



2014
**CORPORATE
RESPONSIBILITY
REPORT**
EXECUTIVE SUMMARY



THE VALUE OF PERFORMANCE.

NORTHROP GRUMMAN



INTRODUCTION

THE VALUE OF PERFORMANCE BEGINS WITH RESPONSIBILITY

Our report is consistent with the Global Reporting Initiative (GRI), a third-party organization that has developed a widely used environmental, social, and governance reporting framework. To enhance the technical quality, credibility, and relevance of our reporting, the GRI reporting framework is developed by participants drawn globally from business, civil society, government, labor, and professional institutions.

This 2014 Corporate Responsibility Report continues our reporting of those issues most material to our internal and external stakeholders, including local communities, customers, employees, government and industry, investors, partners, professional associations, scientists, policymakers, and suppliers. Material aspects, as defined by GRI, are those that “... reflect the organization’s significant economic, environmental, and social impacts; or substantively influence the assessments and decisions of stakeholders.”

We prepared this report using the GRI G4 Sustainability Reporting Guidelines, and self-declare the report “in accordance” with those guidelines at the core level. Finally, for the fourth consecutive year, we assembled and engaged an independent External Review Panel to provide feedback and advice from a stakeholder perspective.

[Click here to read the full 2014 External Review Panel report](#)

Material Aspects and Boundaries

A key step in developing this 2014 Corporate Responsibility Report was ensuring the majority of content reflects the issues most material to Northrop Grumman. Per the Global Reporting Initiative, material aspects are those that reflect our significant economic, environmental, and social impacts at Northrop Grumman; or substantively influence the assessments and decisions of stakeholders. The reporting includes all four sectors of Northrop Grumman Corporation, but does not include joint ventures.

MESSAGE FROM WES BUSH, CHAIRMAN, CHIEF EXECUTIVE OFFICER, AND PRESIDENT

Through affordable technologies and innovations, Northrop Grumman provides its customers with products and services that help them meet their critical mission requirements. We are similarly devoted to corporate responsibility and sustainability, and this report describes our efforts in 2014, including our:

- Foundational commitment to ethics, integrity, and compliance.
- Transparent corporate governance and leadership.
- Commitment to a diverse and inclusive workforce operating in a safe manner.
- Dedication to quality and customer satisfaction.
- Effective partnerships with suppliers and other business partners.
- Conduct of operations in an environmentally sustainable manner.
- Corporate citizenship programs to advance education, support military service members and their families, and partner with the community leaders and groups where our employees live and work.

Our commitment at Northrop Grumman is to embody our company values through our daily actions. That includes a steadfast commitment to corporate responsibility and sustainability, and I want to thank all our employees for their support of this important mission. This report is our 2014 report card, and our road map for continuous improvement and sustainable top performance.

OUR COMPANY

WHO WE ARE

Northrop Grumman is a leading global security company providing innovative systems, products, and solutions in Unmanned Systems; Cyber; Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR); and Logistics and Modernization, to government and commercial customers worldwide.

Northrop Grumman at a glance, 2014

- NYSE symbol: NOC
- Employees: Approximately 65,000
- Corporate Headquarters: Falls Church, Virginia
- Net Earnings: \$2,069 million
- Diluted Earnings Per Share: \$9.75

We have four operating sectors:

AEROSPACE SYSTEMS // A leader in the design, development, integration, and production of manned aircraft, unmanned systems, spacecraft, high-energy laser systems, microelectronics, and other systems and subsystems. Our primarily U.S. government agency customers use these systems in mission areas including intelligence, surveillance, and reconnaissance (ISR), communications, battle management, strike operations, electronic warfare, earth observation, satellite communications, space science, and space exploration.

ELECTRONIC SYSTEMS // A leader in the design, development, manufacture, and support of solutions for sensing, understanding, anticipating, and controlling the operating environment for our global military, civil, and commercial customers. Electronic Systems provides a variety of defense electronics and systems, airborne fire control radars, situational awareness systems, early warning systems, electronic warfare systems, air defense radars and management systems, navigation systems, communications systems, marine power and propulsion systems, space systems, and logistics services.

INFORMATION SYSTEMS // A leading provider of advanced solutions for the Department of Defense, national intelligence, federal civilian, state, international, and commercial customers. Products and services focus on the fields of command and control (C2), communications, cyber, air and missile defense, intelligence processing, civil security, health technology, and government support systems.

TECHNICAL SYSTEMS // A leader in innovative and affordable logistics, modernization, and sustainment support, and an array of other advanced technology and engineering services, including space, missile defense, nuclear security, training, and simulation.

