

# ANNUAL REPORT

## under N.C.T.S. Regulation no. 1/2006 for the financial year 2015

**Date of the report:**

**Denomination IAR S.A.**

**Registered Office:** No. 1, Aeroportului Street, Ghimbav city, Brasov county

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

**Sole Registration Code with the Trade Registry:** 1132930

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

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

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

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

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

#### 1.1.a. The core activity of the company

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

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

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

**1.1.c.** Mergers or significant reorganization during the financial year 2015 - not applicable.

**1.1.d.** Purchases or disposals of assets

In 2015, 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 939,355 lei. Such acquisitions are set out in section 2.1.

**1.1.e.** The economic and financial results registered by the company at the end of 2015 show that IAR S.A. registered profit both from operating activity (labour) and from its overall activity, the company continuing to be a profitable company.

#### 1.1.1. Items of general evaluation

At the end of 2015, the major financial indicators registered by IAR S.A. are as follows:

INDICATOR	IEB PROVISIONS 2015 (lei)	ACHIEVEMENTS 2015 (lei)
<b>1. Net turnover</b>	<b>62,500,000</b>	<b>130,892,204</b>
<b>2. Sold output</b>	<b>62,500,000</b>	<b>130,632,741</b>
<b>3. Total revenues, of which:</b>	<b>63,500,000</b>	<b>136,053,144</b>
- operating revenue	62,500,000	121,617,755
- financial revenue	1,000,000	14,435,389
<b>4. Total expenses, of which:</b>	<b>61,100,000</b>	<b>118,618,020</b>
- operating expenses	60,100,000	117,720,679
- financial expenses	1,000,000	897,341
of which: interests	0	0
<b>5. Gross profit</b>	<b>2,400,000</b>	<b>17,435,124</b>
<b>6. Net profit</b>	<b>2,035,000</b>	<b>11,961,550</b>

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

- the quality management system implemented at IAR S.A., is certified by AEROQ Bucharest both in accordance with SR EN 9100 (certificate no. 004A- originally issued in 2008 and renewed annually) and according to SR EN 9001 (certificate no. 007 originally issued in 1997 and renewed annually).
- IAR S.A. is authorized by the Romanian Civil Aeronautical Authority, both as an organization of production under EASA PART 21G (Certificate RO.21G.0006 / 2009, renewed annually) and as maintenance organization under the EASA PART 145 (Certificate RO.145.009 / 2009 renewed annually)
- The company is certified by Airbus Helicopters Romania SA as a supplier for military products namely for maintenance works of the structure of Puma and Alouette III helicopters, PUMA helicopter equipment maintenance, manufacturing of spare parts for Puma and Alouette III helicopters, laboratory testing, metrology, and for manufacturing of spare parts and subassemblies for Airbus Helicopters, former Eurocopter SAS (initially Certified in 2010 and renewed annually).
- IAR SA is certified by the military body within the Ministry of National Defense of Romania-OMCAS in accordance with the requirements of NATO-AQAP2110 for the design and production of aircraft systems and equipment for aviation, modernization of aeronautical products, spare parts for aircraft, checks, testing, maintenance and repair of aeronautical products (Certificate no. 11 originally issued in 2012, renewed annually).

### **1.1.2. Technical level assessment of IAR S.A.**

#### **1.1.2.1. The main products manufactured and services provided**

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

- **IAR 330L Puma helicopters** (SNIAS AEROSPACE license, currently Airbus Helicopter): second hand and related services (manufacturing of spare parts, maintenance, repairs, upgrades, training pilots and technicians, technical assistance);
- **IAR 330L Puma SOCAT, SOCAT NATO and NAVAL helicopters**: 330 L Puma helicopter upgrade with an advanced system of avionics and weaponry SOCAT, SOCAT NATO and NAVAL;
- **330 PUMA SM helicopters**: upgrade of the 330 Puma helicopter with Makila IA1 engines, 4-axis autopilot, new avionics integrated system, monitoring system of the operating parameters of the engine, etc.
- **IAR 316 B Alouette III helicopters** (SNIAS AEROSPACE license, currently Airbus Helicopters): second hand and related services (manufacturing of spare parts, maintenance, repairs, overhauls, upgrades, training pilots and technicians, technical assistance, etc)

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

- cessation, in recent years, of the IAR 316B Alouette III single-engine, light helicopter manufacturing (the main reason - the life limit) and of the IAR 330 PUMA helicopter, mainly due to the fact that the manufacturing of the new engines TURMO IVCA and of the mechanical assemblies ceased.
- progress in recent years, of the following upgrade programs:
  - IAR 330L Puma helicopter upgrade with SOCAT, NATO and NAVAL systems;
  - SA/IAR 330 Puma helicopter upgrade to the version SA 330 SM.

#### **1.1.2.2. Sales Markets**

##### **a. Current markets**

##### **The national market (Romania)**

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

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

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

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

<b>Sales by product type on the local market</b>	<b>Percentage of total sales on the local market</b>			
	<b>year 2012</b>	<b>year 2013</b>	<b>year 2014</b>	<b>year 2015</b>
<i>IAR 330 PUMA helicopters upgrade+ Overhaul, IAR 316B helicopters Overhaul, IAR 330 and 316B Helic.revisions</i>	56,40%	13,85%	64,28%	70,85%
<i>spare parts and services for helicopters</i>	27,85%	45,94%	15,11%	16,45%
<i>Aircraft –related miscellaneous</i>	5,15%	15,18%	15,89%	7,27%
<i>Non-aircraft-related miscellaneous</i>	10,60%	25,03%	4,72%	5,43%

### **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 (by AIRBUS HELICOPTER ROMANIA S.A. (former Eurocopter România S.A.)– FRANCE/ GERMANY

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

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

<b>Sales by product type on the external market</b>	<b>Percentage of total sales on the external market</b>			
	<b>year2012</b>	<b>year2013</b>	<b>year 2014</b>	<b>year 2015</b>
<i>upgraded helicopters</i>	0.00%	0.00%	0.00%	0.00%
<i>spare parts and services for the helicopters</i>	99.73%	99.78%	100.00%	100.00%
<i>airplanes – spare parts and repair services</i>	0.27%	0.22%	0.00%	0.00%

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

<b>Sales by type of product</b>	<b>Percentage of total sales</b>			
	<b>year 2012</b>	<b>year 2013</b>	<b>year 2014</b>	<b>year2015</b>
<i>IAR 330 PUMA helicopters upgrade+ Overhaul, IAR 316B helicopters Overhaul.</i>	39.08%	-	56.26%	60.75%
<i>IAR 330 and 316B Helic.revisions, spare parts and services for helicopters</i>	46.22%	76.59%	22.65%	27.73%
<i>Aircraft-related miscellaneous</i>	6.23%	8.90%	16.69%	6.55%
<i>Non-aircraft –related miscellaneous</i>	8.47%	14.51%	4.40%	4.97%

### **b. Potential markets**

#### **Potential local market**

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

IAR SA aims to continue in the future its cooperation with the joint venture company Airbus Helicopters Romania S.A.(former Eurocopter Romania S.A.), by providing maintenance and repair services for

helicopter parts, as well as providing spare parts for the SA 316B Alouette III and SA 330 Puma helicopters for own use and for the supply chain of Airbus Helicopters.

IAR SA is keen to become an authorized supplier for Airbus Helicopters specific subassemblies and electrical wiring of the SuperPuma MK1 helicopter to be manufactured in Brasov.

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

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

### **Potential external market**

IAR S.A.:

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

### **1.1.2.4. New products in question, which will need a substantial amount of assets affected to in the financial year 2016: - not applicable**

### **1.1.3. Evaluation of technical and material supply**

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

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

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

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

**Prices are established through direct negotiations with the suppliers.**

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

### **1.1.4. Evaluation of the sales activity**

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

Capitalization of the company's products in 2015 was achieved both on the local market (90.15% of total sales), as well as on the external market (9.85% of total sales).

