

UNITED STATES DEPARTMENT OF STATE
BUREAU OF POLITICAL MILITARY AFFAIRS
WASHINGTON, D.C. 20520

In the Matter of:

BAE Systems plc

A Company Organized Under the Laws of England and Wales

Respondent

CONSENT AGREEMENT

WHEREAS, the Directorate of Defense Trade Controls, Bureau of Political-Military Affairs, U.S. Department of State ("Department") has notified BAE Systems plc, including its businesses, units, subsidiaries (other than BAE Systems, Inc. and its subsidiaries), and operating divisions ("Respondent"), of its intent to institute an administrative proceeding pursuant to section 38 of the Arms Export Control Act, as amended ("AECA") (22 U.S.C. § 2778), and its implementing regulations, the International Traffic in Arms Regulations ("ITAR") (22 C.F.R. Parts 120-130);

WHEREAS, Respondent cooperated with the Department to address prospective concerns regarding Respondent conduct, and provided in

response to the direction of the Department information related to the Proposed Charging Letter and this Consent Agreement;

WHEREAS, the Department acknowledges that Respondent implemented, and continues to implement, AECA and ITAR compliance measures, including certain measures remedial to the violations contained in the Proposed Charging Letter;

WHEREAS, Respondent hereby certifies to the Department of its intent to ensure, in particular, compliance with AECA and ITAR provisions pertaining to brokering and/or the payment of fees, commissions, or contributions;

WHEREAS, the activities outlined in the Proposed Charging Letter do not relate to or represent conduct of the U.S. company BAE Systems, Inc. ("BAE, Inc."), nor any of its subsidiaries;

WHEREAS, Respondent has reviewed the Proposed Charging Letter and this Consent Agreement, fully understands these documents, and enters into this Consent Agreement voluntarily and with full knowledge of its rights and expects cooperation during the term of this Consent Agreement;

WHEREAS, Respondent wishes to settle and dispose of all potential civil charges, penalties and sanctions under the AECA and ITAR arising from the violations specified in the Proposed Charging Letter by entering into this Consent Agreement;

WHEREAS, Respondent, without admitting or denying the allegations in the Proposed Charging Letter, wishes to avoid the expense and business disruption of litigating the charges and to settle and dispose of all potential civil charges, penalties and sanctions set out in and arising from the Proposed Charging Letter by entering into this Consent Agreement;

WHEREAS, Respondent agrees that this Consent Agreement will remain in effect for a period of four (4) years, subject to the terms and conditions set forth below;

WHEREAS, Respondent agrees that if the Department finds that this Consent Agreement was negotiated based on Respondent's knowingly providing materially false or misleading information to the Department, the Department may revoke this Consent Agreement and the related administrative order ("Order"), and bring additional charges against Respondent. Additionally, Respondent understands that a violation of this Consent Agreement is considered a violation of the Order; and

WHEREAS, the Department and Respondent agree to be bound by this Consent Agreement and the Order to be entered by the Assistant Secretary of State for Political-Military Affairs.

Now, WHEREFORE, the Department and Respondent agree as follows:

Parties

(1) The Parties to this Consent Agreement are the Department and Respondent, including Respondent's businesses, units, subsidiaries, and operating divisions and their assignees and successors, except that this Consent Agreement does not apply to BAE, Inc., nor its subsidiaries as of the date of the Order, nor any subsidiaries subsequently acquired by BAE, Inc. not previously subject to the Consent Agreement. In the event of reorganization, the terms of this agreement will follow and apply to all affected entities or units. Respondent may assign to BAE, Inc. the roles and responsibilities of "Respondent" for any or all purposes in paragraphs 3 through 17, 24, 25, and 31 of this Consent Agreement as agreed to by the Respondent, BAE, Inc., and the Director, DTCC, regarding any or all of the foreign businesses, units, subsidiaries, and operating divisions that are managed by BAE, Inc. As to these foreign businesses, units, subsidiaries, and operating divisions that are managed by BAE, Inc., all aspects and requirements of the Consent Agreement will be implemented in a manner consistent with their separate governance structure from Respondent.

Jurisdiction

(2) Respondent is a foreign person within the meaning of the AECA and § 120.16 of the ITAR, and subject to the jurisdiction of the Department

under the AECA and ITAR for matters identified in the Proposed Charging Letter.

Remedial Measures

(3) Respondent, reflecting its commitment to conduct its business in full compliance with the AECA and the ITAR, and in order to ensure, in particular, that all transactions subject to the AECA and ITAR are conducted transparently and without omission, has either implemented, or will continue to implement, the following remedial measures and such additional measures as may be mutually agreed upon by Respondent and the Director, Office of Defense Trade Controls Compliance (DTCC), and agrees further that these measures will remain in effect for the duration of this Consent Agreement, subject to the terms and conditions set forth below, as part of this Consent Agreement entered into with the Department.

