable in a period above a year

1. Debenture loans	48
2. Bank loans	49
3. Advance payments from customers	50
4. Trade payables	51
5. Trade notes payable	52
6. Payables to subsidiaries	53

IAR S.A. BRAȘOV
BALANCE SHEET 2016

7. Amounts due to entities with participating interests	54		
8. Other payables, including debts to the state budget and social security budget	55	6.063.343	5.903.447
TOTAL	56	6.063.343	5.903.447
h. Provisions for risks and expenses	2		
1. Provisions for pensions and other similar items	57	2.295.115	2.531.184
2. Provisions for employees' benefits	58	1.150.000	1.079.386
3. Other provisions	59	54.742.318	75.028.618
TOTAL PROVISIONS	60	58.187.433	78.639.188
i. Deferred Income			
- Investment subsidies	61		
- Deferred income	62	4.449	1.542
Total	63	4.449	1.542
j. Capital and reserves			
I. Capital			
out of which			
- Paid in capital	64	47.197.132	47.197.132
- Un-paid capital	65		
- Company's patrimony	66		
TOTAL	67	47.197.132	47.197.132
II. Share premium	68		
III. Revaluation reserve	69	26.044.409	26.044.409
IV. Reserves			
1. Legal reserves	70	2.838.868	3.753.653
2. Statutory and contractual reserves	71		
3. Reserves representing the surplus obtained from revaluation reserves	72		
4. Other reserves	73	13.879.337	19.635.538
TOTAL	74	16.718.205	23.389.191
Own shares	75		
Gains related to own shares instruments	76		
Losses related to own shares instruments	77		
V. Result carried forward			
Credit balance	78	3.951.194	3.951.194
Debit balance	79		
VI. Result			
Credit balance	80	11.961.550	12.213.227
Debit balance	81		

IAR S.A. BRAȘOV

BALANCE SHEET 2016

Profit appropriation	82	3	1.266.063
Total equity	83	105.872.490	111.529.090
Public patrimony	84		
TOTAL CAPITAL	85	105.872.490	111.529.090

GENERAL DIRECTOR,

Eng. Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,

Ec. Ion DUMITRESCU

BALANCE SHEET 2016

	<u>Row</u>	<u>Note</u>	<u>Dec. 31,</u> <u>2015</u>	<u>Dec. 31,</u> <u>2016</u>
1. Net turnover	1		130.892.204	152.096.365
Sold production	2		130.632.741	139.118.880
Income from sale of goods	3		259.463	12.977.485
Income from interests registered by entities whose main activity is the leasing	4			
Income from operating subsidies related to net turnover	5			
2. Changes in inventories of finished goods and production in progress Sold D	6		9.613.230	2.218.242
	7			
3. Production made by the entity for its own purposes and capitalized	8			
4. Other operating income	9		338.781	9.861.320
Operating income- Total	10		121.617.755	159.739.443
5. a) Raw materials and consumables expenses	11		65.569.774	85.297.152
Other material expenses	12		375.551	411.798
b) Other external expenses (on power and water)	13		1.459.007	1.609.629
c) Merchandise expenses	14		235.138	10.667.879
Commercial discounts received				
6. Personnel expenses	15		17.279.925	20.306.804
a) Salaries	16		14.084.658	16.490.087
b) Social security costs	17		3.195.267	3.816.717
7. a) Value adjustments related to tangible and intangible assets	18		1.328.454	3.915.663
a.1) Expenses	19		1.328.454	3.915.663
a.2) Income	20			
7. b) Adjustment on the value of circulating assets	21			
b.1) Expenses	22			
b.2) Income	23			

BALANCE SHEET 2016

8. Other operating expenses	24		<u>26.348.580</u>	<u>6.202.410</u>
8.1 Expenses regarding external services	25		5.265.285	5.518.861
8.2 Expenses with other taxes, duties and assimilated payments	26		373.587	360.806
8.3 Expenses on compensations, donations and disposed assets, environment expenses, other operating expenses, revaluation of tangible assets expenses	27		20.709.708	322.743
Expenses on refinancing interests registered by the entities whose main activity is represented by the leasing	28			
Adjustments related to provisions for risks and expenses	29		5.124.250	15.574.752
Expenses	30		34.430.321	57.735.679
Income	31		29.306.071	42.160.927
Operating expenses - total	32		<u>117.720.679</u>	<u>143.986.087</u>
Operating result				
- Profit	33	4	<u>3.897.076</u>	<u>15.753.356</u>
- Loss	34			
9. Income from participating interests	35		<u>13.053.592</u>	<u>1.308.445</u>
- out of which, income from subsidiaries	36			
10. Income from other investments and loans which are a part of the non-current assets	37			
- out of which within the group	38			
11. Income from interests	39		<u>169.243</u>	<u>149.198</u>
- out of which within the group	40			
Other financial income	41		<u>1.212.554</u>	<u>2.285.670</u>
Financial income- total	42		<u>14.435.389</u>	<u>3.743.313</u>
12. Adjustment of the value of financial assets and financial investments held as current assets	43			
Expenses	44			
Income	45			
13. Expenses on interests	46			
- out of which within the group	47			
Other financial expenses	48		897.341	1.200.969
Financial expenses - total	49		<u>897.341</u>	<u>1.200.969</u>

BALANCE SHEET 2016

Financial result			
- Profit	50	<u>13.538.048</u>	<u>2.542.344</u>
- Loss	51		
14. Current result			
- Profit	52	<u>17.435.124</u>	<u>18.295.700</u>
- Loss	53		
15. Extraordinary revenues	54		
16. Extraordinary expenses	55		
17. Extraordinary result			
- Profit	56		
- Loss	57		
Total income	58	<u>136.053.144</u>	<u>163.482.756</u>
Total expenses	59	<u>118.618.020</u>	<u>145.187.056</u>
Gross result			
- Profit	60	<u>17.435.124</u>	<u>18.295.700</u>
- Loss	61		
18. Income tax	62	5.473.574	6.082.473
19. Other expenses on taxes not presented among the above items	63		
20. Net result of the financial year			
- Profit	64	<u>11.961.550</u>	<u>12.213.227</u>
- Loss	65		

All the Company's activities are continuous.

