



## INTRODUCTION

Northrop Grumman is committed to ". . . act with INTEGRITY in all we do . . ." Our products whether provided to government or commercial customers, are offered and eventually selected on the basis of quality, service and price. We conduct our business in an open and above board manner, and we do not seek any improper influence nor will we tolerate even the appearance of such influence.

All employees, representatives and others doing business on behalf of the company and its subsidiaries anywhere in the world must be motivated by this company Value and Standard of Conduct. Further, employees involved in international business must familiarize themselves with the Foreign Corrupt Practices Act (FCPA) in order not to knowingly or unknowingly compromise our company Values or violate the Law. This pamphlet is designed to familiarize you with the FCPA and sensitize you to its requirements.

**FOREIGN** - The FCPA ". . . prohibits any payments, offers of money, or any other items of value to an official of a foreign government, agency or instrumentality, or to foreign politicians or political parties for corrupt purposes to be made, authorized, or directed by the company or its personnel either directly or through agents, contractors, or other third parties." (Corporate Policy No. A8 - "Business Practices").

**CORRUPT PRACTICES** - Such practices are equivalent to bribery. It means that there is an effort to ensure that the selection is influenced by factors other than quality, service and price. It means that money or an item of value is offered to influence a foreign official's actions or decisions or to induce the misuse of official position to help the company get or keep business.

**ACT** - The FCPA is a law that applies to the international operations of U.S. companies. It can also apply to activities of foreign persons and companies in the United States. Many of the Act's provisions also apply to the operations of foreign subsidiaries of U.S. publicly traded companies. The FCPA's purpose is to prevent bribery of foreign officials in connection with solicitation or retention of business in foreign countries. Enforcement by U.S. government agencies can include injunctions, civil fines and criminal prosecution against both the company and individuals.

## APPLICATION

As with our Standards of Business Conduct, the reach of the FCPA extends to officers, directors, employees, consultants or agents of the company and its U.S. and foreign subsidiaries, as well as anyone who acts on behalf of the company or its subsidiaries in any capacity.

## STANDARDS OF ACCOUNTABILITY

The "knowing" standard is broad and encompasses more than actual knowledge that such corrupt practices will occur. Ignoring or disregarding circumstances that could reasonably be considered sufficient warning that illegal conduct will occur may be grounds for meeting the knowing standard.

Great care must be exercised in this area. All activities must uphold the principles set forth in the Northrop Grumman Values and meet ". . . the highest standards of behavior, including honesty and fairness in all aspects of our work."

## EXCEPTIONS AND AFFIRMATIVE DEFENSE

There is a narrow exception to the anti-bribery provisions of the FCPA for payments made to merely facilitate or expedite performance of "routine governmental action" such as expediting the processing of permits, licenses or other official documents that the payor is legally entitled to receive. Company policy emphasizes that these "facilitating payments" should be avoided to the

maximum extent possible. Prior written approval of the Law Department is required unless there is an emergency situation affecting an individual's health or safety. There are also two affirmative defenses under the FCPA that place the burden of proof on the defendant to show that a payment satisfies these requirements:

- The first affirmative defense is that the payment was lawful under the written laws of the foreign country in which the action takes place.
- The second affirmative defense is that the payments were "reasonable and bona fide" expenses made in good faith with no corrupt intent and related to promotion or demonstration of products or services or the performance of a contract with a foreign government. These could include meals, travel and lodging expenses for a foreign official directly related to performing an existing contract or promoting, demonstrating or explaining company products and services. Note: Employees must comply with CO A312A, "Business Expenditures for Foreign Officials," before incurring or paying any such expenses. Such expenses should only be considered if permitted by the respective foreign government.

## PENALTIES

The penalties for violation are severe for both the company and individuals. Anyone who represents Northrop Grumman and violates the Act incurs personal liability. Individuals can be fined up to \$100,000 per violation and imprisoned for up to 5 years per violation. The company can be fined up to \$2 million per violation. In addition, a violation could spawn other legal and adverse consequences like Securities and Exchange Commission action, suspension or debarment from government contracts, revocation or suspension of export license privileges, shareholder lawsuits, disgorgement, and long-term damage to the company's reputation both at home and overseas. Employees are also subject to company discipline up to and including termination of employment. As you can see, you are well advised to get advice and be sure of yourself before taking any action which raises concerns relative to the FCPA. Always feel free to seek assistance from the Law Department, your local Business Conduct Officer (BCO), the Sector OpenLine, or the Corporate OpenLine.