(4) Further, Respondent agrees that these measures will be applied to any future Respondent business acquisitions that are involved in the design, manufacture, sale, re-export, re-transfer, export, temporary import, or brokering of ITAR-controlled defense articles, to include technical data, and the provision of defense services within six (6) months of the date of that acquisition.

(5) Further, if Respondent intends to sell any of its businesses, units, subsidiaries, or operating divisions, that engage in ITAR-controlled activities, Respondent agrees, where permitted to do so by law and without breaching any laws or regulations of England and Wales or any other applicable jurisdiction, to notify DTCC sixty (60) days prior to such sale, but in any event will provide such notice at the earliest opportunity consistent with law and regulation. Respondent further agrees to notify the purchaser in writing, and to require the purchaser to acknowledge in writing prior to the sale, that the purchaser will be bound by the terms and conditions of this Consent Agreement.

(6) Respondent acknowledges and accepts its obligation to continue developing and then maintain effective defense trade control oversight, infrastructure, policies and procedures for its AECA/ITAR-regulated activities, during the course of and subsequent to the term of this Consent Agreement.

Official Designated for Consent Agreement Compliance and Oversight

(7) Respondent shall appoint, in consultation with and at the approval of the Director, DTCC, a qualified individual from outside Respondent to serve as a Special Compliance Official (SCO) for a term of not less than three years from the date of the Order. The term, authorities, and responsibilities of the SCO are described below:

(a) The SCO shall not have been employed in any prior capacity by or previously represented Respondent or any of its businesses, units, subsidiaries or affiliates, past or present, in any capacity. The Respondent shall not engage the person acting as the SCO and the Respondent shall not solicit the employment or engagement (in any capacity) of the person acting as the SCO for a period of at least five (5) years from the date of the termination of this Consent Agreement. Respondent shall nominate a person to serve as SCO within twenty (20) days from the date of the Order, and the nomination shall be subject to the written approval of the Director, DTCC. Within fifteen (15) days following the date of the approval of the nomination by the Director, DTCC, Respondent shall appoint the person to the position of SCO.

(b) The term of the appointment shall not be less than thirty-six (36) months from the date of the Order. Not less than thirty-three (33) months from the date of the Order, the Director, DTCC, shall determine, after consultation with the SCO and the Respondent, whether to extend the term of the SCO for a period of time, up to the duration of the term of the Consent Agreement.

(c) In the event the Director, DTCC, determines not to extend the term of the SCO, or to extend for a term less than the duration of the term of the Consent Agreement, the SCO shall recommend for approval by the Director, DTCC, from within Respondent a qualified individual to serve as an Internal Special Compliance Official ("ISCO") to replace the SCO at the end of the SCO's term, and for the duration of the term of the Consent Agreement. Upon approval of the Director, DTCC, Respondent shall appoint the ISCO. The ISCO shall be authorized to perform the

responsibilities of the SCO, consistent with the laws and regulations of England and Wales.

(d) Within thirty (30) days of appointment of the SCO or ISCO, Respondent shall provide the SCO or ISCO, respectively, with a written statement of work approved by the Director, DTCC, sufficient to allow him/her to perform the responsibilities described herein and to promote Respondent's AECA and ITAR compliance with the terms of this Consent Agreement in a manner consistent with the purpose of this Consent Agreement and the Order, its specific terms and conditions, and other activities subject to the ITAR and the AECA. The SCO will report to the Director, DTCC, and the ISCO will report to Respondent's Chief Executive and the Director, DTCC, as set forth herein. The SCO or ISCO shall perform his/her duties in consultation with DTCC.

(e) If for any reason the appointed SCO or ISCO is unable to serve the full period of his/her appointment, or temporarily is unable to carry out the responsibilities described herein for a period greater than thirty (30) days, or if the Director, DTCC, decides that the SCO or ISCO shall be removed for failure to perform his/her duties satisfactorily, Respondent shall recommend a successor acceptable to the Director, DTCC.

(f) Such recommendation shall be made at least thirty (30) days in advance of a new appointment unless a shorter period is agreed to by the Director, DTCC. The Director, DTCC's agreement to the replacement shall be confirmed or denied in writing to Respondent. In the event of denial, Respondent shall submit an additional recommended successor in accordance with paragraphs 7(e) and 7(f). Respondent may, at its discretion, include a prospective alternate successor in its initial recommendation. If a successor SCO or ISCO is not appointed within sixty (60) days of the termination or removal of the appointed SCO or ISCO, this Consent Agreement will be extended for the period of time equal to the period of time Respondent was without an approved appointed SCO or ISCO. Respondent will not be without an SCO or ISCO for more than one-hundred-twenty (120) days unless the Director, DTCC, grants an extension.

