



U.S. Department of Justice

Criminal Division

Washington, D.C. 20530

August 21, 2007

Timothy L. Dickinson, Esq.
Paul Hastings Janofsky & Walker
875 15th Street, NW
Washington, DC 20005

Re: Textron Inc.

Dear Mr. Dickinson:

On the understandings specified below, the United States Department of Justice, Criminal Division, Fraud Section ("this Office") will not criminally prosecute **Textron Inc.** and its subsidiaries and affiliates, including **David Brown Transmissions France S.A., David Brown France Engrenage S.A.S., and David Brown Guinard Pumps S.A.S.** (collectively, "**TEXTRON**") for any crimes (except for criminal tax violations, as to which this Office cannot and does not make any agreement) related to the making of and agreement to make improper payments, including "after sale service fees," which were paid directly or indirectly by the David Brown subsidiaries to the Iraqi government, between 2001 and 2003, and the accounting and record-keeping associated with these improper payments, all as described in Appendix A hereto, which is incorporated by reference herein. On those same understandings, this Office also will not criminally prosecute **TEXTRON** for conduct that was known to this Office prior to the date of execution of this letter, and that concerned improper payments made in Bangladesh, Indonesia, Egypt, India, and the United Arab Emirates between 2000 and 2005, including the accounting and record-keeping associated with these improper payments, all as described in Appendix A hereto.

Textron Inc. acknowledges that its David Brown subsidiaries, as described in Appendix A, are responsible for the conduct set forth in Appendix A hereto, and agrees not to make any public statement contradicting Appendix A. In addition, the David Brown subsidiaries, represented by the President of Textron's Fluid and Power Business Unit, accept responsibility for the conduct set forth in Appendix A, and agree not to make any public statement contradicting Appendix A.

If **TEXTRON** fully complies with the understandings specified in this agreement, including all Appendices hereto (collectively referred to as the "Agreement"), no information given by or on behalf of **TEXTRON** at the request of this Office (or any other information directly or indirectly derived therefrom) will be used against **TEXTRON** in any criminal tax prosecution. This Agreement does not provide any protection against prosecution for any crimes except as set forth above, and applies only to **TEXTRON** and not to any other entities or any

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individuals except as set forth herein. TEXTRON expressly understands that the protections provided to TEXTRON under this Agreement shall not apply to any successor entities, whether the successor's interest arises through a merger or plan of reorganization, unless and until such successor formally adopts and executes this Agreement. The protections arising from this Agreement will not apply to any purchasers of all or substantially all of the assets of TEXTRON, unless such purchaser enters into a written agreement, on terms acceptable to this Office, agreeing in substance to undertake all obligations set forth in this Agreement.

It is understood that, in connection with any investigation related to the conduct described in Appendix A, TEXTRON shall: (a) truthfully and completely disclose all information with respect to the activities of TEXTRON, its officers and employees, and others concerning all matters about which this Office inquires of it, which information can be used for any purpose, except as limited by the second paragraph of this Agreement; (b) cooperate fully with this Office, the Federal Bureau of Investigation, the Securities and Exchange Commission, the Office of Foreign Assets Control, and any other law enforcement agency designated by this Office; (c) at this Office's request, use its best efforts to assist this Office in any investigation or prosecution arising out of the conduct described in the opening paragraph of this Agreement by providing logistical and technical support for any meeting, interview, grand jury proceeding, or any trial or other court proceeding; (d) at this Office's request, use its best efforts promptly to secure the attendance and truthful statements or testimony of any officer, agent or employee at any meeting or interview or before the grand jury or at any trial or other court proceeding; (e) at this Office's request, use its best efforts promptly to provide to this Office any document, record, or other tangible evidence about which this Office or any designated law enforcement agency inquires; and (f) bring to this Office's attention all criminal conduct by, or criminal investigations of, TEXTRON or its respective senior managerial employees that comes to the attention of TEXTRON or its senior management, as well as any administrative proceeding or civil action brought by any governmental authority that alleges fraud by or against TEXTRON. It is further understood that TEXTRON shall commit no crimes whatsoever. Moreover, any assistance TEXTRON may provide to federal criminal investigators shall be pursuant to the specific instructions and control of this Office and designated investigators.

TEXTRON's obligations under this Agreement shall continue until the date upon which all prosecutions listed in, or arising out of the conduct described in, the opening paragraph of this Agreement are final, and in any case for a minimum of three years.

It is understood that TEXTRON will strengthen its compliance, bookkeeping and internal controls standards and procedures, as set forth in Appendix B.

