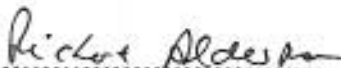


Settlement Agreement between the Serious Fraud Office and BAE Systems plc

Dated February 2010

1. This is an agreement between the Serious Fraud Office (SFO) and BAE Systems plc (Company). In this agreement BAE Systems Group means BAE Systems plc and all of its subsidiaries and affiliated companies.
2. The Company shall plead guilty to a charge in the form attached of one count under section 221 Companies Act 1985.
3. The basis of plea in relation to that charge shall be in the form attached. The Company shall admit the facts set out therein and enter a plea in mitigation. The SFO will provide a copy of its opening note by 19 February 2010.
4. The fine for the offence admitted shall be imposed by the Court.
5. The Company shall make an ex gratia payment for the benefit of the people of Tanzania in a manner to be agreed between the SFO and the Company. The amount of the payment shall be £30 million less any financial orders imposed by the Court.
6. The SFO shall not prosecute any person in relation to conduct other than conduct connected with the Czech Republic or Hungary.
7. The SFO shall forthwith terminate all its investigations into the BAE Systems Group.
8. There shall be no further investigation or prosecutions of any member of the BAE Systems Group for any conduct preceding 5 February 2010.
9. There shall be no civil proceedings against any member of the BAE Systems Group in relation to any matters investigated by the SFO.
10. No member of the BAE Systems Group shall be named as, or alleged to be, an unindicted co-conspirator or in any other capacity in any prosecution the SFO may bring against any other party.
11. The SFO and the Company shall each issue a press release in the form attached.
12. This agreement shall be governed by and construed in accordance with English law. The parties submit to the exclusive jurisdiction of the English courts.



For and on behalf of the Serious Fraud Office


PHILIP BRAMWELL
For and on behalf of BAE Systems plc

DRAFT BASIS OF PLEA

1. INTRODUCTION

- 1.1 BAE Systems plc ("BAE plc" or the "Company") is a publicly-owned company.
- 1.2 Its recent predecessor, British Aerospace, was a statutory corporation established under the Aircraft and Shipbuilding Industries Act 1977 to acquire by nationalisation the UK's principal aircraft manufacturing and guided missile companies. British Aerospace was sold out of government ownership pursuant to the British Aerospace Act 1980, and became a public company, British Aerospace plc, on 1 January 1981. In 1999, British Aerospace plc acquired Marconi Electronic Systems, part of The General Electric Company plc, and in 2000 changed its name to BAE Systems plc.
- 1.3 The Company acts principally as a holding company for the BAE Systems group of companies. The Company's operational activities are conducted by subsidiary companies located principally in the UK, the US, Australia, the Kingdom of Saudi Arabia, Sweden and South Africa. The Company's business and affairs are managed by a Board of Directors, which currently consists of three executive directors and nine non-executive directors.
- 1.4 The BAE Systems group is a leading global defence, security, and aerospace business delivering a full range of products and services for air, land, and naval forces, as well as advanced electronics, security, information technology solutions and customer support services. The group currently has approximately 105,000 employees, and it is the world's second largest defence company based on 2008 revenues.
- 1.5 In the year to 31 December 2008, the revenue of the group was £18.54bn and profit after tax was £1.768bn.

2. SFO INVESTIGATION OF BAE PLC

- 2.1 The Serious Fraud Office commenced its investigation into BAE plc in July 2004. The SFO has investigated a number of issues as part of that investigation.
- 2.2 One of the transactions that the SFO has investigated is the sale of a radar system to the Government of Tanzania (the Radar Contract). As part of this SFO's investigation into the Radar Contract, it has reviewed many thousands of documents and interviewed a number of individuals. It has also had assistance from the Tanzanian authorities.
- 2.3 A summarised chronology of that sale is set out below.