(g) If the SCO or ISCO is for any reason unable to carry out the responsibilities described herein on a temporary basis, not to exceed thirty (30) days, then the senior official responsible for export controls within Respondent's Office of General Counsel shall assume the duties and authorities of the SCO or ISCO in the interim. The written statement of work described in paragraph (7)(d) above shall make provision for this event.

(h) The SCO or ISCO shall have three (3) principal areas of responsibility related to ITAR-controlled activities:

- (1) Policy and Procedure: The SCO or ISCO shall monitor Respondent's AECA and ITAR compliance program, including, but not limited to, the remedial measures already established by the Respondent with specific attention to the following areas to the extent that they concern the AECA and ITAR activities related to them:
 - i. Policies and procedures that incorporate AECA and ITAR compliance into Respondent's senior executive level responsibilities;
 - ii. Policies and procedures for the hiring, compensation, and authorities of advisors, consultants, and brokers, and, to the extent that Respondent in the future decides to change its policies and retain agents, policies and procedure for the hiring, authorities and compensation of such agents.
 - iii. Coordination, consolidation, and standardization, where appropriate, of programs and compliance tools across Respondent's businesses, units, subsidiaries, and operating divisions;
 - iv. Meeting and maintaining adequate AECA and ITAR compliance staffing levels at or covering all businesses, units, subsidiaries, and operating divisions that involve ITAR-related activities;

- v. Policies and procedures for compliance with Parts 129 and 130 of the ITAR;
- vi. Policies and procedures for conducting internal compliance monitoring and audits;
- vii. Policies and procedures for the identification and classification of ITAR-controlled defense articles, including technical data;
- viii. Policies and procedures for complying with the terms, conditions, and provisos of ITAR licenses and other ITAR approvals (*e.g.*, agreements);
- ix. Policies and procedures for preventing, detecting, and reporting AECA and ITAR violations;
- x. Policies and procedures that encourage Respondent's employees to report ITAR compliance problems through Respondent's "ethics helpline" and with the protections provided therein;
- xi. Policies and procedures for submitting voluntary disclosures to the Department of State related to ITAR-controlled activity;
- xii. Policies and procedures for tracking and ensuring the timely return to the United States of any defense articles exported temporarily;
- xiii. Policies and procedures for the re-export of United States origin defense articles including technical data;
- xiv. Policies and procedures for re-transfer of United States origin defense articles including technical data;
- xv. Policies and procedures for ensuring physical security of facilities where ITAR-controlled activity occurs;

- xvi. Policies and procedures for the screening and control of persons who are not authorized for access to ITAR-controlled defense articles and defense services;
- xvii. Policies and procedures for maintaining appropriate ITAR records;
- xviii. Policies and procedures for shipping departments responsible for exporting, re-transferring, or re-exporting ITAR-controlled articles;
- xix. Policies and procedures for the employment of third-country foreign persons who may be engaged in ITAR-controlled activity, or have access to ITAR-controlled technical data;
- xx. Policies and procedures for tracking research and development work to ensure that all such work that involves ITAR-controlled defense articles, including technical data, and defense services is in compliance with the AECA and ITAR from inception to completion of the work; and
- xxi. Policies and procedures for ensuring that exports and re-exports of classified technical data and classified defense articles are in compliance with § 125.3 of the ITAR.

(2) Oversight: The SCO or ISCO shall monitor, review, promote, and report on the following specific areas:

- i. Respondent's continuation of the compliance measures required by this Consent Agreement;
- ii. Respondent's corporate oversight of AECA and ITAR compliance and performance of its responsibilities under this Consent Agreement and the Order in a timely and satisfactory manner;

- iii. The continued incorporation of AECA and ITAR compliance into Respondent's senior executive level responsibilities;
- iv. Overseeing and verifying expenditures for Consent Agreement remedial compliance measures;
- v. Overseeing the improvement, coordination, consolidation, and standardization, where appropriate, of automated systems to track ITAR-controlled activities;
- vi. Reviewing and coordinating with internal ITAR audits; and
- vii. Continuation and, where necessary, implementation of additional policies and procedures that encourage Respondent's employees to report ITAR compliance problems through Respondent's "ethics helpline" and with the protections provided therein and other appropriate reporting mechanisms.

