

FORECASTING POLICY

APPLIED WITHIN THE COMPANY IAR

1. PURPOSE OF THE POLICY

In order to comply with the requirements of the Code of Corporate Governance of the Bucharest Stock Exchange, the management of IAR SA has decided to adopt a strategic framework for forecasting demand, production planning, resource management and anticipation of technological and regulatory trends in the aircraft manufacturing industry.

The purpose of this forecasting policy is to establish the principles relating to forecasts and estimates of future results.

2. POLICY OBJECTIVES

IAR SA only prepares annual budgets and does not provide any financial forecasts other than the mandatory annual budgets approved by the shareholders. If there is no a legal requirement in this respect, forecasts or estimates are not made public except upon specific requests of regulatory bodies when it is deemed that additional forecasts and estimates need to be presented in IAR SA's reports or other presentations and documents, provided under the condition that they are also published on the Company's website, in order to comply with the principle of non-discriminatory treatment of the Company's shareholders (e.g. materials for General Meetings of Shareholders).

3. PRINCIPLES

The budget of IAR SA shall be drawn up annually, in lei. This forward-looking document, endorsed by the Board of Directors of the Company, is established (approved) by the General Meeting of IAR SA shareholders.

The draft of the annual income and expenditure budget is published on the IAR SA website 30 days before the date of the OGMS, the shareholders having the possibility to document and understand this forward-looking document. They may ask questions, either in writing, before the date of the OGMS to establish the annual IEB, or verbally, during that meeting.

In accordance with the provisions of Ordinance no. 26/2013 on the strengthening of financial discipline at the level of certain economic operators in which the State is the sole or majority shareholder, or directly or indirectly holds a majority stake, as amended and supplemented, IAR SA is obliged to prepare the draft income and expenditure budget for the current year and the estimated income and expenditure for the next two years. It shall be accompanied by supporting annexes prepared in the format and structure approved by MFP Order no. 3818/30.12.2019.

The justification of the income and expenditure budget proposal for the current year and of the estimates for the following two years shall be based on the principle of 'prudence and continuity of activity', in conditions of economic efficiency.

The annual income and expenditure budgets shall be drawn up on the basis of the following principles:

- the assumptions used to prepare the budget are proposed and published with the budget, at a level of detail sufficient to provide a general understanding of the main factors influencing the budget, without disclosing detailed commercial or strategic information that could be sensitive and could affect the position of IAR SA
- in addition to professional and business judgment, the management of IAR SA intends to base its budget assumptions on information from internal sources and analysis. Historical financial and operational data is used for estimates and adjusted appropriately to reflect amounts considered to have an impact on the budget
- the budget is prepared on the basis of simplifying assumptions on proposed investments and expenditure
- the information included in the budget is intended to be based on the official accounting regulations expected to be applicable during the financial year for which the budget is prepared
- the budget estimates are based on the tax legislation applicable for the year in question, using the information available at the time of budgeting
- the annual income and expenditure budget is prepared on the basis of a base case scenario, which reflects management's vision, but does not include unusual or unexpected changes in the market and tax regulatory environment
- the annual income and expenditure budget is prepared taking into account the assumption of risk mitigation by minimizing the impact of economic, geopolitical, or supply fluctuations on the company's business.

4. RISKS AND UNCERTAINTIES

By the nature of its activities, the company is exposed to a variety of risks, which include the following financial risks: foreign exchange risk, interest rate risk, liquidity risk, credit risk.

Foreign exchange risk: *The Company is exposed to fluctuations in foreign exchange rates on its cash, receivables and payables denominated in other currencies, mainly USD and Euro.*

The Company, depending on its cash on hand at any given time in various currencies, purchases those currencies that it needs to make the necessary supplemental import payments from various suppliers. The risk of exchange rate fluctuations has not had a significant impact on revenues and expenses, despite a sharp deterioration in the RON/euro and RON/USD exchange rates, thanks to active management and monitoring of the situation.

The Company does not use derivative financial instruments to hedge against exchange rate fluctuations.

Interest rate risk: *The company's operating cash flows are affected by variations in the interest rate on the banking market, because when the company needs financing, it uses credit lines that ensure the issuance of bank letters of guarantee required for commercial contracts and the financing of production, when necessary.*

Liquidity risk (cash-flow): *The management of the company has ensured and ensures a prudent liquidity risk management, aiming at all times to maintain sufficient cash in order to be able to honor all its payments when due.*

The financing facility provided by credit lines committed by the company reduces the liquidity risk.

Credit risk: *The Company conducts business relationships only with recognized third parties that warrant credit financing. It is the Company's policy that all customers who wish to conduct business on credit terms are subject to verification procedures. Moreover, receivables balances are monitored on an ongoing basis, resulting in an insignificant exposure of the company to the risk of bad debts.*

The management of the company, depending on the current market situation, takes the necessary measures to continue the business profitably. It has sought and continues to seek to minimize the potentially adverse effects on the company's financial performance associated with the risk factors presented.

The company conducts business only with recognized third parties.

It takes the necessary measures to significantly reduce potential risks. In this respect, the company has established an effective framework for risk identification, monitoring and management.

The main risks and uncertainties that could affect the business and liquidity are:

- *Risks related to the oil, gas and power industry that may affect the aviation industry*
- *Risks related to global events.*

The equity market may be temporarily exposed to heightened volatility as a result of uncertainties in the political environment, both locally and globally. These events may particularly affect the energy and oil sectors. Governments around the world, including Romania, are taking wide-ranging actions to support their economies, from extended unemployment benefits to packages targeting small businesses, hospitals and healthcare centres, which will certainly lead to increased budget constraints in the short term.

- *The Romanian judicial system and Romanian legislation that continues to change, as well as some developments that have surprised foreign investors and increased their concerns about political risk and uncertainties regarding the legal system and reduced their appetite for investing in Romania;*
- *Frequent changes in tax legislation, increasing uncertainty and perceived risk among potential investors;*
- *Risks related to the oil, gas and electricity industry that may affect the aviation industry*
- *The risk of delays and omissions in the implementation of corporate governance legislation for state-owned companies (Government Emergency Ordinance No. 109/2011).*
- *Risks arising from fluctuations in the net asset value of IAR SA;*
- *Risks arising from government intervention in the investment strategy of state-controlled companies*
- *Risks stemming from the failure to fulfil the post-accession conditions imposed by the European Union, based on the Cooperation and Verification Mechanism set up to help Romania overcome the difficulties in the post-accession process.*

5. CAUTIONARY STATEMENT

By their nature, forecasts for a year that are set out in annual budgets are not guarantees of future performance and involve risk and uncertainty. Actual results could differ materially from those included in these budgets depending on various factors, including, but not limited to, operational factors, economic and financial market conditions, political stability and economic growth, changes in laws and government regulations, natural disasters, war and acts of terrorism, cyber-attacks or sabotage. The factors set out above are important, but not exhaustive, factors which may cause actual results to differ materially from those included in or inferred from the annual budgets.

6. REVISION OF THE FORECASTING POLICY

The Forecasting Policy may be revised and/or updated whenever necessary in accordance with applicable legal regulations or in the event of new regulations or mandatory legal provisions regarding the scope of the policy. The current Forecasting Policy is published on the website of IAR SA and any updates to the Policy will be uploaded on the Company's website immediately after it is approved.