It is understood that TEXTRON agrees to pay a monetary penalty of \$1,150,000. TEXTRON must pay this sum to the United States within ten days of executing this Agreement. TEXTRON acknowledges that no tax deduction may be sought in connection with this

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\$1,150,000 monetary penalty.

It is understood that, should TEXTRON commit any crimes subsequent to the date of signing of this Agreement, or should it be determined that TEXTRON has given false, incomplete, or misleading testimony or information, or should TEXTRON otherwise violate any provision of this Agreement, TEXTRON shall thereafter be subject to prosecution for any federal violation of which this Office has knowledge, including perjury and obstruction of justice. Any such prosecution that is not time-barred by the applicable statute of limitations on the date of the signing of this Agreement may be commenced against TEXTRON, notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the commencement of such prosecution. It is the intent of this Agreement to waive all defenses based on the statute of limitations with respect to any prosecution that is not time-barred on the date that this Agreement is signed.

It is understood that, if it is determined that TEXTRON has committed any crime after signing this Agreement, or that TEXTRON has given false, incomplete, or misleading testimony or information, or has otherwise violated any provision of this Agreement: (a) all statements made by TEXTRON to this Office or other designated law enforcement agents, including Appendix A hereto, and any testimony given by TEXTRON before a grand jury or other tribunal, whether prior or subsequent to the signing of this Agreement, and any leads from such statements or testimony, shall be admissible in evidence in any criminal proceeding brought against TEXTRON; and (b) TEXTRON shall assert no claim under the United States Constitution, any statute, Rule 410 of the Federal Rules of Evidence, or any other federal rule that such statements or any leads therefrom should be suppressed. It is the intent of this Agreement to waive all rights in the foregoing respects.

It is further understood that this Agreement does not bind any federal, state or local prosecuting authority other than this Office. This Office will, however, bring the cooperation of TEXTRON to the attention of other prosecuting and investigative offices, if requested by TEXTRON.

It is further understood that TEXTRON and this Office may disclose this Agreement to the public.

Timothy L. Dickinson, Esq.
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With respect to this matter, from the date of execution of this Agreement forward, this Agreement supersedes all prior, if any, understandings, promises and/or conditions between this Office and TEXTRON. No additional promises, agreements, and conditions have been entered into other than those set forth in this letter and none will be entered into unless in writing and signed by all parties.

Very truly yours,

STEVEN A. TYRRELL
Chief, Fraud Section

By: Robertson T. Park /MFM
Robertson T. Park
Assistant Chief, Fraud Section

Mark F. Mendelsohn
Mark F. Mendelsohn
Deputy Chief, Fraud Section

AGREED AND CONSENTED TO:

Textron Inc. [Signature]
By: Terrence O'Donnell
Terrence O'Donnell
Executive Vice President and General Counsel

8/22/07
Date

By: William M. Ellis
William M. Ellis
President, Fluid and Power Business Unit

8/22/07
Date

APPROVED:

By: Timothy L. Dickinson
Timothy L. Dickinson, Esq.
Paul Hastings Janofsky & Walker
Attorney for Textron, Inc.

8/22/07
Date

APPENDIX A

STATEMENT OF FACTS

The following Statement of Facts is incorporated by reference as part of the Agreement between the United States Department of Justice, Criminal Division, Fraud Section and Textron Inc. and its subsidiaries and affiliates, including David Brown Transmissions France S.A., David Brown France Engrenage S.A.S., and David Brown Guinard Pumps S.A.S.:

I. Relevant Parties

1. At all times relevant to the facts described herein, Textron Inc. ("Textron") was a Delaware corporation with its headquarters in Providence, Rhode Island. Textron also was an issuer as that term is used in the Foreign Corrupt Practices Act, and its shares traded publicly on the New York Stock Exchange. Textron was a global, multi-industry company that operated in four business segments. Its Industrial Segment was comprised of numerous subsidiaries, including several under the name "David Brown." Within the Industrial Segment, the David Brown subsidiaries were part of Textron's Fluid and Power Business Unit. Three David Brown subsidiaries in France sold goods to Iraq under the Oil for Food Program.

2. At all times relevant to the facts described herein, Union Pump S.A.S., formerly known as David Brown Guinard Pumps S.A.S. ("DB Guinard Pumps"), acquired by Textron in 1999, was a wholly-owned, fifth-tier French subsidiary of Textron that was part of the company's Industrial Segment. DB Guinard Pumps manufactured industrial pumps for the oil, gas and petrochemical industries. DB Guinard Pumps is located in Annecy, France.