Signed on behalf of the Board of Directors

GENERAL DIRECTOR,

Eng Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,

Ec. Ion DUMITRESCU

CAPITAL CHANGES STATEMENT 2016

Item denomination		Balance on 31-12-2015	Increases		Decreases		Balance on 31-12-2016
			total , out of which:	by transfer	total , /out of which:	by transfer	
A		1	2	3	4	5	6
Un-paid capital							
Paid up capital		47.197.132					47.197.132
The company's patrimony							
Share premiums							
Revaluation reserves		26.044.409					26.044.409
Legal reserves		2.838.868	914.785				3.753.653
Statutory or contractual reserves							
Reserves representing the surplus obtained from revaluation reserves							
Other reserves		13.879.337	5.756.201				19.635.538
Own shares							
Reported result representing the undistributed profit or the uncovered loss	Balance C						
	Balance D						
Reported result arising from the first adoption of IAS, except for IAS 2932	Balance C	3.951.194					3.951.194
	Balance D						
Reported result from the correction of accounting errors	Balance C						
	Balance D						
Reported result from the application of the Accounting regulations compliant with Directive IV of the EEC	Balance C						
	Balance D						
32) This account only appears for the economic agents that have applied the Accounting regulations approved by the OMPF no.94 / 2001 and until the closure of this account							
Profit or loss of the financial year	/Balance C	11.961.550	12.213.227		11.961.550		12.213.227
	Balance D						
Profit appropriation		0	1.266.063				1.266.063
Total equity		105.872.490	17.618.150		11.961.550		111.529.090

GENERAL DIRECTOR,
Eng Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,
Ec. Ion DUMITRESCU

TREASURY CASH FLOWS STATEMENT 2016

Item denomination	Exercițiul financiar/	
	2015	2016
Operational activities		
Net profit before taxation	11.961.550	12.213.227
Adjustments for the reconciliation of net result to net cash used in operational activities	18.437.101	23.615.174
Depreciation and other provisions for fixed assets	1.328.454	3.915.663
Provisions for current assets	5.124.250	-1.753.690
Profit from the sale of tangible assets	0	1.600
Cash from exploitation before the changes to current capital	30.398.651	37.991.974
Changes to current capital (Note 19)	19.373.025	-25.016.529
Paid interests	0	0
Interests received	169,243	149.198
Paid income tax	-3.896.250	-7.741.922
Cash generated from / (used in) operational activities	45.875.595	5.382.721
Investment activity:		
Acquisition of fixed assets	-927.323	2.892.132
Receivables from the sale of fixed assets	0	1.600
Receivables from participations		1.308.445
Net cash used for investment	-927.323	4.202.177
Financing activity:		
Net (decrease)/increase of credits and long-term payables	-173.977	-159.896
Paid dividends	-3.718.811	-6.561.670
Amounts paid in respect to employees' participation to profit	-500.000	-926.168
Net cash (used)/generated from the financing activity	-4.392.788	-7.647.734
Increase in cash and cash equivalents		
Changes in cash and cash equivalents	40.555.484	1.937.164
Balance at the beginning of the year	39.608.353	80.163.837
Increase/(decrease) in cash and cash equivalents	40.555.484	1.937.164
Balance at the end of the year	80.163.837	82.101.001

GENERAL DIRECTOR,
Eng Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,
Ec. Ion DUMITRESCU

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

1 NON CURRENT ASSETS

a) Intangible assets

- lei -

Intangible items	Row no.	Gross value					Depreciation (amortization and provisions)			
		Opening balance	Increases	Decreases		Final balance (row 5 = 1+2-3)	Opening balance	Depreciation during the year	Depreciation related to written-off assets	Depreciation at the end of the year (row 9 = 6+7-8)
				Total	out of which decommissioning					
A	B	1(1)	2(2)	3(3)	4(4)	5(5)	6(1)	7(2)	8(3)	9(4)
INTANGIBLE ASSETS										
Set up and development expenses	01								0	
Other fixed assets	02	1.002.391	62..284			1.064.675	571.358	201.720		773.078
Advances and intangible assets in progress	03									
TOTAL (row 01 to 03)	04	1.002.391	62..284			1.064.675	571.358	201.720		773.078

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

NON-CURRENT ASSETS (CONTINUATION)

b) Tangible assets

- lei -

Items of fixed assets	Row no.	Gross value					Depreciation (amortization and provisions)			
		Opening balance	Increases	Reduceri/ Decreases		Final balance (row 5 = 1+2-3)	Opening balance	Depreciation during the year and provisions	Depreciation related to written-off assets and cancellation of provisions	Depreciation at the end of the year (row 9 = 6+7-8)
				Total	out of which decommissioning					
A	B	1(1)	2(2)	3(3)	4(4)	5(5)	6(1)	7(2)	8(3)	9(4)
TANGIBLE ASSETS										
Land	05	26.569.109				26.569.109				
Buildings	06	36.226.293	2.217.466			38.443.759	6.423.697		3.155.937	3.267.760
Technical equipment and machinery	07	7.256.848	795.613	14.692	14.692	8.037.769	5.691.047	14.692	549.028	5.156.711
Other equipment and furniture	08	553.522	49.088			602.610	509.472		8.978	500.494
Tangible assets in progress	09	446.864	3.010.393	3.062.164		395.093				
Advances given for tangible assets	10	10.863	-5.259			5.604				
TOTAL (row 05 to 10)	11	71.063.499	6.067.301	3.076.856	14.692	74.053.944	12.624.216	14.692	3.713.943	8.924.965

The tangible assets of the Company were assessed at historical cost to which were added the reassessments ordered by normative acts;

The tangible assets in Group 1, Buildings, were evaluated according to the Romcontrol evaluation report.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

c) Financial fixed assets****

- lei -

Items of fixed assets	Row no.	Gross value					Depreciation (amortization and provisions)			
		Opening balance	Increases	Decreases		Final balance (row 5 = 1+2-3)	Opening balance	Provisions established during the financial year, deprec.	Provisions charged to income	Closing balance (row.13 = 10+11-12)
				total	out of which decommissioning					
A	B	1(1)	2(2)	3(3)	4(4)	5(5)	6(1)	7(2)	8(3)	9(4)
FINANCIAL FIXED ASSETS	12	5.430.247				5.430.247				
TOTAL (row 12)	13	5.430.247				5.430.247				
NON-CURRENT ASSETS – TOTAL (row 04+12+13)	14	77.496.137	6.129.585	3.076.856	14.692	80.548.866	13.195.574	216.412	3.713.943	9.698.043

