

Settlement Agreement

**HUREL-HISPANO
AERONCA, INC.
MAGELLAN AEROSPACE CORPORATION**

SETTLEMENT AGREEMENT

MARCH 11, 2005

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Settlement Agreement

This Settlement Agreement (the "Settlement Agreement") is made on the 11th day of March 2005.

BETWEEN:

HUREL-HISPANO ("HUREL-HISPANO"), a corporation established under the laws of France with its principal office at Route du Pont VIII, 76700 Gonfreville l'Orcher, France.

AND:

AERONCA, INC. ("AERONCA"), a corporation organised under the laws of the State of Ohio, having its registered office at 2320 Wedekind Drive, Middletown, Ohio 45042, USA

AND:

MAGELLAN AEROSPACE CORPORATION ("MAGELLAN"), a corporation organized under the laws of Ontario, Canada, having its registered office at 3160 Derry Road East, Mississauga, Ontario L4T 1A9, Canada ; acting on its own behalf and that of its subsidiary **BRISTOL AEROSPACE LTD.**

WHEREAS:

- A) HUREL-HISPANO, AERONCA, and MAGELLAN (the "Parties") are parties to agreements for the purchase of exhaust systems by HUREL-HISPANO from AERONCA and MAGELLAN. The Parties also entered into purchase agreements for exhaust systems for particular aircraft families, particularly:
- a. the "**A340 Agreements**", being the Purchase Agreement ("A340PA") and the General Terms of Business ("A340GTB") of the A340 Trent 500 (together with any amendments thereof including the Letter Agreements #1 & #2 to the A340PA and Letter Agreement#1 to the A340GTB;) both dated December 15, 1998 between HUREL-HISPANO (as successor to Aircelle SAS), AERONCA and MAGELLAN and relating to the design, integration, manufacture and sale by AERONCA to HUREL-HISPANO of products for the Airbus A340-500/600 aircraft.
 - b. The "**A318 Agreements**", being the Purchase Agreement ("A318PA") and General Terms of Business ("A318GTB") of the A318 PW6000 both dated April 1, 2002 (together with any amendments thereof) between HUREL-HISPANO (as successor to Aircelle SAS), AERONCA and MAGELLAN and relating to the design, integration manufacture and sale by AERONCA to HUREL-HISPANO of products for the Airbus A318 aircraft.

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- c. the “**A380 Agreements**”, being the Purchase Agreements of the Trent 900 and the GP 7200 engines (“A380PA”) and the General Terms of Business for the Trent 900 and GP7200 engines (“A380GTB”) together with any amendments thereof, as provided in the A380 RFQ and as pursuant to the A380 Compliance Matrix dated November 2001 relating to the design, integration manufacture and sale by AERONCA to HUREL-HISPANO of products for the Airbus A380 aircraft. The A380 PA and A380 GTB Agreements are to be signed by March 31, 2005 as per article 2.10 of this Settlement Agreement.

Collectively, the A340PA & A340GTB, the A318PA & A318GTB and the A380PA & A318GTB, are herein referred to as the “Agreements”.

Pursuant to the Agreements, HUREL-HISPANO has continuously issued purchase orders for the supply of exhaust systems, and AERONCA and MAGELLAN have supplied these systems. On March 11, 2003, the Parties further signed a Memorandum of Understanding (the “2003 MOU”).

- B) The A340PA, the A318PA, and the A380PA, by their terms, do not expire until December 31, 2012, December 31, 2016, and December 31, 2021 respectively.
- C) On March 2, 2004, MAGELLAN, AERONCA, and HUREL-HISPANO entered into a Memorandum of Understanding (the “2004 MOU”), pursuant to which they agreed, for a limited period of time, to revised prices for the Airbus A340 exhaust systems. HUREL-HISPANO agreed to pay an additional “US\$30,000 per unit, over 40 units” for a commitment to reduce non-quality issues to a certain level. The Parties further agreed that during the period covered by the 2004 MOU, they would jointly evaluate and establish “a reasonable ‘should cost’ for the exhaust system” and that, at the end of this period, they would “agree to negotiate in good faith a new price based on joint study.”
- D) Meetings were held in July 2004 and from September 27, 2004 through September 30, 2004, to discuss the possible revision of the prices as contemplated by the 2004 MOU, with the Parties being unable to agree on a revised price.
- E) By letter dated October 6, 2004, HUREL-HISPANO offered AERONCA and MAGELLAN a “revised base price” for the Airbus A340 exhaust system, which was rejected by MAGELLAN by letter dated October 8, 2004.
- F) By letter dated October 11, 2004, MAGELLAN made a counter offer and announced to “cease all manufacturing and engineering efforts on HUREL-HISPANO A318, A340 and A380 programs” unless HUREL-HISPANO agreed to MAGELLAN’s terms.
- G) Articles 19.10.1 of the A340, A318 and A380 General Terms of Business (the “GTB’s”) provide that if a dispute arises, the seller agrees to proceed with the performance of the work pending resolution of the dispute:

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“If a dispute between Buyer and Seller arises under this Agreement, Seller agrees to proceed diligently with the performance of the work hereunder, including the delivery of Products, as directed by Buyer pending resolution of any such dispute.”

