

Northrop Grumman: Statement of Principles for Global Ethical Procurement

Living our values in our supply chain

Preface

The following Northrop Grumman Statement of Principles for Global Ethical Procurement (Principles) is meant to be used by the International Subsidiaries of Northrop Grumman with their suppliers. The intent is for the Principles to act as guidelines and best practices, but not form part of the legally binding terms and conditions. The Principles do not replace your terms and conditions nor do they replace any Northrop Grumman Policies and Procedures.

By providing these Principles to our suppliers NG is making a statement. It is saying that it does have principles, which it expects its suppliers to adhere to. It is also sending a message to suppliers in developing countries, where such practices may be new, but where they can be seen as positive goals. As a global company NG can point to these Principles as being something it strives for and encourages its suppliers to adopt and practice.

What you are requested to do is to include these Principles when first dealing with a particular supplier, or where a relationship already exists, to send a copy to that supplier. Please ask for an acknowledgement of receipt that can be kept on file. The Procurement Department should keep a list of all suppliers to whom a copy of the Principals has been sent and ensure that this covers all active suppliers throughout the Company, as there may be other Departments that also procure goods or services. The provision of the Principles to all suppliers should be renewed on an annual basis, preferably at the beginning of each calendar year, in order to remind supplier of the Principles.”

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Our Vision

Our vision is to be the most trusted provider of systems and technologies that ensure the security and freedom of our nation and its allies. As the technology leader, we will define the future of defence – from undersea to outer space, and in cyberspace.

We will:

- Conduct ourselves with integrity and live our Company Values
- Deliver superior program performance
- Foster an internal environment of innovation, collaboration, and trust

In so doing, Northrop Grumman will become our customers' partner of choice, our industry's employer of choice, and our shareholders' investment of choice.

Our values

We, the women and men of Northrop Grumman, are guided by the following Values. They describe our company as we want it to be. We want our decisions and actions to demonstrate these Values. We believe that putting our Values into practice creates long-term benefits for shareholders, customers, employees, suppliers, and the communities we serve.

WE TAKE RESPONSIBILITY FOR QUALITY...

Our products and services will be "best in class" in terms of value received for dollars paid. We will deliver excellence, strive for continuous improvement and respond vigorously to change. Each of us is responsible for the quality of whatever we do.

WE DELIVER CUSTOMER SATISFACTION...

We are dedicated to satisfying our customers. We believe in respecting our customers, listening to their requests and understanding their expectations. We strive to exceed their expectations in affordability, quality and on-time delivery.

WE PROVIDE LEADERSHIP AS A COMPANY AND AS INDIVIDUALS...

Northrop Grumman's leadership is founded on talented employees effectively applying advanced technology, innovative manufacturing and sound business management. We add more value at lower cost with faster response. We each lead through our competence, creativity and teamwork.

WE ACT WITH INTEGRITY IN ALL WE DO...

We are each personally accountable for the highest standards of behaviour, including honesty and fairness in all aspects of our work. We fulfil our commitments as responsible citizens and employees. We will consistently treat customers and company resources with the respect they deserve

WE VALUE NORTHROP GRUMMAN PEOPLE...

We treat one another with respect and take pride in the significant contributions that come from the diversity of individuals and ideas. Our continued success requires us to provide the education and development needed to help our people grow. We are committed to openness and trust in all relationships.

WE REGARD OUR SUPPLIERS AS ESSENTIAL TEAM MEMBERS...

We owe our suppliers the same type of respect that we show to our customers. Our suppliers deserve fair and equitable treatment, clear agreements and honest feedback on performance. We consider our suppliers' needs in conducting all aspects of our business.

Introduction

What is this policy designed to do?

We at Northrop Grumman strive to operate our business to the highest ethical standards. Through our ethics programme, and our network of Business Conduct Officers, we provide guidance to all our colleagues on these issues, and investigate circumstances where we have fallen short of our ideals.