## STOP SIGNS

There are a number of situations that should give you pause before proceeding. Some (but by no means all) of them are:

- The amount of the payment requested is more than one would normally expect to pay for the services rendered
- You are not clear, or may even be suspicious about the reputation of, an independent consultant or agent because they are less than forthcoming with information
- A method of payment is suggested that could be considered unusual for a business transaction like payment in cash, payment through a third party or payment in a third country
- The independent consultant or agent or a director, shareholder or employee of the independent consultant or agent's firm has a personal, family or business relationship with a government official
- Bribery is a "way of doing business" in the country in question
- The independent consultant or agent does not have the credentials you would expect for the business you want to get
- The independent consultant or agent makes reference to political or charitable contributions as a way of influencing official action
- The proposed agreement between the company and the consultant/agent is illegal under local law
- The independent consultant or agent employs individuals or firms unknown to Northrop Grumman
- The independent consultant, agent or representative has undisclosed principals, associates or subcontractors with whom fees or commissions are split.

## TEST YOURSELF...

The Deputy Defense Minister of a country with which Northrop Grumman has done business before informs you that he would like to visit your U.S. facilities. Before you invite him and his party, which includes his spouse and two aides, to be your guests and visit your California headquarters, manufacturing facilities, and Disneyland, the following questions must be answered.

- 1. Can you extend the invitation without involvement of any other level of management?**
- 2. Are such trips permitted under the FCPA?**

After getting appropriate approvals, you arrange for the Minister and his party to stop in Washington, D.C. for two days on the way.

- 3. Is such a stop permitted if it is unrelated to company business?**
- 4. Is such a stop permitted if it is related to company business?**

At dinner one evening in D.C., you present the Minister with an expensive crystal American eagle.

- 5. Could such a gift be considered legal under U.S. law?**
- 6. If legal under U.S. law, does that settle the matter?**

Two American nationals recently assigned to a foreign company office try to get driver's licenses immediately after arriving. The foreign licensing officer tells them it could take three months and the penalties for driving without a license can be severe; however, for a fee of \$5,000 (instead of the normal \$75 each), the process could be expedited and the licenses available in three days.

- 7. Is this a "facilitating payment" under the FCPA?**
- 8. Is this a bribe?**
- 9. Is there a clearly defined line between a facilitating payment and a bribe?**
- 10. Is the following statement true? "Specific international gift rules and hospitality limitations are the same regardless of location."**

### CORRECT ANSWERS

- 1) No.** Don't proceed without involving your senior management.
- 2) Yes.** But they must be reasonable and directly related to the promotion, demonstration or explanation of products or services or the execution or performance of a contract. Based on recent FCPA prosecutions, it may not be reasonable for the Minister to fly first class or bring his/her spouse unless he/she will pay the spouse's expenses.
- 3) No.** You should not arrange non-business related activities.
- 4) Yes.** Subject to the expenses being reasonable, customary, and directly related to business.
- 5) Yes.** It could be; obtain a legal opinion or contact your Ethics Officer.
- 6) No.** Consult the laws of the visitor's country and Northrop Grumman Values, Policies, Procedures and Standards of Business Conduct.
- 7) No.** Only small amounts of money for routine (non-discretionary) government services are generally considered allowable facilitating payments.
- 8) Yes.** The difference between \$150 and \$5000 makes it difficult to categorize it otherwise.
- 9) No.** It's a judgment call. Small amounts of money for routine (non-discretionary) government services are generally considered allowable facilitating payments.
- 10) No.** Variables such as local laws do affect gift and hospitality provisions -- see "Gift and Hospitality Guidelines by Country"; if uncertain, obtain a legal opinion or contact your Ethics Officer ([http://www.es.northropgrumman.com/Our\\_Values/FCPAPageB.htm](http://www.es.northropgrumman.com/Our_Values/FCPAPageB.htm)).