Corporate responsibility report stakeholder engagement

Stakeholder engagement is foundational to our overall success strategy at Northrop Grumman. Our stakeholders reflect a broad range of audiences, each with distinct priorities. Overall, we adapted the content of this report to meet the needs of our stakeholders. For this report, we evaluated our performance based on local input where our facilities are located and from customers, employees, government and industry, investors, business partners, professional associations, and suppliers.

Our key stakeholders

Community // Customers // Employees // Government & Industry // Shareholders // Partners & Professional Associations // Scientists & Policymakers // Suppliers

OUR GOVERNANCE

The Board of Directors has adopted Principles of Corporate Governance that align with and reinforce our values and strong commitment to ethics and integrity. Our commitment ensures that integrity is at the center of all our actions, from our Board of Directors and company leaders to each employee on the line.

PERFORMANCE //

As of December 31, 2014, the Board was composed of 11 directors, 91 percent of whom are independent under applicable NYSE and SEC rules. The Board recruited a diverse group of accomplished directors who bring a wide range of experience. Among other things, we believe our directors possess the professional reputation, education, professional background, and skills relevant and most beneficial to the Board and to our shareholders.

[Board of Directors 2014](#)

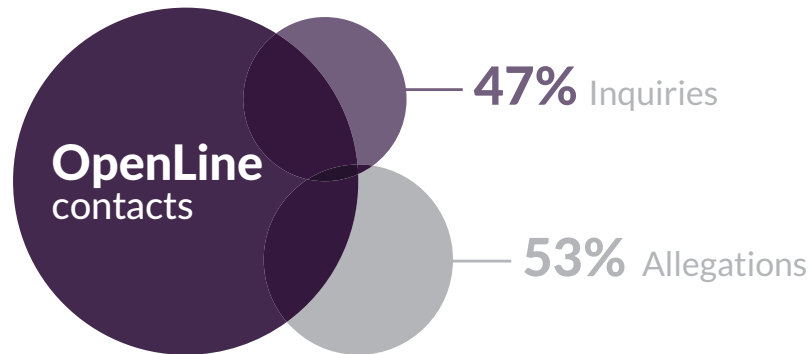
OUR ETHICS

Ethics: Our Reputation Depends on It

At Northrop Grumman, having a strong ethical culture is fundamental and critical as we pursue sustainable top performance in our industry. As we continue to expand globally, we engage our leadership and employees to demonstrate and promote our commitment to values and personal integrity.

PERFORMANCE // 2014 OPENLINE CONTACTS

We actively encourage our employees to raise ethics concerns or questions through our confidential OpenLine. We monitor trends, track and report aggregated data on issue type and review actions taken.



Inquiries: A claim of inappropriate behavior or wrongdoing including violations of our policies, procedures, practices, or the Standards of Business Conduct.

Allegations: Information and/or guidance regarding policies, procedures, practices, or the Standards of Business Conduct.

2012	2013	2014
1,148 Inquiries	1,087 Inquiries	1,064 Inquiries
1,231 Allegations	1,245 Allegations	1,349* Allegations

*The increase in allegations occurred across several of our business sectors and in multiple allegation categories. We see the increase as positive and a reflection of our communication campaigns that encourage employees to use our OpenLine process.

OUR OPERATIONS

DIVERSITY AND INCLUSION

Northrop Grumman is a leading global security company providing innovative systems, products, and solutions in Unmanned Systems; Cyber; Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR); and Logistics and Modernization, to government and commercial customers worldwide.

PERFORMANCE //

2014 marked the end of our five-year plan to increase the diversity of company leadership. During that time we achieved:

Vice President Population

- 4 percent increase (from 16 percent in 2009 to 26.3 percent by Q4 2014) in female representation.
- 85 percent increase (from 10 percent in 2009 to 18.5 percent by Q4 2014) in people of color representation.

Director Population

- 32 percent increase (from 19 percent in 2009 to 25.1 percent by Q4 2014) in female representation.
- 18 percent increase (from 12 percent in 2009 to 14.2 percent by Q4 2014) in people of color representation.

SUPPLIER RESPONSIBILITY AND DIVERSITY

At Northrop Grumman, our vision is to have the most trusted, world-class, innovative supply-chain organization that delivers value to our customers. We do so through integration of highly skilled people, suppliers, processes, tools, and communications.

