

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 14 April 2021¹

RESILIENCE FRAMEWORK

KAZAKHSTAN

AIR ASTANA

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

As permitted by paragraph 2.6 of Section III of the Access to Information Policy, disclosure of this Board Report was deferred.

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ABBREVIATIONS / CURRENCY CONVERSIONS

AESR	Annual Environmental and Social Report
ASK	Available Seat Kilometres
C-checks	Extensive periodic checks for aircrafts requiring a large majority of the aircraft's components to be inspected
Capex	Capital Expenditure
CIS	Commonwealth of Independent States
CFO	Cash Flows from Operations
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
COVID-19	Coronavirus Disease 2019
CPs	Conditions Precedent
CSR	Corporate Social Responsibility
DSCR	Debt Service Coverage Ratio
EASA	European Union Aviation Safety Agency
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EBITDAR	Earnings Before Interest, Taxes, Depreciation, Amortisation and Rent
EASA	European Aviation Safety Agency
ESAP	Environmental and Social Action Plan
ESD	Environmental and Social Department
ESDD	Environmental and Social Due Diligence
ETS	Emission Trading System
EU	European Union
EUR	Euro
E&S	Environmental and Social
GBVH	Gender Based Violence and Harassment
GDP	Gross Domestic Product
HSE	Environment, health, and safety
IATA	International Air Transport Association
IFRS	International Financial Reporting Standards
IOSA	IATA Operational Safety Audit
JSC	Joint Stock Company
KZT	Kazakhstan Tenge
NWF	National Welfare Fund
OCCO	Office of the Chief Compliance Officer
OHSAS	Occupational Health and Safety Assessment Series
PAX	Passengers
PLC	Publicly Listed Company
PR	Performance Requirement
PTI	Portfolio Transition Impact (score)
RPK	Revenue Passenger Kilometres
RUB	Russian Rouble
SAF	Sustainable Aviation Fuels
SDG	Sustainable Development Goal
SEP	Stakeholder Engagement Plan
SPGE	Strategy for the Promotion of Gender Equality
TC	Technical Co-operation
TI	Transition Impact
USD	US Dollar
UN	United Nations
URP	Unfunded Risk Participation

CURRENCY CONVERSIONS

As of 3 of March 2021

1 USD = 420.65 KZT

1 EUR = 1.21 USD

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of JSC Air Astana (the “Company”), a joint stock company incorporated in Kazakhstan, are submitted for consideration by the Board of Directors under the Resilience Framework.

The facility will consist of a multi-currency loan to the Company in the amount of up to USD 50 million (EUR 41.3 million equivalent), which can be disbursed in KZT, RUB and USD.

The financing will be provided in two tranches (i) to support the Company, Kazakhstan’s flag carrier, in managing [REDACTED] the COVID-19 outbreak and subsequent restrictions on air traffic movements and (ii) to acquire flight simulation equipment. The transition impact under the previous operation with the Company focused on expanding Kazakhstan’s aircraft maintenance market and the transferability of highly specialised maintenance and engineering skills. The proposed new facility aims to preserve and further the transition impact through developing the Company’s capabilities to carry out more complex maintenance checks (C-checks) and by facilitating the transfer of top-tier engineering and maintenance skills. It will place special emphasis on increasing women’s participation in these training programmes and consequent representation in such roles.

I am satisfied that the operation is consistent with the Bank’s Strategy for Kazakhstan , the Transport Sector Strategy , the Economic Inclusion Strategy , the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

