

ANNUAL REPORT

under A.S.F. Regulation no. 5/2018 for the financial year 2018

Date of the report: 25.04.2019

Denomination IAR S.A.

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

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

Sole Registration Code with the Trade Registry: 1132930

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

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

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

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

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

1.1.a. The core activity of the company

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

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

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

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

1.1.d. Purchases or disposals of assets

In 2018, 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 5.575.720. At the same time, in 2018 the company hired modernization works and equipment purchases that would be completed in 2019, the source of funding being provided in the income and expenditure budget for the year 2018.

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 2018 show that IAR S.A. registered profit incurred both by its operational activity (labour) and by its overall activity, the company continuing to be a profitable company.

1.1.1. Items of general evaluation

At the end of 2018, the major financial indicators registered by IAR S.A. are as follows:

| | IEB PROVISIONS 2018 (lei) | ACHIEVEMENTS 2018 (lei) |
|-------------------------------------|----------------------------------|--------------------------------|
| 1. Net turnover | 263,720,000 | 259,274,208 |
| 2. Sold output | 236,720,000 | 183,516,349 |
| 3. Total revenues, of which: | 250,000,000 | 304,717,092 |
| - operating revenue | 248,950,000 | 301,302,476 |
| - financial revenue | 1,050,000 | 3,414,616 |
| 4. Total expenses, of which: | 236,250,000 | 267,646,471 |
| - operating expenses | 232,050,000 | 265,761,030 |
| - financial expenses | 4,200,000 | 1,885,441 |
| of which: interests | | |
| 5. Gross profit | 13,750,000 | 37,070,621 |
| 6. Net profit | 11,660,000 | 31,184,158 |

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 every three years with annual surveillance, the last recertification on 14.05.2018, expiring on 13.05.2021) 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, originally issued in 2007, with unlimited validity and annual surveillance, current issue 30.06.2017) and as a maintenance organization under the EASA PART 145 (Certificate RO.145.009 / 2009 originally issued in 2009, with unlimited validity and annual supervision, current issue 14.07.2017)
- The company is certified by Airbus Helicopters Romania SA as a supplier for the military products namely for maintenance works on the airframes of Puma and Alouette III helicopters, PUMA helicopter equipment maintenance, manufacturing of spare parts for Puma and Alouette III helicopters, laboratory testing, metrology, and for manufacturing of spare parts and subassemblies for Airbus Helicopters, former Eurocopter SAS (initially Certified in 2010 and renewed annually).
- IAR SA is certified by the military body within the Ministry of National Defense of Romania-OMCAS in accordance with the requirements of NATO-AQAP2110 for the design and production of aircraft systems and equipment for aviation, upgrade of aeronautical products, spare parts for aircraft, checks, testing, maintenance and repair of aeronautical products (Certificate no. 11 originally issued in 2012, with annual surveillance, renewed on 05.06.2018, valid until 04.06.2020).

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

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

- cessation, in recent years, of the IAR 316B Alouette III single-engine, light helicopter manufacturing (the main reason – reaching the life limit) and of the IAR 330 PUMA helicopter, mainly due to the fact that the manufacturing of the new engines TURMO IVCA and of the mechanical assemblies ceased.

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

1.1.2.2. Sales Markets

a. Current markets

The national market (Romania)

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

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

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

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

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

Information regarding this contract:

- **Beneficiary: Ministry of Defense - UM 02 550 Bucharest**
- **Duration: 2016-2019,**
- **Value: 313,147,730 lei, without VAT.**

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

In November 2018 the IAR 330 Puma Search & Rescue helicopter qualification process was finalized and the first two helicopters under this contract were delivered, followed by the delivery of the other 5 helicopters in 2019.

Also in 2018, Framework Agreements with the Ministry of National Defence have been concluded over the period 2018-2021, aiming at the overhaul of 8 IAR 330 Puma SOCAT helicopters as well as the other contracts looking at the maintenance and supply of spare parts and mechanical assemblies required to maintain the IAR 330 Puma and IAR 316B Alouette helicopters.

| Sales by product type on the local market | Percentage of total sales on the local market | | | |
|---|---|---------|---------|--------|
| | y. 2015 | y. 2016 | y. 2017 | y.2018 |
| IAR 330 PUMA helicopters upgrade+ Overhaul, IAR 316B helicopters Overhaul, IAR 330 and 316B Helic. Major repair works | 70.85% | 52.22% | 50.55% | 58.90% |
| Spare parts and services for helicopters | 16.45% | 36.01% | 47.32% | 29.60% |
| Aircraft –related miscellaneous | 7.27% | 6.76% | 0.15% | 10.20% |
| Non-aircraft-related miscellaneous | 5.43% | 5.01% | 1.98% | 1.30% |

International market

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

- DGP GHQ UAE ARMED FORCES – UNITED ARAB EMIRATES
- Royal Air Force of Oman - OMAN
- Lebanese Air Force - LEBANON

- Pakistani Army/ Aviation (by AEROTEH SA) - PAKISTAN
- Indonesian Air Force (by PT CITRA AVIATAMA DIRGANTARA) -INDONESIA
- AIRBUS HELICOPTERS FRANCE/GERMANY (by AIRBUS HELICOPTER ROMANIA S.A. (former Eurocopter România S.A.)– FRANCE/ GERMANY

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

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

| Sales by product type on the external market | Percentage of total sales on the external market | | | |
|--|--|---------|---------|---------|
| | y. 2015 | y. 2016 | y. 2017 | y. 2018 |
| upgraded helicopters | 0.00% | 0.00% | 0.00% | 0.00% |
| spare parts and services for the helicopters | 100.00% | 100.00% | 100.00% | 100.00% |
| airplanes – spare parts and repair services | 0.00% | 0.00% | 0.00% | 0.00% |

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

| Sales by type of product | Percentage of total sales | | | |
|---|---------------------------|---------|---------|---------|
| | y. 2015 | y. 2016 | y. 2017 | y. 2018 |
| IAR 330 PUMA and IAR 316B helicopters upgrade+ Overhaul, IAR 330 PUMA and IAR 316B helicopters revisions. | 60.75% | 57.39% | 38.46% | 56.20% |
| IAR 330 and 316B Helic.major repair works, spare parts and services for helicopters | 27.73% | 32.12% | 59.63% | 32.80% |
| Aircraft-related miscellaneous | 6.55% | 6.03% | 0.12% | 9.70% |
| Non-aircraft –related miscellaneous | 4.97% | 4.46% | 1.78% | 1.30% |

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

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

Potential external market

IAR S.A.:

- aims to the conclusion of a "Follow on Support" contract with the Pakistani Ministry of Defense to support IAR / SA 330 Puma, 330 Puma SM and IAR/ SA 316B Alouette III helicopter fleets owned by this country
- aims to conclude an overhaul / upgrade contract for the 330 Puma SM helicopter fleet owned by Pakistani Aviation Army.
- aims to conclude an "Follow on Support" contract with the United Arab Emirates Ministry of Defense to support the 330 Puma MS helicopter fleet owned by this country

- aims to conclude an overhaul / upgrade contract for the 330 Puma SM helicopter fleet owned by the Joint Aviation Command - UAE.
- attends to increase the volume of orders and services under the Follow on Support Contract concluded with the Lebanese Air Force for its fleet of Puma SM 330 helicopters
- aims to conclude an overhaul / upgrade contract for the 330 Puma SM helicopter fleet owned by the Lebanese Air Forces
- intends to remain present on the Omani market (Royal Air Force of Oman) and on the Indonesian market (Indonesian Airforces) for the SA 330 Puma L helicopter fleet service
- attends to the conclusion of contracts for manufacturing spare parts/assemblies with various companies in the European aeronautics industry.