2. PROVISIONS FOR RISKS AND EXPENSES

Denomination of the provision*)	Balance at the start of the financial year	Transfers		Balance at the end of the financial year
		into the account	out of the account	
0	1	2	3	4 = 1+2-3
Provisions for receivables and payables	4351141	134451	4285817	199775
Provisions for risks and expenses	59277485	56188884	34077697	81388672
Provisions for inventories	3444404		725636	2718768
Provision for retirement premiums	2295115	332959	96890	2531184
Provision for participation to profit	1150000	1079386	1150000	1079386
SGBE Provision Compensation Office	1824886	0	1824886	0
TOTAL	72343031	57735680	42160926	87917783

3. PROFIT APPROPRIATION - RON

Destination	31-12-2015	31.12.2016
Net profit to be appropriated:	11.961.550	12.213.226,67
- Legal reserve		914.785,00
- Reinvested profit		351.278,00
- Unappropriated profit	11.961.550	10.947.163,67
- Offsetting the accounting loss from previous years		
- Shareholders' current dividends	6.556.626	6.230.021,00
- Own financing source	5.404.924	4.717.142,67

The above appropriations were made according to official regulations on the appropriation of profit performed by the company in accordance with the law no. 31/1990 on commercial companies and law no. 232/2016 on the national defense industry.

4. ANALYSIS OF THE OPERATING INCOME

Crt. No.	Indicator	Fiscal year Prior year	Fiscal year Current year
1	Net turnover	130.892.204	152.096.365
2	Cost of sold goods and services rendered (3+4+5)	97.855.912	127.353.777
3	Main activities expenses	84.050.205	111.216.820
4	Auxiliary activities expenses	7.034.938	6.866.810
5	Production overheads	6.770.769	9.270.147
6	Gross result corresponding to the net turnover (1-2)	33.036.292	24.742.588
7	Selling expenses	577.836	559.116
8	General administration expenses (with acc.658)	19.286.931	16.073.194
9	Other expenses / operating income	-9.274.449	7.643.078
10	Operating result (6-7-8+9)	3.897.076	15.753.356

5. SITUATION OF RECEIVABLES AND PAYABLES**A. SITUATION OF RECEIVABLES**

	Balance on 31/12/2016	term of liquidity	
		Under a year	Over a year
1. Trade receivables	13.600.763	13.600.763	0
2. Paid advances	1.550.604	1.550.604	0
3. Other receivables	212.427	212.427	0
4. Investment held as fixed assets	0	0	0
5. Other fixed receivables	21.043.471	150.286	20.893.185
TOTAL :	36.407.265	15.514.080	20.893.185

B. SITUATION OF PAYABLES

	Balance on 31/12/2016	maturity for balance		
		Under 1 year	Between 1 and 5 years	Over 5 years
1. Trade payables	12.565.273	12.565.273		
2. Other payables	17.297.125	11.393.678		5.903.447
3. Payables to credit institutions				
5. Advance payments from customers	9.250.766	9.250.766		
TOTAL :	39.113.164	33.209.717		5.903.447

6 ACCOUNTING PRINCIPLES, POLITICS AND METHODS

The main accounting policies adopted in preparing these financial statements are summarized below.

General information

These financial statements have been prepared in accordance with the Accounting Regulations approved by the Romanian Public Finance Ministry's Order No. 3055/2009 for the approval of Accounting Regulations in accordance with the International Standards for Financial Reporting (IFRS). This order requires these financial statements to be prepared in accordance with:

- The Accounting Law no. 82/1991 (republished);
- The disclosure requirements contained in the FMO 2844/2016

These specific provisions stipulate that the annual financial statements are compiled based on the trial balance resulting after applying the IAS.

These financial statements have been prepared based on the historical cost convention, with the exceptions set out in the accounting policies.

Basis of accounting

The Company keeps the accounting records in lei ("RON") and prepares the financial statements in accordance with the Order of the Romanian Public Finance Ministry no. 2844/2016 on the approval of Accounting Regulations in conformity with the International Standards for Financial Reporting (IFRS). The statements are based on the company's accounting records, drawn up on a growing concern basis.

The financial statements ensure the comparability with the financial statements for the previous period.

Use of estimates

The preparation of financial statements in accordance with PMFO 2844/2016 requires the management of the Company to make estimates and hypotheses that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the financial statement preparation date and the expenses reported for that period.

Going concern

The nature of the company's main activity and the uncertainty existing in Romania regarding the outcome of current economic policies implemented in real operational conditions, enable the emergence of considerable unpredictable variations regarding future cash inflows. However, the directors believe that the Company will be able to continue its activity using the going concern principle in the near future and therefore, the financial statements have been prepared on the basis of this principle.

Conversion of transactions in foreign currency

The company's transactions in foreign currencies are registered at the exchange rates from the transaction date. The gains and losses resulting from the settlement of transactions in a foreign currency and from the conversion of monetary assets and liabilities in foreign currencies, are specified in the profit and loss account. Such balances are converted in lei at the exchange rates established by

the end of the year.

On December 31, 2016, the exchange rate used was 1 euro= 4,5411 lei , 1 usd = 4,3033 lei.

Trade receivables

The trade receivables are registered at anticipated attainable value, which is the amount originally invoiced except for a provision for doubtful receivables. For the doubtful receivables an estimation is made based on a review of all outstanding amounts at the end of the year.

Cash and cash equivalents

These are registered in the balance sheet under cost. For the treasury flow statement, these include cash in hand, sight deposits and other short-term investments with high liquidity.

Tangible assets

(i) Cost

The cost of purchase of the fixed assets is the value of the element taken into consideration when purchasing the assets and other directly attributable costs that are incurred when bringing the assets at the present location and the necessary condition provided for their use.

The costs incurred with the maintenance and repair of fixed assets are included in the profit and loss account, as they were executed. The improvements that significantly increase the life of the assets or their technical performance are capitalized.

The fixed assets elements that are written off or sold are removed from the balance sheet together with the corresponding accumulated depreciation. Profit or loss resulting from such an operation is determined as a difference between the amount obtained and the net accounting value and are included in the operating profit for that period.