KAZAKHSTAN – RF: Air Astana - DTM 52461 Resilience Framework - DTM 51974	
Transaction / Board Decision	Board approval ² is sought for a senior loan of up to USD 50 million (EUR 41.3 million equivalent) under the Resilience Framework in favour of JSC Air Astana (Air Astana or the “Company”), a joint stock company incorporated in Kazakhstan. The loan will be split into two tranches with the first tranche (of up to USD 35 million (EUR 28.9 million)) being committed and the second tranche (up to USD 15 million (EUR 12.4 million)) being uncommitted. Approval of commitment of the second tranche is proposed to be delegated to Management.
Client	JSC Air Astana is the Republic of Kazakhstan’s flag carrier. It is 51 per cent owned by NWF Samruk-Kazyna, the sovereign wealth fund, and 49 per cent by BAE Systems. In 2020, it had revenues of USD 399 million and EBITDA of USD 29 million. The airline operates one of the youngest fleets in the region, consisting of 35 Western-built aircraft with an average age of 6.5 years.
Main Elements of the Proposal	<p><u>Transition impact:</u> <i>Market expansion/Increased competition</i> – extending the capacity of technical maintenance centre developed under a previous project by introducing a more complex level of aircraft maintenance checks (C-checks) and preserving third party access to maintenance and training facilities; <i>Skills transfer</i> - facilitating the transfer of top-tier engineering and maintenance skills. This will place special emphasis on the representation of women in such roles through introducing a gender-aware approach to the planning and delivery of i) capacity-building programmes for the workforce and ii) outreach activities for educational institutions and communities to promote employment and careers in the Company and the sector.</p> <p>The proposed facility supports preserving the TI gains achieved to date.</p> <p><u>Additionality - COVID-19 crisis response:</u> The Bank’s financing effectively bridges a financing gap caused by adverse market conditions. [REDACTED] Likewise, the project introduces additional gender-sensitive benchmarks, which will facilitate empowering women in engineering and technical roles.</p> <p><u>Sound banking:</u> The transaction is compliant with the Sector Risk Guidance for Transport Project Finance and due diligence confirmed that the project complies with the EBRD’s sound banking principles.</p>
Key Risks	<p>The Company operates in a very competitive market and runs <i>market risk</i> with volumes in the normal course of business. This commercial risk was further heightened as a result of the <i>COVID-19 pandemic</i>.</p> <p><u>Risk mitigant:</u> Globally, the Company is one of the most cost-efficient airlines, demonstrating flexibility and resilience against external shocks, including the COVID-19 pandemic.</p> <p><i>Fuel expenses</i> are one of the Company’s major costs. Therefore, any positive or negative fluctuations in oil prices may represent a material risk.</p> <p><u>Risk mitigant:</u> Fuel price risk is partially hedged against using financial derivatives in the oil and petroleum market in line with the Company’s fuel hedging policy. To reduce its overall fuel consumption, the Company has added newer, more fuel-efficient aircraft to its fleet in recent years.</p>
Strategic Fit Summary	The operation is consistent with the Bank’s Strategy for Kazakhstan; the Bank’s Transport Sector Strategy , focusing on achieving “ <i>gender equality and economic inclusion through increased access to employment and skills</i> ”. It is also consistent with the Economic Inclusion Strategy . The operation also contributes to a host of UN Sustainable Development Goals (SDGs), namely: SDG 4: Quality Education, SDG 5: Gender Equality, SDG 8: Decent Work and Economic Growth, SDG 9: Industry, Innovation and Infrastructure, and SDG 10: Reduced Inequalities.

² Article 27 of the AEB provides the basis for this decision.

SUMMARY TERMS FACTSHEET

Transaction and purpose of financing / use of proceeds	A senior loan of up to USD 50 million (EUR 41.3 million equivalent) consisting of two tranches, for disbursement in one of the following currencies: KZT, RUB and USD. Tranche 1 (committed) - USD 35 million for working capital needs, including payroll, operating and maintenance expenses. Tranche 2 (uncommitted) - USD 15 million for purchasing flight simulation equipment and associated investments.
AMI Eligible Financing	None.
Borrower	JSC Air Astana is incorporated in Kazakhstan and is the country's flag carrier.
Ownership structure	Air Astana is 51 per cent owned by JSC National Welfare Fund Samruk-Kazyna and 49 per cent by BAE Systems PLC, a British aerospace, defence and security company; please refer to Annex 3 for more details.
Guarantor (if any)	None.
Business model of the Borrower	<ul style="list-style-type: none"> - The Company provides scheduled domestic and international passenger services. Other business activities include freight and mail transportation; - The Company has received a Skytrax "4 Star" service excellence rating and the title of "Best Airline in Central Asia and India" for eight consecutive years; - For the last five years, Air Astana has been successfully developing two regional hubs in Almaty and Nur-Sultan to connect Asia, Europe and the CIS by offering full-service connections within one of the lowest cost structures globally. - As the COVID-19 pandemic continues to change the airline sector, Air Astana is putting its post-crisis focus on Kazakhstan's domestic market, reshaping its international network with increased focus on point-to-point and leisure routes.
Market/Sector	<ul style="list-style-type: none"> - With the launch of its low-cost arm, FlyArystan, Air Astana's share in the price sensitive domestic market increased from 49 per cent in 2018 to 59 per cent in 2019. By comparison, its closest competitor, SCAT Airlines, accounts for 17 per cent market share. [REDACTED] - In 2019, Air Astana captured 36 per cent market share in international traffic, followed by Russia's Aeroflot (15 per cent) and local player, SCAT Airlines (7 per cent). - In 2020, passenger traffic halved due to the COVID-19 pandemic. Domestic traffic continues to experience an accelerated recovery while international flights remain limited due to capacity restrictions. However, international flights are operational to Turkey, Germany, the Netherlands, Russia, Uzbekistan, Kyrgyzstan, South Korea, UAE, Ukraine, Belarus, Egypt, the Maldives and Sri Lanka.
Existing Exposure	None. In 2015, EBRD provided a loan to the Company, which was fully prepaid on 30 September 2020. [REDACTED]
Maturity / Exit / Repayment	The loan will be provided for up to three years [REDACTED].
Interest payment	[REDACTED]
Conditions to subscription / disbursement	To be aligned with the precedent loan documentation [REDACTED].
Key Covenants	[REDACTED]
Security / Guarantees	[REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	None.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. IMPACT OF COVID-19 ON THE BORROWER / SPONSOR