1.1.2.3. New products in question, which will need a substantial amount of assets affected to in the financial year 2019:- 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, Elbit Systems, Rokwell Collins, Thales, Sagem, Sofema, 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 2018 was achieved both on the local market (95,50% of total sales), as well as on the external market (4.50% 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 2018 amounted to 2,493.66 thousand euros, the equivalent of 11,602.88 thousand lei. The export achievements in 2018 have decreased compared to the previous year's achievements.

Comparing the period 2015-2018, in terms of types of product recovery, shows that no changes occurred in the exports' structure:

| % of achieved annual export | upgraded helicopters | spare parts and services for helicopters | airplanes - spare parts and repairs |
|------------------------------------|-----------------------------|---|--|
| Anul 2015 | 0% | 100,00% | 0% |
| Anul 2016 | 0% | 100,00% | 0% |
| Anul 2017 | 0% | 100,00% | 0% |
| Anul 2018 | 0% | 100,00% | 0% |

b. Sales on the local market

Locally there were developed and implemented in 2018 orders and contracts amounting to 247,785.62 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): 219,291.06 thousand lei (VAT excluded),
2. various local customers: 28,494.56 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. Involvement of IAR SA in the future helicopter acquisition programs of the institutions within the National Defense System:

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

The involvement of IAR SA in the multi-role helicopter program will be made in accordance with the provisions of the Definitive Cooperation Agreement no. EB00.11.18.068 / AL signed by Airbus Helicopters and IAR SA on 06.11.2018 and having as object the industrial and commercial cooperation regarding the execution of IAR-H215M Helicopter Customization Works, Subassembly Manufacturing and Maintenance works (MRO) throughout the lifecycle of this helicopter.

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

b) attack helicopter program

Considering that the Romanian Government has submitted to the American Government a request for offer and availability for helicopters manufactured by Bell Helicopters TEXTRON and for the implementation of the Memorandum of Understanding signed on 16.06.2017 by Bell Helicopters TEXTRON and IAR SA, in October 2017, the parties concluded a "Transition Study Agreement", the overall purpose of which is to make a joint assessment of the possibility of assembling, delivery and logistic support for the AH1Z VIPER attack helicopters.

The conclusion of the study, which was finalized in May 2018, is that IAR SA is fit, capable, has the necessary staff and facilities to ensure the assembly and final tests for the AH1Z Viper helicopter to be purchased by the Romanian Government.

In addition, the facilities and experience gained during final assembly and testing will be used for long-term maintenance of these helicopters.

- 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 the overhaul, in parallel with completing the equipment of 330 Puma SM helicopters owned by the Pakistani Ministry of Defence and the Lebanese Ministry of Defence could materially affect the export volumes for the two relationships.

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

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

| Crt no. | Product or group of products | Competitor | |
|---------|------------------------------|---|--|
| | | on the local market | on the external market |
| 1 | PUMA helicopter | Airbus Helicopters with H215, Ukraine and Russia (Aviakon and Kazan Helicopters) with Mi-8, Mi-17 | Airbus Helicopters – H215/H225, Sikorsky USA – S92, UH 60L, NH Industries (European corporation) – NH 90, Kazan Russia – MI 17 |

| | | | |
|---|--|--|---|
| 2 | IAR316B helicopter (currently, IAR S.A. no longer offers newly manufactured IAR316B helicopters) | Airbus Helicopters SAS – AS 350/355, EC120, EC135/635, EC 155, Bell Helicopter Textron – Bell427, Bell 429i, Bell430, Bell412, Bell206, Bell407, Agusta Italy – A109 Power, A119 Koala, Robinson USA – R44, R22, MDHelicopters Belgium – MD500/600 | Airbus Helicopters SAS – AS 350/355, EC120, EC135/635, EC 155, Bell Helicopter Textron – Bell427, Bell 429i, Bell430, Bell412, Bell206, Bell407, Agusta Italia – A109 Power, A119 Koala, Robinson USA – R44, R22, MDHelicopters Belgium – MD500/600 |
|---|--|--|---|

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

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

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

1.1.5. Assessment of the company's employees/ personnel

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

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

- 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 2018, the company had the following personnel structure which does not differ substantially from the years 2016 and 2017:

| | |
|-----------------------------------|-----|
| - chief executives | 2 |
| - heads of departments | 17 |
| - upper education | 99 |
| - specialized secondary education | 17 |
| - foremen | 7 |
| - technical quality inspectors | 9 |
| - workers | 208 |
| - office workers | 9 |

The average age of the personnel employed in IAR S.A. at the end of 2018 was 51.07 years at company level, considering that the average age with men was of 51.5423 and with women of 49.3975. On the 31st of December 2018, men represented 78.04% of the total personnel, the difference being represented by women.

Of the total employees of the company, 59.26% 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 2018, in IAR S.A., no labor disputes or conflicting elements were recorded.

1.1.6. Assessment of the impact of IAR S.A.'s core business on the environment in 2018

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

- Integrated Environmental Authorization no. BV1 of 18/07/2014 issued by the Environmental Protection Agency Brasov, valid until 18.07.2024

- Water Management Authorization no. 26 of 10.03.2017 issued by the Water Management System Brasov, valid until 10.03.2020

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

Environmental protection activities during 2018 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, REMAT Brasov, COMPREST, TEKKO INDUSTRY LOGISTIK for acquisition and disposal of hazardous waste resulting from the activity of the company. In 2018 the minimum 2% value for ammoniacal nitrogen in the wastewater has been exceeded and thus, the company decided to connect to the sewerage network of the Regia Autonoma Apa Brasov, this network being achieved for the International Airport located in the neighbourhood of our company.

All required reports were made by both the authorization and other reports and statements required by the Brasov Environmental Protection Agency, the National Agency for Environmental Protection, the Ministry of Environment, the Ministry of Water and Forests, the Water Management System Brasov.

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

1.1.7. Evaluation of the research and development activities – the company does not carry out research and development activities, thus having no necessity in applying specific policies in this field. In IAR S.A. there is a design department, which supports the company in the helicopter upgrade projects, according to contractual requirements.

In 2018, the IAR 330 PUMA helicopter upgrade project was finalized in the Search and Rescue version and its qualification was made with the competent military body.

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, depending on its possibilities, at a certain time, using different currencies, buys the respective currencies that it needs to complete the necessary import payments from different suppliers.

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

The interest rate risk: The operating cash flows of the company are not affected by movements of the interest rate on the banking market, since currently the company uses a credit line that provides the issuance of bank guarantee letters necessary for commercial contracts and financing of production, where appropriate.

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 finance facility provided by the company's credit line reduces the liquidity risk.

The management of the company, depending on the current situation on the market, made arrangements for continuation of work in terms of profitability. It has been pursuing and is further pursuing the minimization of the potential negative effects associated with the risk factors presented on the financial performance of the company.

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.

A risk management system, which is described in chapter 3 - The corporate governance statement is implemented in the company.

The Company is not subject to any patrimonial legal claims.