Profit or loss resulting from such an operation is determined as a difference between the amount obtained and the net accounting value and are included in the operating profit for that period. Fixed assets registered as inventory objects, including equipment and tools, are registered as expenses when put into use and are not included in the accounting value of fixed assets.

Depreciation

Depreciation is determined by linear method, in order to distribute the cost of the recorded asset during the estimated lifespan, as follows:

<u>Asset</u>	<u>Depreciation method</u>
Buildings	40-50 years, using the linear method
Other equipment and furniture	8-10 years, using the linear method
Technical equipment	5-10 years, using the linear method
Transportation means	5 years, using the linear method

(ii) Land

Land is registered at the value given by the measurement. Land is not depreciated as it is deemed to have an indefinite lifespan.

Intangible assets

Development expenses for IT programs

Expenses which increase and extend the benefits of IT programs beyond their description and initial lifespan are recorded as improvements and added to the original cost of the IT program. IT programs development costs recognized as assets are depreciated on a linear method basis over their lifespan, which does not exceed 3 years.

Other intangible assets

Intangible assets are not re-evaluated.

Short-term participations

These include short-term bank deposits.

Inventories

Raw materials' inventories, materials, inventory objects are recorded at the purchase price. The cost of finished goods and of production in progress includes materials, labour force and related production costs.

The storage and picking method is FIFO.

Inventories are recorded at the lowest value between the cost and net realizable value. The cost is generally determined on the basis of the weighted average cost. The cost of finished goods and work in progress includes materials, labor force and related production overheads. Where necessary, provisions are made for slow moving or defective inventories. The net realizable value is the normal selling price, except for costs of completion and selling expenses.

Taxation

The company records the current income tax based on the net profit in the Romanian financial statements, under Romanian law on income tax.

The differences between the International Accounting Standards and the Romanian Accounting and Taxation Principles have not led to the emergence of differences between the accounting basis of certain assets and liabilities namely income and expenses in connection with their tax basis.

Income recognition

Income from sales is recorded when the goods are delivered to the customer at an amount that does not include commercial rebates or discounts offered.

Turnover

Turnover, excluding VAT, represents the amounts invoiced to third parties.

Turnover totaling 152.096.365 lei, is obtained as a result of activity in the field: repair and maintenance of aircraft and spacecraft (NACE code 3316).

Cost of debt

Cost for interest on all loans are registered on expenses when they are made. Interest on loans

NOTES TO THE FINANCIAL STATEMENTS 2016

obtained for financing of construction of fixed assets are capitalized only until commissioning. Future interests are registered on costs.

Pensions and other post retirement benefits

In the normal course of business, the Company makes payments to the Romanian state in its employees' account. All employees of the Company are included in the state pension system. The company does not operate any other pension scheme or post retirement benefits and, consequently, has no other obligations related to pensions. Furthermore, the Company is not required to provide additional benefits to employees.

Liabilities

Liabilities are recorded at nominal value.

In 2016, the Company established provisions for risks and expenses. Rate exchanges related to obligations were recorded under costs.

Provisions are recognized when the Company has a legal or implicit obligation arising from past events, when in order to settle the obligation an outflow of resources is necessary, encompassing economic benefits, and when a reliable estimate can be made regarding the value of the obligation.

PROVISIONS

❖ Tax deductible, amounting to 1.382.527 lei, as follows:

- Provisions for performance guarantees given to internal customers in conformity with the contracts concluded with them, amounting to 1.248.076 lei;
- Provision for the depreciation of Aeronautical Constructions receivable, amounting to 134.451 lei.

❖ Nondeductible, amounting to 56.353.153 lei, out of which:

- Provision for employees' participation to profit amounting to 1.079.386 lei;
- Provision for the pension premium amounting to 332.959 lei;
- Provision for performance guarantees given to internal customers amounting to 3.525.904 lei
- Provision for Offset UAE penalties, amounting to 4.784.546 lei;
- Provision for risks and expenses, amounting to 46.630.358 lei;

Also, provisions amounting to 42.160.926 lei lei were cancelled, as follows:

- Provision for performance guarantees given to internal customers, amounting to 11.975.642 lei;
- Provision for employees' participation to profit amounting to 1.150.000 lei;
- Provision for the pension premium, amounting to 96.890 lei;
- Provision for raw materials, materials and outstanding production's depreciation, amounting to 725.637 lei;
- Provision for the depreciation of Aeronautical Constructions receivables, amounting to 22.102.056 lei;
- The SGBE Provision, Compensation Office, amounting to 1.824.886 lei;
- Provision for non-received Aerospace Tehnology receivable, amounting to 4.151.364 lei.

Warranties

The Company is not responsible for the repair and replacement of products under warranty at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS 2016

This provision has not been established based on the costs level of earlier repairs and replacements, but based on the theoretical maximum risk value stipulated in economic contracts.

7 SHARES AND BONDS**a) Shares**

The shareholding structure is as follows:

SHAREHOLDERS	NUMBER OF SHARES 2015	HELD PERCENTAGE	NUMBER OF SHARES 2016	HELD PERCENTAGE
TOTAL OF SHARES	18,878,853	100%	18,878,853	100%
MINISTRY OF ECONOMY AND BUSINESS ENVIRONMENT	12.250.488	64,89%	12.250.488	64,89%
LEGAL PERSONS	2.996.526	15,87%	2.905.820	15,39%
NATURAL PERSONS	3.631.839	19,24%	3.722.545	19,72%

All shares are ranked pari passu (have equal voting rights) and have a nominal value of 2.5 RON/share.

8. INFORMATION REGARDING EMPLOYEES, ADMINISTRATORS AND DIRECTORS**a) Remuneration of directors and administrators**

Fiscal year Fiscal year
December 31, 2015 December 31, 2016

SALARIES PAID TO DIRECTORS**RON**

BANEA NECULAI	172.560	14.380
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TOTAL	172.560	14.380
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	<u>December 31, 2015</u>	<u>December 31, 2016</u>
BOARD OF DIRECTORS AND GSM		RON
LILIANA STUPARU	28.764	16.779
SORANA RODICA BACIU	0	11.985
ION RARES POPESCU	28,764	28.764
CLAUDIA MARIA BAICU	28,764	28.764
IOAN TOMA	28,764	28.764
RAZVAN POPA	28,764	28.764
TOTAL	143,820	143.820

b) Employees

In the fiscal year ended on the December 31, 2016, the company had an average of 316 employees.