PERFORMANCE //

We routinely evaluated performance of our most critical suppliers, monthly or quarterly, using standard industry supply chain criteria for schedule, cost, and quality of performance. When a specific subcontract warranted, we also evaluated general management, product performance, systems engineering, software engineering, technical aspects, team commitment, supply chain, proposal adequacy, service levels, and process effectiveness.

ENVIRONMENTAL, HEALTH, AND SAFETY (EHS)

At Northrop Grumman, our objectives are simple:

- Provide a safe and productive work environment to protect our people.
- Strive for environmental compliance and excellence, and promote efficiency, affordability, innovation, and forward thinking in our operations.
- Integrate environmental sustainability into the way we do business.

Occupational Health and Employee Safety

We are committed to providing a safe and healthy workplace for our employees and visitors. A fundamental aspect of our strategy is to empower employees, using tools and resources, to take ownership of their safety in their day-to-day activities.

Environmental Sustainability

We are integrating environmental sustainability into our organizational culture, which drives performance. To increase focus on this performance, our executives are accountable for achievement of sustainability goals. Environmental Sustainability is one of six non-financial corporate performance metrics.

PERFORMANCE //

Greenhouse Gas Emissions:

In calendar year 2014 we reduced 14,300 MTCO₂e*, resulting in a 26.2 percent intensity reduction from 2008, equivalent to a 31.3 percent absolute reduction. Through initiatives focused on facilities systems, information technology infrastructure, and engineering and manufacturing process modifications, we achieved an estimated reduction of 12,400 MTCO₂e.

* MTCO₂e = metric tonnes of carbon dioxide equivalent

Water Use and Solid Waste:

We achieved our 2014 goal to implement at least 75 percent of water use and solid waste reduction best management practices:

- 79.3 percent implementation rate of water best management practices.
- 96.5 percent implementation rate of solid waste best management practices.

Performance

KEEPING OUR PEOPLE SAFE // (Percentage change from 2013)

To evaluate the effectiveness of our health and safety programs and identify systemic deficiencies or common challenges across our operations, we use the following metrics:

2013	2014	% change
0.99	0.86	-13.1%
<i>Lower score = better performance</i>		

Total Case Rate // Total number of Occupational Safety and Health Administration-recordable occupational injuries and illnesses; i.e., cases requiring medical treatment beyond first aid, per 100 full-time workers.

2013	2014	% change
14.05	9.89	-29.6%

Lost Work Day Rate // Total number of lost work days per 100 full-time workers.

2013	2014	% change
0.28	0.25	-10.7%

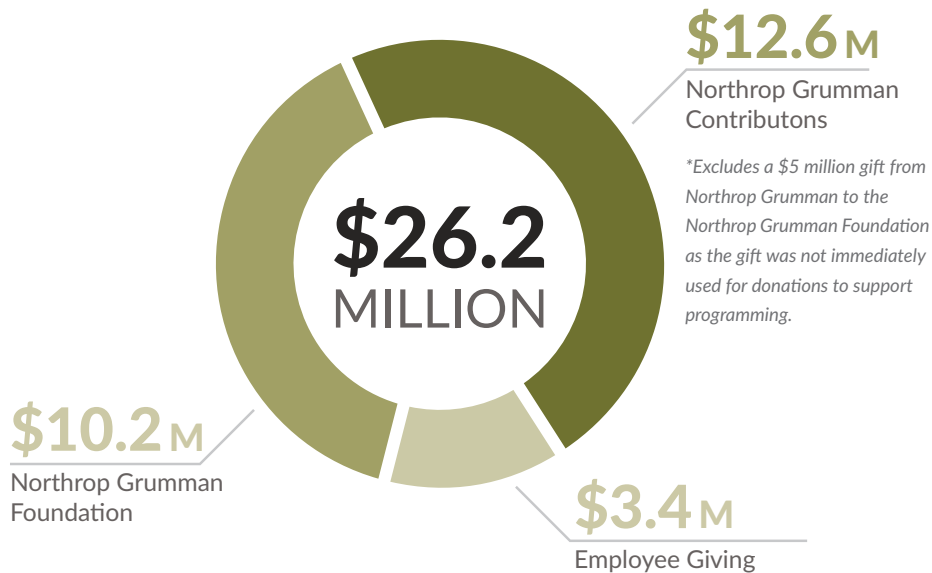
Days Away Case Rate // The total number of cases, per 100 full-time workers, that resulted in lost or restricted days or job transfer due to work-related illnesses or injuries. Used in conjunction with the other metrics, Days Away Case Rate helps identify the severity of workplace injuries and illnesses.