- H) On Friday, October 15, 2004, in response to MAGELLAN’s announcement that it would cease production under the Agreements, HUREL-HISPANO sought temporary restraining orders against AERONCA before the Court of Common Pleas, Butler County, Ohio, and against MAGELLAN, as well as against MAGELLAN’s subsidiary BRISTOL AEROSPACE LIMITED (responsible for the manufacturing of part of the exhaust system), before the Ontario Superior Court of Justice.
- I) The aim of these motions was to compel MAGELLAN and AERONCA to continue design and production under the Agreements.
- J) On the same day, both courts granted the orders sought by HUREL-HISPANO. Judge Spaeth of the Court of Common Pleas, Butler County, Ohio, ordered MAGELLAN and AERONCA:

“to continue to supply exhaust systems and the components parts thereof pursuant to the terms of the Nacelle Supply General Terms of Business Agreement, the Nacelle System Purchase Agreement and any other applicable agreements between Defendant(s) and Plaintiff. Subject to further order of this Court, this Order shall expire on October 29, 2004. This order is contingent upon the Plaintiff posting a bond with the Clerk of Courts in the amount of US\$405,000.00.”

- K) Justice Herman of the Ontario Superior Court of Justice ordered:

“that the Defendants are hereby enjoined and restrained from discontinuing performance under the agreements between and among HUREL-HISPANO, AERONCA, Inc. (“AERONCA”), and MAGELLAN for the purchase of exhaust systems by HUREL-HISPANO from AERONCA, and in particular the ‘Nacelle Supply General Terms of Business Agreement’ and the ‘Nacelle System Purchase Agreement’, both dated December 15, 1998.

This Court Orders that this Order shall be in force until October 25, 2004.”

- L) By order dated October 25, 2004, the Ontario Superior Court of Justice extended the validity of the latter order until October 29, 2004.

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- M) Since October 18, 2004, the Parties have continued negotiations with the aim of achieving an amicable solution to their differences, and to agree on revised prices for the exhaust systems at issue.
- N) On October 27, 2004, the Parties reached an agreement according to which MAGELLAN undertook to continue to perform its obligations under the Agreement, as provided in Article 19.10.1 of the GTB's. In return, HUREL-HISPANO agreed to remove its temporary restraining orders obtained before the Ohio and Ontario courts pending the negotiations of revised prices under the Agreements between the Parties. This agreement was incorporated in a written undertaking dated October 27, 2004, as supplemented by a further written undertaking dated October 28, 2004. Both undertakings were signed by all Parties.
- O) On October 28, 2004, in accordance with this agreement, HUREL-HISPANO withdrew its legal actions in the Ohio and Ontario courts, and the temporary restraining orders expired, by their terms, on October 29, 2004.

NOW THEREFORE, in consideration of the mutual covenants contained herein the Parties hereto agree as follows:

1. REVISED PRICES & SPECIFIC TERMS AND CONDITIONS

(a) The A340-500/-600 Program

- 1.1. As from the Effective Date of this Settlement Agreement as set forth in article 11.1 of the Settlement Agreement, the revised recurring price for the A340-500/600 acoustic exhaust system is US\$ 165,499 for all acoustic exhaust systems sold since October 16, 2004. This price will be in 2005 economic conditions and will be subject to escalation from January 1st, 2006 as per article 2.2 of this Settlement Agreement.
- 1.2. An up-front price adjustment of US\$1,072,549 will be paid to AERONCA to cover the retroactive payment due over the 40 units of the 2004 MOU. This payment will be transferred to AERONCA within three days after the Effective Date of this Settlement Agreement, as set forth in article 11.1 of this Settlement Agreement.

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1.3. The agreement of the Parties on particular concessions is defined below:

Front Plug at the aft end concession classification:

Under 0.012: no concession required; no penalty.

0.012 – 0.024: classified as Class III concession; HUREL-HISPANO treatment of concession required, penalty of US\$1000; and

0.024 and over: Class II concession; Airbus treatment required; US\$2,000 penalty applied.

Transverse Gap concession:

Under 0.01mm: no classification required; no penalty.

0.01-2mm: Class III classification; HUREL-HISPANO treatment required; penalty of US\$1000; and

2mm and over: Class II concession; Airbus treatment required; US\$2,000 penalty applied.

PRID concession

AERONCA will be penalised for the PRID concession that is transmitted to Airbus for the nacelle pro rata their implication in comparison with other suppliers.

1.4. HUREL-HISPANO agrees to transfer to AERONCA the A340 concession authority for the treatment of Class III slope and transverse gap concessions on the condition that AERONCA continues to put in place their own action plan to eradicate concessions in good faith and attains a defect rate of 0% on the transverse gap concessions (i.e. 20 consecutive Front Plugs delivered without transverse gap) exceeding the Class III concession limits and a rate of 10% Class III defects on the Front Plug slope concession. Fulfilment of these conditions will initially be measured by a dedicated quality and concession review meeting at a date to be scheduled between the Parties before the 31st January 2005. Thereafter, performance will be measured by means of a quality report that will be issued by Aeronca on the 30th day following the end of every calendar quarter.