In the normal course of business, the company makes payments to the Romanian state institutions on behalf of its employees' pensions. All company employees are members of the Romanian State pension plan. The company does not operate any other pension scheme or post retirement benefits and, consequently, has no other obligations in respect of pensions. The Company is not obliged to provide additional benefits to employees after retirement.

9 ANALYSIS OF MAIN ECONOMIC AND FINANCIAL INDICATORS

1. Liquidity indicators

Denomination	Calculation formula	(A) year 2015	(B) year 2016	(B - A)	Observations
Rapid ratio (acid test)	$\frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$	3.38	3.53	0.15	must be >1
Current ratio	$\frac{\text{current assets}}{\text{current liabilities}}$	4.64	4.99	0.35	must be ~ 2

2. Risk indicators

a) Gearing ratio

Denomination	Calculation formula	(A) year 2015	(B) year 2016	(B - A) Variation	Observations
Gearing ratio	$\frac{\text{total liabilities}}{\text{total assets}}$	18%	17%	-1	must be <35%
Leverage ratio	$\frac{\text{borrowed capital}}{\text{employed capital}}$	0%	0	0	must be < 35%
Interest Coverage Ratio	$\frac{\text{gross profit} + \text{interest expenses}}{\text{interest expenses}}$	0	0	0	must not be <2

NOTES TO THE FINANCIAL STATEMENTS 2016

3. Profitability indicators

Denomination	Calculation formula	(A) year 2015	(B) Year 2016	(B - A) Variation	Observations
Profit ratio	$\frac{\text{net profit}}{\text{sales figure}}$	9.10%	8.03%	-1.07	must be > than 1,8
Return on investment	$\frac{\text{net profit}}{\text{total assets}}$	6.0%	5.33%	-0.67	must be > than 13%
Financial return	$\frac{\text{net profit}}{\text{total equity}}$	11.3%	10.95%	-0.35	must be > than 5%

4. Activity indicators (management indicators)

Denomination	Calculation formula	(A) year 2015	(B) year 2016	(B - A) Variation	Observations
Inventory turnover ratio	$\frac{\text{sales figure}}{\text{inventories value}}$	3.57	3.14	-0.43	inventory turnover ratio has increased
Number of storage days	$\frac{\text{average inventory} * 365}{\text{sales figure}}$	122.64	102.09	-20.55	
Average cash collection of clients (IN DAYS)	$\frac{\text{clients}}{\text{daily sales}}$	34.40	32.64	-1.76	should be 30-45 days
Days payable outstanding	$\frac{\text{average balance}}{\text{supplier} * 365}$ goods purchases	26.01	23.58	-2.43	
Use ratio of fixed assets	$\frac{\text{sales figure}}{\text{net value of fixed assets}}$	2.04	2.40	0.36	it should have been > than 1

NOTES TO THE FINANCIAL STATEMENTS 2016

Indicators regarding the result per share**a) Result per share**

The result per share is calculated by dividing the net profit attributable to the shareholders by the average number of ordinary shares outstanding during the year, except for the shares repurchased by the Company during the year. There were no dilutive potential ordinary shares during the year.

	<u>2015</u>	<u>2016</u>
Net profit attributable to Shareholders – lei	11.961.550	12.213.227
Weighed average ordinary shares outstanding during the year	18.878.853	18.878.853
<u>Gross profit per share</u>	<u>0,6335 lei/share</u>	<u>0,6469 lei /share</u>

b) The method used to express in national currency the patrimony assets, income and expenses outlined in a foreign currency

The Company's transactions in foreign currencies are recorded at the exchange rate on the transaction date. Gains and losses resulting from the settlement of such transactions and from the translation of assets and foreign currency monetary liabilities denominated in foreign currencies are recognized in the profit and loss account. Such balances are converted in lei at the exchange rates at the end of the year, communicated by the National Bank of Romania.

10 OTHER INFORMATION**a) Information regarding the company's presentation**

- The Company is headquartered in Brasov, no. 1 Aeroportului Street, and is constituted as a joint stock company, being founded in Romania.
- The company's main activity is the construction and repair of aircraft.
- The shares issued by IAR SA were traded on the Bucharest Stock Exchange, the Equity Sector - Standard Class.

b) The method used to express in the national currency the assets, revenues and expenses which are outlined in a foreign currency

The company's transactions in foreign currencies are registered at the exchange rates from the transaction date. The gains and losses resulting from the settlement of transactions in a foreign currency and from the conversion of monetary assets and liabilities in foreign currencies, are specified in the profit and loss account. Such balances are converted in lei at the exchange rates established by the end of the year, which are made public by the National Bank of Romania.

NOTES TO THE FINANCIAL STATEMENTS 2016

c) Information on the income tax

Note: The reconciliation of the fiscal year result and the fiscal result, as shown in the tax declaration.

	31.12.2016
1. Gross accounting profit according to declaration 101	12.213.227
2. Legal reserves	914.785
3. Non-taxable income	37.815.406
3.1 Other deductions	1.631.132
4. Tax non-deductible expenses	66.607.153
5 Income taxable before the tax loss	38.459.057
6. Prior tax loss	
7. Tax loss (5-4)	
8. Taxable profit	38.459.057

d) Fees paid to auditors

The company signed audit contracts worth 67.407 lei in 2016, and in 2016, as follows:

- addendum no. 2 dated 30 March 2012 to the external audit contract no.8/17.02.2004 worth 9800 Euro, respectively 52.887 lei/2016 (with reference to the year 2016)
- addendum dated 16 April 2012 to the internal audit contract no.44/18.08.2008 worth 18.120 lei/206 and the amount of 14.520 lei was paid (with reference to the year 2016-the 1st trimester).