#### **a. Export activity**

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

The value of exports under the orders and contracts of 2015 amounted to 2,980.33 thousand euros, the equivalent of 13,281.23 thousand lei. The export achievements in 2015 have increased compared to the previous year's achievements.

Comparing the period 2013-2015, in terms of types of product recovery, shows the following changes in the exports' structure:

<b>% of achieved annual export</b>	<b>upgraded helicopters</b>	<b>spare parts and services for helicopters</b>	<b>airplanes - spare parts and repairs</b>
Year2013	0%	99,78%	0,22%
Year2014	0%	100,00%	0%
Year 2015	0%	100,00%	0%

**b. Sales on the local market**

Locally there were developed and implemented in 2015 orders and contracts amounting to 121,488.90 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): 101,236.77 thousand lei (VAT excluded),
2. various local customers: 20,252.13 thousand lei (VAT excluded).

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

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

2. The increase of budgetary allocations for the Ministry of National Defence in the next years in order to reach the threshold of 2% of GDP, as required by Romania's commitments to NATO, will also determine the increase of the workload and thus, the turnover / net revenue, both as a result of the overhaul activities of the IAR 316 B Alouette III and IAR 330 Puma helicopters and of possible new upgrade programs of these helicopter models.

3. Should IAR SA be involved in the series manufacturing program of some subassemblies and electrical wiring for the SuperPuma MK1 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.

4. The involvement of IAR S.A. in the customization works / MRO of SuperPuma MK1 helicopters that will be manufactured in the future in Brasov and will be purchased by entities within the National Defence System, Public Order and National Security.

**- the external market**

1 The "product support" services for Pakistan, UAE, Lebanon and Oman helicopter fleets will continue in the next years, based on the follow on support contracts signed or to be signed by IAR S.A. with the beneficiaries from these countries.

2 IAR S.A. plans to take over the off-set obligations relating to public procurement contracts concluded by the Romanian government bodies with foreign companies.

3 IAR SA offers materialization on completing the equipment of 330 Puma SM helicopters owned by the Pakinstani 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:

<b>Crt. no.</b>	<b>Product or group of products</b>	<b>Competitor</b>	
		<b>on the local market</b>	<b>on the external market</b>
1	PUMA helicopter	Ukraine and Russia (Aviakon and Kazan Helicopters) with Mi-8, Mi-17	Airbus Helicopters - SuperPuma/Cougar, Sikorsky SUA – UH 60L, NH Industries (European corporation) – NH 90, DENEL Africa de Sud, Kazan Rusia – MI 17

2	IAR316B helicopter (currently, IAR S.A. no longer offers newly manufactured IAR316B helicopters)	Airbus Helicopters SAS – AS 350/355, EC120, EC135/635, EC 155, Bell Helicopter Textron – Bell427, Bell 429i, Bell430, Bell412, Bell206, Bell407, Agusta Italy – A109 Power, A119 Koala, Robinson USA – R44, R22, MDHelicopters Belgium – MD500/600	Airbus Helicopters SAS – AS 350/355, EC120, EC135/635, EC 155, Bell Helicopter Textron – Bell427, Bell 429i, Bell430, Bell412, Bell206, Bell407, Agusta Italia – yA109 Power, A119 Koala, Robinson USA – R44, R22, MDHelicopters Belgium – MD500/600
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#### **1.1.4.3 The dependence of the company on a single customer or on a group of customers**

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

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

#### **1.1.5. Assessment of the company's employees/ personnel**

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

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

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

**On the 31st of December 2015, the company had the following personnel structure which does not differ substantially from the years 2013 and 2014:**

- chief executives	2
- heads of departments	18
- higher education	82
- specialized secondary education	18
- foremen	7
- technical quality inspectors	5
- workers	175
- clerks	9

**The average age of the personnel employed in IAR S.A. at the end of 2015 was 54.5 years for men and 52.5 years for women. On the 31st of December 2015, men represented 73.2% of the total personnel, the difference being represented by women. At the same time, the experience in aviation of IAR S.A. 's personnel was of 32.33 years**

Of the total employees of the company, 69.08% 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 2015, in IAR S.A., no labor disputes or conflicting elements were recorded.

#### **1.1.6. Assessment of the impact of IAR S.A.'s core business on the environment**

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

- Integrated Environmental Authorization no. BVI of 18/07/2014 issued by the Environmental Protection Agency Brasov, valid until 18.07.2024
- Water Management Authorization no. 157 of 31.12.2013 issued by the Water Management System Brasov, valid until 31.12.2016
- Authorization No.71 of 22.01.2013 on greenhouse gas emissions 2013-2020, issued by the Ministry of Environment, Water and Forests.

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

*Environmental protection activities during 2015 were conducted in accordance with the specific requirements of environmental legislation and requirements of three environmental permits held by IAR SA.*

*To this end, the company has monitored the quality of the environment: water, air, soil, in collaboration with companies and accredited laboratories: ECOSIMPLEX NOVA Bucharest for air emissions, ECOBREF Brasov soil quality and audits specialty ECOIND Bucharest evacuated wastewater analysis, TEKKO INDUSTRY LOGISTIK for acquisition and disposal of hazardous waste resulting from the activity of the company. During 2015 there were no breaches of the measured values of pollutants emitted to the limit values. All required reports were made by both the authorization and other reports and statements required by the Brasov Environmental Protection Agency, the National Agency for Environmental Protection, the Ministry of Environment, the Ministry of Water and Forests, the Water Management System Brasov.*

*IAR SA has fulfilled all obligations concerning the 5 measures for technical refurbishment carried out over 5 years (2009-2013) provided in previous environmental permits so that the new integrated environmental permit has no action plan, the current activity and the new monitoring limits for compliance with the provisions of the best available techniques.*

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

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

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

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

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

*The Company has transactions in other currencies than the functional currency (Ron), i.e. Euro and USD. The company, depending on its possibilities, at a certain time, using different currencies, buys the respective currencies that it needs to complete the necessary import payments from different suppliers. The Company did not use derivative financial instruments for protection against currency fluctuations.*

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

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

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

- *The management of the company, depending on the current situation on the market, made arrangements for continuation of work in terms of profitability.*
- *The Company conducts business relationships only with renowned third parties.*
- *As shown in the Internal Regulation of the Board of Directors of IAR SA, the company has established an effective framework for risk identifying, monitoring and management.*

*The executive management of the Company has implemented a risk management system, which is described in chapter 3 - The corporate governance statement.*

- *The Company is not subject to any patrimonial legal claims.*

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

### **1.1.9. Elements of perspective on the company's activity**

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

IAR S.A. concluded in 2015 a multi-annual agreement for carrying out overhauls and upgrades on the IAR 330 Puma helicopters of the Romanian Air Force. IAR S.A. has the ability and experience necessary to perform a multi-annual agreement that must be intended to carry out overhaul works and upgrading a number of helicopters to be established by the customer, based on a supplier credit given to the National Ministry of Defense, according to budgetary allocations in the next years. This agreement has advantages for both parties:

- The Chief of Staff of the Air Force will ensure the airworthiness of helicopters owned,
- IAR S.A. will be able to load their production capacities and to ensure occupation of its highly specialized workforce, with positive effects on maintaining the manufacture capacity of its authorized subcontractors: Turbomecanica SA Bucharest, Aerostar SA Bacau, Aerotech SA Bucharest and Aerofina SA Bucharest.

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

- IAR S.A. will be involved in the national program for the purchase of helicopters by the institutions of S.N.A.O.P.S.N. /other budgetary institutions - a program for 10-20 years,
- IAR S.A. will take the necessary measures to become a national center for helicopters maintenance.