(3) Reporting: The SCO or ISCO is responsible to the Director, DTCC, for the following reporting requirements:

- i. Tracking, evaluating and reporting on Respondent's review of ITAR violations and compliance resources;
- ii. Providing to the Director, DTCC, by 31 July and 31 January of each year during the term of the consent agreement, status reports on Respondent's ITAR compliance program, any enhancements thereto, and resource levels and their impact on or benefit to ensuring ITAR compliance;
- iii. These reports should also include information concerning Respondent's compliance with this Consent Agreement, and findings, conclusions, and any recommendations necessary to ensure compliance with the ITAR, and describe any and all instances of previous recommendations advanced by the SCO or ISCO;

- iv. Additionally, these reports shall, in a separate annex, include any relevant comments or input by Respondent. The SCO shall provide to the Respondent a draft of his or her report at least three (3) weeks before the date of submission to DTCC in order to allow Respondent to comment thereon. Respondent shall continue ITAR compliance oversight to ensure that best practices learned are implemented throughout all of its ITAR-regulated businesses, units, subsidiaries, and operating divisions. Any such reports shall not affect Respondent's use of the Voluntary Disclosure procedures set forth in § 127.12 of the ITAR or Respondent's ability to gain mitigation benefits from such voluntary disclosures; and
 - v. Validating and providing an accounting report on remedial compliance measures to Respondent's Group General Counsel, and other senior officials as appropriate, and to the Director, DTCC, within one year from the date of the Order and then annually thereafter. Respondent shall prepare the accounting report, certified as correct by the Group Finance Director (GFD), of remedial-measure expenditures to maintain, improve or implement Respondent's compliance system.
- (i) With the understanding that nothing in this paragraph shall be interpreted to compel a waiver of applicable attorney-client or work-product protections, nor require the violation of any applicable local laws and regulations including security access requirements, or Special Security Agreements entered into with the U.S. Government, the SCO or ISCO shall have full and complete access to all personnel, books, records, documents, audits, reports, facilities, and technical information relating to compliance with this Consent Agreement, including but not limited to that related to contracts, payments, and commissions, and to all ITAR munitions authorizations, licenses, and Respondent's guidance relating to the export, re-export, or re-transfer of ITAR-controlled defense articles, including technical data, and defense services. In the event the SCO or ISCO is

denied access based on local laws and regulations, the Director, DTCC shall be notified of the denial and the reasons therefor, and all reasonable efforts shall be made to cure.

(j) Respondent's businesses, units, subsidiaries, and operating divisions shall cooperate with all reasonable requests of the SCO or ISCO, including requests for assistance to obtain necessary security clearances, and shall take no action to interfere with or impede the SCO's or ISCO's ability to monitor Respondent's compliance with this Consent Agreement, the Order, and the AECA and the ITAR, or to carry out SCO's or ISCO's other responsibilities set forth in this Consent Agreement. If Respondent finds in any particular circumstance during the term of the Consent Agreement that Respondent cannot comply with a provision of this paragraph because of requirements under local laws and regulations or prohibitions on access to technology imposed by the U.S. or other countries, Respondent shall bring this to the attention of the Director, DTCC. The SCO or ISCO shall notify DTCC whenever the SCO or ISCO encounters any difficulties in exercising the duties and responsibilities assigned under this Consent Agreement.

(k) The SCO or ISCO may be requested to perform additional defense trade oversight, monitoring, and coordination of activities as agreed to by Respondent and the Director, DTCC.

(l) In fulfilling the responsibilities set forth in this Consent Agreement, the SCO or ISCO may, at his/her sole discretion, present any ITAR-controlled defense trade compliance-related issue directly to any or all among Respondent's Chief Executive, General Counsel, and the Director, DTCC.

(m) The SCO or ISCO shall, with the approval of the Director, DTCC, and the concurrence of Respondent, have the authority to employ in a support capacity at the expense of Respondent, such assistants and other professional staff as are reasonably necessary to assist the SCO or ISCO to carry out his/her duties and responsibilities.

(n) In the event Respondent possesses a demonstrable rationale for requesting the removal of the SCO, such information shall be provided to the Director, DTCC, along with recommendations as to a replacement, pursuant to the conditions of this paragraph (7). Any determination as to removal of the SCO shall be at the sole discretion of the Director, DTCC.

Compliance Resources and Program Enhancements

(8) Under this Consent Agreement, Respondent shall ensure that adequate resources are and continue to be dedicated to ITAR compliance throughout Respondent's ITAR-regulated businesses, units, subsidiaries, and operating divisions. Respondent shall continue policies and procedures, and make enhancements as required, for all Respondent employees with responsibility for AECA and ITAR compliance that address lines of authority, staffing levels, performance evaluations, career paths, promotions, and compensation.