Kazakhstan declared a state of emergency on 15 March 2020, introducing lockdowns in Nur-Sultan, Almaty and other cities that affected households and businesses. The state of emergency ended on 11 May 2020 and the lockdowns were gradually relaxed. To date, they have not been completely lifted amid remaining uncertainty, including the potential for new waves and strains of COVID-19.

In turn, restrictions introduced by the Government of Kazakhstan led to the vast majority of domestic and international flights being suspended, forcing the Company to ground almost its entire fleet for over two months. [REDACTED]. With the partial lifting of the initial restrictions, the recovery of domestic and a limited number of international destinations has been reasonably strong. However, a lot of uncertainty remains. Post-pandemic guidance for airlines keeps changing and destinations experiencing increases in cases of COVID-19 are immediately faced with new requirements and travel restrictions.

2. TRANSITION IMPACT AND MEASURING AND MONITORING SUCCESS

The previous operation's TI agenda focussed on, among others, supporting market expansion and competition, resulting from developing the region's aircraft maintenance market. Additionally, the project facilitated the transfer of highly specialised skills; internally by providing training through Air Astana's educational centre and externally through internationally accredited schools for engineers and technicians, allowing them to obtain EASA certification. The Company achieved all TI benchmarks; project monitoring closed in 2019 with a final PTI score of 90 [REDACTED].

The proposed working capital facility under the Resilience Framework supports preserving the TI gains achieved to date, as well as extending the previously developed technical maintenance centre's capacity. It does this by introducing more complex aircraft maintenance checks (C-checks) and developing training opportunities with particular focus on increasing women participation in skills improvement programs. Additionally, the project will support third parties' continued access to maintenance and training facilities.

Increased use of the technical centre would ensure the retention of highly-specialised and certified employees in the Company and in the market. To achieve higher participation of women, the Company will introduce a gender-aware approach to the planning and delivery of (i) workforce capacity-building programmes in engineering and technical roles to support women employees, as there were no women participants in previous training programmes and women only hold a quarter of engineering and technical roles; (ii) outreach activities for educational institutions and wider communities to promote employment and career opportunities in the Company and wider sector among girls.

Likewise, the flight simulator financing facility would strengthen the Company's capacity for providing its pilots with full-scale, world-class training. Furthermore, it would create the opportunity for external regional pilots to obtain high quality training and expertise, and ensure continued upgrading of their skills, despite COVID-19-related restrictions on international travel.

[REDACTED]

The latest TIMS report is presented in **Annex 2**.

Delivery risks centre around business sustainability and reversal of achieved transition impacts due COVID-19's significant impact on the Company's operations.

3. ADDITIONALITY

EBRD financing is provided in the extraordinary circumstances of the COVID-19 crisis. Specific triggers for the Enhanced Additionality Approach will not apply.