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

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

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

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

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

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

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

<b>Indicator</b>	<b>Analyzed period</b>			
	<b>31.12.2011</b>	<b>31.12.2012</b>	<b>31.12.2013</b>	<b>31.12.2014</b>
<b>Current liquidity indicator</b>	<b>9.54</b>	<b>17.24</b>	<b>4.87</b>	<b>4.64</b>
<b>Immediate liquidity indicator</b>	<b>6.4</b>	<b>10.49</b>	<b>2.81</b>	<b>3.38</b>

#### **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 in the next years in order to reach the threshold of 2% of GDP, as required by Romania's commitments to NATO, will have positive effects also on IAR SA, by increasing its activity and hence the company's annual business/net income.*

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

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

*If IAR SA becomes involved in the series manufacturing program of some subassemblies and electrical wiring for the SuperPuma MK1 helicopters that are to be manufactured by Airbus Helicopter in its new investment on the IAR Brasov platform, the policies, strategies, activities and operations of the company will be significantly influenced.*

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

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

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

*The unused spaces following the reorganization of activities over time and associated installations were transferred in conservation, and it is to be decided whether to capitalize them by lease/sale.*

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

*Given the objectives declared, in 2015 the upgrading of the production capacity in which activities were carried out, continued.*

*Actions taken in this regard have resulted in:*

#### *1) repairs made to the existing tangible assets:*

- locker facilities, dining halls and lavatories within the production capacities,*
- the completion of the first stage of refurbishing of the stripping workshop: in 2015 the project and documentation were made, which were necessary to obtain approvals and agreements required by the urbanism certificate for the issuance of the building permit. This action is expected to be completed by the end of 2016.*
- the completion of the first stage of refurbishing of the surface treatment workshop: in 2015 the project was carried out and the building permit was obtained, as a tendering procedure for contracting the works was applied. This action is expected to be completed by the end of 2016.*

#### *2) procurement of production accessories, small equipment, TCD, of which the most important are: Chromic anodizing bath, hydraulic bench, IFF test bench, NAV-COM test bench, adjusting attenuator, laboratory oven, air electrocompressor, portable air flow measuring device, megohmmeter, insulation endurance measuring device,*

#### *3) procurement of IT products - an action for upgrading hardware and software components that takes place in three stages. In 2015 PCs and graphic stations with software licenses specific to the design activity were purchased. The action will continue until the end of 2017.*

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

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

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

*Also:*

- the wear rate is between 30% and 60% on the production buildings and other objectives in the construction category (buildings, roads and platforms) currently in conservation;*
- the wear rate is 100% on the two disused production buildings (which are the only buildings that were built before the Second World War), for which the proceedings of cassation and demolition shall be initiated;*
- external networks of heating, water/sewage, air, have a wear rate between 25% and 90%.*

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

**3. The corporate governance statement**

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

The Statement of compliance of IAR SA in 2015 to the provisions of the Code of Corporate Governance of BSE is presented below:

<b>The provisions of the Code of Corporate Governance</b>	<b>Complies</b>	<b>Does not, or only partially complies</b>	<b>Reason of the non-compliance</b>
<b>A1</b> - 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		
<b>A2</b> - 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		
<b>A3</b> - The Board of Directors or the Supervisory Board must be composed of at least five members.	x		
<b>A4</b> - 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 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: <b>A.4.1.</b> 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; <b>A.4.2.</b> 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; <b>A.4.3.</b> 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; <b>A.4.4.</b> 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;	x		

<p><b>A.4.5.</b> <i>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;</i></p> <p><b>A.4.6.</b> <i>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;</i></p> <p><b>A.4.7.</b> <i>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;</i></p> <p><b>A.4.8.</b> <i>he/she hasn't been the company's non-executive manager for more than twelve years;</i></p> <p><b>A.4.9.</b> <i>he/she does not have family connections with a person in the cases referred to in paragraphs A.4.1. and A.4.4.</i></p>			
<p><b>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.</b></p>	x		
<p><b>A 6</b> <i>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.</i></p>	x		
<p><b>A 7 - The company must appoint a secretary of the Board responsible for supporting the work of the Board.</b></p>	x		
<p><b>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.</b></p>		x	<p><i>The Board Evaluation Guide is under development and will be approved by the Board of Directors during the month of May 2016.</i></p>
<p><b>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.</b></p>		x	<p><i>The corporate governance statement will be part of the 2015 Annual Report</i></p>
<p><b>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.</b></p>		x	<p><i>The corporate governance statement will be part of the 2015 Annual Report</i></p>
<p><b>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</b></p>		x	<p><i>Not applicable.</i></p>

<i>recommendations to the Board. Most members of the nomination committee must be independent.</i>			
<b>B 1</b> - <i>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.</i>	x		
<b>B 2</b> - <i>The chairman of the Audit Committee must be an independent non-executive member.</i>	x		
<b>B 3</b> - <i>Among its responsibilities, the Audit Committee must conduct an annual evaluation of the internal control system.</i>		x	<i>The assessment will be made upon the preparation of the 2015 Annual Report</i>
<b>B 4</b> - <i>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.</i>		x	<i>The assessment will be made upon the preparation of the 2015 Annual Report</i>
<b>B 5</b> - <i>The Audit Committee must assess conflicts of interest in connection with the transactions of the company and its subsidiaries with the related parties.</i>		x	<i>The assessment will be made upon the preparation of the 2015 Annual Report</i>
<b>B 6</b> - <i>The Audit Committee must assess the effectiveness of the internal control and of the risk management system.</i>		x	<i>The assessment will be made upon the preparation of the 2015 Annual Report</i>
<b>B 7</b> - <i>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.</i>		x	<i>The monitoring will be done constantly since March 2016</i>
<b>B 8</b> - <i>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</i>		x	<i>This provision will be complied with constantly since March 2016</i>
<b>B 9</b> - <i>No shareholder may be given preferential treatment in relation to other shareholders and their affiliates.</i>	x		
<b>B 10</b> - <i>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</i>	x		

<i>are subject to reporting requirements.</i>			
<b>B 11</b> - <i>Internal audits must be conducted by a separate structural division (internal auditing) of the company or by hiring an independent third party entity.</i>	x		
<b>B 12</b> - <i>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.</i>	x		
<b>C 1</b> - <i>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.</i>		x	<i>The principles on remuneration of the Board and the General Manager are established by a GSM decision, published in the Official Gazette of Romania, transmitted to ASF and BVB and posted on the website of IAR SA . A document containing the principles of the remuneration policy will be posted on the website of the company in the month of June 2016.</i>
<b>D 1</b> - <i>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:</i> <b>D 1.1</b> - <i>The main corporate regulations: the constitutive act, the procedures for shareholders assemblies;</i> <b>D 1.2</b> - <i>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;</i> <b>D 1.3</b> - <i>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;</i>	x	x x	<i>The posting on the website will be created during the month of February 2016</i>
	x		
	x		

<p><b>D 1.4</b> - 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><b>D 1.5</b> - 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><b>D 1.6</b> - The name and contact details of the person who can provide, upon request, relevant information;</p> <p><b>D 1.7</b> - The company presentation (eg. the presentations for investors, the quarterly results presentations etc.), the financial statements (quarterly, half-yearly, yearly), audit reports and annual reports.</p>	<p>x</p> <p>x</p> <p>x</p>		
<p><b>D 2</b> - 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>	<p>x</p>		<p>The company is under the GO 64/2001 regulating the distribution of net profit.</p>
<p><b>D 3</b> - The company will adopt a policy regarding forecasts, whether they are made public or not. The forecasts refer to quantified findings studies aimed at determining the overall impact of a number of factors relating to a future period (so called hypotheses): by its nature, this project has a high level of uncertainty, actual results may differ significantly from forecasts initially presented. The policy on expectations will determine the frequency and content of the period covered by the forecast. If published, the forecasts can only be included in the annual, half-yearly or quarterly reports. The policy on forecasts will be published on the website of the company.</p>		<p>x</p>	<p>A policy regarding forecasts will be developed in the latter half of 2016</p>
<p><b>D 4</b> - 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.</p>	<p>x</p>		
<p><b>D 5</b> - The external auditors will attend the general meeting of shareholders when their reports are presented in such meetings.</p>	<p>x</p>		
<p><b>D 6</b> - 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.</p>	<p>x</p>		