3. At all times relevant to the facts described herein, David Brown Transmissions France S.A. and David Brown Engrenage France S.A.S. (Collectively "DB France"), acquired by

Textron in November 1998, were wholly-owned, fifth-tier French subsidiaries of Textron that were part of the company's Industrial Segment. The subsidiaries designed and manufactured industrial gears, transmissions and other items. DB Transmissions France was located in Chassieu, France. DB Engrenage France is located in Thann, France.

II. The United Nations Oil for Food Program

4. On August 2, 1990, the Government of Iraq, under the leadership of Saddam Hussein, invaded Kuwait. Four days later, the United Nations Security Council voted to enact U.N. Resolution 661, which prohibited member states from trading in any Iraqi commodities or products. The United Nations continued to enforce these sanctions until 2003.

5. On April 14, 1995, the United Nations Security Council adopted Resolution 986, which authorized the Government of Iraq to sell oil on the condition that the proceeds of all of its oil sales be deposited in a bank account monitored by the United Nations and used only to purchase designated humanitarian goods for the benefit of the Iraqi people. In May 1996, the Government of Iraq entered into a written Memorandum of Understanding to implement Resolution 986.

6. The United Nations Office of Iraq Program, Oil for Food (the "Oil for Food Program" or "the Program") was subsequently established to administer Iraq's sale of oil and purchase of humanitarian goods. A special bank account was established at a bank in New York (the "UN Escrow Account") to handle the transactions. The United Nations' economic sanctions on Iraq remained in place for all trade and transactions not authorized by the Oil for Food Program.

7. Starting in the middle of 2000, the Government of Iraq made a concerted effort to subvert the Program by demanding kickbacks from its humanitarian goods suppliers. Although contracts entered into pursuant to the Program were subject to UN review and approval, the Program gave Iraq discretion to select the companies from which it purchased goods. A humanitarian supplier would submit a bid for the sale of its goods. After the Iraqi government accepted the bid, it would require the supplier to make a payment in the form of an "After-Sales Service Fee" ("ASSF") to Iraq in order to win the contract. The Iraqi government also required the supplier to make the ASSF payment prior to the goods entering the country, or the goods could be stopped at the border until the ASSF payment was paid. These practices continued until early 2003.

8. After the United States invaded Iraq in March 2003, at the request of Iraq's provisional government, the UN ceased Iraq's ASSF scheme. The UN required that all pending contracts that had been inflated to make the ASSF payments be amended to reflect the true contract value of the goods.

III. Textron Subsidiaries Made Improper Payments to Iraq

9. The companies in Textron's Industrial Segment design and manufacture products such as industrial gears, mechanical transmission systems, industrial pumps, and valves. Textron's French subsidiaries utilized consultants in the Middle East to facilitate sales of industrial pumps and gears to Iraq under the Oil for Food Program. These subsidiaries made ASSF payments through these consultants.

A. DB Guinard Pumps Authorized Payment of Approximately \$83,000 in ASSF Payments

10. During the Program, DB Guinard Pumps conducted business in Iraq with the help of a Lebanese consulting firm (“Consultant A”). DB Guinard Pumps did not enter into a written contract with Consultant A, despite company policy that all such agreements be reduced to writing.

11. With the approval of DB Guinard Pumps’ Sales Manager for the Middle East (DB Sales Manager”), Consultant A negotiated and signed three sales contracts with Iraq’s Ministry of Oil for the sale of industrial pumps. The General Manager of Consultant A signed the sales contracts as “Commercial Manager” of DB Guinard Pumps. In connection with these contracts, DB Guinard Pumps agreed to make ASSF payments of 10% of the contract price. The sales contracts, containing prices inflated by 10% to cover the cost of the ASSF payments, were submitted to the UN for processing and approval. The contracts did not disclose that the costs of the ASSF payments were included in the inflated contract price. With the approval of the DB Sales Manager, Consultant A then entered into separate written side agreements for each sale with the Ministry of Oil. Pursuant to these side agreements, Consultant A agreed to make the ASSF payments on behalf of DB Guinard Pumps prior to receipt of the goods at Iraq’s border. Consultant A then invoiced DB Guinard Pumps for “consultation fees,” including the amount of the ASSF payments, and passed the funds along to the Government of Iraq. DB Guinard Pumps was later reimbursed for the ASSF payments when it received payment from the UN for the inflated sales contract.

12. In connection with two of the three sales contracts, DB Guinard Pumps made more than \$48,000 in ASSF payments to Iraq's Ministry of Oil through Consultant A. DB Guinard Pumps authorized, but did not pay, an additional \$35,000 in ASSF payments in connection with the third sales contract.