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

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

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

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

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

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

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

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

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

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

| Indicator | Analysed period | | | |
|-------------------------------|-----------------|------------|------------|------------|
| | 31.12.2015 | 31.12.2016 | 31.12.2017 | 31.12.2018 |
| Current liquidity indicator | 4,64 | 4,99 | 12,63 | 2,78 |
| Immediate liquidity indicator | 3,38 | 3,53 | 7,26 | 1,01 |

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 the overhaul and on completing the equipment of 330 Puma SM helicopters held by external beneficiaries of IAR S.A. could materially affect the export volumes.

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

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

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

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

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

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

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

In order to accomplish these actions, the management of the company identified an investment requirement for 2018 worth 10 million lei, the financing being made from own sources.

Taking into account the stated objectives, in 2018 the actions taken resulted in:

- 1) rehabilitation / modernization works performed on existing tangible assets:
 - rehabilitation of the drinking water distribution network - phase II, launched in 2017,
 - upgrading of the ventilation / heating and hot air compensation installations in the surface treatment workshop scheduled to be completed in January 2019
 - re-location of the Fire and Safety zone and of the garage, procedure started in 2018 to be completed in 2019,
 - modernization / arrangement of production facilities in the Thermal Power Plant, necessary after the decommissioning of the compressed air and technological steam installations,
 - the major repair of the roof waterproofing of the production hall objective 6
- 2) purchases of machinery, production accessories, small equipment, C&M devices, of which the most important are: hot water boiler with associated facilities, technological water cooling tower (finalized in 02.2019), helicopter mobile power supply with electricity, hydraulic bench for IAR 330, micrometric measuring system, manometer calibration system, freezer -86⁰ freezer, 2 welding machines, stainless steel pickling bath, plasticizing machine,
- 3) purchases of IT products made / launched in 2018:
 - the acquisition and implementation of an ERP Enterprise Resource Planning System, which will be completed in 2019,
 - upgrading of hard and soft components.

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

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

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

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

- the buildings and objectives in which the company currently operates have a wear rate between 30% and 35%;
- Fixed assets, inventory items and technological equipment used have a wear rate of between 25% and 50%, reaching in certain cases the level of 90% as well;

Also:

- the wear rate is between 30% and 60% on the production buildings and other objectives in the construction category (buildings, roads and platforms) currently in conservation;
- the wear rate is 100% on the two disused production buildings (which are the only buildings that were built before 1968 – the year of setting up the company), for which the proceedings of demolition was initiated;
- external networks of heating, water/sewage, have a wear rate between 0% (the water network) and 25%.

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 2018 to the provisions of the Code of Corporate Governance of BSE is presented below:

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

| | | | |
|--|---|--|--|
| <p>submit a declaration at the time of his nomination for election or re-election and when there is any change in his status, indicating the elements on which it is considered that it is independent in terms of its character and judgment and based on the following criteria:</p> <p>A.4.1. he/she is not a General Manager/chief executive of the company or of a company controlled by it and has not held such a function in the last five (5) years;</p> <p>A.4.2. he/she is not an employee of the company or of a company controlled by it and has not held such a position in the last five (5) years;</p> <p>A.4.3. he/she does not receive and did not receive additional remuneration or other benefits from the company or companies controlled by it, in addition to those appertaining to a non-executive manager;</p> <p>A.4.4. he/she is or was not an employee or has or had during the previous year a contractual relationship with a significant shareholder of the company, a shareholder who controls more than 10% of the voting rights, or with a company controlled by him/her;</p> <p>A.4.5. he/she does not have and did not have in the previous year a business or a professional relationship with the company or a company controlled by it, either directly or as a customer, partner, shareholder, member of the Board/Manager, general manager/chief executive or employee of a company if, by its significant character, this relationship may affect its objectivity;</p> <p>A.4.6. he/she is not and has not been in the last three years the internal or external auditor or associate partner or employee of the current external financial auditor or of the internal auditor of the company or of a company controlled by him/her;</p> <p>A.4.7. he/she is not a general manager/chief executive of another company where another general manager/chief executive of the company is a non-executive manager;</p> <p>A.4.8. he/she hasn't been the company's non-executive manager for more than twelve years;</p> <p>A.4.9. he/she does not have family connections with a person in the cases referred to in paragraphs A.4.1. and A.4.4.</p> | | | |
| <p>A 5 - Other commitments and permanent professional obligations relating to a member of the Board, including executive and non-executive positions in the Board of some companies and non-profit institutions, must be disclosed to shareholders and potential investors before his/her nomination and during his/her mandate.</p> | x | | |
| <p>A 6 Any member of the Board must provide information on any relation to a shareholder who holds directly or indirectly shares representing more than 5% of all voting rights. This obligation extends to any relationship which may affect the member's position on issues decided by Board.</p> | x | | |
| <p>A 7 - The company must appoint a secretary of the Board responsible for supporting the work of the Board.</p> | x | | |

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

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| 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 | | |

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| <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 | | |
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| | 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</p> | X | | |

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

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

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

a. Membership, qualifications and experience

| Crt. no. | Name and Surname | Position in the IAR SA Company | Age | Qualification | Position | The period of the current mandate |
|----------|---------------------|--------------------------------|-----|---------------|---------------------------------|-----------------------------------|
| 1. | Claudia Maria BAICU | Member | 45 | jurist | Manager - Legal Dep. - DPAPS ME | 10.10.2014-10.06.2018 |
| | | Chairwoman of the Board | 45 | jurist | Manager - Legal Dep.- DPAPS ME | 09.12.2017–24.09.2018 |

| | | | | | | |
|---|------------------------|-------------------------|----|---------------------|--|-------------------------|
| 2 | Magdalena NICULESCU | Chairwoman of the Board | 51 | jurist | Director – Juridical and Institutional Relations Dir. - ME | 24.09.2018 – 13.04.2019 |
| 3 | Ioan TOMA | Member | 64 | jurist | Legal Advisor at INCAS Bucharest | 10.10.2014-09.12.2017 |
| 4 | Rodica Ruxandra ANGHEL | Member | 57 | engineer | Director – Defence Directorate ME | 09.12.2017 – 13.04.2019 |
| 5 | Măriuca-Oana PISTOL | Member | 40 | economist | Head of DPAPS - ME | 12.10.2017-02.06.2018 |
| 6 | Călin Ilie BODEA | Member | 47 | engineer, economist | State Secretary – Min of Economy | 12.06.2018 – 13.04.2019 |
| 7 | Alexandru BUȘCU | Administrator | 59 | economist | MOD retired, Local Counselor | 27.04.2017-10.04.2018 |

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

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

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

| PERIOD | COMPANY / POSITION OCCUPIED |
|-------------------------------|---|
| February 2016 – December 2016 | SMART SA - Administrator |
| October 2014 – September 2018 | IAR SA – Member and Chair of the Board of Directors |
| February 2014 - present | Societatea Moldomin SA – Special manager |

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

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

2. As of 2010, Ms. Magdalena NICULESCU, non-executive interim member of IAR SA and Chairwoman of the Board of Directors of IAR SA as of 24.09.2018, has held the following administrative/management positions:

| PERIOD | COMPANY / POSITION OCCUPIED |
|--------------------------------|--|
| July 2018 – November 2018 | Ministry of Economy - Director, Juridical and Institutional Relations Directorate |
| November 2018 - Present | Ministry of Economy – Deputy Director, Minerals Resources Directorate |
| September 2018 – 13 April 2019 | IAR SA – Chairwoman of the Board of Directors |
| February 2017 – July 2018 | Ministry of Economy – Director in deputy, Mineral resources Directorate |
| July 2013 - February 2017 | Ministry of Economy (ME) – Director in deputy, Juridical and Institutional Relations Directorate |
| March 2013 – July 2013 | Ministry of Economy, Commerce and Business Environment – Secretary General in deputy |
| December 2008 - March 2013 | ME – Director in deputy, Juridical and Institutional Relations Directorate |