The concession delegation authority provided by HUREL-HISPANO may not be limited to the above listed concessions, it will be a nominative delegation and will be subject to regular control by HUREL-HISPANO. Hurel-Hispano shall make its reasonable efforts as from the date of signature of this Settlement Agreement to obtain Airbus' approval on or before the 30th of March 2005.



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- 1.5. AERONCA and MAGELLAN are confirmed as the sole source suppliers on the A340-500/600 exhaust as per the A340PA dated November 24, 1998 through December 31, 2012 unless AERONCA or MAGELLAN, as appropriate, defaults under the A340PA or is subject to insolvency as determined in section 1 of Appendix II.

(b) The A318 Program

- 1.6. HUREL-HISPANO has issued a Purchase Order for US\$ 912 957 dated November 24, 2004 to cover the FRR (Flight Readiness Review) and Certification and Design Maturity work in accordance with the Scope Of Work defined between HUREL-HISPANO and MAGELLAN in document ref. 499-ND-1101 dated November 2, 2004 (Appendix IV, attached).
- 1.7. In order to avoid work stoppage pending the issuance of purchase orders for additional work requested by HUREL-HISPANO, HUREL-HISPANO agrees to cover work that is requested in writing by HUREL-HISPANO over and above the scope of work ref. 499-ND-1101 with AERONCA to the aggregate value of US\$ 175,000.
- 1.8. HUREL-HISPANO agrees to pay US\$ 88,500 towards AERONCA's A318 expedite fees. This payment will be transferred to AERONCA within three days after the Effective Date of this Settlement Agreement, as set forth in article 11.1 of this Settlement Agreement.
- 1.9. HUREL-HISPANO does not accept any claims and Magellan will not assert the past Non Recurring Costs claim of US\$2,598,213.00("NRC"), given that HUREL-HISPANO and MAGELLAN both joined the A318 program as risk sharing partners.
- 1.10. HUREL-HISPANO and MAGELLAN will work together to produce a Letter Agreement to the A318 PA to update the A318 PA with a new Base Price based upon the change in Specification by the 31st March 2005. The new production Base Price will be defined subject to a Should Cost study including scrap risks, learning curves and production tooling investment trade offs.

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(c) The A380 Program

- 1.11. A "Should Cost" exercise on the A380 Trent 900 nozzle will be undertaken by both Parties and a new production price established through good faith negotiations on or before the 31st March 2005. Until then, HUREL-HISPANO agrees to pay the development price of each Trent 900 unit at 1.5857 times the production price.
- 1.12. A "Should Cost" exercise on the A380 GP7200 nozzle will be undertaken by both Parties and a new production price established through good faith negotiations on or before December 31, 2005.
- 1.13. HUREL-HISPANO will pay from the Effective Date of this Settlement Agreement as set forth in article 11.1 of the Settlement Agreement for remaining GP7200 development units at 2 (two) times the production price instead of 1.5857 times the production price.
- 1.14. If the GP7200 non-acoustic requirement shifts to acoustic, and should MAGELLAN be awarded the acoustic version, HUREL-HISPANO will pay MAGELLAN 50% of its NRC investment i.e. US\$ 891,994 of the total not-to-exceed of US\$1,783,989 less the NRC value in production units that have been delivered; the earlier of (a) the delivery of the last non-acoustic GP7200 unit or (b) reception by HUREL-HISPANO of the first acoustic exhaust. In this case, should MAGELLAN be selected for the acoustic version, the remaining 50% of the non-acoustic NRC could be amortised over the GP7200 acoustic program. If MAGELLAN is not selected for the GP 7200 acoustic programme, MAGELLAN will be paid a total Not To Exceed payment of US\$ 1,783,989 after the delivery of the last non-acoustic GP7200 unit no later than the date of reception of the first acoustic exhaust.

2. GENERAL

- 2.1. For clarification purposes, a "Should Cost" study includes but is not limited to the detailed review of market conditions, material costs, manufacturing engineering, value stream mapping, lean manufacturing methods, learning curve and SG&A including interest cost, mark-up and profit mark-up, (taking into account efforts made by both Companies), in order to establish a realistic long term target price for the Parties.