3. TANZANIAN RADAR CONTRACT

- 3.1 Negotiations in relation to the Radar Contract between the Government of Tanzania and Siemens Plessey Electronic Systems Ltd started in 1992. At that time, Siemens Plessey Electronic Systems Ltd was not a BAE Systems subsidiary but part of the Siemens Plessey group of companies.
- 3.2 A contract was signed between the Government of Tanzania and Siemens Plessey Electronic Systems Ltd (still a Siemens Plessey company) on 11 September 1997 with a price of US\$88m. This contract did not become effective because certain conditions precedent, particularly relating to finance, were not satisfied. As a result, negotiations over the terms of the sale continued.
- 3.3 In October/November 1997, the BAE Systems group acquired the UK operations of Siemens Plessey Systems. This acquisition was completed in spring 1998. As part of this acquisition, the BAE

Systems group acquired Siemens Plessey Electronic Systems Ltd. In April 1998, Siemens Plessey Electronic Systems Ltd was renamed British Aerospace Defence Systems Ltd.

- 3.4 On 10 September 1999, a new contract for the sale was signed between the Government of Tanzania and British Aerospace Defence Systems Ltd with a price of US\$39.97m.

4. ALLEGED OFFENCE

- 4.1 From the outset of the negotiations, Siemens Plessey Electronic Systems Ltd had retained a third party marketing adviser, Shailesh Vithlani ("Vithlani") in Tanzania to assist with the negotiation and sale process. The agreement was between Vithlani personally and a Siemens Plessey subsidiary, Plessey Systems Export SA.
- 4.2 Following the acquisition of Siemens Plessey Electronic Systems Ltd by the BAE Systems group, in spring 1998, the BAE Systems group also engaged Vithlani as a marketing adviser. From October 1999, the written engagement was between two companies controlled by BAE plc and two companies controlled by Vithlani called Merlin International Ltd (Merlin) and Envers Trading Corporation (Envers). Merlin was a Tanzanian company and Envers was incorporated offshore. Under these arrangements, Merlin was to receive 1% of the Radar Contract price and Envers was to receive 30% of the Radar Contract price. The appointment of Merlin and Envers was approved by senior BAE employees.
- 4.3 After signature of the Radar Contract, payments of approximately \$12.4 million were made to Merlin and Envers.
- 4.4 These payments were recorded in accounting records of British Aerospace Defence Systems Ltd as payments for the provision of technical services by Vithlani.
- 4.5 Although it is not alleged that BAE plc was party to an agreement to corrupt, there was a high probability that part of the \$12.4 million would be used in the negotiation process to favour British Aerospace Defence Systems Ltd. The payments were not subjected to proper or adequate internal scrutiny and review. Further, British Aerospace Defence Systems Ltd maintained inadequate information to determine the value for money offered by Vithlani and entities controlled by him.
- 4.6 The case is that the financial position of British Aerospace Defence Systems Ltd was not stated with reasonable accuracy, since it was not possible for any person considering the accounts to investigate and determine whether the payments were properly accounted for and were lawful. The failure to record the services accurately was the result of a deliberate decision by one or more officers of British Aerospace Defence Systems Ltd. In the circumstances in which the British Aerospace Defence Systems Ltd business was carried out, this default was inexcusable. An offence under s221 of the Companies Act 1985, in particular section 221(1)(a) was therefore committed. This section has now been repealed but has been retained for financial years beginning before 6 April 2008 by virtue of Schedule 4, paragraph 6 of the Companies Act 2006 (Commencement No 5) (Transitional Provisions and Savings) Order 2007.
- 4.7 It is not known who at British Aerospace Defence Systems Ltd was responsible for creating the relevant inaccurate accounting records or for the commission of the offence. However, it was known by BAE plc that such inaccurate accounting records were in existence and BAE plc failed to scrutinise them adequately to ensure that they were reasonably accurate and permitted them to remain uncorrected. BAE plc is therefore also guilty of a section 221(1)(a) offence.

5. BAE PLC'S COMPLIANCE POLICIES

5.1 The SFO has been informed that BAE plc has undertaken wide-ranging measures to ensure that proper scrutiny of payments to marketing advisers is undertaken in all cases and proper records maintained.

6. CONCLUSION

6.1 The SFO is of the view, following its lengthy investigation, that it is appropriate to prosecute BAE plc in accordance with the limits of this Basis of Plea document. Careful consideration has been given by the Director of the SFO to this case. In the light of the admissions made in this document; the admissions made by BAE plc in the United States of America; and the features of remediation that will be explained to the court, the Director of the SFO has taken the view that it is in the public interest that BAE plc should be prosecuted on this basis. Suitably redacted copies of the Department of Justice Information and Factual Basis documents are appended to this Basis of Plea.