Ms. Magdalena NICULESCU has the following professional experience:

- long-term studies: licenced in juridical sciences (Faculty of Law Bucharest – 1995)
- short-term studies:
 - BA in International and EU Law, 2007
 - BA in Public Politics eEhycs 2010

- experience: member of the Lawyers Association Bucharest, member of the Union of Mediators in Romania, upgrade in the field of crisis management, specialization in the international law on energy, etc

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

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

| PERIOD | COMPANY / POSITION OCCUPIED |
|---------------------------|--|
| October 2014 – 13.04.2019 | IAR SA – Interim non-executive member |
| 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. . As of 2011, Ms. Rodica Ruxandra ANGHEL, interim non-executive member of Societății IAR SA as of 09.12.2017, has held the following management positions:

| PERIOD | COMPANY / POSITION OCCUPIED |
|-------------------------|--|
| 09.12.2017 – 13.04.2019 | IAR SA – Interim non-executive member |
| 2011 - 2012 | SC Vel Service SA Bucharest – Technical Director |
| 2013 – present | Ministry of Economy – Director, Defence Industry Directorate |

Ms. Rodica Ruxandra Anghel has the following training and professional experience:

- long-term studies: the Polytechnics Institute Bucharest / Faculty of Metalurgy – licence 1988
- short-term studies:
 - post-graduate course in public institutions management, Academy of Economy Studies, Bucharest 2007 – 2008
 - post-graduate course in sustainable professional training and development in the field of critical infrastructure protection management, Academy of Land Forces – Nicolae Bălcescu – Sibiu, 2007
 - numerous short-term studies in the field of management and communication
- experience: as of 1998 Ms. Rodica Ruxandra Anghel has held various top-management positions.

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

| PERIOD | COMPANY / POSITION OCCUPIED |
|----------------------------|---|
| October 2017 – June 2018 | IAR S.A. - Interim non-executive member |
| June 2016 – present | Head of Companies Participations management Dept. – M.E.-D.P.A.P.S. |
| May 2016 – March 2017 | IOR S.A. - Member of the Board of Directors |
| October 2015 – March 2017 | BAITA S.A.- Member of the Board of Directors |
| October 2012 – August 2013 | DAMILA AGRO SRL - Sales manager |

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

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

6. Since 2010 Mr. Călin Ilie BODEA, Interim non-executive member of Societății IAR SA as of 12.06.2018, has held the following management / leadership positions:

| PERIOD | COMPANY / POSITION OCCUPIED |
|---------------------------|---|
| July 2010 – March 2017 | Chronical Diseases Hospital Câmpeni – Manager |
| March 2018 - present | Ministry of Economy – State Secretary |
| June 2018 – 13 April 2019 | IAR SA - Interim non-executive member |

Mr.Călin Ilie BODEA has the following professional experience:

- long-term studies:
 - University of Petroșani, Faculty of Mining, between 1990 – 1995
 - Spiru Haret University, Faculty of Finances&Accounting Management – Licence 2008
 - Spiru Haret University – Faculty of Law and Public Administration – BA, 2008
- Short-term studies:
 - Technical University Cluj Napoca – post-graduate course in Business Management in the field of sustainable development, 2013
 - Various course in the field of management, public acquisition, management internal control
- experience: 15 ani – management in the field of industrial and sanitary management

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

| PERIOD | COMPANY / POSITION OCCUPIED |
|------------------------------|--|
| April 2017 - present | SC ROMAERO SA – Member of the Board |
| April 2017 – 13.04. 2019 | SC IAR SA – interim non-executive member |
| September 2012 – August 2016 | SC Transbuz Buzau – Administrator |
| September 2016 - present | SC PTO Buzău – Administrator |

Mr. Alexandru BUȘCU has the following professional experience:

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

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

The activity carried out in 2018 by both the Board of Directors of IAR SA and by its advisory committees, is summarized in the following table:

| No. of meetings 2018 | THE BOARD OF DIRECTORS | THE AUDIT COMMITTEE | THE NOMINATION AND REMUNERATION COMMITTEE |
|-------------------------|---------------------------|------------------------|---|
| | 12 | 3 | 2 |

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

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

In 2018, the Board of Directors approached in its meetings various topics of interest to the company, such as:

- approving the directing quotas and the industrial hour value for 2018 - in January 2018

- analyzing and taking the necessary measures following the request of SIF III Transilvania to withdraw from the shareholding of IAR SA - in February, April and June 2018
- 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 the respective periods;
- the approval of the 2018 Collective Labor Contract – in June 2018;
- the analysis of the general manager fulfillment of criteria and performance targets approved for 2017 – after the approval of the 2017 financial statements;
- the approval of the key performance indicators related to the current financial year- in March 2018, after the approval of the IEB 2018;
- approval of the participation of employees in the profit registered at the end of 2017 - in September 2018;
- approval and carry out the necessary actions to be taken to appoint the independent financial auditor following the expiry of the mandate of the current independent financial auditor - during March, September and November 2018;
- approval of the extension of the mandate contract between the company and its general manager - in December 2018;
- any other analysis in the limits of the Board of Directors' prerogatives - in the moment of occurrence of such situations;
- the convening of the GSM for issues falling within its competence.

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

According to the principles taken into account:

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

The purpose of Board evaluation in 2018 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).

Through the activity that took place during 2018, 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 2018 focused on:

- the monitoring of the external auditor's independence, objectivity and effectiveness of the audit process;
- the monitoring and reviewing of the appropriateness and effectiveness of the internal audit function and internal financial controls in context of the entire risk management system of the Company;

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

By the activity that took place during 2018, 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 2017, 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 key performance indicators.

The Nomination and the Remuneration Committees had an important role in monitoring the executive management of IAR SA during 2018, 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 2017.

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

The principles on remuneration of the Board and of the General Manager of IAR SA, which were established by applying the provisions of GO no. 26/2013 and GEO 109/2011, subject to the GSM resolution no. 02/30.01.2018, 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, in 2018:

- the non-executive members of the Board of Directors of IAR SA were granted a monthly gross indemnity established in accordance with the OGSM Resolution no. 02 / 30.01.2018, by indexing by 20% of the value of the allowance approved by GMS Resolution no. 11 / 28.11.2017, according to the provisions of art. 18 of GEO 90/2017, in order to comply with the new mandatory social contributions due under Law no. 227/2015, as subsequently amended and supplemented, as amended by Government Emergency Ordinance no. 79/2017 .:
- the members of the Advisory Committees within the Board shall not be remunerated in addition to their work in the respective committees
- the upper limit of the fixed remuneration due to the General Director of IAR SA established by the OGSM Resolution no 01/30.01.2018 is the value corresponding to 6 times the average gross monthly salaries for the last 12 months prior to his appointment, communicated by the National Institute of Statistics for the Machine Construction Industry – Aircraft and Spaceships Manufacturing (corresponding to the main activity object of IAR SA)
- the upper limit of the annual gross variable remuneration component that may be granted to the General Manager of IAR SA, established by the OGSM Resolution no. 06 / 27.04.2018, is of 65,000 euro, the actual value of the annual variable component being determined by the degree of accomplishment of the key performance indicators set out annually, calculated after approval of the annual financial statements
- special pension rights and/or benefits are not provided.