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- 2.2. As from the date of signature of this Settlement Agreement, the new A340 escalation index's (EC,GC, and beta21) and formula calculation attached as Appendix VI shall be applicable. The Employment Cost Index (EC) will apply to the labor portion of the sell price or 19.0%, the General Commodity Index (GC) will apply to 10.0% of the sell price, the beta21 Material Cost Index will apply to 31.0% of the sell price and 40.0% of the sell price is fixed and will not have escalation increases. The A318 and A380 indexes will be revised after a Should Cost Review although the 40% fixed and will not be negotiated by the Parties.
- 2.3. MAGELLAN agrees to adhere to the latest Airbus Industry standards for suppliers, and notably to the Route 06 quality and delivery and industrial requirements only as defined in Appendix III and any flow-down of Airbus applicable conditions, as necessary.
- 2.4. HUREL-HISPANO accepts to reduce the concession penalties mentioned in the 2003 MOU to US\$1,000 (EC05) per concession treated by HUREL-HISPANO and US\$2,000 (EC05) per concession treated by Airbus from the date of this Settlement Agreement .
- 2.5. HUREL-HISPANO agrees to review with MAGELLAN the delivery delays that are imputable entirely to Timet, (the supplier to Aeronca of Beta 21S titanium) and that are beyond MAGELLAN's reasonable control to remedy. MAGELLAN shall use its best efforts to avoid or remove such causes including, for example, placing long lead time Purchase Orders with Timet and negotiating long term contracts. If a problem with Timet arises that risks impacting the Product delivery date, MAGELLAN commits to inform HUREL-HISPANO in writing within three days after Magellan is informed of the delivery delay from Timet.
- 2.6. Any delivery delays that are proved to be the sole responsibility of Timet shall be reviewed on a case by case basis taking into account AERONCA's purchase order date, Timet acknowledgement of purchase order and MAGELLAN follow up of purchase order delivery dates. HUREL-HISPANO delivery penalties to MAGELLAN will be waived under the aforementioned condition.
- 2.7. MAGELLAN and HUREL-HISPANO have agreed to amend the A340GTB and the A318GTB by means of two Letter Agreements to the A340GTB and the A318GTB effective as from the date of signature of this Settlement Agreement to incorporate the terms of Article 22 – Sellers Performance as per **Appendix I** . The



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Letter Agreements shall be signed and exchanged between the Parties on or before the 31st of March 2005.

- 2.8. MAGELLAN and HUREL-HISPANO agree that the terms of Article 22 (**Appendix I**) will be incorporated into the A380 Agreements, however pending signature of the A380 Agreements this clause nevertheless becomes effective as from the Effective Date of the Settlement Agreement, as set forth in article 11.1 of this Settlement Agreement.
- 2.9. MAGELLAN and HUREL-HISPANO have agreed to amend the A340PA and the A318PA by means of two Letter Agreements to the A340PA and the A318PA effective as from the date of signature of this Settlement Agreement to incorporate the terms and conditions of the attached **Appendix II : Termination**. The Parties will sign and exchange these Letter Agreements on or before the 31st March 2005, and HUREL-HISPANO and MAGELLAN agree to review the issue of MAGELLAN's support in case of insolvency of AERONCA on or before the Effective Date of the Settlement Agreement, as set forth in article 11.1 of this Settlement Agreement.
- 2.10. MAGELLAN and HUREL-HISPANO agree that the terms and conditions of **Appendix II : Termination** will also be incorporated into the A380 Agreements, however pending signature of the A380 Agreements this clause nevertheless becomes effective as from the Effective Date of the Settlement Agreement, as set forth in article 11.1 of this Settlement Agreement..
- 2.11. HUREL-HISPANO and MAGELLAN will use their best efforts to finalise and sign the A380 Trent PA and related A380GTB on or before the 31st of March 2005 based upon the A380 compliance matrix dated November 2001 and the technical data as per Article 3.6 of the 2003 MOU.
- 2.12. The Parties agree that once the negotiation of the A380GTB is terminated, the A318 and A340 GTB's will be amended and updated by Letter Agreements in line with the A380 GTB. The "A340GTB", "A380GTB" and "A318GTB" references in this Settlement Agreement are used for purposes of convenience only and do not invalidate the principles of application of the Agreements .
- 2.13. The 2003 MOU will be mutually terminated by the Parties effective as from the date of signature of this Settlement Agreement, except for those provisions of the 2003 MOU set forth in Appendix V.



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3. WAIVER OF OUTSTANDING DELIVERIES, DISRUPTION CLAIMS, AND NRCs

- 3.1. The Parties agree that signature of this Settlement Agreement will waive all claims and penalties that are applicable as per the 2003 MOU.
- 3.2. MAGELLAN agrees that signature of this Settlement Agreement represents a full and final settlement for past NRC's incurred by MAGELLAN on all Airbus programmes.

4. CONTINUOUS PRODUCTION

- 4.1. MAGELLAN (on its behalf and on behalf of its subsidiaries AERONCA and BRISTOL) agrees to proceed diligently with the performance of the work contemplated by the Agreements and to deliver the exhaust systems as directed by HUREL-HISPANO. MAGELLAN further declares that it will not further threaten to cease manufacturing or engineering efforts on HUREL-HISPANO's programs, even in case of any potential future disputes between the Parties.

5. REASONABLE SETTLEMENT

- 5.1. The Parties expressly agree that the terms of this agreement are reasonable and adequate and represent a good faith compromise between each of them.

6. CONFIDENTIALITY

- 6.1. This Settlement Agreement and all of its terms are strictly confidential and, save as provided herein, the Parties agree not to disclose, whether by themselves, their directors, officers, employees, agents, advisers, present or former parents, subsidiaries, predecessors, successors, assignees or entities in which they acquire any ownership or financial interest, the terms of this Settlement Agreement, as well as the details of the negotiations preceding its execution.
- 6.2. Disclosure may only be made in the following circumstances:
 - (a) with the prior written consent of the Parties;
 - (b) for the purposes of complying with or enforcing the terms of this Settlement Agreement;



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- (c) to each Party's respective auditors and accountants, legal and financial advisers, consultants and bankers for legitimate business purposes (including but not limited to financial reporting purposes), the extent of any such disclosure to be limited to that which is strictly necessary under the relevant legal or financial regulations; and
- (d) to the extent required by law;
- (e) to the directors of each Party,

provided that any person or entity to whom disclosure is made shall have been informed of this confidentiality provision, shall, to the extent legally possible, have agreed to be bound by it and shall have been instructed to maintain strict confidentiality in any information necessarily disclosed.