This report uses Global Reporting Initiative (GRI) "Performance Indicators" such as these to track and monitor performance. For a full listing, see the GRI Content Index.

OUR COMMUNITY INVESTMENT

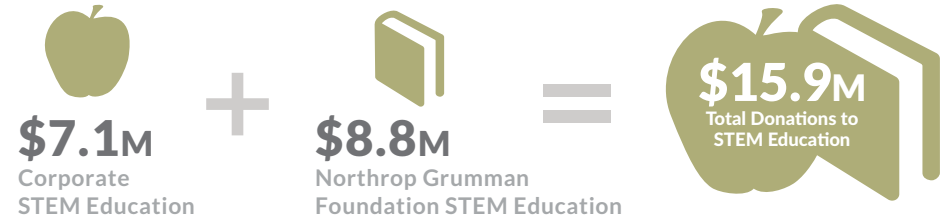
Building partnerships for stronger communities aligns with our vision to be recognized as a responsible corporate citizen, incorporating Northrop Grumman's core values to build sustainable, beneficial partnerships with shareholders, employees, customers, and communities. In our first year of operating in a regional model, the Corporate Citizenship team worked across the globe to implement community engagement initiatives.

These efforts align with our Northrop Grumman business goals by providing financial, in-kind, and volunteer resources in four primary areas: education, military and veterans, health and human services, and the environment.



Our global community investment includes four primary areas:

EDUCATION



MILITARY AND VETERANS

We donated more than \$1.5 million from Northrop Grumman contributions to non-profit agencies that provide services and programs to serve active military and veterans and their families.

HEALTH AND HUMAN SERVICES

We contributed \$1.5 million to non-profit agencies that address basic human needs. Our employee volunteers also contributed regularly, including the "Light the Night Walk," where they raised \$30,000 for the National Capitol Area Leukemia and Lymphoma Society.

ENVIRONMENT

We donated more than \$506,000* toward projects with non-profit partners who are environmentally focused. * Source: Northrop Grumman Contributions

FOR MORE INFORMATION:

[Click here to see External Review Panel report](#)

[Click here to see full listing of 2014 GRI Performance Indicators](#)

[Click here for GRI Organization Mark](#)



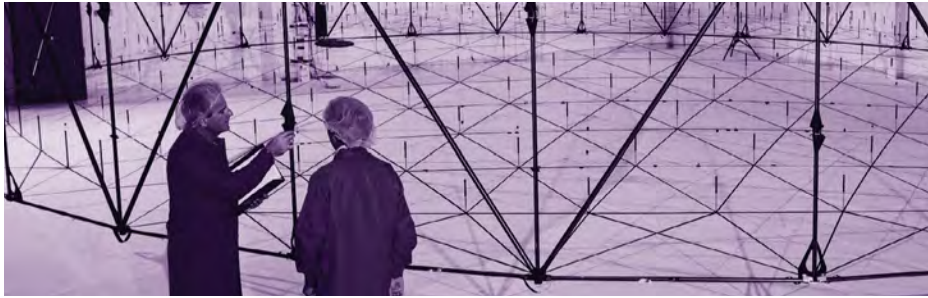
2014
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RESPONSIBILITY
REPORT



THE VALUE OF PERFORMANCE.

NORTHROP GRUMMAN

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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 act with **integrity** in all we do.

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

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 quality, affordability, and on-time delivery.

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 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 regard our **suppliers** as essential team members.

We owe our suppliers the same type of respect 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

THE VALUE OF PERFORMANCE BEGINS WITH RESPONSIBILITY

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We published our first Northrop Grumman Corporate Responsibility Report in 2008, highlighting our environmental and social performance. Transparency and accountability are fundamental to our business and our approach to responsibility reporting. This 2014 Corporate Responsibility Report continues our reporting of those issues most material to our internal and external stakeholders, including local communities, customers, employees, government and industry, investors, partners, professional associations, scientists, policymakers, and suppliers. Material aspects, as defined by GRI, are those that “... reflect the organization’s significant economic, environmental, and social impacts; or substantively influence the assessments and decisions of stakeholders.” Throughout this report we use the word “material” as it applies to this stated GRI definition of the word rather than the Securities and Exchange Commission usage regarding public company reporting.

We prepared this report using the GRI G4 Sustainability Reporting Guidelines and self-declare the report “in accordance” with those guidelines at the core option. A key step in developing this 2014 Corporate Responsibility Report was ensuring the majority of content reflects the issues most material to Northrop Grumman.

In addition to this printed report we have a Corporate Responsibility [microsite](#) available online with additional data and more in-depth explanations.