(9) Within one-hundred twenty (120) days from the date of the Order, Respondent shall conduct an internal review throughout Respondent's businesses, units, subsidiaries, and operating divisions of AECA and ITAR compliance resources directed towards the types of violations included in the Proposed Charging Letter, to include an estimate of current numbers and types of personnel, including officers, employees, agents, advisers, and brokers, if any, engaged in covered activities. Respondent shall provide a report of these findings to the SCO and the Director, DTCC.

Strengthened Compliance Policies, Procedures, and Training

(10) Respondent will continue existing compliance policies and procedures and within twelve (12) months from the date of the Order, Respondent will have instituted strengthened corporate export compliance procedures, as appropriate, focused principally on ensuring that Respondent's business operations address the causes of the violations included in the Proposed Charging Letter and the following after review by the SCO and a determination with the Respondent regarding the changes necessary to fulfill these objectives:

- a) Incorporation of ITAR Parts 129 and 130 policies, procedures, and training across all relevant Respondent businesses, units, subsidiaries, and operating divisions;
- b) All Respondent personnel, agents, brokers, and advisors engaged in ITAR-regulated activities are familiar with the AECA and the ITAR, and their own and Respondent's responsibilities, thereunder;
- c) All persons responsible for supervising those employees, including senior managers of those businesses, units or subsidiaries, are knowledgeable about the underlying policies and principles of the AECA and the ITAR;
- d) A plan for all new employees to receive basic ITAR compliance training at orientation;
- e) A plan for all Respondent personnel engaged in ITAR-regulated activities to receive on-going web-based (or its equivalent) general and focused face-to-face ITAR training on at least an annual basis; and
- f) Maintenance of training data indicating the names of employees, trainers (for face-to-face training), and level and area of training received.

ITAR Compliance Tracking System

(11) In consultation with the SCO, Respondent shall review the current information technology systems for tracking ITAR-controlled activities, implement additional systems where necessary, consolidate and standardize systems where feasible across businesses, units, subsidiaries, and operating divisions, and where appropriate strengthen Respondent's internal controls for ensuring compliance with the AECA and the ITAR. Respondent will provide to the SCO a summary of activities undertaken under this paragraph for use in creation of, and possible inclusion as an Annex to, the SCO report required in paragraph 7(h)(3)(ii) above.

(12) In order to prevent unintentional or accidental transmissions to unauthorized recipients, Respondent will also provide training to all

employees to ensure that any type of electronic transmissions of ITAR-controlled technical data are sent in accordance with Respondent's defense trade compliance policies and procedures.

Audits

(13) Respondent shall have outside consultants with expertise in AECA/ITAR matters, approved by the Director, DTCC, perform two (2) audits during the term of this Consent Agreement. The audits will be conducted under the supervision of the SCO or ISCO.

(14) Within six (6) months from the date of the Order, a draft audit plan for the first audit will be submitted to the Director, DTCC, for review and approval. The first audit shall provide a thorough assessment of the overall effectiveness of Respondent's AECA/ITAR compliance program throughout its businesses, units, subsidiaries, and operating divisions. This audit will be completed along with a written report containing recommendations for improvements, if any, within twelve (12) months from the date of the Order. The first such audit results and report will be submitted by Respondent to the Director, DTCC, along with Respondent's plan to address recommendations, if any. As outlined in this Consent Agreement, no attorney-client relationship is formed between the Respondent and the SCO, or the Respondent and the outside consultants with expertise in ITAR/AECA matters. Consequently, Respondent agrees that it will not assert attorney-client privilege as to the audit results and the report, and the Department agrees that the audit results and report are confidential. Nothing in this Consent Agreement shall limit the use of such results and reports in any action brought by the Department against Respondent. Nothing in this paragraph shall be interpreted as to compel a waiver of any attorney-client work product or other applicable privileges or protections.

(15) Subsequently, within thirty-six (36) months from the date of the Order, a draft audit plan for the second audit will be submitted to the Director, DTCC, for review and approval. The second audit shall verify whether Respondent addressed the compliance recommendations from the first audit report, and the effectiveness of Respondent's compliance with requirements of this Consent Agreement with focus on those actions undertaken prior to and after the date of this Consent Agreement to address the compliance issues identified in the Proposed Charging

Letter, the policies, procedures, and training established by Respondent, and such other areas as may be identified by the SCO or the Director, DTCC. Within forty-two (42) months from the date of the Order, Respondent shall have the second audit completed along with a written report containing recommendations for improvements, if any. The second audit results and report will be submitted by Respondent to the Director, DTCC. As outlined in this Consent Agreement, no attorney-client relationship is formed between the Respondent and the SCO, or between the Respondent and outside consultants with expertise in ITAR/AECA matters. Consequently, Respondent agrees that it will not assert attorney-client privilege as to the audit results and the report and the Department agrees that the audit results and report are confidential. Nothing in this Consent Agreement shall limit the use of such results and reports in any action brought by the Department against Respondent. Nothing in this paragraph shall be interpreted as to compel a waiver of any attorney-client work product or other applicable privileges or protections.