7. ENTIRE AGREEMENT

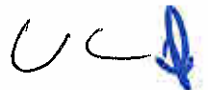
7.1. This Settlement Agreement constitutes the entire agreement between the Parties relating to the settlement of the disputes detailed in the preamble of this Settlement Agreement and the release of claims pursuant to section 3. Each of the Parties acknowledges and confirms that in entering into this agreement, it is not relying upon any statement or representation made by or on behalf of the other Party, whether or not in writing, at any time prior to execution of this agreement which is not expressly set out herein. Each Party expressly agrees that it will not have any right of action in relation to any statement or representation, whether oral or written, made by or on behalf of the other Party in the course of any negotiations which preceded the execution hereof, unless such statements or representations were made fraudulently.

8. GOVERNING LAW

- 8.1. This Settlement Agreement shall be governed by and interpreted in accordance with the laws of France.
- 8.2. This Settlement Agreement constitutes a settlement between the Parties within the meaning of articles 2044 et seq. of the French Civil Code.

9. DISPUTE RESOLUTION

9.1. The Parties shall endeavour in good faith to amicably settle any and all disputes arising out of or in connection with this Settlement Agreement.

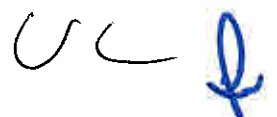


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- 9.2. Any such dispute that cannot be settled amicably within 30 days from the notice of such dispute from one Party to the other Party shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by three arbitrators appointed in accordance with the said Rules.
- 9.3. The language of the arbitration and of the Pre-Arbitral Referee procedure, as applicable, shall be English and the place of arbitration and of the Pre-Arbitral Referee procedure, as applicable, shall be Paris.
- 9.4. Any Party to this Settlement Agreement shall have the right to have recourse to and shall be bound by the Pre-arbitral Referee Procedure of the International Chamber of Commerce in accordance with its Rules.

10. GENERAL PROVISIONS

- 10.1. Amendments: This Settlement Agreement may be varied or modified only by the written agreement of the Parties.
- 10.2. Waivers: The failure of either Party to insist, in any one or more instances, upon the performance of any of the terms, covenants or conditions of this Settlement Agreement or to exercise any right thereunder, shall not be construed as a waiver or relinquishment of the future performance of any such term, covenant or condition or the future exercise of such right, and the obligation of the other Party with respect to such future performance shall continue in full force and effect.
- 10.3. Severability: If any provision of this agreement shall be held to be illegal or unenforceable, whether in whole or part, the validity and enforceability of the remainder of this Settlement Agreement shall not be affected.
- 10.4. Successors and Assigns: This Settlement Agreement shall be binding upon and shall inure for the benefit of the Parties, their successors and assigns.
- 10.5. Implementation: Each Party shall at its own cost execute all such documents and take such steps and do all such acts or things as may be reasonably required for the purpose of giving effect to the provisions of this Settlement Agreement.



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11. EFFECTIVE DATE

11.1. Sections 1.1, 1.2, 1.3, 1.8, 1.14, 2.6, 2.7, 2.8 and 2.9 of this Settlement Agreement shall be effective as from January 18th, 2005. This date of January 18th, 2005 shall be referred to as the "Effective Date" for the purpose of this Settlement Agreement.

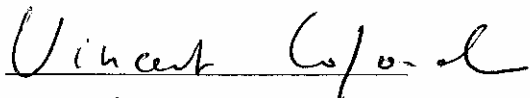
11.2. Sections 1.11, 1.12, 2.8 and 2.10 of this Settlement Agreement shall be effective on March 31, 2005 with Sections 1.13 and 1.15 to be effective on the 30th December, 2005 and Section 1.5 on the 31st January. These sections shall therefore be binding upon the Parties after the Effective Date of this Settlement Agreement.

11.3. All other dates are as per the stipulations of the individual clauses of this Settlement Agreement.

IN WITNESS WHEREOF each Party has duly executed this Settlement Agreement,

For HUREL-HISPANO

For AERONCA, Inc.





Name: Vincent LAFOND

Name: RICHARD NEILL

Title: Purchasing Director

Title: PRESIDENT

Signed this 22 day of March 2005

Signed this 22 day of March 2005



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For MAGELLAN Aerospace Corporation

Richard A Neill

Name: RICHARD A NEILL

Title: PRESIDENT & CEO

Signed this 22 day of March 2005

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Appendix I Seller's Performance

APPENDIX I

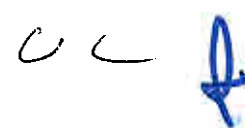
The Parties agree that the provision set out below shall be included into, and shall form an integral part of the Agreements between the Parties:

ARTICLE 22 – SELLER'S PERFORMANCE

22.1 Buyer constantly has to keep up with a market which demands permanent efforts to improve its competitiveness. Seller having been selected mainly because of its ability to compete, agrees to contribute to the improvement of the Products' competitiveness and to participate in every step undertaken by Buyer in this respect.