Finally, for the fourth consecutive year, we assembled and engaged an independent External Review Panel to provide feedback and advice from a stakeholder perspective.



WELCOME TO THE 2014 NORTHROP GRUMMAN CORPORATE RESPONSIBILITY REPORT.

Material Aspects and Boundaries

Per the Global Reporting Initiative, material aspects are those that reflect our significant economic, environmental, and social impacts at Northrop Grumman; or substantively influence the assessments and decisions of stakeholders. The reporting includes all four sectors of Northrop Grumman Corporation, but does not include joint ventures.

Our process for implementing the GRI reporting principles for defining report content, as well as identifying aspect boundaries, included:

- Meeting with our External Review Panel in 2014.
- Reviewing and incorporating External Review Panel feedback from the 2013 report for the 2014 report.
- Seeking input and guidance from our various stakeholder groups and content experts across Northrop Grumman.
- Having our internal Corporate Responsibility Report content experts attend a GRI G4 workshop.
- Engaging our senior decision-makers in the process for defining report content and having them approve any associated strategic decisions.
- Conducting our annual planning meeting with the internal Corporate Responsibility Report team in October 2014, to begin the report generation process.



In defining our report content we followed a four-step process: identification, prioritization, validation, and review (both internal and external). During this assessment process, conducted at the beginning of our reporting cycle process in summer 2014, we identified the following main material aspects:

- Diversity and Inclusion
- Education
- Environmental, Health, and Safety
- Ethics
- Governance
- Health and Human Services
- Military and Veterans
- Supplier Responsibility

All these aspects are material to all entities within our organization, because they each address a significant opportunity for us in our business operations and performance. Additionally, they each have the potential to affect stakeholder actions, decisions, and opinions regarding Northrop Grumman. Each of these material aspects is relevant both within and outside Northrop Grumman.



2014 CEO MESSAGE

Through affordable technologies and innovations, Northrop Grumman provides its customers with products and services that help them meet their critical mission requirements. We are similarly devoted to corporate responsibility and sustainability, and this report describes our efforts in 2014.

Sustainability is fundamental to everything we do at Northrop Grumman. Our business approach incorporates sustainability to create long-term value for all our stakeholders. This report describes our:

- Foundational commitment to ethics, integrity, and compliance.
- Transparent corporate governance and leadership.
- Commitment to a diverse and inclusive workforce operating in a safe manner.
- Dedication to quality and customer satisfaction
- Effective partnerships with suppliers and other business partners.
- Conduct of operations in an environmentally sustainable manner.
- Corporate citizenship programs to advance education, support military service members and their families, and partner with the community leaders and groups where our employees live and work.

A key step in developing this 2014 Corporate Responsibility Report was ensuring the content reflects issues that are important to Northrop Grumman. In our assessment, important issues for reporting are those that, in the view of our Board, management, employees, and external stakeholders, have the potential to significantly affect sustainable performance. Here are some examples from our efforts in 2014:

Build Leaders at Every Level

In 2014 we achieved greater diversity at all levels of our organization, including within the ranks of our company officers and with executive-level appointments. We enhanced talent management processes and tools to identify and accelerate the advancement of high-potential candidates including women and people of color. We encouraged leaders at every level through participation in leadership forums and employee resource groups. Our Global Diversity and Inclusion organization has helped us implement a cohesive plan to create a positive work environment for all employees.

Protect the Environment

Through 2014 we achieved a reduction of our greenhouse gas intensity (metric tonnes of carbon dioxide equivalent per million dollars in sales) by 26.2 percent from 2008 levels. Last year we also announced our 2020 greenhouse gas reduction goal to reduce our absolute emissions 30 percent from 2010 levels. This goal reflects our renewed commitment to reduce our environmental impacts, mitigate climate-change-related risks, and support the commitments of our customers and industry partners.

Improve Education

During 2014 we invested more than \$15.9 million from Northrop Grumman contributions and the Northrop Grumman Foundation to fund global science, technology, engineering and math education programs and initiatives that make a difference for students and their teachers.

Our commitment at Northrop Grumman is to embody our company values through our daily actions. That includes a steadfast commitment to corporate responsibility and sustainability, and I want to thank all our employees for their support of this important mission. This report is our 2014 report card, and our road map for continuous improvement and sustainable top performance.