For many years we have worked closely with our local suppliers to ensure that they too meet high standards of ethics and business conduct. Increasingly however, our businesses now procure goods and services from a significant range of countries around the world. As a result, we are encountering a wider and more complex set of ethical and business conduct issues which we need to address effectively.

Suppliers' performance on ethical and business conduct issues will form a key part of our decisions about the suppliers we use. It is our aspiration that our suppliers' standards on these issues are as rigorous as our own. This policy sets out the standards that we encourage our suppliers to meet on a range of issues.

Who is this policy to be used by?

This policy is aimed at two groups.

1. Firstly, it is designed to make clear to those of our colleagues who make procurement decisions the ethical and business conduct issues that they need to take into consideration when selecting suppliers, or when placing orders.
2. Secondly, it is intended to make clear to our suppliers globally the standards which we expect them to meet.

How we will work with our suppliers

Our commitment to our suppliers

As our corporate values make clear, we owe our suppliers the same type of respect that we show to our customers. They deserve fair and equitable treatment, clear agreements and honest feedback on performance. Therefore, in implementing this policy, we make the following commitments to our suppliers:

We will not hold suppliers to higher standards than for our own operations

We recognise that managing ethical and business conduct issues is complex and we are constantly striving to improve our performance in our own operations. We will not expect more of our suppliers than we expect of our own businesses.

We will manage conflicts

As we procure from more and more varied countries, we understand that there will sometimes be conflicts, for example between different legal codes, or between different cultural expectations. We are committed to working with our suppliers to resolve these issues when raised with us. It is therefore important that such issues are raised with us in a clear and effective manner as soon as they are identified by the supplier [Donna this is an appropriate place to insert contact details].

We accept the challenge of emerging markets

We also recognise that we are increasingly procuring goods and services from a number of emerging markets where prevailing working conditions, labour practices, and corruption are very different from those we are used to. This does not prevent us from working towards our policy goals, even though this may take time. We will co-operate with our suppliers and others to assist in making change happen.

We seek to work with our suppliers

This policy is not intended to put inappropriate pressure on our suppliers. Rather, it is intended to promote co-operation with our suppliers. We will not reject suppliers solely because they present ethical or business conduct challenges, but only if they refuse to address these. Where problems are identified, we will work with our suppliers to develop remedial programmes to put things right, and to define clear timetables for action.

What we require of our suppliers

Awareness

This policy seeks to inform our supply chain throughout the world, and as such is couched in general terms. We expect our suppliers to take it upon themselves to understand the implications of this policy in the places where they operate and proactively to raise issues of concern with us, in a timely and comprehensive manner.

Transparency and access to information

In order to understand how our suppliers are performing, we expect them to provide us or our representatives with reasonable access to all work sites and to all relevant information, to co-operate with us and to use reasonable endeavours to ensure that their sub-contractors do the same.

Working with us

Where issues of concern emerge, we require our suppliers to work with us to put them right. We therefore not only need our suppliers to be transparent with us in identifying issues of possible concern, but also to work with us to develop and implement remedial plans to put things right, in a timely manner.

Aspire to improve performance

Over time, we want our suppliers to aspire to performance in line with the following standards:

- Demonstrate responsible environmental performance in line with ISO 14001
- Apply rigorous health and safety standards in line with OHSAS 18001
- Permit workers' freedom of association and right to collective bargaining.
- Not to discriminate on any basis, including gender, race, colour or religious creed.

We do not tolerate, and want our suppliers to aspire to performance in line with, the following standards:

- The use of child labour.
- The use of forced and bonded labour.
- The trafficking in persons.
- Not to pay a 'living wage' and/or not limiting the amount of hours worked by each employee to acceptable maximums.

Principles underlying this policy

The stipulations of this policy are derived from a number of sources, which include the following:

US law

As an American-headquartered corporation, Northrop Grumman is bound by US legislation, in particular those laws which have extra-territorial jurisdiction. These include, without limitation, the Foreign Corrupt Practices Act, the Alien Tort Claims Act and the US PATRIOT Act.