Additionality sources

COVID-19 crisis response: EBRD financing effectively bridges a liquidity gap due to adverse market conditions, e.g. the COVID-19 crisis. Moreover, the project envisions additional gender-sensitive benchmarks, which will be monitored throughout the project's life cycle.

Additionality Description

The Bank's quick response, in the form of a medium-term facility, is essential for supporting Air Astana's financial security as a key air transportation provider, as well as its smooth recovery from the pandemic. Given that the loan will be provided for up to three years, the EBRD's presence as a lender in the turbulent post-COVID period will provide additional credibility to other lenders and lessors.

[REDACTED]. The three-year tenor is crucial for Air Astana to recover from the consequences of the pandemic as it expects to return to its regular cash-generating capacity by 2023-2024.

4. SOUND BANKING

4.1 KEY RISKS

Risks	Probability / Effect	Comments (including and focusing on the COVID-19 impact on the risk factors)
Market risk	Medium/High	<p>The Company operates in a very competitive market and runs market risk with volumes in the normal course of business. This commercial risk was further heightened as a result of the COVID-19 pandemic.</p> <p><i>Risk mitigant: The Company possesses one of the lowest cost structures of the world's major airlines. This enables the Company to preserve profitability and deliver growth against tough economic and operational headwinds. During the COVID-19 pandemic, the Company demonstrated its resilience and flexibility to quickly fit into the new market profile. For instance, Air Astana managed to re-focus on domestic traffic, commencing new leisure routes, and converted three long haul aircraft into semi-cargo planes in response to demand for regional freight transportation.</i></p>
Fuel price risk	Medium/High	<p>Fuel expenses are one of the Company's major costs. Therefore, any positive or negative fluctuations in oil prices may represent a material risk.</p> <p><i>Risk mitigant: The Company negotiates prices for locally sourced fuel on a competitive basis with Kazakhstani suppliers. For fuel bought outside Kazakhstan, price risk is partly hedged</i></p>

		<i>against using financial derivatives in the oil and petroleum market in line with the Company's fuel hedging policy. To reduce its overall fuel consumption, the Company has added newer, more fuel-efficient aircraft to its fleet in recent years.</i>
Macroeconomic risks	Low/Medium	<p>The Company's operational results are influenced by the general economic conditions in Kazakhstan. The COVID-19 pandemic occurred at a time of decelerating global growth and will bring further deceleration, or even contraction, of the Kazakhstan economy through external shocks and domestic containment measures.</p> <p><i>Risk mitigant:</i> This is a systematic risk that affects all sectors of the country's economy. In the short and medium term, Kazakhstan's economy is expected to remain relatively resilient to external shocks (lower commodity prices, lower demand for its exports, and disruptions to value chains linkages) due to significant fiscal buffers. [REDACTED]. In turn, the World Bank expects Kazakhstan's economy to grow by 2.5 per cent in 2021 and 3.5 per cent in 2022.</p>

4.2 ANALYSIS

[REDACTED]

Sustainability of the business model:

- As the coronavirus pandemic continues to reshape the airline sector, Air Astana has placed its post-crisis focus on the Kazakh domestic market and has restructured its international network with increased focus on point-to-point and leisure routes.
- Air Astana's newly-established low-cost subsidiary, FlyArystan, demonstrates sound performance. [REDACTED]
- In terms of point-to-point leisure traffic, Air Astana commenced new charter routes to the Maldives, Sri Lanka and Egypt, and is gradually increasing its capacity in markets with already established traffic, such as Turkey, Russia, Germany, South Korea and Uzbekistan.
- As part of its restructuring to adapt to the COVID-19 crisis, Air Astana brought forward the retirement of older Boeing 757s and Embraer 190 aircraft. It replaced them with new fuel-efficient Airbus NEOs and Embraer E2s, as it continues to adapt its fleet requirements to the new market environment.
- Unlike large airlines, operating a vast majority of long-haul intercontinental routes, Air Astana managed to quickly fit its business model into the new market profile. [REDACTED] This is expected to improve as restrictions on international travel are gradually eased.
- [REDACTED] international traffic continues to experience stable recovery on the back of gradual lifting of restrictions on international travel.
- Air Astana's post-pandemic business model will have a flexible approach to international markets and will avoid a complex business model until the situation returns to normal.