The Parties agree to assess the performance of Seller at least every two years, from January 2006 onwards, by examining the following as applicable :

- Seller's industrial performance (Products' quality, quality of services, delivery reliability, reduction of contractual and industrial cycles);
- Seller's price competitiveness in relation to the general trend of the market, the latest developments in manufacturing techniques, the optimization of purchases, the price of the change to the Product (including retrofit kit price), as well as the productivity increase achieved by Seller;
- Seller's support competitiveness (continuous improvement of customer support services to meet Buyer's Customer's and/or Airframer's Customer's existing and future needs in all areas of customer support, such as, but not limited to, price, reliability, repairs) if applicable ;
- Seller's technical competitiveness (contribution to product improvement via the use of technologies and processes offering optimum cost/performance ratios);
- any proposal which may lead to cost cuts, shorter cycles, better reliability and maintenance capacity or weight reduction;



Appendix I Seller's Performance

- Seller's ability to adjust itself to the aeronautical and industrial market, and to implement innovations.

This assessment shall lead the Parties to set up improvement plans which shall be in accordance with Airbus industry standards and binding upon the Parties. These improvement plans shall never cause any price increase.

The improvement plans resulting from such assessment shall be considered as amendments to the relevant Purchase Agreement.

22.2 In the event the objectives set out in the improvement plans are not achieved within the stipulated time limits, or if Seller persists in refusing or delaying to apply these improvement plans then three months after written notice sent by Buyer to Seller requesting that Seller fulfil its obligations under the improvement plans and if Seller fails to do so, Buyer shall have the right to launch a Should Cost Study the results of which will be negotiated in good faith between the Buyer and the Seller and will include improvement plans and be based on market conditions and Buyer's manufacturing and material costs. The Seller must consider the results of this Should Cost Study as his committed objective for Base Price reductions 3 months after the conclusion of the Should Cost Study and jointly develop improvement plan timetables that address the amount and timing of the Base Price reduction.

22.3 In the event improvement plans are set up by the Parties between the signing of this amendment and December 31, 2012, Seller will be exempt from (credited with) already achieving the first US\$21,424.00 towards such improvement for the A340-500/600 programme. This US\$21,424.00 credit is based upon the Seller's average recurring cost improvement challenge which was incorporated into the Seller's price rectification during the negotiation process in fall 2004 as such, the Seller will retain 100% of the first US\$21,424.00 cost improvement on the A340-500/600. Any cost improvement over the US\$21,424.00 threshold will be shared equally between the Buyer and Seller. Any and all cost incurred in implementing "should cost" reductions will be accounted for and netted against the savings derived over the balance of the contract duration.



Appendix II Termination

APPENDIX II

The Parties agree that the provisions set out below shall be included into, and shall form an integral part of the Agreements among the Parties:

TERMINATION

1. Termination for Insolvency

Within the duration of this MOU and related Purchase Agreements, Buyer shall have the right, by written notice to Seller, to terminate at no cost to Buyer, such Purchase Agreement and/or any related Purchase Orders pursuant thereto without further payment and liability to Seller, in the event that Seller:

- (i) is subject to a judgement of “état de cessation des paiements”; or
- (ii) files a voluntary petition in bankruptcy; or
- (iii) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets; or
- (iv) commences under the laws of any competent jurisdiction any proceedings involving its insolvency, bankruptcy, reorganization, readjustment of debt, dissolution, liquidation or any other similar proceeding; or
- (v) becomes the object of any proceedings or action of the type described in (iii) or (iv) above and such proceeding or action remains undismissed or unstayed for a period of at least sixty (60) days; or

Appendix II Termination

- (vi) is divested of a substantial part of its asset for a period of at least sixty (60) days which impairs Seller's performance under this Purchase Agreement.

2. Termination for Default

2.1 Right to Terminate for Default

Within the duration of this Purchase Agreement, Buyer shall have the right, by written notice to Seller, to terminate at no cost to Buyer, such Purchase Agreement and/or any related Purchase Orders issued pursuant thereto without further payment and liability to Seller, in the event of Seller's material breach to perform any of its obligations under this Purchase Agreement and/or any related Purchase Orders issued pursuant thereto and Seller does not cure or address such failure by an appropriate action plan, provided by Seller and agreed by Buyer in writing, within a period of thirty (30) days or such longer period as Buyer may authorize in writing, after receipt of written notice from Buyer to remedy such failure.

2.2 Termination and Damages

The right of Buyer to terminate, in whole or in part, this Purchase Agreement and/or any related Purchase Orders issued pursuant thereto, pursuant to the provisions of Article 12.2.2.1 above is in addition to and not in substitution of the right of the Buyer to pursue compensation for the damages, losses and/or any excess costs it has suffered and might suffer as a direct consequence of Seller's material breach of its obligations under this Agreement resulting in such termination.