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

3.3. Information on risk management and internal control

IAR SA has implemented an effective framework for risk identifying, monitoring and management.

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

During the year 2018, by implementing the risk management system, the executive management of the company:

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

The risk management system implemented in the IAR SA is complemented by an internal control system which during 2018:

- 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 2018 by an internal audit company, which, based on a service agreement, intended:

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

3.4. Information regarding the shareholders

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

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

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

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

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

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

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

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

The evolution of the market value of the IAR S.A. Company's shares in the past 3 years (2016-2018) 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 2018 emerges:

| The total number of transactions | The total number of traded shares | The total value of traded shares (lei) | The price variation (%) |
|----------------------------------|-----------------------------------|--|-------------------------|
| 1,908 | 553,699 | 4,459,626.56 | -14.13% |

It may be noted that the market value of the IAR's shares, resulting from all the transactions carried out in 2018 had a negative evolution although, as evidenced by the periodic reports made public, in 2018 the economic and financial results were higher than those corresponding to the same reference periods of the previous year.

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

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

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 a gross dividend per share is 0.33 lei. At the same time through GMS Resolution no. 4 / 27.04.2017, the general meeting of shareholders approved the prescription of unpaid dividends for the financial year 2012 (older than 3 years). Dividends were paid via S.C. Depozitarul Central SA, shareholders registered in the shareholders' register on 15.06.2017.

For the year 2017, the amount established to be distributed as dividends to the shareholders of IAR S.A. was RON 4,247,742, resulting in a gross dividend value per share of RON 0.225. At the same time through GMS Resolution no. 5 / 27.04.2018, the general meeting of shareholders approved the prescription of unpaid dividends for the 2013 financial year (older than 3 years). Dividends were paid via S.C. Depozitarul Central SA, shareholders registered in the shareholders' register on 15.06.2018.

For the year 2018, starting from the specific legal provisions in force, the Board of Directors and the executive management of IAR S.A. propose the distribution of the amount of 11.515.677 lei in the form of dividends, resulting in a gross dividend per share of 0,63 lei.

The dividend payment date will be 05.07.2019, which will be paid via Depozitarul Central SA to the shareholders registered in the register of shareholders on 14.06.2019, 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 cashing-in by some shareholders of the dividends owned by them, or the very low total value of dividends due to some of the shareholders) some of the total amount of dividends to be distributed could not be paid,
- IAR S.A. fulfilled a legal obligation to disclose information relating to the distribution of dividends fixed by the general meeting of shareholders with the approval of the distribution of the annual profit made by the company and by publishing it in the press and on its website, in press releases issued on this subject and by transmitting these releases to the Financial Supervisory Authority and the BSE,

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

- prescribing unpaid dividends for the fiscal year 2014, which meets the condition for achieving the deadline of 3 years from the date of chargeability of distributed dividends stipulated by art. 2517 of the Civil Code
- the proposal for their registration under "other income" - account 758 under the law provisions.

The date of prescribing these amounts will be 30.06.2019.

3.4.3. Purchase activities of own shares

As communicated to the investors through the Information Report dated 15.02.2018, on 14.02.2018, the Board of Directors, examining the request of SIF III Transilvania regarding its withdrawal from the IAR SA Company based on the right conferred by art. 134 of the Companies Law 31/1990 republished, underwent the purchasing procedure of its own shares, as per the legal provisions in the field of financial instruments and operations issuers on the share capital market.

This request was filed by SIF III Transilvania following the issuance of the EGMS Decision no. 09 / 28.11.2017 approving the change of the former main business object of the company NACE code 3316 - Repair and maintenance of aircrafts and spacecraft, with the new main activity of the company, NACE code 3030 - Manufacture of aircraft and spacecraft.

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

Following this process, the company acquired the 600,000 shares stock held by SIF III Transilvania, (3.178% of the total number of shares of the company), the buy-back being paid for from the profit recorded at the end of 2017, at the price of 11.18 lei / share.

As it results from OGSM Resolution No 08 / 07.06.2018, no decision has been made on the sale of the share stock bought back by the company from SIF III Transilvania, this decision being postponed.

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

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

3.5. The operational management of IAR S.A.

In compliance with Law no. 31/1991, republished, as amended and supplemented, the leadership, organization, representation and management of the activity of IAR S.A. were ensured, in 2015, by **Mr. Eng. Neculai BANEĂ - GENERAL MANAGER**. He represented the company in relation to third parties and was responsible for how the company carried out acts of leadership under the mandate contract number E425 / 30. 03.2009, valid until 30.06.2019.

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 share capital market).

During 2018, IAR S.A.'s executive management was provided as follows:

- **Commercial and Economic Executive Director: ec. Ion DUMITRESCU**

- **Development and Production Executive Manager: eng Ioan CHIRITA**

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

The executives directors held the following shares of the share capital of the IAR S.A. Company, as at 31.12.2018:

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

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

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

4.1. THE FINANCIAL-ACCOUNTING STATEMENT FOR 2018?? COMPARED TO THE PREVIOUS 3 YEARS

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

a) balance sheet items

| | lei | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| BALANCE SHEET ITEMS | 31,12,2015 | 31,12,2016 | 31,12,2017 | 31,12,2018 |
| I. Fixed assets | 64,300,563 | 63,452,322 | 63,588,814 | 66,603,308 |
| Stocks | 36,624,387 | 48,459,209 | 115,650,817 | 164,987,911 |
| Debentures | 18,109,861 | 35,270,452 | 93,019,623 | 91,808,774 |
| Petty-cash and banking accounts | 80,163,837 | 82,101,001 | 63,574,862 | 2,197,721 |
| Short-term financial investments | | - | | |
| II. Circulating assets | 134,898,085 | 165,830,662 | 272,245,302 | 258,994,406 |
| III. Expenses reg. in advance | | | | 11,298 |
| TOTAL ASSETS | 199,198,648 | 229,282,984 | 335,834,116 | 325,609,012 |
| Share capital | 47,197,132 | 47,197,132 | 47,197,132 | 47,197,132 |
| Reserves from reevaluation | 26,044,409 | 26,044,409 | 26,044,409 | 27,246,254 |
| Reserves | 16,718,205 | 23,389,191 | 31,040,545 | 52,688,068 |
| Profit | 11,961,550 | 12,213,227 | 24,191,976 | 31,184,158 |
| Reported result | 3,951,194 | 3,951,194 | 3,951,194 | 3,951,194 |
| Profit distribution | | 1,266,063 | 2,934,211 | 4,637,500 |
| I Shareholder's equity | 105,872,490 | 111,529,090 | 129,491,045 | 150,921,306 |
| II Provisions for risks and expenses | 58,187,433 | 78,639,188 | 85,127,600 | 75,987,746 |
| Loans and assimilated debts | | | | |
| Suppliers | 3,661,501 | 12,565,273 | 14,150,533 | 25,848,112 |
| Creditor clients | 5,683,198 | 9,250,766 | 93,994,288 | 63,978,111 |
| Other debts | 25,789,577 | 17,297,125 | 13,070,650 | 8,873,737 |
| III Total payables | 35,134,276 | 39,113,164 | 121,215,471 | 98,699,960 |
| IV Settlement accounts | 4,449 | 1,542 | 0 | 0 |
| TOTAL LIABILITIES | 199,198,648 | 229,282,984 | 335,834,116 | 325,609,012 |