Liquidity analysis:

- Air Astana went into the crisis in good financial shape with a strong liquidity position. [REDACTED]
- Depending on the pandemic's trajectory, during 2021 Air Astana's liquidity is envisioned to remain affected by the ongoing pandemic, with gradual improvements appearing from

2022. This would restore the Company's capacity to cover operational costs and to service lease and debt repayments.

[REDACTED]

5. OTHER KEY CONSIDERATIONS

5.1 ENVIRONMENT

Categorised B (2019 ESP). Environmental and Social due diligence (ESDD) has been undertaken in-house in line with the ESD's response to COVID-19 and consisted of a review of the Corporate and COVID-19 Questionnaires and supporting documentation, a review of the Company's CSR report, as well as the 2019 AESR for the previous transaction. As the use of proceeds is for working capital and purchase of a flight simulation equipment and not to be directed to specific physical assets, the project is not expected to result in additional E&S impacts nor additions to the physical footprint of the Company's operations. The Company will be required to align its corporate environmental and social management systems with the Bank's Performance Requirements (PRs) through the implementation of an Environmental and Social Action Plan (ESAP).

ESDD findings show that the Company follows national regulations, and an environment, health, and safety ("HSE") management system is reported to be in place. The Company has set requirements for suppliers to comply with national environmental protection and labour protection standards. A Code of Conduct (2019) is publicly available and applies also to non-employees where applicable. Air Astana is OHSAS 18001 certified and has an Occupational Health, Safety and Environmental Protection policy. IATA Operational Safety Audit (IOSA) is conducted every two years; the last audit was successfully completed with zero findings. Industrial waste is collected and disposed by specialised organisations. Once a year, the Company submits a report on hazardous waste and greenhouse gas inventory to Authorities. On a yearly basis, Air Astana provides reports on EU Emission Trading System (ETS) and Carbon Offsetting and Reduction Scheme for International Aviation (CORSA) to an independent audit agency; after the independent audit, the reports are submitted to the German Emissions Trading Authority.

Previous due diligence and the corporate questionnaire confirm that the Company's activities are largely aligned with the requirements of PR2. The Company, however, is lacking a policy to address risks of Gender Based Violence and Harassment (GBVH). The Company has a 'speak up' policy to address complaints from workers and the public, however, the role of the mechanism in addressing labour-issues and situations of GBVH is not clear in the documentation provided.

The COVID-19 pandemic has resulted in cuts to most international and domestic flights. As a cost saving measure, the majority of the workforce were placed on temporary paid leave at 50 per cent of their regular salaries. As of February 2021, over 60 per cent of employees have returned to full-time work [REDACTED]. The review of the COVID-19 questionnaire confirmed that measures are in place to limit the spread of COVID-19 (such a minimum presence of workforce, with mandatory measures relating hygiene and physical distancing). Currently the Company has no formalised Stakeholder Engagement Plan (SEP) but have an online customer feedback mechanism in place. A Corporate Sustainability Summary Report is published yearly.

An ESAP is under preparation and will be added to the existing 2015 ESAP. The additional ESAP items will include development of a Sexual Harassment Policy, and modification of the worker grievance mechanism to address labour issues and GBVH. It will be agreed before

Board. The Bank will monitor the Company's environmental and social performance in accordance with the Bank's PR's through review of reports and monitoring visits as required.

5.2 INTEGRITY

In conjunction with OCCO, an update of the integrity review was performed. The review [REDACTED] concluded that [REDACTED] the project does not pose an unacceptable reputational risk to the Bank. [REDACTED] EBRD's former Managing Director, Janet Heckman, currently serves as Air Astana's independent Board member. Janet obtained the necessary management approval prior to joining the Company's Board. Janet recused herself during the cooling off period from all EBRD-related issues, including from discussions on the current project, and the cooling-off period has now lapsed.