Continued Compliance Anonymous Reporting Program

(16) Respondent will continue and publicize to its employees the availability of Respondent's programs for reporting concerns, including complaints and perceived violations involving the AECA and the ITAR through Respondents "ethics helpline" and with the protections provided therein. Once such complaints, concerns or violations about AECA or ITAR matters have been reported, Respondent will ensure that this information is forwarded to Respondent's Chief Counsel, Compliance and Regulation. The Chief Counsel, Compliance and Regulation will be responsible for resolving such matters and reporting resolutions to the SCO or ISCO. If the Respondent's Chief Counsel, Compliance and Regulation, SCO, or ISCO, is the subject of the complaint, concern or violation, the matter will be referred to Respondent's Group General Counsel for resolution and for reporting resolutions to the SCO or ISCO. If Respondent's Group General Counsel is the subject of the complaint, concern or violation, the matter will be referred to Respondent's Chief Executive for resolution and for reporting resolutions to the SCO or ISCO.

(17) The SCO or ISCO shall include in his/her report pursuant to paragraph 7(h)(3)(ii) above an assessment of the effectiveness of the

reporting program relating to export matters. This report will be in sufficient detail such that the Department may, consistent with its responsibilities under law and regulation, form an opinion about the seriousness of the alleged violations, without limiting employee confidentiality.

Penalty

(18) Respondent agrees that it shall pay in fines and in remedial compliance measures an aggregate civil penalty of seventy-nine million dollars (\$79,000,000) in complete settlement of alleged civil violations pursuant to Section 38 of the AECA and the ITAR, as set forth in the Proposed Charging Letter. Respondent agrees to waive its rights to raise the defense of Statute of Limitations with regard to the collection of the civil penalty imposed by this Consent Agreement, and that the Statute of Limitations shall be tolled until the last payment is made. Respondent also agrees that such civil penalty shall be a nondischargeable debt in accordance with Section 523(a)(7) of the Federal Bankruptcy Code. The civil penalty shall be payable as follows:

- a) Sixty-nine million dollars (\$69,000,000) shall be paid through several installments as follows:
 - 1) Eighteen million dollars (\$18,000,000) is to be paid within ten (10) days from the date of the Order.
 - 2) Seventeen million dollars (17,000,000) is to be paid within one year from the date of the Order and then on each of the second and third anniversaries of the date of the Order.
 - 3) The Department and Respondent agree that no interest shall accrue or be due on the unpaid portion of the civil penalty if timely payments are made as set forth in paragraphs (18)(a)(1) and (18)(a)(2) above.
- b) The remaining penalty of ten million dollars (\$10,000,000) is hereby assessed, but this amount will be suspended in accordance with the following:

- 1) Three million dollars (\$3,000,000) will be suspended on the condition that Respondent has applied this amount to self-initiated, pre-Consent Agreement remedial compliance measures, as determined by DTCC as set forth in paragraph (18)(c) below.
 - 2) Seven million dollars (\$7,000,000) will be suspended on the condition that Respondent applies this amount to Consent Agreement authorized remedial compliance measures, determined by DTCC as set forth in paragraph (18)(c) below, over the term of this Consent Agreement for the purpose of defraying a portion of the costs associated with the remedial compliance measures specified herein.
- c) In accordance with paragraph (18)(b), Respondent's GFD in consultation with the SCO, as set forth below, will conduct a review of Respondent's expenditures for remedial compliance measures, and provide the results of the review, certified as correct by the GFD, to DTCC. DTCC will respond within ninety (90) days with a determination from that review if the expenditures claimed by Respondent to date were spent for Consent Agreement-authorized remedial compliance costs. To the extent that DTCC determines that expenditures claimed or any portion thereof were utilized for Consent Agreement-authorized remedial compliance costs, that amount will be credited against the appropriate suspended penalty in sub paragraph (18)(b)(1) or (18)(b)(2). The remaining portion of the suspended penalty shall be used for additional Consent Agreement-authorized remedial compliance costs. Respondent's GFD in consultation with the SCO will provide to DTCC no later than one (1) year from the date of the Order, and then annually thereafter, for verification and approval, an itemized accounting, certified as correct by the GFD, of all Consent Agreement- authorized remedial compliance expenditures, to include those expenditures claimed against suspended penalties, showing specifics of how money was used to strengthen compliance within the terms of this Consent Agreement. Any remaining portion of the suspended penalty in paragraph (18)(b) unutilized at the conclusion of the term of

this Consent Agreement will no longer be suspended and shall be paid within ten (10) days.