13. Copies of DB Guinard Pumps internal documentation forms show French management approved the ASSF payments on two of the DB Guinard Pumps transactions. Each form, known as a "Bon de Commission," was generated by DB Guinard Pumps' Finance Department and signed by the Sales and Finance Directors in Annecy. The Bon de Commission documents request authorization to pay the amount of the ASSF to the consultant. The documents contain the term "side agreement" and show that Consultant A was to receive 50% of the ASSF amount at the time a letter of credit on the UN contract was opened by the UN's bank and the remainder two weeks before delivery of the goods to Iraq. The payments of the ASSFs were described as consultation fees and recorded as commission payments to Consultant A in DB Guinard Pumps' books and records.

14. During one of DB Guinard Pumps' shipments to Iraq, the delivery of goods was held up at the Iraq border due to non-payment of the ASSF. Upon learning from the shipper of the need for proof of the payment of ASSF, an employee at DB Guinard Pumps obtained such proof from Consultant A so that the goods could be unloaded at the border. Consultant A produced to DB Guinard Pumps bank records showing that, on June 17, 2002, Consultant A transferred \$6,160.53 in ASSF payments into a Lebanese bank account in the name of an Iraqi individual.

B. DB France Authorized Approximately \$567,000 in ASSF Payments Through Its Consultant

15. During the Program, DB France conducted business in Iraq with the help of a Jordanian consulting firm ("Consultant B"). DB France did not enter into a written contract with Consultant B, despite company policy that all such agreements be reduced to writing. The Export Sales Manager for the Middle East responsible for such sales at DB France worked closely with Consultant B to negotiate business with the Iraqi government.

16. In July 2000, after learning from the Iraqi Ministry of Industry and Minerals of the new requirement that improper ASSF payments had to be made to do business in Iraq, the Export Sales Manager drafted a memorandum to Consultant B and sent copies to his supervisors in France. In the memorandum, the Export Sales Manager noted that DB France wishes "to avoid any written agreement [concerning the ASSF] with client side" and "[i]f written document cannot be avoided, this must remain highly confidential." The Export Sales Manager also noted in his memorandum that he discussed this issue with French management and received approval from his superiors to include the amount of the ASSF in the inflated contract price submitted to the UN.

17. Between January and July 2001, the Export Sales Manager signed ten sales contracts with the Iraqi Ministry of Industry and Minerals. In connection with each of these sales, DB France agreed to make ASSF payments. For each contract, the Export Sales Manager drafted a "Memorandum of Understanding" that set forth the obligations of DB France and Consultant B with respect to the ASSF payment. In connection with each of the transactions, Consultant B paid the ASSF to the relevant Iraqi Ministry from its own account. Consultant B

then invoiced DB France for "After-Sales Service Fees" in the amount of the ASSF payment. These memoranda were signed by the Export Sales Manager on behalf of DB France and by Consultant B. The payment of the ASSF was recorded as commissions to Consultant B in the books and records of DB France.

18. Prior to the March 2003 invasion of Iraq, DB France made more than \$531,000 in ASSF payments through Consultant B in connection with nine Program contracts. DB France authorized, but did not pay, an additional \$35,000 in ASSF in connection with a tenth sales contract.

IV. Textron Subsidiaries Made Other Improper Payments To Secure Business

19. Textron identified 36 transactions involving improper payments totaling \$114,995.20 in countries other than Iraq. All of these payments were made by or facilitated by Textron's "David Brown" subsidiaries in its Industrial Segment. These improper payments were similar to the ASSF payments Textron made under the Oil for Food Program, in that no bona fide services were actually performed, the payments were made to secure contracts, and the purpose of the payments was mischaracterized in the relevant company's books and records. These payments were discovered by Textron during its internal investigation into the Oil for Food payments and voluntarily disclosed to the Government.

A. David Brown Subsidiaries Made Improper Payments in the United Arab Emirates ("UAE")

20. Between 2002 and 2005, DB Guinard Pumps made 23 improper payments totaling \$20,429.06 to employees of two different oil companies, GASCO and ZADCO, which are both subsidiaries of the Abu Dhabi National Oil Company. In connection with DB Guinard Pumps'

sales to the U.A.E., approximately \$17,000 was paid to employees of GASCO, and approximately \$6,000 was paid to employees of ZADCO. In addition, David Brown Pumps Limited's representative for the UAE made an additional improper payment of \$3,000 to an employee of ADCO, which is also a subsidiary of the Abu Dhabi National Oil Company.

B. DB Guinard Pumps Made Improper Payments in Bangladesh

21. From 2001 to 2005, a representative engaged by DB Guinard Pumps made seven payments totaling approximately \$16,342.14 to two "friends" employed by a government-owned fertilizer company in Bangladesh in connection with the sale of spare parts to the fertilizer company.

