

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

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

The financial statements herein referred to concern:

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

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

Basis for opinion

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

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

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

The key aspects of the audit

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

Revenue recognition

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

Our response: We have identified and tested the verifications that appear on customers-incomes financial flows and found that they are operational and present no deviations. We

made additional detailed tests to ensure that the revenue is recognized in the correct financial period in accordance with the IFRSs.

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

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

Provisions for risks and charges

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

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

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

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

Evaluation of the production in progress

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

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

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

Other information – The Board of Directors' Report

Other information include the Board of Directors' Report.

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

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

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

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

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

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

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

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

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs and for such internal verification that the

management deems necessary to enable the preparation of the financial statements free of significant material misstatement, whether due to fraud or error.

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

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

The auditor's responsibilities in an audit of financial statements

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

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

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

- We assess the presentation, structure and general content of the financial statements, including disclosures, and whether the financial statements reflect main transactions and events in a manner that achieves a fair presentation.
- We communicate to the people responsible for governance, among other things, the planned scope and timing of the audit and the main audit findings, including any significant deficiencies in the internal control that we identified during the audit.
- We also provide the people responsible for governance a statement that we complied with the ethical requirements relevant to independence and that we communicated all relationships and other matters which might be assumed, reasonably, to affect our independence and, where appropriate, the related safety measures.
- The matters communicated with those charged with governance determine which are the most important aspects to audit the financial statements of the current period and are therefore key audit issues. We describe these issues in the auditor's report, unless laws or regulations prohibit public disclosure of their appearance or where, in extremely rare circumstances, we determine that they should not be communicated in our report as envisaged reasonably that the public interest overcome the negative consequences of this communication.

Signed on behalf of the company by its administrator:

Ioan Macaveiu

Financial Auditor

27 March 2017