(19) Respondent is precluded from applying any portion of the seventy-nine million dollar (\$79,000,000) penalty set forth in paragraph (18) as costs in any contract with any agency of the U.S. Government or any other contract where the result would be the application of any portion of the penalty as costs in any contract with any agency of the U.S. Government. Respondent agrees that the GFD shall provide certification that the penalty: (a) will be treated as expressly unallowable costs under the Federal Acquisition Regulations; (b) will not be recovered or sought to be recovered as allowable costs, either directly or indirectly under any federal prime contract, grant or subcontract; and (c) will not be taken as a federal tax deduction. In the event Respondent violates these prohibitions, the Department will deem it a "failure to apply funds appropriately for the required purpose."

(20) Any failure to apply funds appropriately for the required purpose, or to provide a satisfactory accounting shall result in a lifting of the suspension, in which case Respondent shall be required to pay within thirty (30) days to the Department the amount of the suspended portion of the penalty, less any amounts the Department deems to have been properly applied and accounted for expenditures in compliance with this Consent Agreement.

Defense Services and Defense Articles

(21) Respondent, its subsidiaries, and other affiliates acknowledge and accept the authority of the Department to designate what is an ITAR-controlled defense article, and that the ITAR requires written authorization before such articles are exported, re-exported, or re-transferred, regardless of whether the underlying defense article is used in a commercial system or product. Respondent further acknowledges that the Commodity Jurisdiction process, set forth in §120.4 of the ITAR, is the only official mechanism by which questions regarding jurisdiction and categorization may be addressed.

Debarment

(22) Respondent has implemented certain remedial actions to address the Department's concerns that violations not continue, and has taken steps to improve its compliance program. It has also undertaken to make amends by paying a cash penalty and implementing the significant additional remedial compliance actions specified in this Consent Agreement. The Department has determined to impose a statutory debarment of BAE Systems plc pursuant to section 127.7 of the ITAR, based on the criminal charges in the Judgment in a Criminal Case filed on March 2, 2010, by the United States District Court for the District of Columbia. However, based on the foregoing and additional information provided by Respondent, and request for reinstatement by BAE Systems plc, the Assistant Secretary of State for Political-Military Affairs has determined under Section 38(g)(4) of the AECA that Respondent has taken appropriate steps to address the causes of the violations and to mitigate law enforcement concerns. Accordingly, BAE Systems plc shall be reinstated. The following of Respondent's subsidiaries, however, are placed under a policy of denial, meaning that there will be an initial presumption of denial during the case-by-case review of all licenses and other authorizations involving these subsidiaries: BAE Systems CS&S International, Red Diamond Trading Ltd., and Poseidon Trading Investments Ltd., including their divisions and business units, and successor entities. The Department reserves all rights to impose additional sanctions, including debarment under the ITAR, against Respondent, any subsidiary or other affiliate over which Respondent exercises control, if it does not fulfill the provisions of this Consent Agreement or is responsible for other compliance or law enforcement issues under the AECA, or under other statutes enumerated in § 120.27 of the ITAR.

(23) Those subsidiaries under a policy of denial are prohibited from participating directly or indirectly in the export and re-export of defense articles, including technical data, or in the furnishing of defense services or engaging in brokering activities, for which a license or other approval is required, or where an exemption may be claimed, pursuant to the ITAR unless an exception, known as a "Transaction Exception," has been granted by the Department. Notwithstanding the foregoing language, all licenses, agreements, and other authorizations involving those subsidiaries under a policy of denial issued prior to the date of

publication of the Public Notice of the policy of denial in the Federal Register are not affected and are not revoked.

Legal Department Support

(24) Respondent's General Counsel's office shall provide support in all divisions for all matters involving the AECA and the ITAR. This support must continue to be structured to achieve consistent application of the AECA and the ITAR by Respondent. Additionally, Respondent's General Counsel's office shall ensure that in each business, unit, subsidiary, or operating division, appropriate legal support is made available as necessary to the principal personnel responsible for compliance with the AECA and the ITAR, and appropriate legal support is performed in each business unit with respect to such matters.