The share of fixed assets in the total assets was of 32.28% in 2015, of 27.67% in 2016, of 18.90% in 2017 and of 20.45 in 2018.

b) the profit and loss account

lei

| THE PROFIT AND LOSS ACCOUNT | 31,12,2015 | 31,12,2016 | 31,12,2017 | 31,12,2018 |
|--|--------------------|--------------------|--------------------|--------------------|
| Income from the sale of goods | 259,463 | 12,977,485 | 24,989,304 | 75,757,859 |
| Sold production | 130,632,741 | 139,118,880 | 167,735,650 | 183,516,349 |
| Turnover | 130,892,204 | 152,096,365 | 192,724,954 | 259,274,208 |
| Income from the stored production– S.C. | | | 10,285,478 | 41,893,827 |
| Income from the stored production – S.D. | 9,613,230 | 2,218,242 | 0 | 0 |
| Other operating income | 338,781 | 9,861,320 | 335,619 | 134,441 |
| OPERATING INCOME –TOTAL | 121,617,755 | 159,739,443 | 203,346,051 | 301,302,476 |
| Expenditure on goods, com discounts received | 235,138 | 10,667,879 | 21,975,914 | 63,706,581 |
| Expenditure on raw mat. and consumable mat. | 65,569,774 | 85,297,152 | 102,902,438 | 144,557,196 |
| Expenditure on water and energy | 1,459,007 | 1,609,629 | 1,558,516 | 1,629,160 |
| Other mat. expenditure | 375,551 | 411,798 | 767,457 | 927,016 |
| External services-related expenses | 5,265,285 | 5,518,861 | 8,391,942 | 12,098,149 |
| Duties, taxes and similar levies-related expenses | 373,587 | 360,806 | 236,386 | 397,048 |
| Salaries-expenses, participation to the company's profit, restaurant tickets | 14,084,658 | 16,490,087 | 19,450,005 | 30,001,442 |
| Insurance and social protection-related expenses | 3,195,267 | 3,816,717 | 4,705,495 | 1,182,381 |
| Staff-related expenses | 17,279,925 | 20,306,804 | 24,155,500 | 31,183,823 |
| Compensation, environment and transferred assets-related expenses | 20,195,281 | 318,442 | 390,067 | 5,480,336 |
| Expenditure on provisions reduced by income from provisions | 5,124,250 | 15,574,752 | 8,198,688 | 1,300,389 |
| Expenditure on the amortization and, constitution and provisions adjustments | 1,328,454 | 3,915,663 | 4,416,362 | 4,481,332 |
| Tangible assets re-assessment-related expenses | 513,141 | 0 | 0 | 0 |
| Adjustments to circulating assets | 0 | 0 | 0 | 0 |
| EXPENDITURE ON OPERATING - TOTAL | 117,720,679 | 143,986,087 | 172,993,270 | 265,761,030 |
| RESULT FROM OPERATING - PROFIT | 3,897,076 | 15,753,356 | 30,352,781 | 35,541,446 |
| TOTAL INCOME | 136,053,144 | 163,482,756 | 206,592,170 | 304,717,092 |
| TOTAL EXPENDITURE | 118,618,020 | 145,187,056 | 176,335,159 | 267,646,471 |
| GROSS RESULT - PROFIT | 17,435,124 | 18,295,700 | 30,257,011 | 37,070,621 |

The share of operating costs in the total expenditure: in 2015, is 99.24 %, in 2016, is 99.17 % , in 2017 is 98.10% and in 2018 it is of 99.29%..

The share of operating income in the total income: in 2015 is 89.39 %, in 2016, is 97.71 % , in 2017 is 98.42% and in 2018 it is of 98.87%.

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 2018, **the workload of production capacities** has averaged 112%.

c) cash flows - the available funds of the company on 31.12.2018 were 2,197,721 lei.

4.2. ELEMENTS OF FINANCIAL-ACCOUNTING MANAGEMENT

In 2018 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. 18/15.10.2018. 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 2018.

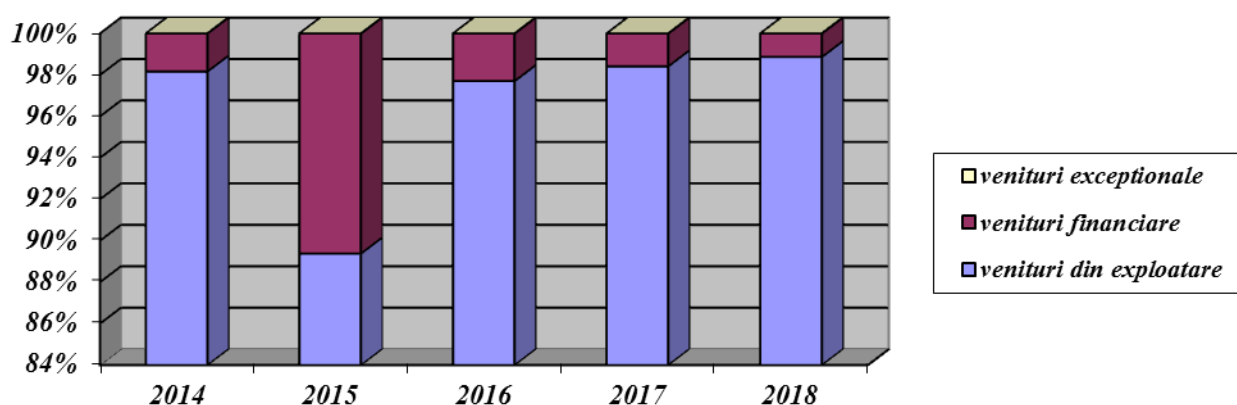
IAR SA's balance sheet for the period 01.01.2018-31.12.2018 was compiled based on the trial balance accounts that were registered in all economic and financial operations based on legal documents drawn up, on the principles and by the provisions of the Accounting Law no. 82 / 1991 approved the company's 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 past 5 years is as follows:

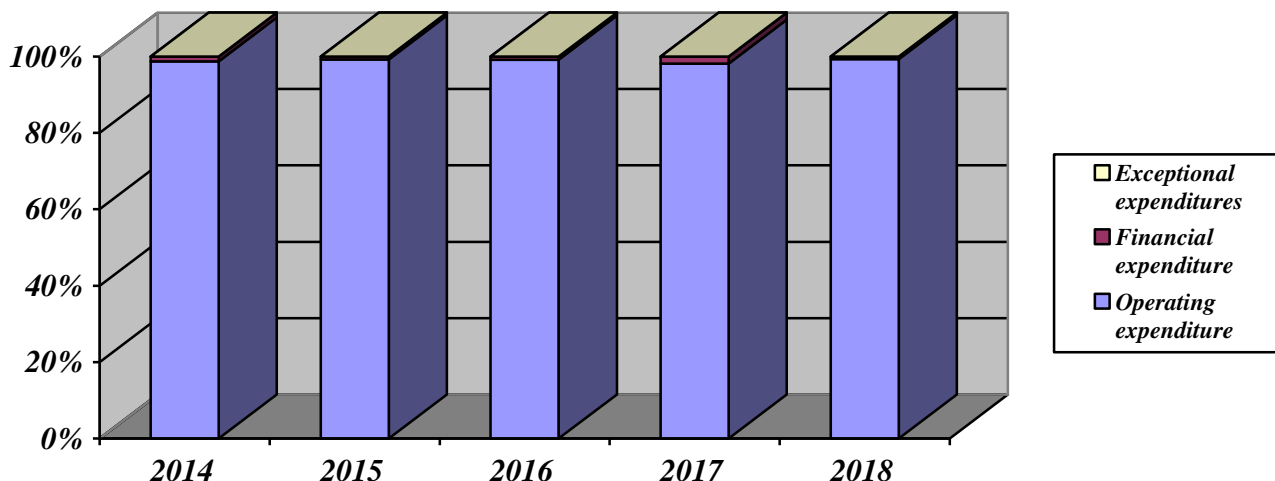
| | % | | | | |
|---------------------------|-------|-------|-------|-------|-------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating income | 98.17 | 89.39 | 97.71 | 98.42 | 98.87 |
| Financial income | 1.83 | 10.61 | 2.29 | 1.58 | 1.13 |
| Exceptional income | 0 | 0 | 0 | 0 | 0 |

The main share, respectively 98.42% of total revenues achieved by the company in 2018, is represented by the income from operating activities.