Existing Northrop Grumman policy

Whilst this policy introduces some new issues that our procurement colleagues need to be aware of, much of it restates policy that has been in place for a significant period of time. This policy is therefore guided by existing policies, and should be read in conjunction with these. Relevant policies are available on the Oasis website.

Laws of other countries where we operate

We operate in a wide range of countries around the world, and are bound by the legal frameworks of those countries. We expect our suppliers also to obey the laws of the countries where they operate. Where conflicts arise between different legal jurisdictions, these should be identified, and we will work with our suppliers and local colleagues to find an acceptable way forward.

International conventions and agreements

The United States, EU nations and other countries are signatories to a range of international conventions and agreements that make clear the behaviours that are considered acceptable by the international community. These include standards such as the Universal Declaration of Human Rights and the OECD Anti-Bribery Convention. Such agreements may or may not have the force of law in different countries, however they send a powerful message about how all of us ought to behave. They are therefore fundamental to the stipulations of this policy.

International standards

On some issues, international standards have been developed that set out clearly what is regarded as best business practice. These include ISO 14001 on environmental management and OHSAS 18001 on health and safety.

Business conduct, transparency and avoidance of bribery

We expect our customers to select our products because of quality, service, and price. We conduct our business in an open and above-board manner and we do not seek any improper influence. We expect our suppliers to act in the same manner in relation to us and our staff, and in relation to third parties they deal with on our behalf.

Key guidance documents

Foreign Corrupt Practices Act

This act prohibits payment or offering anything of value directly or indirectly to a foreign government official, political party, party official or candidate for the purpose of influencing an official act of the government or party in order to obtain an improper business advantage.

The OECD Anti-Bribery Convention

This convention of the Organisation of Economic Co-operation and Development came into effect in 1999. Its full title is the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Its aim is to reduce corruption in all signatory countries by encouraging legal sanctions against bribery in international business.

Policy principles

Gifts and entertaining

While cultivating friendly, professional relationships with our suppliers, we maintain an honest, objective and efficient procurement process. We must avoid even the appearance of improper conduct in all our business dealings. Anyone associated with Northrop Grumman and members of their immediate families may not solicit nor accept gifts, payment or gratuities from our suppliers. Suppliers should refrain therefore from offering gifts, payments or gratuities to our employees.

Whilst we cannot dictate that our supplier companies adopt the same approach, we would encourage them to accept or give gifts or entertainment that are for business purposes only and are not material or frequent. It must be clear that gifts or entertaining should not be given or received on such a scale that they form an inducement to do business which may not otherwise be undertaken.

Payments to officials

It is strictly forbidden for Northrop Grumman, its businesses, their respective officers and employees, or anyone acting on their behalf to offer, promise, or pay anything of value to a public official to influence or reward any action by that official. It is therefore strictly forbidden for our suppliers to offer, promise or pay anything of value to a public official.

'Anything of value' might include, bribes, kickbacks or any other inducement. Prohibited payments include 'facilitation' or 'expediting' payments to public officials in order to secure proper performance of routine government duties. The uses of subcontracts, purchase orders or consultancy agreements, as a means of channelling payments to officials are also prohibited.

Avoiding conflicts of interest

Suppliers have a responsibility always to act in the best interests of Northrop Grumman. Therefore, they must avoid conflicts of interest, or the appearance of conflicts of interest, between their responsibilities to Northrop Grumman and other activities or interests.

A conflict of interest is any situation that could impair a supplier's objectivity, impartiality or ability to make good business decisions in the best interests of it and Northrop Grumman. Suppliers should carefully avoid situations where their financial or other interests conflict with their duty to act in the best interests of Northrop Grumman.

Avoiding the appearance of such a conflict can be as important as avoiding an actual conflict since others tend to judge a situation by what they think it is. The appearance of an apparent conflict of interest may cause third parties to doubt a supplier's good faith.