THERE ARE NO PLEDGED/MORTGAGED FIXED ASSETS IN 2016

NOTES TO THE FINANCIAL STATEMENTS 2016

11 CASH AND BANK ACCOUNTS

	<u>Dec. 31, 2015</u>	<u>Dec. 31, 2016</u>
Bank deposits in lei	80.000.468	73.157.476
Bank deposits in foreign currency	133.563	8.928.839
Other values	9.136	14.651
Cash in lei	2.287	35
Cash in foreign currency	18.383	0
Interests receivable	0	98.538
TOTAL	80.163.837	82.199.539

In order to present the cash flow statements, the cash and the cash equivalents comprise the following elements:

	<u>Dec. 31, 2015</u>	<u>Dec. 31, 2016</u>
Cash, bank accounts, other values	63.869.893	72.680.961
Interests receivable	0	98.538
Other short-term financial investments	16.293.944	9.420.040
TOTAL	80.163.837	82.199.539

12 TRADE RECEIVABLES

	2015	2016
External trade receivables	6.217.066	9.276.935
Internal trade receivables	6.121.240	4.323.828
Advances to internal suppliers	91.402	48.189
Advances to external suppliers	602.382	466.841
Deposit for the SGB real estate receivable	9.224.368	21.043.471
Provisions for doubtful customers	-4.338.547	-187.184
TOTAL :	17.917.911	34.972.079

13 OTHER RECEIVABLES

	2015	2016
Personnel receivables	4.450	1.542
VAT to be recovered		
Other taxes (excise and customs duties + CCI)	159.650	143.627
Various debtors	39.302	51.250
Income tax		
Receivable interest	0	98.538
Provision for doubtful debtors	-12.592	-12.592
Other receivables – VAT not due	1.140	16.008
T O T A L :	191.950	298.373

14 TRADE PAYABLES

	2015	2016
Suppliers, of which	3.548.936	11.660.435
Internal	2.603.422	8.259.634
External	945.514	3.400.801
Fixed assets suppliers, of which	112.565	904.838
Internal	22.970	904.838
External	89.595	0
Advance payments from customers	5.683.198	9.250.766
T O T A L :	9.344.699	21.816.039

NOTES TO THE FINANCIAL STATEMENTS 2016

14 OTHER PAYABLES. INCLUDING FISCAL PAYABLES AND SOCIAL SECURITY PAYABLES

	2015	2016
State budget	3.808.493	2.266.962
Social Security Budget	535.274	862.389
VAT payment	9.821.970	6.662.081
VAT not due	0	0
Various creditors	20.620.607	27.728.129
Payables related to personnel	297.390	854.799
Other payables	50.542	738.804
TOTAL	35.134.276	39.113.164
Social security	535.274	862.389
Salary tax	192.279	310.197
Income tax	3.616.214	1.956.765
Payables to employees	297.390	854.799
Increases and penalties		
VAT not due – for bills in installments		
VAT to pay	9.821.970	6.662.081
Various creditors	20.620.607	27.728.129
Other payables	50.542	738.804
TOTAL:	35.134.276	39.113.164

15. IMPOZIT PE PROFIT/ INCOME TAX

The Company registered an income tax due for the previous concluded fiscal year worth 6.082.473 lei. The accounting gross profit was adjusted based on fiscal principles, determining the fiscal profit.

The differences applied in preparing these financial statements between regulations issued by the Ministry of Finance of Romania and the accounting rules do not give rise to significant differences between the accounting value of certain assets and liabilities on the one hand, and their value established for the purposes of fiscal taxation on the the other hand.

NOTES TO THE FINANCIAL STATEMENTS 2016

16. EXPENSES WITH PERSONNEL

	2015	2016
Salaries and indemnities	14.084.658	16.490.087
Expenses with social security and other personnel expenses	3.195.267	3.816.717
TOTAL	17.279.925	20.306.804

The average number of employees during the year was as follows:

TOTAL 316

17. INTEREST EXPENSES AND OTHER SIMILAR EXPENSES

	2015	2016
Losses from foreign exchange differences	897.341	1.200.969
TOTAL	897.341	1.200.969

18. CHANGES IN CURRENT ASSETS ELEMENTS

	<u>31 decembrie 2015/Dec. 31, 2015</u>	<u>31 decembrie 2016/ Dec. 31, 2016</u>
Receivables	18.109.861	35.270.452
Inventories	36.624.387	48.459.209
Trade payables and other payables (-)	35.134.276	39.113.164
TOTAL	19.599.972	44.616.497

NOTES TO THE FINANCIAL STATEMENTS 2016

19 FINANCIAL RISKS**(i) Market risk**

The assets and monetary payables expressed in lei are analysed below:

	<u>Dec. 31, 2105</u>	<u>Dec. 31, 2016</u>
Asset	RON	RON
Monetary assets in lei	63.708.811	63.737.470
Monetary assets in foreign currency	151.946	8.928.839
Net monetary position in lei	63.708.811	63.737.470
Net monetary position in foreign currency	151.946	8.928.839

(ii) Interest rate risk

The interest rate risk means the risk that the value of a financial instrument will fluctuate due to variations of interest rates on the market. The company did not sign foreign currency loan agreements at variable interest rates.

Credit risk

The credit risk means the risk that one of the parties who participate to a financial instrument shall fail to fulfill an obligation, which will cause the other side to record a financial loss. In the given situation the management of the company argues that there may not be situations with significant influence. Since the company did not apply for credits in 2016, the influence was zero.

(iii) Liquidity risk

The company's policy concerning liquidity is to maintain sufficient liquidity so that it can pay its obligations on maturities' dates. The assets and liabilities are analyzed according to the period remaining until the contractual maturities.

(iv) Fair values

The accounting amounts of financial assets and liabilities with maturity under one year approximates their fair value. On 31 December 2016, the fair value of short-term debts, estimated by updating future cash flows with current interest rate for similar instruments on the market, do not differ significantly, according Company's management, from the value to which these financial instruments are registered.

20. CONTINGENT LIABILITIES

Litigations and other disputes

On the date of the balance sheet, various legal actions, proceedings and investigations were open against the company. Based on the professional advice received from the legal advisors of the Company, the Company's management believes that the Company is unlikely to register any significant material obligation, arising from legal proceedings against the Company.

Onerous contracts

The Company did not have any onerous agreements signed on 31 December 2016.

Other aspects concerning the contingent liabilities

The environmental regulations are under development in Romania, but the Company did not register any obligations on 31 December 2016 for any anticipated costs, including legal and consulting fees, studies of site, design and implementation of remedial plans, concerning the components of the environment. The Company's management does not consider the costs associated to any environmental problems to be significant.

