

IAR SA BOARD OF DIRECTORS REPORT TO THE GENERAL SHAREHOLDERS MEETING
REGARDING THE FUTURE COOPERATION BETWEEN AIRBUS HELICOPTERS AND IAR
SA
FOR THE MANUFACTURING OF THE H215 TYPE HELICOPTER

As you know, there has been a collaboration of almost 50 years between Airbus Helicopters and IAR SA, with regard to the manufacturing of the IAR 316 Alouette III and IAR 330 PUMA helicopters.

Based on this cooperation:

- *in 1971, IAR Brasov manufactured 200 IAR-316B Alouette III under Aerospatiale - now Airbus Helicopters, former Eurocopter – license, out of which 75 helicopters were exported in various equipping configurations and versions.*
- *since 1974, IAR Brasov manufactured 330 L Puma helicopters under Aerospatiale license:*
 - *167 PUMA helicopters out of which 61 were exported;*
 - *50 complete PUMA helicopters airframes which were exported.*

IAR SA and its collaborators have ensured, from manufacturing up to the present moment, all the maintenance and upgrading works of such helicopters as well as the necessary support to ensure, permanently and efficiently, the operational level of the fleet of helicopters owned by the Ministry of Defense, by AFCS (Air Forces Chief of Staff) and NFCS (Naval Forces Chief of Staff), the Romanian Intelligence Service and the Ministry of Interior.

IAR SA, as an integrating trader, and its suppliers, Turbomecanica SA Bucharest, Aerostar SA Bacau, Aerotech SA Bucharest Aerofina SA Bucharest, etc., have:

- *industrial facilities*
- *experience in helicopters integration / customization / modernization / MRO*
- *highly-qualified staff in the field of aviation industry*
- *specific know-how*
- *authorizations and certifications*

which allow them to approach any helicopter equipping program, as per the needs of the institutions within the National Defense Force systems, based on certain technological and industrial cooperation programs with external partners.

Considering the fact that:

- *Airbus Helicopters and IAR SA jointly created Airbus Helicopters Romania (AHRO), whose purpose is to perform MRO activities on AH helicopters range for the domestic and international market and Airbus Helicopters intends to further develop its long-term imprint in Romania, by expanding the capabilities and portfolio of products and services, based on the industrial capabilities and competences in aviation in Romania*
- *Airbus Helicopters established a fully-owned subsidiary in Romania, namely Airbus Helicopters Industry (AHIR), whose purpose is to assemble and deliver H215 / H215M helicopters to its customers around the world, for which it built a manufacturing facility of around 10,000 sqm,*
- *Airbus Helicopters wishes that the IAR 330 L PUMA helicopters held by the Romanian Ministry of National Defense be replaced by H215M helicopters to be made with IAR SA under an industrial and commercial cooperation contract (see the Annex) and delivered to the beneficiary by IAR SA, as prime contractor,*
- *Given that the European Council in December 2016 called for better European cooperation in security and defense, the Airbus Helicopters H215 project in Romania may become emblematic in the field of the European industrial cooperation for the Union's future,*

and given that:

- the Ministry of Economy wants that the thesis implemented in the country's National Defense Strategy 2015-2019, "Adapting the Security industry to the requirements of equipping the armed forces at a competitive level" become the mainstay of the development of the defense industry of the country,
- the Ministry of Economy has proposed as priority to set the participation plan for 10 years of the national defense industry to achieve the strategic procurement program for the next years of the MoD,
- the Ministry of Economy wants the involvement of national economic operators both state-owned and from the private sector in achieving some of these products through programs of technological and industrial cooperation with external partners, enabling them to benefit from the technological leap necessary for the integration of the final product, and also achieve the maintenance throughout its life-cycle

and understanding that:

- at this point, the Ministry of Defense is conducting a study on the program of equipping the Romanian army with helicopters
- the Romanian Ministry of National Defense is in the process of asserting their needs regarding the purchase of military multi-role helicopters in order to replace the fleet of IAR 330 L PUMA helicopters, when they become inoperational,
- the Romanian Ministry of National Defense will be allocated annually over the next 10 years, a budget amounting to 2% of the GDP

and considering that:

- the Romanian Ministry of National Defense is implementing an overhaul program of the IAR 330 PUMA SOCAT helicopters, of which 4 units in 2017 and 8 units in the coming years,
- the Romanian Ministry of National Defense is implementing a program of retrofit and upgrade of a number of 7 IAR 330 L PUMA, between 2017-2019, with an option to increase this number in the coming years for other 5 aircraft

IAR SA is interested to enter a long-term cooperation program with Airbus Helicopters (potential supplier of helicopters), which would ensure:

- the renewal of the product portfolio within the scope of activity: customizations of the H215M helicopters, manufacture of subassemblies and execution of MRO for this type of helicopter and manufacturing of other components for the manufacturing and distribution chain of Airbus Helicopters
- the development of a competitive industrial base for helicopters, enabling long-term employment of highly skilled labour, either directly or indirectly through subcontractors of the company
- transfer of know-how,
- the possibility of rehabilitation / modernization of the industrial facilities of the company to achieve the required quality standards,
- acquiring new competences to be recognized by certifications and authorizations,
- strengthening the commercial relationship with Airbus Helicopters, which would allow providing the necessary import parts needed to fulfill contractual obligations assumed by the company: overhauls of PUMA SOCAT helicopters, retrofit and upgrade of the 330 L PUMA helicopters for search and rescue missions, maintaining the operability of the entire fleet of helicopters held by institutions within the National Defense Forces System.

Given that Airbus Helicopters and IAR SA want that the full details of their cooperation be defined in a definitive cooperation agreement, which is to be defined and signed by the parties before the conclusion of any contract with the Ministry of National Defense, the parties agree that, at this time, conclude and sign a "General contract for industrial and commercial cooperation", enabling them to start discussions with the representatives of the National Defense Ministry to identify the needs of this institution in terms of provision of multi-role helicopters.

Also, this general contract would enable the parties to identify the industrial division and jointly prepare technical and commercial offers for this beneficiary, IAR SA as prime contractor.

Airbus Helicopters conditions the conclusion of this contract by an exclusive collaboration from IAR SA, proposing thus the article 3 from the project of the General Contract, which contains several provisions in connection with this aspect:

Considering the fact that such provisions:

- *block IAR SA's starting / entering any discussion relating to the further development of a helicopter model made by another world manufacturer in competition with Airbus Helicopters,*
- *significantly impact the medium and long term company's activity and its economic policy,*
- *can constitute a ground for a dispute of this industrial agreement by any other competitor of Airbus Helicopters, based on the provisions of art. 101 TFUE*

the administrative management of IAR SA considers that this contractual clause must be known, acquired and assumed, on the one hand, by the company shareholders, in accordance with its constitutive act, and, on the other hand, by the Romanian governmental institutions with competences in this field, due to the fact that IAR SA is part of the defense industry, a strategic sector of the national economy.

In addition, such provisions may have consequences on the helicopters endowment program with the MoD and other institutions within the National Defense Forces.

Please note that both the conclusion and the failure to conclude the GENERAL CONTRACT between Airbus Helicopters and IAR SA will have an impact on the company on medium and long terms regarding:

- *turnover which consequently affects the level of profits and dividends,*
- *domestic and international market position,*
- *technical level of the company,*
- *quality,*
- *workforce,*
- *customer relations.*

Given the above and the Constitutive Act of IAR SA, according to which:

"CHAPTER IV – THE GENERAL ASSEMBLY OF SHAREHOLDERS

Art. 12 - Prerogatives of the General Meeting of Shareholders

(1) The General Meeting of Shareholders decide on the activity of the company and ensure its economic and commercial policy.

...

(3) The Ordinary General Meeting of Shareholders has the following main responsibilities:

...

j) review board reports on the status and prospects of the company with respect to profits and dividends, domestic and international market position, technical level, quality, labor, environment, customer relations;"

the general meeting of shareholders shall consider and decide on this report.

NOTE: Since the General Contract draft for industrial cooperation and trade is strictly confidential, in order to be fully informed, the shareholders can review the said draft, at any time within 30 days prior the GSM meeting, or during the meeting itself, only after having signed a confidentiality agreement accordingly.

Ion Rareș POPESCU - CHAIRMAN OF THE BOARD OF DIRECTORS of IAR SA

THIS REPORT WAS ADOPTED DURING THE BOARD OF DIRECTORS MEETING DATED 24.03.2017