Wes Bush

Chairman, CEO, and President
Northrop Grumman Corporation



NORTHROP GRUMMAN

“OUR COMMITMENT AT NORTHROP GRUMMAN IS TO EMBODY OUR COMPANY VALUES THROUGH OUR DAILY ACTIONS. THAT INCLUDES A STEADFAST COMMITMENT TO CORPORATE RESPONSIBILITY AND SUSTAINABILITY, AND I WANT TO THANK ALL OUR EMPLOYEES FOR THEIR SUPPORT OF THIS IMPORTANT MISSION.”

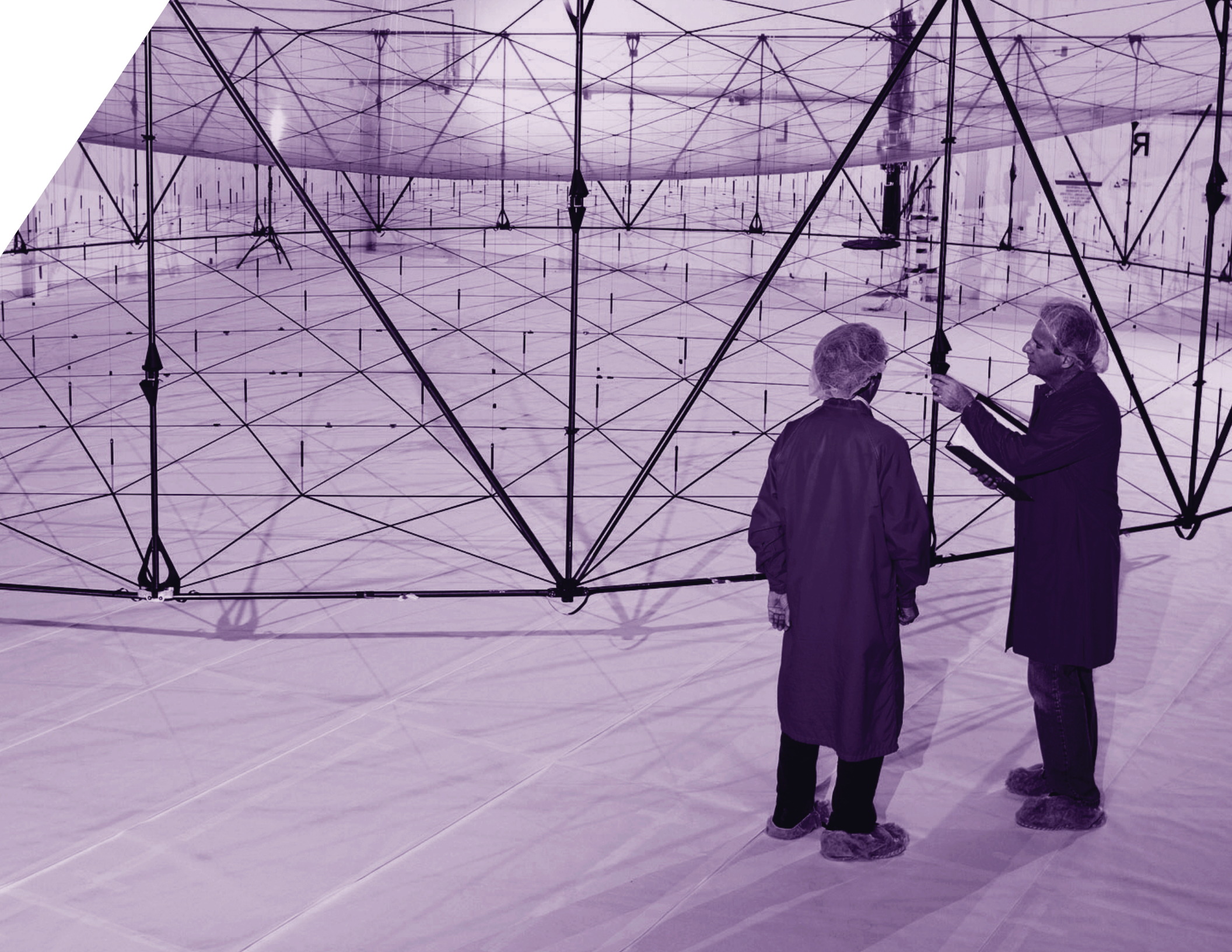
Wes Bush
Chairman, CEO, and President
Northrop Grumman Corporation

OUR COMPANY

Our goal is to lead our industry in sustainable, top performance; generate value for our shareholders, customers, and employees; and maintain strong, enduring values.

NORTHROP GRUMMAN





OUR BUSINESS

Northrop Grumman is a leading global security company providing innovative systems, products, and solutions in Unmanned Systems; Cyber; Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR); and Logistics and Modernization, to government and commercial customers worldwide. We are a publicly traded company headquartered in Falls Church, Virginia.