<i>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.</i>	x		
<i>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.</i>	x		
<i>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.</i>		x	
<i>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.</i>			Not applicable

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

#### **3.2.1. The Board of Directors of IAR S.A. consists of five members.**

##### **a. Membership, qualifications and experience**

<b>Crt .no</b>	<b>Name and Surname</b>	<b>Position in the IAR SA Company</b>	<b>Age</b>	<b>Qualification</b>	<b>Position</b>	<b>The period of the current mandate</b>
1.	Ion Rareş POPESCU	Chairman of the Board	37	engineer	Head of the Energetic Inspection Office at FDFEE Electrica Transilvania Sud S.A.	10.10.2014-12.09.2017
2.	Liliana STUPARU	Member	60	economist	DPAPS MECRMA Senior Counsellor	04.01.2010-12.09.2017
3.	Claudia Maria BAICU	Member	42	lawyer	Manager - Legal Dep., Post-privatization - DPAPS MECRMA	10.10.2014-12.09.2017
4.	Ioan TOMA	Member	61	lawyer	Legal Advisor at INCAS Bucharest	10.10.2014-12.09.2017
5.	Răzvan POPA	Member	37	journalist	Local counselor, Bv City Council	10.10.2014-12.09.2017

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

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

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

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

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

- long-term studies: Transylvania University of Brasov, Faculty of Materials Science and Engineering in the period 1997 – 2002
- short-term studies:
  - October 2014 - present: **Doctoral school** - Thesis: Study on improving the quality of electricity for energy efficiency
  - 2008-2010: **Master's degree/MA** - Energy Management at the Faculty of Electrical Engineering and Computer Science in the period 2008 – 2010
  - Various postgraduate courses, including:
    - 09.2014-12.2014 The National Defense University "Carol I", the National Defense College-dissertation on "Energy Security in the context of sustainable development "
    - 09.2014-10.2014 Nanyang Technological University, Center for Continuing Education, course "Clean Energy and Emission Reduction"
    - 2013 Expert Course on preventing and combating corruption
    - 2005 Course on the Management Systems of Occupational Health and Safety OHSAS: 2004
    - 2004 Postgraduate Course on Electroenergetic Balance
    - 2004 Course on the Design, Documenting and Implementing of the Environmental Management System according to the Standard SR EN ISO 14001 : 2001

experience: preparing and supervising internal documentation to the listing process, the **IPO** of the Electrica SA company - non-executive member of the Board of Directors

**2. Since 2010 Ms. Claudia Baicu, non-executive manager of IAR SA has held the following management / leadership positions:**

<b>PERIOD</b>	<b>COMPANY / POSITION OCCUPIED</b>
October 2014 - present	IAR SA - Member of the Board of Directors
February 2014 - present	the Moldomin SA Company – Special manager

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

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

**3. Since 2010 Ms. Stuparu Liliana, non-executive manager of IAR SA has held the following management / leadership positions:**

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



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

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

4. Since 2010 **Mr. Ioan Toma, independent and non-executive manager of IAR SA**, has not held any administrative / management position in any other company.

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

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

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

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

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

5. Since 2010 **Mr. Răzvan Popa, independent and non-executive manager of IAR SA**, has not held any administrative / management position in any other company.

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

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

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

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

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

- the Audit Committee:
  - Ms. Liliana STUPARU – member of the Audit Committee
  - Ms. Claudia BAICU - member of the Audit Committee
  - Mr. Ioan TOMA – Chairman of the Audit Committee
- the Nomination and Remuneration Committee:
  - Mr. Ion Rareș POPESCU – member of the Nomination and Remuneration Committee
  - Mr. Răzvan POPA – member of the Nomination and Remuneration Committee.

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

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

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

- the responsibilities of the Board of Directors, of the committees of the Board, of the executive management and of the key functions within the company,

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

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

The activity carried out in 2015 by both the Board of Directors of IAR SA and by its advisory committees, is summarized in the following table:

<b>No. of meetings <sup>®</sup></b>	<b>THE BOARD OF DIRECTORS</b>	<b>THE AUDIT COMMITTEE</b>	<b>THE NOMINATION AND REMUNERATION COMMITTEE</b>
<b>Name and Surname <sup>-</sup></b>	8	4	2
<i>Ion Rareș POPESCU</i>	8		2
<i>Liliana STUPARU</i>	6	4	
<i>Claudia Maria BAICU</i>	3	4	
<i>Ioan TOMA</i>	8	4	
<i>Răzvan POPA</i>	7		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, through a mandate, by the other Board members of the company.

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

During 2015, the Board of Directors approached in its meetings various topics of interest to the company, such as:

- the approval of the activities program for the financial year 2015 - during March 2015;
- the approval of the annual income and expenditure budget for the year 2015 - during March 2015;
- the approval of the annual investment program in 2015 - in March 2015;
- the information on the state of enforcing the decisions of the General Meeting of Shareholders and of the Board of Directors - during the meetings in March and July 2015;
- the summarizing information on the work carried out by the company between the Board meetings - on the date of each meeting;
- the analysis and approval of financial statements: during April and November for quarterly statements, in July for the half-yearly statements and in March for the annual statements for the previous financial year;
- the development of the periodic (quarterly/half-yearly/annual) reports - together with the approval of financial statements for those periods;
- the approval of the criteria and performance targets related to the current financial year- in July 2015;
- the analysis of the fulfillment of criteria and performance targets approved - with analysis and approval of periodic financial statements;
- any other analysis in the limits of the Board of Directors' prerogatives - in the moment of occurrence of such situations (in 2015: January, February, November, December);
- the convening of the GSM for issues falling within its competence - during the meetings in January, March, October, November 2015.

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, reporting the results to the general meeting of shareholders.

According to the principles taken into account:

- the Board's assessment will take 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 assessment process focuses primarily on the achievement of three objectives:
  - a) the assessment of the way in which the Board and its committees operate;
  - b) the preparation and discussion of important issues in the Company's activity;
  - c) the presence of managers in the Board meetings and relevant advisory committees and their constructive involvement in discussions and decision-making.

The Board's stated purpose for the assessment is 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).

The Board's Evaluation Guide is under development and will be approved by the Board of Directors in May 2016. In this context, for the work carried out in 2015 an assessment of the Board has not yet been made.

Through the activity that took place during 2015, 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 2015 focused on:

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

By the activity that took place during 2015, 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 2014, the criteria and performance targets have been met in relation to the mandate contract concluded with the General Manager of the Company
- the establishment, for the current year, of the respective criteria and performance targets.

The Nomination and the Remuneration Committees had an important role in monitoring the executive management of IAR SA during 2015, one of the criteria under which the evaluation of the way the General Manager of IAR SA provides the executive management of the company is the fulfillment of criteria and performance targets set out for each year of mandate.

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

The principles on remuneration of the Board and of the General Manager of IAR SA , which were established in 2014 by applying the provisions of GO no. 26/2013 and GEO 109/2011, subject to the GSM decision no. 02/08.01.2014, published in the Official Gazette of Romania, transmitted to ASF and BVB and posted on the website of IAR SA .