C. David Brown Union Pump's Representative in Indonesia Made an Improper Payment

22. David Brown Union Pump, now known as Union Pump, used an Indonesian representative to sell spare parts to Pertamina, an Indonesian government entity. The total contract price for this transaction was \$321,171, with approximately \$149,000 allocated for after-sales services. Thus, almost half of the contract value was for after-sales services, which was highly unusual. Under the terms of the agreement, the representative would provide after-sales services on the goods, the cost of which was included in the price to Pertamina. In January 2002, the representative was paid \$149,822, including a commission of \$17,250 with the remainder allocated for after-sales service fees.

23. From his fee, the representative paid approximately \$10,000 to a procurement official at Pertamina to help sponsor a golf tournament. There are some receipts concerning the tournament sponsorship and very little documentation to show what the representative actually

did with the remainder of the funds allocated for after-sales services.

D. David Brown Engineering's Representative Made Improper Payments in Egypt and India

24. In 2004, David Brown Engineering's representative in Egypt made three improper payments totaling approximately \$13,354 to an employee of a government customer in connection with the sale of gears and parts. The payments were described as "commissions" on sales of spare parts, and recorded as commissions.

25. In 2002, David Brown Engineering's representative in India made an improper payment totaling approximately \$51,870 to an employee of a non-government customer to secure business. The payment was described as a "commission," and recorded as a commission.

APPENDIX B

Textron Inc. ("TEXTRON") has a long-standing compliance program that includes Foreign Corrupt Practices Act ("FCPA") compliance measures. Nevertheless, TEXTRON shall implement the following internal controls, where not already in place, with particular attention to the David Brown subsidiaries in the Fluid and Power Business Unit:

1. Maintain and augment its system of internal accounting controls to ensure the making and keeping of accurate books, records and accounts; and
2. Maintain and augment its anti-corruption compliance policy ("Compliance Policy"), as described further below, to detect and deter violations of the FCPA and other applicable anti-corruption laws. The Compliance Policy of TEXTRON, which presently consists of the Business Conduct Guidelines and the FCPA Compliance Guide, shall apply to all directors, officers, employees and, where appropriate, business partners, including, agents, consultants, representatives, distributors, teaming partners, joint venture partners and other parties acting on behalf of TEXTRON in a foreign jurisdiction ("Business Partners"), and shall include, among other elements, the following:
 - a. A clearly articulated corporate policy against violations of the FCPA and other applicable laws, including U.S. commercial bribery laws and foreign anti-corruption laws;
 - b. Compliance standards and procedures that are reasonably capable of reducing the prospect of violations of the FCPA and other applicable anti-corruption laws;
 - c. Senior corporate officials of TEXTRON will retain responsibility for the implementation and oversight of compliance with policies, standards, and procedures established in accordance with the Compliance Policy of TEXTRON and report directly to the Audit Committee of the Board of Directors;

d. Periodic compliance communications to all appropriate directors, officers, employees and Business Partners concerning the requirements of the FCPA and other applicable anti-corruption laws, as well as corporate and compliance policies, standards, and procedures regarding the FCPA and other applicable anti-corruption laws (and periodic certifications certifying compliance therewith);

e. Continuation of a reporting system, including a "Helpline," for directors, officers, and employees, and, where appropriate, communication of the reporting system or "Helpline" to Business Partners to report suspected violations of the Compliance Policy or suspected criminal conduct;

f. A policy requiring appropriate discipline to address violations of the Compliance Policy, the FCPA, and other applicable anti-corruption laws, and procedures to implement such a policy;

g. Extensive pre-retention due diligence requirements pertaining to, as well as post-retention oversight of, Business Partners, including the maintenance of complete due diligence records at TEXTRON;

h. Corporate procedures designed to ensure that TEXTRON exercises due care to assure that substantial discretionary authority is not delegated to individuals whom TEXTRON knows, or should know through the exercise of due diligence, have a propensity to engage in illegal or improper activities;

i. Standard provisions in agreements, contracts, and renewals thereof with all Business Partners that are reasonably calculated to prevent violations of the FCPA, other applicable anti-corruption laws and other relevant laws, which may, depending upon the circumstances, include: (1) anti-corruption representations and undertakings relating to

compliance with the FCPA and other applicable anti-corruption laws; (2) rights to conduct audits of the books and records of the Business Partner to ensure compliance with the foregoing; and (3) rights to terminate a Business Partner as a result of any breach of anti-corruption laws and regulations or representations and undertakings related to such matters.