3 Intellectual Property Rights and Tooling

3.1 General Know How

In the event of termination under the conditions detailed in Articles 1 and 2, Seller shall at no cost grant HUREL-HISPANO a non-exclusive, irrevocable, world-wide and royalty-free license to use the General Know How and related General IPR Rights for the design, integration, manufacture and sale of the Products and Systems without the consent of AERONCA, MAGELLAN or its affiliates.

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Appendix II Termination

3.2 Specific Know How for the A340, A318 & A380 Programmes

The Specific Know-How shall belong to the Buyer. Hurel Hispano shall grant to Aeronca a non-exclusive, irrevocable, world-wide and royalty free license to use the Specific Know-How and related Specific IPR Rights in connection with the design, manufacture and sale of the Products, to the extent necessary for Aeronca to design, integrate, manufacture and sell to Hurel Hispano the Products in accordance with the terms of the Purchase Agreements.

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APPENDIX III

Airbus Route 06 Requirements

The Parties agree that the provisions set out below shall be included into, and shall form an integral part of the Agreements between the Parties:

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Appendix IV – A318 Scope of Work

APPENDIX IV – A318 Scope of Work

The Parties agree that the provisions set out below shall be included into, and shall form an integral part of the following existing agreements between the Parties .

Document ref. 499-ND-1101 dated November 2, 2004

MS Project A318 Schedule dated November 4, 2004.

Appendix V – 2003 MOU Provisions

APPENDIX V

Provision as per the 2003 MOU

The Parties agree that the provisions set out below shall be included into, and shall form an integral part of the Agreements between the Parties until the signature of the A380 Agreements and the Letter Agreements of the A340 and A318, after which dates the 2003 MOU will be dissolved.

Article 1 : Definitions

Article 2 : IPR and Know-How

Article 3 : A380 Program

Appendix 5 : Initial list of relevant Know-How items

Appendix 6 : License Agreement dated 11 March 2003

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APPENDIX VI :
ESCALATION FORMULA

ESCALATION INDEX'S AND FORMULA CALCULATIONS

1. A340-Trent 500 Escalation

According to the should-cost model and HH/Aeronca negotiations the non-amortised base price is 162 348\$, (165,499\$ - 3,151\$) with the addition of 3,151,880\$ of amortised NRCs over 1000 units.

Labour Index

The labour index classification remains as per the contract, however the fixed portion of costs has been adjusted in line with the should cost model.

The labour indexed portion of costs has been calculated as follows:


- Direct labour hours : 10 483\$
- 70% of overheads are subject to labour escalation : 20,756\$

Total : 31,239/162,348 = 19%

Beta21 Materials Index

In order to cover the Beta 21 escalation the calculation has been made in line with the should-cost model. The base for the Beta 21 Titanium purchases in 2005 prices :

- . Machined Rings 19,680\$
- . Beta 21 sheet stock 13,763\$
- . Core Foil 5,785\$
- . Braze Alloy 10,100\$
- . Stiffener \$1,262

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Appendix VI- Escalation Formula

Total 50,590\$/162,348= **31%**

An annual review of Beta 21 costs will be made between Hurel Hispano and Aeronca prior to launch of Aeronca Purchase Orders in order to control and optimise prices by joint efforts and purchasing initiatives.

General Commodity Index

➤ Cost of machining of rings and other outside procured processes of 16,235\$

Total 16,235\$/162,348\$ = 10%

Fixed Price Portion

162,348\$ – 31,239-50,590 – 16,235 = 64,284\$/162,348\$ = **40%**

Final Escalation Formula:

$P_n = P_{amortized} \text{ (over 1000 units)} + (P_b) (0.19 \text{ ECIn/ECIb} + 0.31 \text{ Beta new/Beta old} + 0.10 \text{ GCn/GCb} + 0.40)$

Where:

Pn : Purchase Price at delivery of Aircraft

Pamortized : 3,151\$ over 1000 units. Unit 1 dates from 16 October 2004

Pb : Base Price of Product including amortisation is re-evaluated at 162,348\$ EC 2005

GCn: the arithmetic average of the latest published values of Index WPU03T15M05 for the months of May, June, July and August in the year preceding the year of the Product delivery.

GCb: the WPU03T15M05 index for the months of May, June, July and August 2004.

Appendix VI- Escalation Formula

- ECIn: the arithmetic average of the latest published values of ECI SIC 3721W-Index for the months of May, June, July and August in the year preceding the year of the Product delivery.
- ECIb: the ECI SIC 3721W index for the months of May, June, July and August 2004.
- Beta new: the average price per pound of the Beta 21S sheet material of the four sizes of sheet for the year of Aircraft delivery
- Beta old: the average price per pound of the Beta21S sheet material of the four sizes of sheet procured which is 60.27\$/lbs from the date of application of the new base price.

2. A380 Trent 900 & GP7200 Escalation

These are escalation guides for information purposes and are pending a detailed should cost review except for the fixed 40% portion.

a) Trent 900

According to the should-cost model and HH/Aeronca negotiations the non-amortised base price for the Trent 900 is 108,247\$ (TBD Should Cost Review), with the addition of 2,444,142\$ of Trent 900 NRCs amortised over 1200 units (2,036\$/unit) (for the avoidance of doubt, there is no rate/neither quantity guaranteed).