All actions required by the applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

PUBLIC

ANNEXES TO OPERATION REPORT

ANNEX 1	HISTORICAL FINANCIAL STATEMENTS
ANNEX 2	TIMS ANALYSIS
ANNEX 3	SHAREHOLDING STRUCTURE

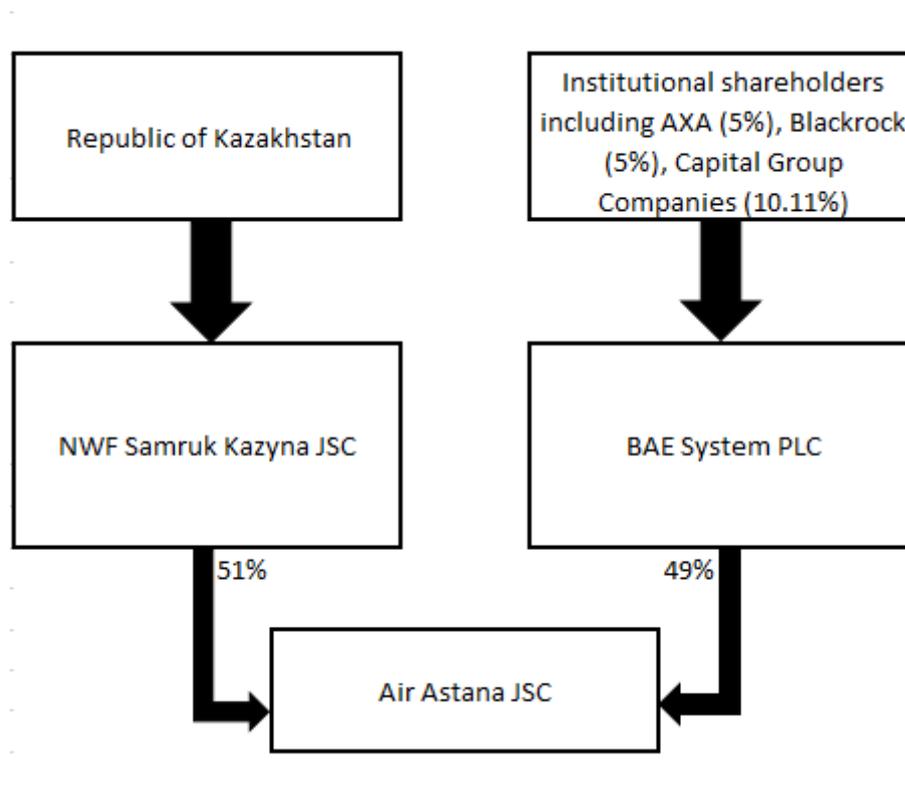
ANNEX 1 – HISTORICAL FINANCIALS

[REDACTED]

ANNEX 2 – LATEST TIMS ANALYSIS

The previous operation's TI agenda focussed on supporting market expansion and competition, resulting from developing the region's aircraft maintenance market. Additionally, the project facilitated the transfer of highly specialised skills; internally by providing training through Air Astana's educational centre and externally through internationally accredited schools for engineers and technicians, allowing them to obtain EASA certification. The Company achieved all TI benchmarks; project monitoring closed in 2019 with a final PTI score of 90 [REDACTED].

ANNEX 3 - SHAREHOLDING STRUCTURE



Samruk-Kazyna National Welfare Fund (51%)	BAE Systems PLC (49%)
<ul style="list-style-type: none"> ▪ Samruk-Kazyna National Welfare Fund manages government-owned assets and controls shares of national companies and financial development institutions. ▪ The fund's key objective/principles include: <ul style="list-style-type: none"> ▪ develop and ensure implementation of regional, national and international investment projects ▪ support and modernize existing assets of Samruk-Kazyna ▪ support regional development, implementation of social projects, and to support national producers ▪ safeguarding interests of the state and promote transparency, efficiency and flexibility of Samruk-Kazyna and owned companies ▪ systematic and effective manner of decision-making and execution and commitment and accountability ▪ The fund's key subsidiary companies: <ul style="list-style-type: none"> ▪ KazMunaiGas, Kazakhstan Temir Zholy, KazAtomProm, Kazpost, Kazakhtelecom, Kazakhstan Engineering KEGOC, Kazakhstan Development Bank, Samruk-Energy etc. 	<ul style="list-style-type: none"> ▪ BAE SYSTEMS PLC is a global company engaged in the development, delivery and support of advanced defense and aerospace systems. ▪ The company was very hands on in the start-up phases of Air Astana and provided various engineering, technical, and fleet planning, support. ▪ It remains actively involved in the airline's management decisions through its two board of director seats which are currently filled by the company's Group Treasurer and Commercial and Procurement Director. ▪ It is the world's 3rd largest global defense company. ▪ BAE has customers in more than 100 countries. ▪ The Company patents more than 100 new inventions every year.