Complying to the principles on remuneration of the Board of Directors and of the General Manager of IAR SA:

- the non-executive members of the Board of Directors of IAR SA are granted a gross fixed monthly allowance of 2,397 lei, representing the average of gross monthly average salaries, during the 12 months prior to their appointment, in the machinery construction field- manufacture of other transport and maintenance of aircraft and spacecraft ", communicated by INSSE

- *the members of the Council's advisory committees did not receive money for their activities in these committees*
- *the General Manager of IAR SA is granted a monthly fixed remuneration, whose upper limit is fixed at 14,380 lei, which is 6 times the average of gross average monthly salaries during 12 months prior to his appointment, in the machinery construction field - manufacture of other transport equipment (corresponding to the overall activities of the IAR SA NACE code 3316- "Repair and maintenance of aircraft and spacecraft" communicated by INSSE*
- *the fixed monthly remuneration payable to the General Manager of IAR SA was established by the Board of Directors of the IAR SA starting from the decision of the GSM 02/01.08.2014, in the amount of 14,380 lei (taking into account both the powers, the duties and responsibilities set out in the mandate contract and the economic and financial results of the company)*
- *the remuneration of the General Manager of IAR SA does not include a variable component*
- *special pension rights and/or benefits are not provided.*

*A document containing the principles of the remuneration policy will be posted on the website of the company in the month of June 2016.*

### **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 2015, by implementing the risk management system, the executive management of the company:*

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

*The risk management system implemented in the IAR SA is complemented by an internal control system which during 2015:*

- *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 2015 by an internal audit company, based on a service agreement, intended:*

- *to reasonably offer, objective and independent assurance both to the administrative management and to the executive management, according to which the organization, the company's policies and procedures are working effectively and as expected,*
- *to provide assurances regarding the effective implementation at the company level of the framework of risk management and of internal control system,*
- *to independently make decisions on matters of audit,*

- to conduct, independently, activities from an operational perspective compared to other departments within the company and to the executive management of the Company,
- to develop risk plans, by consulting with:
  - o the commission responsible for risk management,
  - o the executive management of the company,
  - o the audit committee of the Board of Directors.
- to elaborate the justifying documents that are supported by the conclusions drawn by it while performing its activity.

### 3.4. Information regarding the shareholders

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

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

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

On the webpage of the company, [www.iar.ro](http://www.iar.ro), are posted all the information that might be of interest to shareholders and to potential investors.

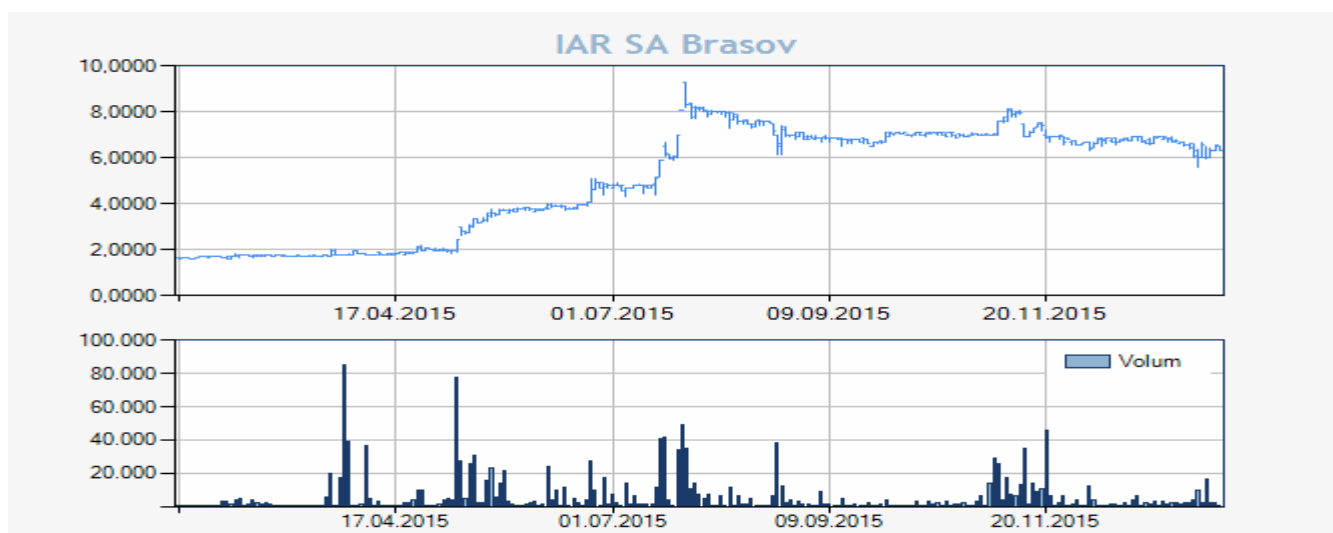
The information on the shareholder activity may also be obtained from any of the persons below, who work in this department, daily from 07:15 to 15:15:

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**

In the first 6 months of 2015, the shares issued by IAR S.A. were traded on the B.S.E. – on the RASDAQ market and after 07.14.2015 they were traded on the Bucharest Stock Exchange, the Equity Sector - Standard Category shares.

The evolution of the market value of the IAR S.A. Company's shares in the last 6 months is shown in the chart below:



From the analysis made based on public information posted on the BSE website the following evolution of IAR S.A.'s shares trading over the last 5 months (07.27.2015-12.30.2015) emerges:

<i>The total number of transactions</i>	<i>The total number of traded shares</i>	<i>The total value of traded shares (lei)</i>	<i>The opening average value of trades (lei)</i>	<i>The average minimum price (lei)</i>	<i>The average maximum price (lei)</i>	<i>The average median price (lei)</i>	<i>The average price variation (%)</i>
3,551	485,940	3,438,739	6.74	6.62	6.82	6.70	-0.72

*It can be noted that the average market value of IAR S.A. 's shares resulting from the transactions made over the last 5 months of 2015 waved around 6.70 lei, which is about two and a half times the nominal value of the shares (2.5 lei).*

*From the above graphic presentation of the three intervals marked on trading, the powerful positive impact that the company, by being registered on BSE, had on the market value of the company's shares can be noted. Thus, it rose from an average lying around 2 lei / share to an average that ranged between 6 lei / share and 8.5 lei / share.*

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

*For 2012, the amount allocated to be shared as dividends to IAR S.A. shareholders is 984,916 lei, resulting in a gross dividend of 0.05217 lei per share. Dividends were paid by bank transfer, pay office and the SC Depozitarul Central SA, to shareholders registered in the register of shareholders on 31.05.2013.*

*For 2013, the amount allocated to be shared as dividends to IAR S.A. shareholders is 1,41969 million lei, resulting in a gross dividend of 0.0752 lei per share. Also, by the resolution no. 5 / 04.24.2014 of the GSM, the general meeting of shareholders approved the prescription of unpaid dividends for the financial years older than 3 years (including until 2009). Dividends were paid by bank transfer, pay office and Depozitarul Central, to shareholders registered in the register of shareholders on 15.05.2014.*

*For 2014, the amount allocated to be shared as dividends to IAR S.A. shareholders is 2,922,372 lei, resulting in a gross dividend of 0.1547 lei per share. Dividends were paid via S.C. Depozitarul Central S.A., to shareholders registered in the register of shareholders on 15.06.2015.*

*For 2015, based on the provisions of the GO 64/2001 regulating the distribution of the net profit, the Board of Directors and the executive management of IAR S.A. propose the allocation of the amount of 6.556.626 lei in dividends, representing 54,81% of the net profit by the end of the year. The result of calculations show that in 2015 the gross dividend per share is 0,3473 lei.*

*The dividend payment date will be 06.07.2016, which will be paid via Depozitarul Central SA to the shareholders registered in the register of shareholders on 15.06.2016, identification date of shareholders who will be impacted by the GMS resolution approving the financial statements. Expenses incurred by the distribution of dividends shall be borne by the shareholders.*

*If:*

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

*The Board of Directors and the executive management of IAR S.A. propose that the general meeting of shareholders, pursuant to Art. 67 of Law 31/1990, republished, with subsequent amendments and supplements to approve prescribing unpaid dividends for the year 2011, which meets the condition for achieving the deadline of 3 years from the date of chargeability of distributed dividends stipulated by art. 2517 of the Civil Code and the proposal for their registration under "other income" - account 758 under Order 1286/2012.*

*The date of prescribing these amounts will be 30.06.2016.*

### **3.4.3. Purchase activities of own shares - not applicable.**

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

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

### **3.5. The operational management of IAR S.A.**

In compliance with Law no. 31/1991, republished, as amended and supplemented, the leadership, organization, representation and management of the activity of IAR S.A. were ensured, in 2015, by **Mr. Eng. Neculai BANEĂ - GENERAL MANAGER**. He represented the company in relation to third parties and was responsible for how the company carried out acts of leadership under the mandate contract number E425 / 03.30.2009, valid until 31.05.2016.