➤ Labour Index

The labour indexed portion of costs has been calculated as follows:

- Direct labour hours : 6,806\$ (TBD for 375hrs)
- 70% of overheads are subject to labour escalation : 13,816\$

Appendix VI- Escalation Formula

Total : $20,622\$/108,247\$ = 19\%$ (TBD by should cost review)

Materials Index

In order to cover the Beta 21 escalation the calculation has been made in line with the should-cost model. The base for Beta 21 Titanium purchases in 2005 prices :

- . Machined Rings 20,435\$
- . Beta 21 sheet stock 3,987\$
- . Core Foil 1,710\$
- . Braze Alloy 3,389\$
- . Stiffener \$1,000
- . Machined Doubler 1,085\$

Total $31,606\$/108,247\$ = 29\%$ (TBD by should cost review)

General Commodity Index (Producer Price Index TBD)

- . Cost of machining of rings and other outside procured processes of 12,990\$

Total $12,990\$/108,247\$ = 12\%$

Fixed Price Portion


$108,247\$ - 20,622 - 31,606 - 12,990 = 43,029\$/108,247\$ = 40\%$

Final Escalation Formula:

$P_n = P_{amortized} \text{ (over 1200 units)} + (P_b) (0.19 \frac{EC_{In}}{EC_{Ib}} + 0.29 \frac{\text{Beta new}}{\text{Beta old}} + 0.12 \frac{GC_n}{GC_b} + 0.40)$

Where:

P_n : Purchase Price at delivery of Aircraft



Appendix VI- Escalation Formula

Pamortized : 2,444\$ over 1200 units. Unit 1 dates from first development unit delivery. (TBD)

Pb : Base Price of Product which is re-evaluated at 108,247\$ (TBD)EC
2005

ECIn: the arithmetic average of the latest published values of ECI SIC 3721W-Index available at the date of Aircraft delivery for the 11th, 12th and 13th month prior to the month of delivery

ECIb: the ECI SIC 3721W index for December 2004, January 2005, February 2005 averaged.

GCn: General commodity/producer price new

GCb: General commodity/producer price old

Beta new: the average price per pound of the Beta 21S sheet material of the four sizes of sheet for the year of Aircraft delivery

Beta old: the average price per pound of the Beta21S sheet material of the four sizes of sheet procured which is 60.27\$/lbs from the date of application of the new base price.

b) . A380 GP7200

According to the should-cost model and HH/Aeronca negotiations the non-amortised base price for the GP7200 is 105,571\$ (TBD Should Cost Review), with the addition of 1,856,200\$ (1,546\$/unit) of GP 7200 NRCs amortised over 1200 units (for the avoidance of doubt, there is no rate/neither quantity guaranteed).

Labour Index

The labour index classification remains as per the contract, however the fixed portion of costs has been adjusted in line with the should cost model.

The labour indexed portion of costs has been calculated as follows:

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Appendix VI- Escalation Formula

- Direct labour hours : 10,973\$ (TBD for 621hrs)
- 70% of overheads are subject to labour escalation : 21,251\$

Total : 32,224\$/105,571\$ = 30% (TBD by should cost review)

Materials Index

In order to cover the Beta 21 escalation the calculation has been made in line with the should-cost model. The base for Beta 21 Titanium purchases in 2005 prices :

- □ Machined Rings, 100% of costs in materials as machining done at Bristol =15,915\$ (TBD)
- □ Beta 21 sheet stock 15,920\$ (TBD!)

Total 31,835\$/105,571\$ = 30% (TBD by should cost review)

Fixed Price Portion

$105,571\$ - 32,224 - 31,835 = 41,512\$/105,571\$ = 40\%$

Final Escalation Formula:

$P_n = \text{Pamortized (over 1200 units)} + (P_b) (0.30 \text{ ECI}_n/\text{ECI}_b + 0.30 \text{ Beta new/Beta old} + 0.40)$

Where:

P_n : Purchase Price at delivery of Aircraft

Pamortized : 1,856\$ over 1200 units. Unit 1 dates from first development unit delivery. (TBD)

P_b : Base Price of Product which is re-evaluated at 105,571\$ (TBD)EC 2005

ECI_n: the arithmetic average of the latest published values of ECI SIC 3721W-Index available at the date of Aircraft delivery for the 11th, 12th and 13th month prior to the month of delivery

Appendix VI- Escalation Formula

- ECIb: the ECI SIC 3721W index for December 2004, January 2005, February 2005 averaged.
- Beta new: the average price per pound of the Beta 21S sheet material of the four sizes of sheet for the year of Aircraft delivery
- Beta old: the average price per pound of the Beta21S sheet material of the four sizes of sheet procured which is 60.27\$/lbs from the date of application of the new base price.

3. A318 Escalation

The same composition of escalation formulas, indexes and calculation methods reflected above for the A340 & A380 programs will be employed on A318 deliveries (TBD should cost review).

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