

**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 – out of which 75 helicopters were exported in various equipment 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 ensures, 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 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 the helicopter 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" to 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 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, 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 the above, Airbus Helicopters and IAR SA want to revitalize the cooperation relationship in the field of helicopters manufacturing by jointly involving in the multi-roll helicopter program H215M, under a General Contract which would outline the key industrial and commercial principles, of that cooperation.

*We mention a few of the General Contract provisions, which will decisively influence the IAR SA's activities, on medium and long term:*

- *IAR SA will act as prime contractor contract with the Ministry of National Defense (with all the benefits and responsibilities arising thereof), being responsible for the customization of the H215M helicopters according to the beneficiary's requirements*
- *IAR SA will be authorized by Airbus Helicopters as Customization Center for the H215M helicopter*
- *IAR SA will be supported by Airbus Helicopters in obtaining all necessary licenses or authorizations required by the Romanian authorities in order to sell the customized H215M helicopters*
- *IAR SA will receive from Airbus Helicopters all technical documentation and software necessary for the proper performance of the incumbent party of its activity in the project*
- *Airbus Helicopters will provide technical personnel training programs and technical assistance needed to conduct its responsibilities under this program*
- *Airbus Helicopters will market and promote the customization of the H215M helicopters designed by IAR SA designed to potential external customers*
- *IAR SA will provide helicopter maintenance activities for H215M, including the overhaul, which will mean an important workload on medium and long term.*

*Also, Airbus Helicopters and IAR SA establish by means of the General Contract, to examine together other possible areas of cooperation, such as, but not limited to:*

- *airframes manufacturing:*
- *classic metal airframes*
- *honeycomb-type metal structure parts*
- *electrical wiring manufacturing*
- *mechanical assemblies parts manufacturing.*

***Through this program, Romania and IAR SA become again part of the List of the world's helicopters manufacturers.***

*The parties agreed that the full details of their cooperation make the object of a definitive Contract of Cooperation which is to be defined and signed by the parties before the conclusion of any contract for the Ministry of Defense, or another institution within the National System Defense.*

***Ion Rareș POPESCU***

***CHAIRMAN OF THE BOARD OF DIRECTORS  
IAR SA***