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

During 2015, IAR S.A.'s executive management was provided by Messrs *ec.* **Ion DUMITRESCU - Commercial and Economic Executive Manager** and **eng. Andrei LÖRINCZ - Development and Production Executive Manager**, having the status of clerks of the company (based on individual employment contracts signed with the company). None of the above nominees has any agreement, understanding or connection with others, under which they have been appointed to IAR S.A.'s management and was not involved in litigation or administrative procedures in the last 5 years. The two executives hold the following shares of the share capital of the IAR S.A. Company:

- Mr. Ion DUMITRESCU: 0.00125537% of the share capital (the share owned by assigning shares under the mass privatization process and as a result of shares acquisition on the RASDAQ market)
- Mr. Andrei LÖRINCZ: 0.0062133% of the share capital (the share owned by assigning shares under the mass privatization process and as a result of shares acquisition on the RASDAQ market)

### **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 2015 COMPARED TO THE LAST 3 YEARS**

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

#### **a) Balance sheet items**

	<i>lei</i>			
<b>BALANCE SHEET ITEMS</b>	<b>31.12.2012</b>	<b>31.12.2013</b>	<b>31.12.2014</b>	<b>31.12.2015</b>
<b>I. Fixed assets</b>	<b>43,419,231</b>	<b>43,714,509</b>	<b>42,174,920</b>	<b>64,300,563</b>
Stocks	28,266,577	31,915,365	48,280,247	36,624,387
Debentures	29,961,761	31,325,882	20,441,103	18,109,861
Cash and banking accounts	3,573,618	2,502,907	39,608,353	80,163,837
Short-term financial investments	22,868,031	15,738,105	6,053,816	
<b>II. Circulating assets</b>	<b>84,669,987</b>	<b>81,482,259</b>	<b>114,383,519</b>	<b>134,898,085</b>
<b>III. Expenses reg. in advance</b>				
<b>TOTAL ASSETS</b>	<b>128,089,218</b>	<b>125,196,768</b>	<b>156,558,439</b>	<b>199,198,648</b>
Share capital	47,197,132	47,197,132	47,197,132	47,197,132
Reserves from reevaluation	3,139,331	3,139,331	3,139,331	26,044,409
Reserves	13,504,027	13,677,836	14,295,832	16,718,205
Profit	1,158,725	1,669,429	5,713,001	11,961,550
Loss				
Reported result	3,951,194	3,951,194	3,951,194	3,951,194
Profit distribution			368,257	
<b>I Shareholder's equity</b>	<b>68,950,409</b>	<b>69,634,922</b>	<b>73,928,233</b>	<b>105,872,490</b>
<b>II Provisions for risks and expenses</b>	<b>43,401,514</b>	<b>44,154,754</b>	<b>52,881,824</b>	<b>58,187,433</b>
Loans and assimilated debts				
Suppliers	2,974,326	1,951,087	8,597,325	3,661,501
Creditor clients	1,044,805	1,053,843	2,465,455	5,683,198

<i>Other debts</i>	11,717,712	8,401,473	18,685,573	25,789,577
<b>III Total payables</b>	<b>15,736,843</b>	<b>11,406,403</b>	<b>29,748,353</b>	<b>35,134,276</b>
<b>IV Settlement accounts</b>	<b>452</b>	<b>689</b>	<b>29</b>	<b>4,449</b>
<b>TOTAL LIABILITIES</b>	<b>128,089,218</b>	<b>125,196,768</b>	<b>156,558,439</b>	<b>199,198,648</b>

*The share of fixed assets in the total assets was 33.9% in 2012, 34.92% in 2013, 26.94% in 2014 and 32.28% in 2015.*

**b) the profit and loss account**

lei

<b>THE PROFIT AND LOSS ACCOUNT</b>	<b>31.12.2012</b>	<b>31.12.2013</b>	<b>31.12.2014</b>	<b>31.12.2015</b>
<i>Income from the sale of goods</i>	4,465,255	2,044,299	133,334	259,463
<i>Sold production</i>	37,153,710	33,354,192	101,550,359	130,632,741
<i>Turnover</i>	41,618,965	35,398,491	101,683,693	130,892,204
<i>Income from the stored production – S.C.</i>		5,207,894	15,752,521	9,613,230
<i>Income from the stored production – S.D.</i>	7,174,453			
<i>Other operating income</i>	896,775	25,757	1,187,494	338,781
<b>OPERATING INCOME – TOTAL</b>	<b>35,341,287</b>	<b>40,632,142</b>	<b>118,623,708</b>	<b>121,617,755</b>
<i>Expenditure on goods, com discounts received</i>	4,579,058	1,235,498	169,077	235,138
<i>Expenditure on raw mat. and consumable mat.</i>	10,002,294	19,157,329	76,161,337	65,569,774
<i>Expenditure on water and energy</i>	1,647,472	1,504,140	1,421,071	1,459,007
<i>Other mat. expenditure</i>	273,998	293,647	310,906	375,551
<i>External services-related expenses</i>	3,463,376	3,443,429	4,537,774	5,265,285
<i>Duties, taxes and similar levies-related expenses</i>	197,410	139,699	300,791	373,587
<i>Salaries-expenses</i>	9,567,828	10,297,740	13,503,702	14,084,658
<i>Insurance and social protection-related expenses</i>	2,624,693	2,768,376	3,482,494	3,195,267
<i>Staff-related expenses</i>	12,192,521	13,066,116	16,986,196	17,279,925
<i>Compensation, environment and transferred assets-related expenses</i>	55,247	12,065	362,571	20,195,281
<i>Expenditure on provisions reduced by income from provisions</i>	-4,775,138	2,287,828	9,673,056	5,124,250
<i>Expenditure on the amortization and, constitution and provisions adjustments</i>	7,732,380	800308	1,251,598	1,328,454
<i>Tangible assets re-assessment-related expenses</i>				513,141
<i>Adjustments to circulating assets</i>	927,141	0	1,125	0
<b>EXPENDITURE ON OPERATING -TOTAL</b>	<b>36,295,759</b>	<b>41,940,059</b>	<b>111,175,502</b>	<b>117,720,679</b>
<b>RESULT FROM OPERATING - PROFIT</b>	<b>-954,472</b>	<b>-1,307,917</b>	<b>7,448,206</b>	<b>3,897,076</b>
<b>TOTAL INCOME</b>	<b>39,218,372</b>	<b>45,815,495</b>	<b>120,832,085</b>	<b>136,053,144</b>
<b>TOTAL EXPENDITURE</b>	<b>37,584,913</b>	<b>43,645,702</b>	<b>112,695,915</b>	<b>118,618,020</b>
<b>GROSS RESULT - PROFIT</b>	<b>1,633,459</b>	<b>2,169,793</b>	<b>8,136,170</b>	<b>17,435,124</b>

*The share of operating costs in the total expenditure: in 2012 is 96.57%, in 2013 is 96.10%, in 2014 is 98.65% and in 2015 is 99.24%.*

*The share of operating income in the total income: in 2012 is 90.11%, in 2013 is 88.69%, in 2014 is 98.17% and in 2015 is 89.39%.*

*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 2015, the workload of production capacities has averaged 115%.*

*c) cash flows - the available funds of the company on 31.12.2015 were 80,163,837 lei.*

**4.2. ELEMENTS OF FINANCIAL-ACCOUNTING MANAGEMENT**

*In 2015 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. 05/09.17.2015, as amended and/or supplemented by Decisions No. 07/09.22.2015, 08/16.10.2015 and 09/11.23.2015.