GENERAL DIRECTOR,
Eng. Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,
Ec. Ion DUMITRESCU

NOTE LA SITUAȚIILE FINANCIARE 2016

I. Result	Row. No.	No. of units	Amounts	
A	B	1	2	
Units with profit	01	1	12.213.227	
Units with loss	02			
II. Data on outstanding payments	Row. No.	Total rows 2+3	Out of which	
			For the current activity	For investments
A	B	1	2	3
Outstanding payments- total (row 04+08+14 to 18 +22).	03	0	0	
Outstanding suppliers – total (row 05 to 07) out of which:	04	0		
- over 30 days	05	0		
- over 90 days	06	0		
- over 1 year	07	0		
Outstanding liabilities to the social security budget – total (row 09 to 13) out of which	08	0		
- contributions to state social security due by employers, employees and other related persons	09	0		
- contributions to the health fund	10	0		
- contributions to the supplementary pension fund	11	0		
- contributions to the unemployment fund	12	0		
- other social liabilities	13	0		
Outstanding liabilities to special funds budget	14	0		
outstanding liabilities to other creditors	15	0		
outstanding taxes to the state budget not paid at due term	16	0		
outstanding taxes to the local budget not paid at due term	17	0		
bank loans not repaid at due time – total (row 19 to 21) out of which	18	0		
- outstanding above 30 days	19	0		
- outstanding above 90 days	20	0		
- outstanding above 1 year	21	0		
Outstanding interests	22	0		

I. Average number of employees		Previous year	Current year
A	B	1	2
Average number of employees	01	314	316
Actual number of employees at the end of the fiscal year, namely on 31	02	316	326

GENERAL DIRECTOR,
Eng Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,
Ec. Ion DUMITRESCU

RON

Data on intangible assets		Gross values				
Fixed assets	Row no.	Opening balance	Increases	Decreases		Final balance (col./row 5 = 1+2-3)
				Total	out of which decommissioning	
A	B	1 (1)	2 (2)	3 (3)	4 (4)	5 (5)
Intangible assets	01					
Set up and development expenses					x	
Other intangibles	02	1.002.391	62.284			1.064.675
Advances for intangible assets in progress	03					
TOTAL (row 01 to 03)	04	1.002.391	62.284			1.064.675
Tangible assets	05					
Land		26.569.109				26.569.109
Buildings	06	36.226.293	2.217.466			38.443.759
Technical equipment and machinery	07	7.256.848	795.613	14.692	14.692	8.037.769
Other equipment and furniture	08	553.522	49.088			602.610
Tangible assets in progress	09	446.864	3.010.393	3.062.164		395.063
Advances for intangible assets	09a	10.863	-5.259			5.604
TOTAL (row 05 to 09)	10	71.063.499	6.067.301	3.076.856	14.692	74.053.944
Long term financial investments	11	5.430.247				5.430.247
NON-CURRENT ASSETS – TOTAL (row 04+10+11)	12	77.496.137	6.129.585	3.076.856	14.692	80.548.866

Depreciations					RON
Fixed assets	Row no.	Opening balance	Depreciation and provisions during the year	Depreciation corresponding to fixed assets written off, adjustments charged to income	Depreciation at the end of the year (col. 9=6+7-8)
A	B	6 (1)	7 (2)	8 (3)	9 (4)
Intangible assets					
Set up and development expenses	13				
Other intangibles	14	571.358	201.720		773.078
TOTAL (ROW 13+14)	15	571.358	201.720		773.078
Tangible assets					
Land	16				
Buildings	17	6.423.697		3.155.937	3.267.760
Technical equipment and machinery	18	5.691.047	14.692	549.028	5.156.711
Other equipment and furniture	19	509.472		8.978	500.494
TOTAL (ROW 16 to 19)	20	6.264.163	14.692	3.713.943	8.924.965
DEPRECIATIONS - TOTAL (row 15 + 20)	21	13.195.574	216.412	3.713.943	9.698.043

GENERAL DIRECTOR,
Eng Neculai BANEĂ

ECONOMIC AND COMMERCIAL DIRECTOR,
Ec. Ion DUMITRESCU

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AUDIT REPORT
OF FINANCIAL STATEMENTS
OF
S. "I.A.R "S.A.
BRAȘOV
AS AT 31ST DECEMBER, 2016

INDEPENDENT AUDITORS' REPORT
to the Shareholders of IAR S.A.

Opinion

We have audited the financial statements of the company I.A.R. S.A. Brasov (the "Company ") for the financial year closed on 31st December, 2016 and the status of the global result, the status of company capitals changes and the status of the treasury flows corresponding to the financial year closed on the afore-mentioned date, and the notes to the financial statements, including a summary of the significant accounting policies set up in accordance with the Public Finance Ministry Order No.2844 / 2016 on the approval of accounting regulations compliant with the International Financial Regulations Standards (IFRS).

The financial statements herein referred to concern:

-Total assets	= 229,282,984 lei
-Total equity	= 111,529,090 lei
-Financial year result-profit	= 12,213,227 lei

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Company on December 31, 2016, its financial performance and treasury cash flows for the year ended on the mentioned date in accordance with the International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibility based on these standards are explained in detail in the section The Auditor's Responsibilities in Auditing the Financial Statements in our report.

We are independent of the company, according to the Code of Ethics for Professional Accountants (the IESBA Code) issued by the Council for International Standards of Ethics for Accountants in conjunction with the relevant ethical requirements to the audit of financial statements in Romania and we met all other ethical responsibility, in compliance with these requirements and the IESBA Code.

We believe that the audit evidence that we have obtained are sufficient and appropriate to provide a basis for our opinion.

The key aspects of the audit

The key aspects of the audit are those issues that, in our professional reasoning, had the greatest importance to audit the financial statements of the current period. These issues were addressed in the context of the overall financial statement audit and in forming our opinion on them and we do not provide a separate opinion on these aspects.

Revenue recognition

Risk: due to the nature of the company activity, production of long-term qualifying assets manufacturing, there is a risk that the income be recognized on delivery and not proportionally to its implementation as stipulated in IAS 11 - long-term contracts

Our response: We have identified and tested the verifications that appear on customers-incomes financial flows and found that they are operational and present no deviations. We made additional detailed tests to ensure that the revenue is recognized in the correct financial period in accordance with the IFRSs.

Our audit procedures to address the risk of significant material misstatement related to the revenue recognition, which was considered a significant risk included:

- tests of verifications, the delivery terms, the sales prices of its production;
- comparing these data on terms and prices with contracts
- a detailed analysis of the income and its recognition period based on shipping documents and expected results of our knowledge related to the branch of activity following the movements and comparing them with our expectations.