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

| | % | | | | |
|-------------------------|-------|-------|-------|-------|-------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating expenditure | 98.70 | 99.24 | 99.17 | 98.10 | 99.29 |
| Financial expenditure | 1.30 | 0.76 | 0.83 | 1.90 | 0.71 |
| Exceptional expenditure | 0 | 0 | 0 | 0 | 0 |



The main share, respectively 99.29% of total expenditure made by the company in 2018, is the expenditure on operating activities.

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

✓ ASSETS

The value of non-current assets at 31.12.2018 is of 66,603 thousand Lei and represents the value of the intangible assets, the tangible fixed assets affected by the amortization value, as well as the financial assets.

We mention that the tangible assets were evaluated with a view to taxing as per the "Assessment Report no. BIF_10951_20190214_125179542, set up by Romcontrol SA, Bucharest, Brasov Agency.

Other tangible assets titles are maintained in the amount of 5,430 thousand lei on 31.12.2018 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-finiteproducts;
 - finite products;

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

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

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

The value of the stocks at 31.12.2018 is 164,988 thousand lei, increased by 142.66% compared to the previous year, the causes being the following:

- the increase of the value of raw materials and materials by 21.04%

The increase of the stock of raw materials and consumables from the amount of 49,084,663 lei recorded at the end of 2017, at the value of 59,415,726 lei, is mainly due to the provision of the materials necessary for the execution of the subsequent contract No. 1 of 29.12.2016, to the Supply Framework Agreement No 37/2/042-C of 28.12.2016 "Retrofit and upgrade of IAR 330 L helicopters", as well as other commercial contracts concluded by the company.

- the increase in the production by 363%

The production in progress has increased from 16,825,449 lei, registered at the end of 2017, to the value of 61,161,209 lei, as a result of performing helicopter repair works after the execution schedules that ensure the observance of the delivery terms provided in commercial contracts with deliveries in 2019.

The balance of production in progress includes: the value of the IAR 330 PUMA Search & Rescue helicopters to be delivered in the first quarter of 2019, as well as ILS 2 ONU and other spare parts to be delivered during the same period.

✓ RECEIVABLES

On 31.12.2018 the situation of the receivables is as follows:

| | lei |
|--|-------------------|
| Total receivables | 91,808,774 |
| - commercial receivables | 89,219,680 |
| - long-term receivables | |
| - paid deposits | 1,064,961 |
| - other receivables, of which: | 1,524,133 |
| • Other taxes-excises | 290,833 |
| • Sundry debtors | 118,578 |
| • Interests to be received | 96,460 |
| • VAT to be recovered | 538,085 |
| • Other receivables related to the personnel | 366,588 |
| • Undue VAT | 2,658 |
| • Contribution for leaves and indemnities | 110,931 |

In the total receivables, the largest share is held by trade receivables in the amount of 89,220 thousand lei, respectively 97.17 %.

In the total receivables, of 91,808,774 lei, the main pro-rata is represented by the commercial receivables amounting to 89,219,680 lei, whose structure is:

- the amount of 48,630,423 lei, representing letters of guarantee, down-payment and good execution, related to the commercial contracts carried out by IAR SA and guaranteed by cash / collateral deposit, as follows:

1. UM 02550 BUCURESTI, Subsequent contract No.1/ 2016 ,SGB 20%, DOWNPAYMENT, reference G064745/836, in value of 13,712,490 lei.
 2. UM 02550 BUCURESTI, Subsequent contract No.1/ 2016 SGB 30%, DOWNPAYMENT, reference G064745/836, in value of 9,159,571 lei.
 3. UM 02550 BUCURESTI, Subsequent contract No.1/ 2016, SGB, reference G064057/836, in value of 1,957,173 lei.
 4. SGB OFICIUL DE COMPENSARE, reference G066042/836, in value of 6,262,955 lei.
 5. Bank counter-guarantee, reference G061408/844, in value of 13,624,628 AED, issued in favour of TAWAZUN ECONOMIC COUNCIL UAE 15,112,670 lei.
- the amount of 40,589,257 lei, represents the amounts which must be received from the clients, of which the amount of 36,017,254 lei is related to the invoice no. C11F180713 / 21.12.2018, issued in favor of UM 02550 BUCURESTI, for Contract No. A3 / 8558 of 29.12.2016, Subsequent Contract no. 1 / 29.12.2016, Supply Framework Agreement no. 37/2/042-C 28.12.2016 for the delivery of the aircraft registered with serial number: 14, amount receivable in January 2019.

✓ PETTY CASH AND BANK ACCOUNTS

Regarding the cash funds of the company as at 31.12.2018 it is specified that IAR SA and BCR concluded the Credit Contract no.321 on 23.12.2016, contract by which the Creditor provides to the Borrower a "Revolving" multi-product type credit facility, having an initial value of 100,000 thousand lei, which was increased by AA no. 2 dated 23.05.2018 and approved by decision no. 14CA dated April 27, 2018, up to 175,000 thousand lei, which can be used as follows:

- Credit Product A - up to a maximum of 50,000 thousand lei in the form of overdraft, to finance the current activity
- Credit Product B - up to a maximum of 175,000 thousand lei, in the form of a guarantee issuance facility.

Such operations were registered in accordance with Order 2844 of 12 December 2016 for the approval of the Accounting Regulations in accordance with International Financial Reporting Standards, and the balance of the account 512, namely the amount of 7,152,850.22 lei, registered in the Verification Balance on December 31, 2018, is the account overdraft made available by BCR Bucharest.

The foreign currency reserves amount to 7,817,782 lei, the amount required for the payment of the external suppliers.

✓ PAYABLES

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

| | lei |
|--|-------------------|
| Total payables, including "incomes from downpayments": | 98,699,960 |
| • financial debts | 0 |
| • trade debts | 25,848,112 |
| • creditor customers | 63,978,111 |
| • incomes registered in advance | 0 |
| • other debts to: personnel, budget, social insurance, unemployment fund | 3,249,991 |
| • payable VAT | 0 |
| • other creditors, of which the Unemployment Agency: 5.719.491 lei | 5,574,644 |
| • other debts - dividends | 49,102 |

The company's debt structure is as follows:

- **creditor customers**, amounting to 63,978 thousand lei, respectively 64% of the total debts; the amount represents the unpaid advance on 31.12.2018, related to the Subsequent Contract no. 1 / 29.12.2016, to the Supply Framework Agreement no. 37/2/042-C 28.12.2016 "Retrofit and upgrade of IAR -330L helicopters" concluded by IAR SA, as SUPPLIER, with UM 02550 BUCHAREST, as acquirer.