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 2015.

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

- in the chapter "unfinished production" each command was analyzed, establishing that the value of orders in progress on 30.09.2015 was 41,727,490 lei, having the following structure:
  - basic production (including technical plan activities) 41,661,211 lei
  - auxiliary production 66,279 lei
- in the "materials" and "inventory items and TETs" chapters were found no differences.
- at the "fixed assets" chapter, according to the minutes, no additions or reductions were found.

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

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

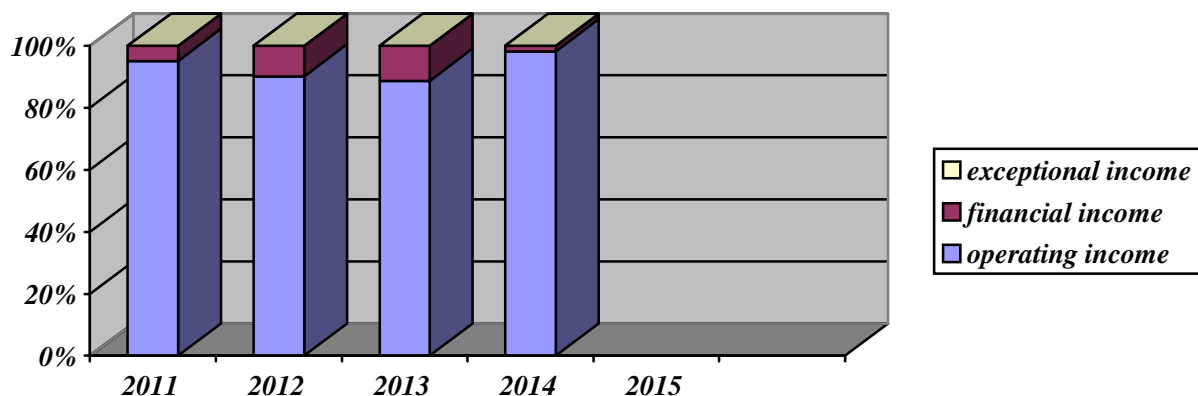
IAR SA's balance sheet for the period 01.01.2015-31.12.2015 was compiled based on the trial balance accounts that were registered in all economic and financial operations based on legal documents drawn up, on the principles and by the provisions of the Accounting Law no. 82 / 1991 approved the company's 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. 3055/2009, the Order 1286 of October 2012 for approving the Accounting regulations compliant with the International financial reporting standards, applicable to commercial companies whose securities are admitted to trading on a regulated market, as amended and supplemented and the Accounting law no. 82/1991, as amended and supplemented.

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

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

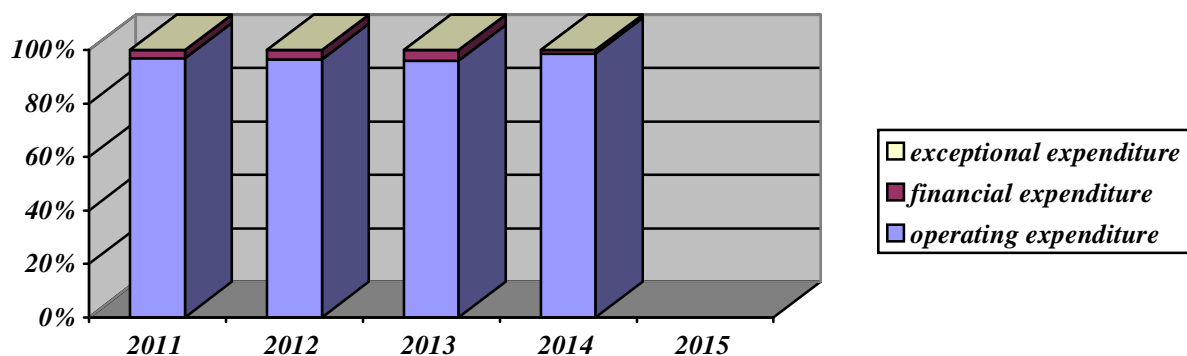
	%				
	2011	2012	2013	2014	2015
<b>Operating income</b>	95.14	90.12	88.69	98.17	89.39
<b>Financial income</b>	4.86	9.88	11.31	1.83	10.61
<b>Exceptional income</b>	0	0	0	0	0

*The main share, respectively 86,39% of total revenues achieved by the company in 2015, is represented by the income from operating activities.*



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

	%				
	2011	2012	2013	2014	2015
<b>Operating expenditure</b>	96.97	96.57	96.10	98.70	99.24
<b>Financial expenditure</b>	3.03	3.43	3.90	1.30	0.76
<b>Exceptional expenditure</b>	0	0	0	0	0



*The main share, respectively 99.24% of total expenditure made by the company in 2015, is the expenditure on operating activities.*

### **THE WHOLE PATRIMONY OF IAR S.A. S:**

#### **ü ASSETS**

*This balance sheet item shows an increase of 52.2.% over the previous year, from 42,175 lei to 64,301 thousand lei.*

The increase is due to the registration in the accounting of the evaluation report "Re-assessment of tangible assets Group 1, belonging to IAR SA, on 30.11.2015", set up by Romcontrol SA, Bucharest, Brasov Agency.

**Other tangible assets titles** are maintained in the amount of 5,430 thousand lei on 31.12.2015 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 Nondistructive Control, RO-NANDTB, Bucharest: 1,000 lei, representing 16.67 %.

## ü STOCKS

In the stocks category are comprised:

- raw materials directly involved in the manufacturing of products and are found fully or partly in the finite product, either in their original or processed shape;
- consumables (auxiliary materials, fuel, packaging materials, spare parts and other consumables), which participate or support the manufacturing or operating process without usually being found in the finite product;
- inventory objects materials;
- products, namely:
  - semi-finite products;
  - finite products;
  - scrap, recoverable materials and waste;
  - merchandise;
  - packaging, including reusable packaging, purchased or manufactured, designed for sold products that can be temporarily stored by third parties, having the restitution obligation as stipulated in the agreements;
  - production in progress;
  - the goods in custody for processing or on consignment with third parties.

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

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

The stock value on 31.12.2015 is 36,624 thousand lei, decreasing by 28.81 % compared to the last year, mainly driven by the significant decrease of the production in progress, from 17,794 thousand lei, to 10,094 thousand lei as well as by the decrease in the volume of finite products, from 7,190 thousand lei to 5,317 thousand lei.

## ü RECEIVABLES

On 31.12.2015 the situation of the receivables is as follows:

	lei
<b>Total receivables</b>	<b>18,109,861</b>
- commercial receivables	17,224,127
- long-term receivables	0
- paid deposits	693,785
- other receivables, of which:	191,949
• Other taxes-excises	69,882

• <i>Sundry debtors</i>	26,710
• <i>Interests to be received</i>	0
• <i>VAT to be recovered</i>	0
• <i>Other receivables related to the personnel</i>	4,450
• <i>Undue VAT</i>	1,140
• <i>Contribution for leaves and indemnities</i>	89,767

*In the total receivables, the largest share is held by trade receivables in the amount of 17,224 thousand lei, respectively 95.11%.*

*The most important receivables are:*

<i>- TURBOMECANICA :</i>	<i>1,303 thousand lei;</i>
<i>- CITRA AVIATAMA DIRGANTARA INDONESIA</i>	<i>5,203 thousand lei;</i>
<i>- BANK GUARANTEE LETTER FOR DOWNPAYMENT</i>	<i>5,725 thousand lei;</i>
<i>- GOOD PERFORMANCE BANK GUARANTEE LETTER</i>	<i>3,498 thousand lei</i>

## **ü 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 2015 provisions have been established and increased in compliance with Article 22 of Law 571/2003, with Order no. 3055/2009 and with Order 1286/2012 for approving the Accounting Regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market.*