Provisions for risks and charges

Risk: Due to the specific sales activity dependent on a small number of customers and to the long-term contractual agreements there are risks independent of the activity itself of the Company to delay or cancel orders.

Our response: During the he audit, we addressed the adequacy and recognition in the selected period of the costs and provisions in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and found that the assumptions and criteria used by the management to determine the provisions for risks and charges recognized in the financial statements are adequate.

We have identified the criteria for recognition as detailed in the calculation of the Company's management regarding future risks in the performance of contracts concluded during the audited period. The recognition criteria are logical and prudent approaches of the company's management on the risks inherent in the conditions of an economy insufficiently stabilized and taking into account possible changes in the implementation of the budget in future years.

The components audit team performed extensive audit procedures regarding the recognition and measurement of provisions for risk related to those components. The audit team identified the completeness and accuracy of provisions for risks and charges as a significant risk in the audit, reviewed the audit procedures performed by teams on the components and discussed with the company management on the criteria for recognition.

Evaluation of the production in progress

Risk: due to the nature of the company activity, the production of long-term qualifying assets manufacturing, there is a risk to over or undervalue and the reporting of the production in progress influence the current financial result of the company's activity and thus its business continuity.

Our response: During the audit, we approached the recognition in the selected period of the achieving production costs and checked the criteria used by the management to evaluate and recognize it in its financial statements (IAS -2) noting that they are appropriate.

We checked the criteria for recognition as detailed in the calculus on production orders in progress, by the company management, we reviewed the procedures and found that they may not have significant deviations .The assessment of the production in progress was done at the cost of

production, which is lower than the net achievable value under normal conditions of operation of the company.

Other information – The Board of Directors' Report

Other information include the Board of Directors' Report.

The members of the Board of Directors are responsible for preparing and presenting the Board of Directors' Report in accordance with the Order no. 2844/2016, paragraphs 15-18 of the Accounting Regulations compliant with the International Financial Reporting Standards (IFRS) and for such internal control that the directors consider necessary to enable the preparation and presentation of the Board of Directors' Report that are free from significant material misstatement, whether due to fraud or error.

The Board of Directors' Report is presented on pages 1-38 and is not part of the financial statements.

Our opinion on the financial statements does not cover the Board of Directors' Report.

In the audit of financial statements for the year ended December 31, 2016, our responsibility is to read the Board of Directors' Report and, in doing so, to assess whether there is significant divergence between the Board of Directors' Report and the Financial Statements, if the Board of Directors' Report includes, in all material respects the information required by the Order no. 2844/2016, paragraphs 15-18 of the Accounting Regulations compliant with the International Financial Reporting Standards (IFRS), and, whether based on our knowledge and understanding acquired during the audit of the financial statements of the Company and its environment, the information included in the Board of Directors' Report they are significantly flawed. We are required to report on these issues. Based on the work carried out, we report that:

a) in the Board of Directors' Report we have not identified any information that is not consistent in all material respects, with the information presented in the accompanying financial statements;

b) the Board of Directors' Report identified above includes, in all material respects, the information required by the Order no. 2844/2016, paragraphs 15-18 of the Accounting Regulations on annual financial statements in accordance with International Financial Reporting Standards (IFRS).

In addition, based on our knowledge and understanding acquired during the audit of financial statements for the year ended on December 31, 2016 on the company and its environment, we have not identified any information included in the Board of Directors' Report to be materially inaccurate.

The responsibilities of management and of the people charged with governance of the financial statements

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs and for such internal verification that the management deems necessary to enable the preparation of the financial statements free of significant material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the company's ability to continue its operation, showing, if the case, aspects of business continuity and using the accounts based on continuing the activity, unless the management either intends to liquidate the company or to downsize its operations, or has no realistic alternative beyond.

The people charged with governance are responsible for reviewing the Company's financial reporting process.

The auditor's responsibilities in an audit of financial statements

Our goals are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, as well as to issue an auditor's report which includes our opinion. Reasonable assurance is a high level of assurance, but there is no guarantee that an audit conducted in accordance with the ISAs will always detect a significant material misstatement, if any. Distortions can be caused either by fraud or error and are considered significant if it can be expected, reasonably, that they, individually or in aggregate, will influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exert the professional judgment and maintain the professional skepticism throughout the audit. Also:

- We identify and assess risks of significant material misstatement of the financial statements, due either to fraud or error, and execute audit procedures in response to such risks and obtain sufficient appropriate audit evidence to provide a basis for our opinion. The non-detection risk of that a significant material misstatement due to fraud is higher than the non-detection of a significant material misstatement due to error because fraud may involve collusion, forgery, deliberate omissions, misrepresentations and avoiding internal control.
- We understand the internal control relevant to the audit, in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.
- We assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- We draw a conclusion on the appropriateness of the use by the management of the accounting on a going concern basis and determine, based on the audit evidence obtained, whether a material uncertainty exists regarding events or conditions that may cast significant doubt on the ability of company to continue in operation. If we conclude that there is a significant uncertainty, we must note in the auditor's report the presentations related to the financial statements or, if these disclosures are inadequate, to change our opinion. Our conclusions are based on the audit evidence obtained until the auditor's report date. However, future events or conditions may cause the Company to no longer operate under the going concern principle.
- We assess the presentation, structure and general content of the financial statements, including disclosures, and whether the financial statements reflect main transactions and events in a manner that achieves a fair presentation.
- We communicate to the people responsible for governance, among other things, the planned scope and timing of the audit and the main audit findings, including any significant deficiencies in the internal control that we identified during the audit.

- We also provide the people responsible for governance a statement that we complied with the ethical requirements relevant to independence and that we communicated all relationships and other matters which might be assumed, reasonably, to affect our independence and, where appropriate, the related safety measures.
- The matters communicated with those charged with governance determine which are the most important aspects to audit the financial statements of the current period and are therefore key audit issues. We describe these issues in the auditor's report, unless laws or regulations prohibit public disclosure of their appearance or where, in extremely rare circumstances, we determine that they should not be communicated in our report as envisaged reasonably that the public interest overcome the negative consequences of this communication.

Signed on behalf of the company by its administrator:

Ioan Macaveiu

Financial Auditor

27 March 2017