We apply our core competencies and capabilities to address the diverse and complex issues facing our customers, delivering innovative products, systems, and solutions for applications that range from undersea to outer space and into cyberspace.

As a prime contractor, principal subcontractor, partner, and preferred supplier, we participate in many high-priority defense and government programs in the United States and internationally. We conduct most of our business with the U.S. federal government, principally the Department of Defense (DoD) and the U.S. intelligence community. We also conduct business with foreign, state, and local governments, and domestic and international commercial customers.

2014 GOALS AND PERFORMANCE SUMMARY

GOAL // Provide high-quality, innovative, and affordable products and systems in support of the U.S. military and allies in their missions to operate successfully anywhere around the world, with a focus on: Unmanned Systems; Cyber; Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR); and Logistics and Modernization.

PERFORMANCE // As a leading global security provider, the products, systems, and solutions we provide have far-reaching impacts. At Northrop Grumman, we recognize that the work we do matters today and in the future. We embrace our partnership with U.S. and allied defense and security leaders to provide high-quality, affordable products and systems through a robust mission-assurance process that emphasizes our company-wide focus on quality, innovation, and superior program performance. Our team delivered another year of strong performance in 2014. We are excited about our many future opportunities and remain committed to generating value through sustainable performance.

GOAL // Focus globally on doing business consistent with our values and commitment to sustainability. Incorporate social responsibility and customer support into decision-making, including in the products we design, develop, and manufacture, and the services we provide.

PERFORMANCE // We are committed to social responsibility and environmental sustainability in the global space where we operate and in the communities where we work and live. This report and the recognition we have received from external organizations are strong evidence of our devotion to this effort. We currently do not manufacture cluster munitions, depleted-uranium munitions, chemical or biological weapons. Northrop Grumman designs and manufactures the launchers and provides sustainment support services for the SSBN Trident submarine-launched missile system. Northrop Grumman also provides program management support, engineering services and emergency response for the U.S. Air Force's Minuteman III ICBM Ground Subsystems. Northrop Grumman is under contract with the U.S. Army for development and testing of a remote control station to be used with the U.S. Army's existing antipersonnel munition system in conformance with the 1997 Ottawa Treaty.

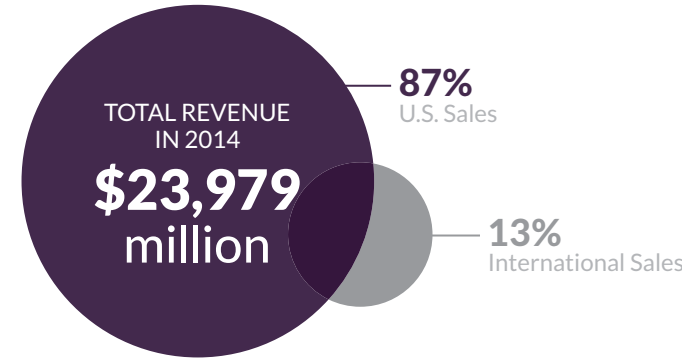
GOAL // Lead our industry in sustainable, top performance; generate value for our shareholders, customers, and employees; and maintain strong, enduring values.

PERFORMANCE // In 2014 we delivered strong performance for our customers, shareholders, and employees. We exceeded all our target performance goals for customers and employees, and we met or exceeded all four of our objectives for shareholders.

NORTHROP GRUMMAN

AT A GLANCE 2014

NYSE SYMBOL: NOC
 EMPLOYEES: Approximately 65,000
 CORPORATE HQ: Falls Church, Virginia
 NET EARNINGS: \$2,069 million
 DILUTED EARNINGS PER SHARE: \$9.75



NORTHROP GRUMMAN MAJOR GLOBAL OPERATIONS

Aerospace Systems

A leader in the design, development, integration, and production of manned aircraft, unmanned systems, spacecraft, high-energy laser systems, microelectronics, and other systems and subsystems. Our primarily U.S. government agency customers use these systems in mission areas including intelligence, surveillance, and reconnaissance (ISR), communications, battle management, strike operations, electronic warfare, earth observation, satellite communications, space science, and space exploration.

Electronic Systems

A leader in the design, development, manufacture, and support of solutions for sensing, understanding, anticipating, and controlling the operating environment for our global military, civil, and commercial customers. Electronic Systems provides a variety of defense electronics and systems, airborne fire control radars, situational awareness systems, early warning systems, electronic warfare systems, air defense radars and management systems, navigation systems, communications systems, marine power and propulsion systems, space systems, and logistics services.