*Their value is 34,430 thousand lei, presenting them in the following structure:*

- *provision for performance guarantees granted to local customers under contracts concluded with them, amounting to 9,144 thousand lei;*
- *provision for employees participation to profit, amounting to 1,150 thousand lei;*
- *provision for receivables depreciation, amounting to 4,151 thousand lei;*
- *provision for external customers guarantees (UAE), amounting to 19,985 thousand lei;*

*Also, provisions in the amount of 29,306 thousand lei have been canceled or diminished by the resumption on income, as follows:*

- *provision for performance guarantees granted to local customers, amounting to 2,832 thousand lei;*
- *provision for the depreciation of the inventory value of fixed assets, amounting to 43 thousand lei;*
- *provision for the depreciation of unfinished production stock, amounting to 34 thousand lei;*
- *provision for receivables, amounting to 4,255 thousand lei;*
- *provision for employees participation to profit, amounting to 500 thousand lei;*
- *provision for the retirement bonus, amounting to 26 thousand lei;*
- *provision for performance guarantees granted to the Compensation Office, amounting to 1,631 thousand lei;*
- *provision for external customers guarantees (UAE), amounting to 19,985 thousand lei;*

*Thus, the adjustments for provisions represent in 2015 the amount of 5,124 lei.*

## **ü SHAREHOLDERS' EQUITIES**

*The equity on 31.12.2015 is 105,872 thousand lei and shows an increase by 43.2% compared to 2014 (from 73,928 thousand lei in 2014 to 105,872 thousand lei in 2015).*

*This increase was driven by:*

- *the increase of net profit from 5,713 thousand lei in 2014 to 11,962 thousand lei in 2015,*

- the increase of reserves from the distribution of the 2014 net profit, respectively 2,422 thousand lei, according to the GSM Decision No .03 / 27.04.2015,
- the increase of legal reserves from re-assessment from 3,139 thousand lei, to 26,044 thousand lei.

## Ü 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
<b>Total payables:</b>	<b>35,138,725</b>
• financial debts	0
• trade debts	3,661,501
• creditor customers	5,683,198
• incomes registered in advance	4,449
• other debts to: personnel, budget, social insurance, unemployment fund	4,641,157
• payable VAT	9,821,970
• Other creditors, of which the Unemployment Agency: ... lei	11,275,908
• other debts - dividends	50,542

The largest share in the total payables is represented by:

- trade payables, in the amount of 3,662 thousand lei, respectively 10.42 % of the total debts;  
The trade payables are current debts in compliance with the terms stipulated in the commercial agreements, and the significant values are:
  - - AEROTEH SA 1,006 thousand lei;
  - - AIRBUS HELICOPTERS ROMANIA 675 thousand lei;
  - - AEROFINA SA 355 thousand lei;
  - - SAFT FRANCE 372 thousand lei.
- payable VAT in the amount of 9,822 thousand lei
- The position "other creditors", in the amount of 11,276 thousand lei, respectively 32.09 % of total debts.

We mention that the main share is represented by the main creditors – the Unemployment Agency, in the amount of 6,099 thousand lei representing the compensation payments notified by the Unemployment Agency Brasov, in compliance with Decision No. 6 / 13.12.2010.

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

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

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

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

- In the position "other payables" the amount of 51 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.

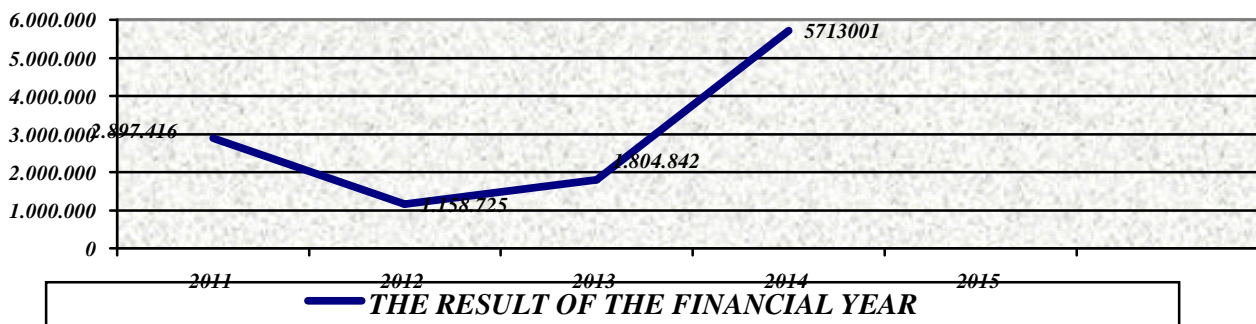
The company's payables at the end of 2015 are worth 35,134 thousand lei, of which short-term debts worth 29,071 thousand lei are current debts, whose chargeability is consistent with the legal and contractual deadlines stipulated in the Fiscal Code.

We mention that IAR SA paid on time and in full its obligations to the state budget and the budget of the State Social Insurance, as well as the local ones, in the amount of 28,904 thousand lei, amount which represents 22.1 % of the turnover.

We mention that IAR S.A. doesn't have outstanding payments on 31.12.2015.

**The evolution of economic and financial results of the company in the period 2011-2015 is as follows:**

	2011	2012	2013	2014	2015
<b>Net profit (lei)</b>	2,897,416	1,158,725	1,669,429	5,713,001	11,961,550
<b>Loss (lei)</b>	-	-	-	-	-



**At the end of 2015, according to the MoF Order 3055/2009, the Order No.1286 / 2012, the Law 31/1990 and the Law No. 571/2003 as amended and supplemented, the legal deductible reserve was not constituted from the profit.**

According to art. 22 of the Fiscal Code "the legal reserve is deductible up to a rate of 5% applied on the accounting profit before determining the profit tax, minus the non-taxable income and the non-taxable income expenses are added until it reaches the point of being the fifth part of the subscribed and paid share capital".

### THE ANALYSIS OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS

#### A. Current liquidity ratio:

$$\frac{\text{Current assets}}{\text{Current debts}} = \frac{134,898,085}{29,070,933} = 4.64\%$$

#### B. Liquidity coverage ratio:

$$\frac{\text{Current assets-stocks}}{\text{Current debts}} = \frac{98,273,698}{29,070,933} = 3.38\%$$

#### C. Efficiency indicators:

##### 1. The financial rate of return

$$\frac{\text{Net profit}}{\text{Equity}} \times 100 = \frac{11,961,550}{105,872,490} = 11.3\%$$

##### 2. The rate of return on advanced capital

$$\frac{\text{Current result}}{\text{Fixed assets+current assets}} = \frac{17,435,124}{199,198,648} = 8.75\%$$

##### 3. The profit rate

$$\frac{\text{Gross profit}}{\text{Turnover}} = \frac{17,435,124}{130,892,204} = 13.32\%$$

4. The rotation speed of debits-customers

$$\frac{\text{Medium balance of customers} \times 365}{\text{Turnover}} = \frac{16,883,156 \times 365}{130,892,204} = 47.09 \text{ days}$$

5. The rotation speed of fixed assets

$$\frac{\text{Turnover}}{\text{Fixed assets}} = \frac{130,892,204}{54,300,563} = 2.04 \text{ times}$$

6. The rotation speed of total assets

$$\frac{\text{Turnover}}{\text{Total assets}} = \frac{130,892,204}{199,198,648} = 0.66 \text{ times}$$

7. The total amount invested in 2015 was 1,104 thousand lei.

*The financial-accounting statement complies with the documents attached to this annual report: the financial statements of 31.12.2015 and the financial auditor's report for the financial year 2015.*

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

**THE CHAIRMAN of the BOARD of DIRECTORS**

**Ion Rareş POPESCU**

**ECONOMIC and COMMERCIAL MANAGER**

**Ion DUMITRESCU**