Use of resources

Northrop Grumman resources and those of our customers including time, property, information and services should be used only for authorized business purposes. Where suppliers have access to our resources or those of our customers, we expect them also to use these resources responsibly, and report truthfully on their use. This includes:

- Where relevant, time records submitted must accurately and precisely reflect how a supplier's time was spent.
- Property, especially electronic media should never be used for purposes which are disruptive or to communicate messages considered offensive or which violate company procedures in some other way.
- Information must be protected as an asset as valuable as money. We will not seek information to which we are not entitled, especially source selection sensitive procurement information, nor will we violate copyrights or licensing agreements. Company information may not be used for personal gain and all classified information must be handled and safeguarded in strict compliance with security procedures.
- Expenses must be documented accurately and adequately, submitted promptly, and reflect special care when customers or suppliers are involved

Any action by anyone acting on the company's behalf to circumvent the company's system of internal controls or to provide misleading information on company documents or records is strictly prohibited.

Human rights and labour conditions

We believe that those people working in our supply chain around the world have a right to enjoy a safe working environment; not have to work excessive hours; and to be fairly paid for the work they do. It is our aspiration that the working conditions throughout our supply chain meet internationally-accepted standards of human rights and conditions of work.

Key guidance documents

UN Universal Declaration of Human Rights

The UDHR, passed by the UN General Assembly in 1948 is the central statement of global human rights. It stresses that the “inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world.”

ILO Fundamental Conventions

The International Labour Organisation is an agency of the UN that specialises in labour issues. It has developed a number of conventions on different aspects of labour practice. The ILO's Governing Body has identified eight as being fundamental to the rights of people at work, irrespective of levels of development of individual member states.

UN Convention on the Rights of the Child

This UN Convention entered into force in 1990 and sets out the civil, political, economic, social and cultural rights of children.

OHSAS 18001

This is a framework that allows an organization to consistently identify and control its health and safety risks, reduce the potential for accidents, aid legislative compliance and improve overall performance.

Policy principles

We require our suppliers to seek to abide by the following:

Child labour

Suppliers will not employ workers under the legal minimum age for admission to work stipulated by the laws of the countries where they work and will operate in accordance with ILO conventions N^o 138 on the minimum age for admission to employment and N^o 182 on the banning of the worst forms of exploitation of child labour.

There should normally therefore be a presumption against the employment of children below the age of 15. In addition, workers under the age of 18 should not be engaged in work that is likely to negatively affect their health, safety, or morals.

Forced labour

In accordance with ILO Conventions N^o 29 on Forced Labour and N^o 105 on the Abolition of Forced Labour, suppliers will not make any use of forced labour, including prison or debt-bondage labour. Suppliers will not require the lodging of deposits or identity papers, either with their own operations or with agencies providing employees.

Health and safety

Suppliers will provide a safe and healthy work environment and take all reasonable steps to prevent death or injury to anyone on their sites. Regular and relevant training on health and safety issues will be provided. All workers will have access to bathroom facilities and potable water.

Freedom of association and the right to collective bargaining

Our suppliers must respect the principles of freedom of association and collective bargaining as defined in ILO convention N^o 87 on the freedom of trade unions and the protection of trade union law, and N^o 98 on the right of organisation and collective bargaining.

Discrimination

In accordance with ILO Convention N^o 111 on Discrimination, suppliers will not discriminate against any person based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation or age. In their operations, suppliers will not tolerate sexual or racial harassment or bullying.

Discipline

Suppliers will not employ, or allow to be employed, any form of corporal punishment, physical coercion or verbal abuse. Any disciplinary matter will be dealt with through proper procedures: we expect suppliers to establish such procedures.

Working hours

Working hours in suppliers businesses, including rest days and holidays are informed by the relevant ILO conventions regarding working hours (including N^o 1 on working hours (factories); N^o 30 on working hours (factories and offices); N^o 47 on the 40-hour week; N^o 132 on holidays with pay) and prevailing national laws. This should mean that under normal working conditions, workers should not be working more than a 48-hour week, including overtime.

