



Company Profile

BAE Systems

February 10, 2010

Company Snapshot:

BAE Systems is one of the world's largest aviation and weapons companies. Formerly known as British Aerospace, BAE Systems has major operations in the United Kingdom, Australia, South Africa, Sweden, Saudi Arabia, and the United States, where it is one of the Pentagon's largest contractors. The company produces fighter planes, missiles, nuclear submarines, military electronics and other tools of war, and is one of the top producers of armored combat vehicles such as the Bradley Fighting Vehicle (widely used by the U.S. military in Iraq). For the past few years, BAE Systems was implicated in a dispute regarding claims that it paid kickbacks to bureaucrats in various countries including Saudi Arabia and the Czech Republic.

Number of employees worldwide: 97,500

Chief executive officer: Ian King

Website: www.baesystems.com

Global Fortune 500 rank: 279

Tel: + 44 (0)1252 37 3232

Net Income: \$1.8 billion

Total revenue: \$28.6 billion

Corporate accountability

Overview:

BAE has been grappling with claims that the company was involved in pervasive enticement in its dealings with officials of foreign governments. The accusations began to receive considerable attention in June 2003, when the British publication *The Guardian* revealed that the U.S. government had privately charged BAE of giving kickbacks to government officials in the Czech Republic. *The Guardian* claimed that BAE was also facing bribery allegations in India, South Africa, and Qatar. The claims stemmed from allegations that BAE had paid millions of pounds in covert fees to secure a significant deal, supported by the British government, to sell Hawk jets to South Africa. There were ensuing contentions that the company had created a £20 million slush fund (later believed to be as much as £60 million for paying off officials in Saudi Arabia during the 1980s).

Though the company denied the claims, Britain's Serious Fraud office (SFO) began a criminal investigation into the kickback charges focusing on claims concerning Saudi Arabia. It is believed that both BAE and the Saudi embassy actively petitioned to have the investigation concluded. Then in December 2006, the British government called for a discontinuation of the inquiry in view of national security concerns. (In April 2008, Britain's High Court ruled that the termination of the investigation was unlawful, however, in July 2008 the House of Lords overruled the court.)

Nevertheless, the SFO continued to investigate BAE's suspect activities in six other countries. Swiss officials also began an investigation into the company's possible money laundering activities.

In June 2007, BAE announced that it would direct its own allegedly autonomous investigation of the matter headed by Lord Woolf, a former lord chief justice of England and Wales. The Woolf Committee's 150-page report, released in May 2008, stated that BAE's top executives "acknowledged that the Company did not in the past pay sufficient attention to ethical

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standards and avoid activities that had the potential to give rise to reputational damage". However, focusing more on the future than the past the report recommended "a route map for the Company to establish a global reputation for ethical business conduct". Among its 23 recommendations is that BAE "continue to forbid facilitation payments as a matter of global policy". BAE agreed to adopt all 23 recommendations.

In late July 2008 BAE was again confronted with kickback allegations , when the Financial Times reported that it had seen documents which indicated that the company had paid a minimum of £20 million to a company linked to a Zimbabwean arms trade close to controversial President Robert Mugabe.

In February 2010, BAE reached settlement agreements with the U.S. Justice Department and the U.K. Serious Fraud Office concerning the longstanding bribery charges. The company agreed to pay \$400 million in the U.S. and the equivalent of about \$47 million in Britain to conclude cases.

Environment and product safety:

BAE received praise as well as some ridicule when it announced in 2006 that it was working on "green" munitions, including lead-free bullets, rockets with fewer toxic components and quieter warheads to reduce noise pollution. The perception of providing weapons of war while protecting the planet and at some stage killing people was aptly portrayed in the headline of an article about the project in the Times of London: "Watch Out, Sarge! It's Environmentally Friendly Fire."

Major lines of business/segments:

BAE's website describes its lines of business as follows:

BAE Systems Australia – Created through the 2008 purchase of Tenix Defense, this segment provides a variety of weapons and military systems, including armored vehicles and air and naval systems.

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BAE Systems Products Group – The division provides products and services for law enforcement, security, and corrections customers.

CS&S International – “Is responsible for the development of new market opportunities and the sustainment of business in the Middle East region including our long-term presence in Saudi Arabia.”

Customer Solutions – Described as “a benchmark provider of integrated information technology, and technical and professional service solutions for the U.S. national security and Federal civilian markets, with capabilities that include a full set of tailored solutions and services, including ship repair, to support our customers' needs”.

Electronics & Integrated Solutions - E&IS “designs, develops, and manufactures a wide range of electronic systems and subsystems for military and commercial applications. E&IS offers products and integration services including: electronic warfare and self-protection systems; surveillance and intelligence systems; platform systems; sensor and precision targeting systems; communication, navigation, identification, and reconnaissance systems; large-scale enterprise solutions and information management systems in support of the defense and intelligence communities; mission-specific software and geospatial exploitation products; advanced information technology; and rapid C4ISR prototyping.”

Integrated System Technologies – The division “is fully equipped to meet the demands of the rapidly evolving modern and future markets in defense, homeland security and complex, mission critical solutions.”

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Land & Armaments – The division “is a global leader in the design, development, production, and service support of armoured combat vehicles, major and minor caliber naval guns and missile launchers, canisters, artillery systems, and intelligent munitions.” Its best-known product is the Bradley Fighting Vehicle.

Military Air Solutions – “Provides advanced military air capability by successful delivery of design, development, manufacture, and support contracts with the UK and overseas customers.” Its products include the Harrier vertical-takeoff combat aircraft, the Hawk Advanced Jet Trainer, the Nimrod maritime patrol aircraft, the Tornado fighter plane, the Typhoon combat aircraft, and the VC10 transport plane.

Regional Aircraft – These include the Avro RJ, the BAe 748, and Jetstream turboprops.

Submarine Solutions – The division is responsible for the Upholder Class conventional submarine and the Astute Class nuclear submarine.