The justification of the received / granted down-payment is made, according to art. 7.4 of the Contract "through deliveries of goods and services received by the Beneficiary in proportion to the value of each delivery".

- **commercial debts**, amounting to 25,848 thousand lei, respectively 26.18% of the total debts;

Commercial debts are current debts, in line with the deadlines stipulated in the commercial contracts, and the significant amounts are:

| | |
|---------------------------------|--------------------|
| - AIRBUS HELICOPTERS ROMÂNIA SA | 9,108 thousand lei |
| - ELBIT SYSTEMS ISRAEL | 4,748 thousand lei |
| - UM 02550 București | 2,778 thousand lei |
| - AEROFINA SA București | 626 thousand lei |
| - AEROSTAR SA Bacau | 452 thousand lei |
| - NORTROPH SUA | 971 thousand lei |

- **"other creditors"** in the amount of 5,575 thousand lei, respectively 5.64% of the total debts.

We mention that the main share is represented by the main creditors – the Unemployment Agency, in the amount of 5,575 thousand lei representing the rest of payment from the total amount of 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 49 thousand lei, represents dividends due to shareholders unpaid or paid and returned because of the impossibility of payment from their negligence, respectively the change of address or the communication of incomplete addresses.

The company's payables at the end of 2018 are worth 98,700 thousand lei, of which short-term debts worth 93,128 thousand lei are current debts, whose chargeability is consistent with the legal and contractual deadlines stipulated in the Fiscal Code.

We mention that 99.89% of the total debts to be paid over a period of more than one year, the value of which is 5,572 thousand lei, represents the obligation to the aforementioned AJOFM.

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.

We mention that IAR S.A. doesn't have outstanding payments on 31.12.2018.

✓ 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 2018 provisions have been established and increased in compliance with Article 26 of Law 227/2015, with Order no. 2844/2016 for approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market.

The set-up/increased provisions value in 2018 is of 28,024 thousand lei, presenting them in the following structure:

- provision for employees participation to profit, amounting to 1,918 thousand lei;
- provision for depreciation of raw materials stocks, materials, inventory objects, merchandise existing in stock amounting to 10,440 thousand lei
- provision for the retirement bonus, amounting to 1,046 thousand lei
- provision to cover risks, good performance guarantees for the contracts concluded in 2018, amounting to 14,620 thousand lei;

Also, provisions in the amount of 26,724 thousand lei have been canceled or diminished by the resumption on income, as follows:

- provision for performance guarantees granted to local customers, amounting to 24,885 thousand lei;
- provision for employees participation to profit, amounting to 1,526 thousand lei;
- provision for the retirement bonus, amounting to 343 thousand lei;

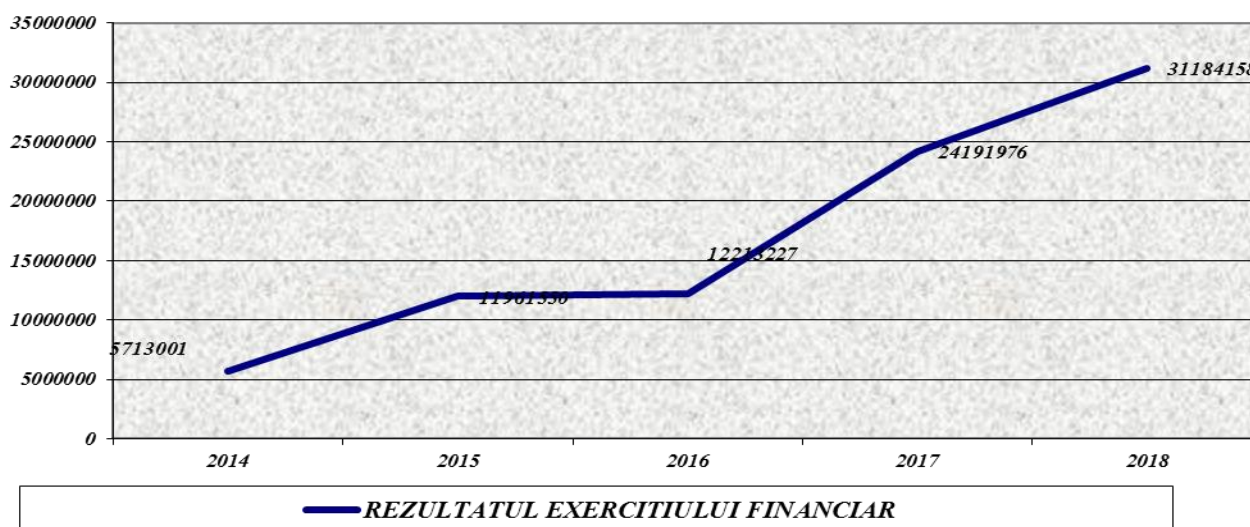
Thus, the adjustments for provisions represent in 2018 the amount of 1,300 thousand lei.

✓ SHAREHOLDERS' EQUITIES

The equity on 31.12.2018 is 150,921 thousand lei and shows an increase by 16.54 % compared to 2017.

The evolution of economic and financial results of the company in the period 2014-2018 is as follows:

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------|-----------|------------|------------|------------|------------|
| Net profit (lei) | 5,713,001 | 11,961,550 | 12,213,227 | 24,191,976 | 31,184,158 |
| Loss (lei) | - | - | - | - | - |



At the end of 2018, according to the MoF Order 2844/2016, the Law 31/1990 and the Law No. 227/2015 as amended and supplemented, the legal deductible reserve was constituted from the profit, amounting to 1,853,531 lei.

THE ANALYSIS OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS

A. Current liquidity ratio:

$$\frac{\text{Current assets}}{\text{Current debts}} = \frac{258,994,406}{93,128,006} = 2.78\%$$

B. Liquidity coverage ratio:

$$\frac{\text{Current assets-stocks}}{\text{Current debts}} = \frac{94,006,495}{93,128,006} = 1.01\%$$

C. Efficiency indicators:

1. The financial rate of return

$$\frac{\text{Net profit}}{\text{Equity}} \times 100 = \frac{31,184,158}{150,921,306} = 20.66\%$$

2. The rate of return on advanced capital

$$\frac{\text{Current result}}{\text{Fixed assets+current assets}} = \frac{37,070,621}{325,597,714} = 11.38\%$$

3. The profit rate

$$\frac{\text{Gross profit}}{\text{Turnover}} = \frac{37,070,621}{259,274,208} = 14.29\%$$

4. The rotation speed of debits-customers

$$\frac{\text{Med.balance of customers} \times 365}{\text{Turnover}} = \frac{21,793,219 \times 365}{259,274,208} = 30.67 \text{ days}$$

5. The rotation speed of fixed assets

$$\frac{\text{Turnover}}{\text{Fixed assets}} = \frac{259,274,208}{466,603,308} = 3.89 \text{ times}$$

6. The rotation speed of total assets

$$\frac{\text{Turnover}}{\text{Total assets}} = \frac{259,274,208}{325,609,012} = 0.79 \text{ times}$$

7. The total amount invested in 2018 was 5,569 thousand lei.

The financial-accounting statement complies with the documents attached to this annual report: the financial statements of 31.12.2018 and the financial auditor's report for the financial year 2018.

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

THE CHAIRWOMAN of the BOARD of DIRECTORS

Magdalena NICULESCU

GENERAL DIRECTOR

Neculai BANEA

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

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

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

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

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

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

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

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

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

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

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

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