

AUDIT REPORT
ON THE FINANCIAL STATEMENTS
OF
S.C. "I.A.R" S.A.
BRAŞOV
AS AT 31ST DECEMBER, 2018

REPORT OF THE INDEPENDENT AUDITOR

To the Shareholders of S.C. I.A.R. S.A. BRAŞOV

Opinion

We have audited the financial statements of the company I.A.R. S.A. Braşov (the "Company"), located in Braşov, 34, Hermann Oberth Street, identified with the sole registration code RO1132930, which contain the balance as at 31st December, 2018 the profit and loss account, the status of changes in the own capital and the status of the treasury flows corresponding to the financial year closed on the afore-mentioned date, as well as a summary of the significant accounting policies and explanatory notes set up in accordance with the Public Finance Ministry Order No.2844 / 2016 on the approval of accounting regulations compliant with the International Financial Regulations Standards (IFRS).

The financial statements herein referred to concern:

-Total assets	= 325,715,905 lei
-Total equity	= 150,921,306 lei
-Financial year result-profit	= 31,184,158 lei

In our opinion, the accompanying financial statements present with accuracy, in all material respects the financial position of the Company on December 31, 2018, its financial performance and treasury cash flows for the year ended on the mentioned date in accordance with the MF Ordinance no. 2844/2016 on the approval of the accounting regulations as per the International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA"), EU Regulation no. 537 of the European Parliament and Council (hereinafter named "The Regulation") and Law no. 162 / 2018 on the statutory audit of the financial statements and of the consolidated yearly financial statements.

Our responsibility based on these standards are explained in detail in the section *The Auditor's Responsibilities in Auditing the Financial Statements* in our report.

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

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

The key aspects of the audit

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

Revenue recognition

Risk: due to the nature of the company activity, production of long-term qualifying assets

manufacturing, there is a risk that the income be acquired on delivery and not pro rata with its implementation as stipulated in IAS 11 - long-term contracts.

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

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

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

Provisions for risks and charges

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

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

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

The components auditing team performed extensive audit procedures regarding the recognition and measurement of provisions for risk related to the respective components.

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

Evaluation of the production in progress

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

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

We checked the criteria for recognition as detailed in the calculus on production orders in progress, by the company management, we reviewed the procedures and found that they may not have significant deviations. The assessment of the production in progress was done at the cost of production, which is lower than the net achievable value under normal conditions of operation of the company.

Other information – The Board of Directors' Report

The members of the Board of Directors are responsible for preparing and presenting other information. The respective other information contain also the Board of Directors' Report but they do not contain the financial statements and the auditor's report with regard to the former and nor do they contain the non-financial statement, as the latter is presented separately.

Our opinion with regard to the financial statements does not cover such other information and, except for the case when it is mentioned explicitly in our report, we do not formulate any conclusion ensuring such information.

In the audit of financial statements for the year ended December 31, 2018, our responsibility is to read the respective information and, in doing so, to assess whether the respective information is significantly divergent from the financial statements or from the information we acquired during the audit, or whether they seem to be significantly flawed.

With regard to the Board of Directors' Report, we have read and report if this was set up in all its significant aspects, as per the Ministry of Finances Ordinance no. 2844/2016, paragraphs 15-18 of the Accounting Regulations compliant with the International Financial Reporting Standards (IFRS).

Based exclusively on the work carried out, during the auditing of the financial statements, our opinion is that:

a) The information presented in the Board of Directors' Report for the year the financial statements have been made are in compliance with the financial statements in all its significant aspects;

b) The Board of Directors' Report was set up, in all material respects, as per the MFOrdinance no. 2844/2016, paragraphs 15-18 of the Accounting Regulations on annual financial statements in accordance with International Financial Reporting Standards (IFRS).

In addition, based on our knowledge and understanding with regard to the Company and its environment, acquired during the audit of financial statements for the year ended on December 31, 2017, we have not identified significant distortions in the Board of Directors' Report. There is nothing for us to report on this matter.

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

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

In preparing the financial statements, the management is responsible for assessing the company's ability to continue its operation, showing, if the case, aspects of business continuity and using the accounts based on continuing the activity, unless the management

either intends to liquidate the company or to downsize its operations, or has no realistic alternative beyond.

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

The auditor's responsibilities in an audit of financial statements

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

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

We identify and assess risks of significant material misstatement of the financial statements, due either to fraud or error, and execute audit procedures in response to such risks and obtain sufficient appropriate audit evidence to provide a basis for our opinion. The non-detection risk of that a significant material misstatement due to fraud is higher than the non-detection of a significant material misstatement due to error because fraud may involve collusion, forgery, deliberate omissions, misrepresentations and avoiding internal control.

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

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

Report on other legal and regulatory provisions

We were appointed by the General Meeting of Shareholders on 10th of January, 2019 to audit the financial statements of IAR S.A. BRASOV for the financial year ended 31 December 2018. The uninterrupted total duration of our commitment is 5 years, covering the financial years ended December 31, 2018 - 2022.

We confirm that:

In conducting our audit, we have maintained our independence from the audited entity.

We have not provided the Company with the forbidden non-audit services referred to in Article 5 para. (1) of the EU Regulation No.537 / 2014.

On behalf of the auditing company

MACAVEIU CONSULT SRL located in BRASOV, 66, Grivitei Street, Block of flats 4, ap.1,
Registered with the Financial Auditors' Chamber – Romania under no. 211/2001.

Ioan Macaveiu

Financial Auditor

Brasov 19 March 2019

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