

Summary of BAE SYSTEMS undertakings (to be read in conjunction with the press release dated 9 February 2006)

BAE SYSTEMS plc (British Aerospace plc as was) acquired the Marconi Electronic Systems business of GEC on 29 November 1999. Suite of seventeen undertakings accepted in lieu of reference on 28 March 2000.

Undertakings

1. Compliance: BAE SYSTEMS to appoint a Compliance Officer (CO) to facilitate and oversee compliance with the undertakings and to report to the MoD and the DGFT (now the OFT) on compliance.

The role of the CO is, among other matters, to provide relevant advice and information to BAE SYSTEMS to ensure, and to oversee, compliance by BAE SYSTEMS with the undertakings.

2. Joint Strike Fighter.

3. Future Scout and Cavalry System / Tracer (**formally released 10 January 2002**).

4. Skynet 5 and associated satellite communications programmes.

5. Astute Training Programme.

The above undertakings relate primarily to the separation of competing bid teams taking part in the competitive programmes for the projects listed. The programmes covered by Undertakings 2, 4 and 5 have now been decided and these undertakings (apart from the information retention provisions) are no longer in effect. The retention provisions relate to business records and remain in place for six years following the awarding of the contract.

6. MES shipyards: MES shipyards to be vested in a separate subsidiary of BAE SYSTEMS, with its own management and published accounts, and with its shipbuilding capacity to be available to all potential prime contractors (including BAE SYSTEMS) on fair, reasonable and non-discriminatory terms.

The rationale for this undertaking was to counteract the reduction in competition in naval ship prime contracting by, among other matters, establishing a separate shipbuilding company that was independent from the rest of BAES. In effect it separated the Prime Contract Offices (PCOs), located within BAES, from the shipbuilder with the PCO providing an independent prime contract service for the MoD. Undertaking 6 also requires separate accounts to be produced for the shipbuilding business (in part to monitor arm's length trading), and provides for access by third parties to the shipbuilding business capabilities when bidding into new programmes as well as the preservation of confidentiality as regards commercially sensitive or competition-sensitive business or financial information.

7. Teaming arrangements with potential Prime Contractors: BAE SYSTEMS to consult the MoD before entering into teaming arrangements with potential competing prime contractors.

The purpose of this undertaking is to ensure that where BAE SYSTEMS and other prime contractors compete for a MoD contract, BAE SYSTEMS and another prime do not form a single team prior to contract selection without first consulting with MoD.

8. MES avionics business; The former MES avionics business to be vested in a separate subsidiary of BAE SYSTEMS, with its own management and published accounts, and to be available to all potential prime contractors (including BAE SYSTEMS) on fair, reasonable and non-discriminatory terms.

Save for the fact that it applies to the avionics business, this undertaking is cast in almost identical terms to undertaking 6, including provision for the preservation of confidentiality as regards commercially sensitive or competition-sensitive business or financial information.

BAE SYSTEMS has now disposed of its majority interest in the Avionics business although it retains a minority interest through a joint venture.

9. Access by Prime Contractors to BAE SYSTEMS in-house suppliers: BAE SYSTEMS to allow its internal suppliers to bid on fair, reasonable and non-discriminatory terms to other potential prime contractors in future competitions such that the effectiveness of competition at the prime level is not distorted.

BAE SYSTEMS is required to make available, on request, its capabilities to other prime contractors or potential contractors to permit them to undertake or bid for work on MoD programmes.

10. Sub-contract competition: BAE SYSTEMS to safeguard sub-contract competition and the interest of the MoD's other suppliers by maximising competitive opportunities

at the sub-contract level, in particular by complying with MoD guidelines for the conduct of sub-contract competitions.

The purpose of this undertaking was to address general concerns about vertical integration arising from the merger, including in avionics and naval shipbuilding.

11. Access to intellectual Property Rights and Technical Information for Follow-on Work: BAE SYSTEMS to enter into an agreement with MOD to implement the Principles of Agreement set out in Annex B to the draft Undertakings.

BAE SYSTEMS entered into IPR agreement with MoD on 25th May 2000 in compliance with this undertaking and so the requirement in the undertaking has been met.

12. JTIDS licences: BAE SYSTEMS to provide JTIDS licences and support on request.

The undertaking requires BAE SYSTEMS to assist MoD in obtaining competitive tenders for JTIDS support or further production by entering into licensing agreements with other companies designated by the MoD.

13. Maintenance of Capacity at the Clyde Shipyards: BAE SYSTEMS to maintain the necessary capacity at its Clyde shipyards to build the First-of-Class Type 45 Warship until such time as the design and build contract is awarded.

The DFM contract for the Type 45 Destroyer programme was placed in December 2000, and construction is now in hand.

14. Allocation of Engineering staff: BAE SYSTEMS to consult the MoD on any proposals for redeployment of engineering staff or reduction in the range of technical competencies currently available.

MoD and BAE SYSTEMS have an agreement in place setting out a regular reporting regime for this requirement.

15. Parent Company Guarantees: BAE SYSTEMS to take on all Parent Company Guarantees that GEC had given to the MoD in respect of MES contracts.

Action to satisfy this requirement was confirmed by BAE SYSTEMS in March 2002.

16. General issues: general issues in relation to the implementation of the foregoing undertakings. For example, requiring BAE SYSTEMS to publish the undertakings in an easily accessible form on its website.

17. Interpretation and Definitions