On-site Reviews by the Department

(25) For the purpose of assessing compliance with the provisions of the AECA, the ITAR and future munitions licenses and other authorizations, Respondent agrees to arrange and facilitate, with minimum advance notice, on-site reviews by the Department while this Consent Agreement remains in effect.

Understandings

(26) No agreement, understanding, representation, or interpretation not contained in this Consent Agreement may be used to vary or otherwise affect the terms of this Consent Agreement or the Order, when entered, nor shall this Consent Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the United States Government with respect to the facts and circumstances addressed in the Proposed Charging Letter, nor will any such agreement, understanding, representation, or interpretation be made unless committed in writing and signed by Respondent and the Department. Specifically, Respondent acknowledges and accepts that there is no understanding expressed or implied through this Consent Agreement with respect to a final decision by the Department of State concerning export licenses or other U.S. Government authorizations. The Department agrees to review and take action on license applications or other requests for

authorization currently pending with the Department as of the Date of the Order.

(27) Respondent acknowledges the nature and seriousness of the offenses charged in the Proposed Charging Letter, including the potential risk of harm to the security and foreign policy interests of the United States. If this Consent Agreement is not approved pursuant to an Order entered by the Assistant Secretary for Political-Military Affairs, the Department and Respondent agree that they may not use this Consent Agreement or Proposed Charging Letter in any administrative or judicial proceeding, and that the Parties shall not be bound by the terms contained in this Consent Agreement.

(28) The Department agrees that, upon signing of the Order, this Consent Agreement resolves with respect to Respondent the civil penalties or administrative sanctions with respect to violations of § 38 of the AECA or the ITAR arising from facts Respondent has disclosed in writing to the Department in its Disclosure 10-0000621, or that have been identified in the Proposed Charging Letter.

(29) If any provision of this Consent Agreement is held unenforceable, then such provision will be modified to implement the Parties' intention, as allowable by applicable law. All remaining provisions of this Consent Agreement shall remain in full force and effect.

Waiver

(30) Respondent waives, upon the signing of the Order, all rights to seek any further steps in this matter, including an administrative hearing pursuant to Part 128 of the ITAR. Respondent also waives any such rights with respect to any additional penalty (with the exception of any suspension or debarment action in accordance with Part 128 of the ITAR) assessed by the Director, DTCC, in connection with an alleged material violation of this Consent Agreement (any such additional penalty imposed will be limited to five million dollars (\$5,000,000)) except as follows: In the event that the Director, DTCC, determines that Respondent has materially violated this Consent Agreement and imposes such additional penalty, and Respondent disputes such determination, Respondent may appeal such determination to the Assistant Secretary for Political-Military Affairs, and the decision of the Assistant Secretary for

Political-Military Affairs shall be the final determination in the matter, which may not be appealed. Respondent also agrees that any such additional civil penalty shall be nondischargeable under Section 523(a)(7) of the Federal Bankruptcy Code. Respondent also waives the right to contest the validity of this Consent Agreement or the Order, including in any action that may be brought for the enforcement of any civil fine, penalty or forfeiture in connection with this Consent Agreement or Order.

Certification

(31) Three (3) months prior to the four (4) year anniversary of the date of the Order or the termination of the Consent Agreement, Respondent shall submit to the Director, DTCC, a written certification as to whether all aspects of this Consent Agreement have been implemented and Respondent's export compliance program has been assessed, and whether this export compliance program is adequate to identify, prevent, detect, correct, and report violations of the AECA and the ITAR. The Consent Agreement shall remain in force, including beyond the four (4) year term, until such certification is submitted and the Director, DTCC, determines based on this certification and other factors that all compliance measures set forth in this Consent Agreement have been implemented, and that Respondent's ITAR compliance program appears to be adequate to identify, prevent, detect, correct, and report violations of the AECA and the ITAR.

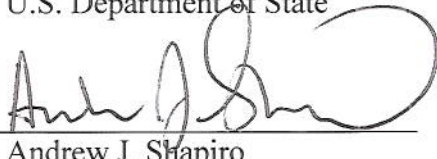
Documents to be made public

(32) Respondent understands that the Department will make this Consent Agreement, the Proposed Charging Letter, and the Order, when entered, available to the public.

When Order Becomes Effective

(33) This Consent Agreement shall become binding on the Department only when the Assistant Secretary for Political-Military Affairs approves it by entering the Order, which will have the same force and effect as a decision and Order issued after a full administrative hearing on the record.

U.S. Department of State



Andrew J. Shapiro
Assistant Secretary for
Political-Military Affairs

May 16, 2011

Date

BAE Systems plc



David Parkes
Company Secretary

16 May 2011

Date