Compensation

Wages paid for standard working hours must meet local legally-mandated minimum wage levels. However, they must also be sufficient to meet the basic needs of workers and their families; the so-called 'living wage'. Suppliers should work with reputable local organisations to establish what a 'living wage' is and ensure that their pay-rates are based on this figure. Overtime working should be paid at an appropriate premium rate.

Living conditions

In sites where living accommodation is provided to their workers suppliers will ensure that this accommodation is of an acceptable standard of size and cleanliness; that it is appropriate to local customs and norms and that adequate facilities are provided. Suppliers will work with relevant NGOs and other partners to establish what accommodation standards are appropriate, and to ensure that this standard is achieved and maintained.

Impacts on local communities

Suppliers should ensure that their operations do not negatively impact on local communities, society and environment. Suppliers should proactively develop links with local people and seek to understand and manage their impacts on the communities where they operate. Where it is apparent that damage has been caused, then appropriate remedial actions should be taken in consultation with local leaders.

Environment

We have a responsibility to manage and minimise the impacts of our business on the physical environment and we encourage our suppliers to do the same. The specific impacts of different business and industries vary considerably, as do legal requirements in different countries. We expect our suppliers to demonstrate that they have a clear understanding of the environmental impacts of their business and its operations, and be seeking to manage and minimise those impacts.

Key guidance documents

Brundtland Commission

The World Commission on Environment and Development is usually known by the name of its chairwoman, Gro Harlem Brundtland, was convened by the United Nations in 1983. The Commission's report, *Our Common Future*, was published in 1987 and coined the now most widely-used definition of sustainable development:

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Kyoto protocol

The Kyoto Protocol is an amendment to the United Nations Framework Convention on Climate Change, and is intended to reduce the emissions of greenhouse gases that cause global warming. A further protocol is currently under discussion.

National and regional environmental laws

Extensive national and regional legislation (for example in the EU) is in place in many of the countries where we operate, and where our suppliers operate. These cover specific issues in different industry sectors. From time to time, the requirements of legislation in different jurisdictions are conflicting. It is therefore important that suppliers are aware of the legal requirements where they operate so that any potential conflicts may be resolved.

ISO 14001

This is an environmental management standard developed by the International Standards Organisation. It does not actually stipulate the environmental standards to which a facility should adhere to. However, it provides clear processes by which organisations can systematically identify their environmental impacts, and manage them coherently.

Policy principles

Environmental impact planning

Given the range of environmental impacts that different of our suppliers have, defining our precise requirements of suppliers is difficult. Therefore we encourage our suppliers to develop and implement environmental management plans, in line with ISO 14001. Increasingly, the establishment of a plan, and demonstrated improved performance in line with it will be a requirement of our suppliers.

Emissions to air and water

Emissions from suppliers' manufacturing sites should at least meet locally required standards. Over time, emissions should be reduced to meet international best-practice.

Reducing carbon footprint

Over time, suppliers should develop a programme to reduce the carbon impact of their activities. This may include capital investment in less-polluting equipment, and the development of travel plans for staff that reduce travel and encourage use of more efficient means of transport.

Resource efficiency

We expect request suppliers to be as efficient as possible in the resources they use; including:

- Minimising the use of raw materials used
- Increasing the amount of recycled materials used.
- Introducing more-energy efficient equipment
- Planning operational activities so as to minimise resource use.

Impacts on the local environment

Suppliers should ensure that their operations do not damage the local environment. Where damage has occurred, appropriate steps to remediate that damage should be taken.

Water use

Water is becoming an increasingly-scarce resource in many parts of the world. We therefore expect those of our suppliers whose activities are water-intensive to seek to reduce water consumption over time. This may be through investment in more water-efficient equipment, or through better management of technical processes.

Waste

Suppliers separation of, and disposal of waste materials should at least meet all locally-required standards. Suppliers should develop processes and procedures to minimise the amount of waste produced.
