DEPARTMENT OF THE AIR FORCE
ARLINGTON, VA 22203-1613

Office of the Deputy General Counsel

JUL 19 2011

VIA REGISTERED MAIL AND E-MAIL

SAF/GCR
1235 South Clark Street, Suite 301
Arlington, VA 22202

Mr. Ian King
Chief Executive Officer
BAE Systems plc
6 Carlton Gardens
London
SW115AD
United Kingdom

Re: Present Responsibility Review

Dear Mr. King:

Thank you for your prompt and thorough response to our May 23, 2011, letter containing the Air Force's final questions for BAE Systems plc ("BAES" or the "company") regarding the company's present responsibility for U.S. government contracting and subcontracting. Your answers, when analyzed together with the administrative record compiled during the course of our extensive present responsibility review, lead me to conclude that administrative action against BAES is not necessary at this time to protect the U.S. government's interests.

This letter, and your June 3, 2011 letter (without attachments), will be posted on our website as a public record of the present responsibility inquiry. In order to provide context for these communications, a brief history of our review follows.

The Air Force's inquiry began with our October 30, 2009, letter to BAES' Chairman. In that letter, the Air Force expressed concerns about allegations of bribery and corruption associated with BAES' past arms and weapons systems sales to the Kingdom of Saudi Arabia and to certain other nations. The letter also expressed concern about BAES' reported ongoing lack of cooperation with the United States Government's efforts to investigate the company's conduct. After receiving our letter, BAES immediately engaged with the Air Force in an effort to demonstrate the company's present responsibility.

Your personal involvement greatly assisted the Air Force's review. We also acknowledge the extensive written responses that BAES provided to the Air Force, and the various visits to my office by you and your General Counsel, Mr. Philip Bramwell. Additionally, at your direction, BAES engaged with the United States Department of Justice, reversed the reported multi-year trend of non-cooperation with the U.S. investigation and, on March 1, 2010, the company pled guilty to a multi-object conspiracy to defraud the United States Government (a felony), and paid a $400 million fine. The underlying misconduct, and the

conviction, provided bases for debarring BAES. But the proactive and positive engagement occurring between BAES and the Air Force at the time made reaching a decision about debarring the company unnecessary until the conclusion of our present responsibility review.

After thoroughly reviewing BAES' written responses and evaluating the plea agreement, the Air Force, on May 12, 2010, notified BAES of the initial results of our review. In that letter, I informed you that your personal focus on integrating principles-based, responsible corporate conduct into the fabric of BAES' operations as a whole was commendable, but that significant challenges affecting BAES' present responsibility remained. For example, BAES represented that it could not be candid with the U.S. Government because the U.K. Government prohibited the company from conducting an internal investigation or gaining insight into the underlying misconduct. Additionally, BAES represented that certain facts known to the company could not be shared with the Air Force because of U.K. national security laws. Notwithstanding the continued uncertainty regarding BAES' conduct, the Air Force made a number of observations for refining the company's business conduct programs. One of the recommendations included engaging a substantial, independent ethics organization to conduct a full review of BAES' operations in order to verify the company's commitment to, and progress toward, ethical business operations.

In August 2010, after BAES considered the Air Force's recommendations, you welcomed me and my counsel at the company's Samlesbury, England facility for several days of discussions with BAES senior leaders. These meetings culminated with an agreement on the contours for a statement of work that would guide ELG – the outside ethics organization selected by BAES – in their review of the entirety of BAES' operations and their assessment of the company's progress in meeting the Woolf Committee recommendations. ELG conducted its review from September 2010 through March 2011, and BAES delivered ELG's draft report to the Air Force in April 2010 in order to permit the Air Force time to comment before the report became final.

We thoroughly reviewed the ELG report and offered our reactions in our May 23, 2011, letter. ELG then finalized their draft report, incorporating the Air Force's suggestions, including a finding that BAES had implemented the Woolf Committee recommendations. Your June 3 response addressed our remaining questions and detailed how BAES has implemented, and will continue to strengthen over time, recommendations from ELG and the Woolf Committee. Your comprehensive approach to both sets of recommendations, in conjunction with your complete overhaul of the company's corporate culture, have addressed the Air Force's remaining concerns about the BAES' present responsibility such that debarring BAES is not necessary to protect the U.S. government's interests at this time. This conclusion is not a finding that BAES is presently responsible either generally, or with regard to any contract competition or proposal.

Sincerely,

STEVEN A. SHAW
Deputy General Counsel
(Contractor Responsibility)

cc:

Mr. Philip Bramwell, Esq. (Email)
Mr. Rand L. Allen, Esq. (Email)