Information Systems

A leading provider of advanced solutions for the Department of Defense, national intelligence, federal civilian, state, international, and commercial customers. Products and services focus on the fields of command and control (C2), communications, cyber, air and missile defense, intelligence processing, civil security, health technology, and government support systems.

Technical Services

A leader in innovative and affordable logistics, modernization, and sustainment support, and an array of other advanced technology and engineering services, including space, missile defense, nuclear security, training, and simulation.

CORPORATE RESPONSIBILITY REPORT STAKEHOLDER ENGAGEMENT

Stakeholder engagement is foundational to our overall success strategy at Northrop Grumman. Our stakeholders reflect a broad range of audiences, each with distinct priorities. To ensure we engage with each audience effectively, we are committed to providing accurate information regarding our corporate goals and performance. We use a variety of methods to engage with our stakeholders and obtain feedback on our performance. That feedback allows us to analyze and prioritize corporate responsibility issues as part of our materiality assessment and reporting methodology process. In part, this information also informs direct actions and programs we undertake to improve our performance locally and globally.

Our process for engaging with stakeholders begins with prioritizing their concerns.



We also evaluate the level of each stakeholder relationship to our business and the importance of the issue being raised. Overall, we adapted the content of this report to meet the needs of our stakeholders. For this report, we evaluated our performance based on local input where our facilities are located and from customers, employees, government and industry, investors, business partners, professional associations, and suppliers. For more detail visit our Corporate Responsibility [microsite](#).

2014 KEY STAKEHOLDER TOPICS

DIVERSITY

- Evaluating current strategies and developing new approaches to ensure adequate sources of diverse talent for current and future hiring requirements.
- Ensuring plans and resources for employee development are multi-faceted and encourage a work environment that is inclusive and supportive of employee achievement and advancement.
- Analyzing employment and turnover trends of veterans and people with disabilities to identify programs to improve our reputation as an employer of choice for these employees.
- Increasing the reach and effectiveness of the Operation IMPACT program, which focuses on supporting severely wounded service members and their families with transition and career support services.
- Creating communities for our employees to connect to each other and to contribute through the expansion and leadership of Employee Resource Groups.

ENVIRONMENTAL, HEALTH, AND SAFETY (EHS)

- Ensuring compliance and continued improvement of our EHS programs.
- Reducing the frequency of injuries, including those caused by repetitive motion, through the review of job practices, introduction of ergonomic improvements, and increased employee awareness.
- Addressing climate change in accordance with science-based models.
- Aligning Northrop Grumman environmental sustainability goals with customer goals and priorities.
- Analyzing and strategically planning for water conservation, with an emphasis on those regions with water quality and/or availability risks.

SUPPLIER RESPONSIBILITY

- Reviewing and ensuring consistency with legislation and trends related to our supply base.
- Developing program enhancement strategies.

GLOBAL COMMUNITY

- Improving U.S. education, specifically a diverse pipeline of talent in the area of science, technology, engineering, and mathematics (STEM).
- Sustaining a commitment required to support active-duty military, veterans, and their families.



To gather stakeholder feedback on an ongoing basis, we utilized:

Face-to-face meetings, employee surveys and feedback channels, online and social media channels, e-mail, environmental and regulatory audit processes, government policy and legislative engagement, needs assessment studies to prioritize our community engagement activities, supplier development activities and assessments, industry councils, and internal working groups. Other examples of our activities during 2014 include:

- Hosting bi-weekly environmental sustainability data management team meetings to encourage collaboration and to discuss systems, challenges, opportunities, and expectations.
- Hosting monthly Environmental, Health, and Safety (EHS) regulatory update meetings to discuss trends and determine impacts to Northrop Grumman.
- Hosting quarterly EHS Leadership Council meetings to evaluate internal governance programs and strategic plans, to track progress, identify future changes to regulatory policy, and develop health and safety targets.
- Benchmarking environmental goals and performance by evaluating customers, industry, best practice leaders, and peers' environmental sustainability goals, initiatives, and performance.
- Conducting "lessons learned" meetings with employees, managers, and executives after diversity conference activities to determine optimal levels of participation.
- Consulting our employee resource group PrIDA on lesbian, gay, bisexual, transgender (LGBT) issues and concerns and to collaborate on the Corporate Equality Index survey. Participated in and hosted industry compliance meetings in conjunction with various non-profit and government organizations including Equal Employment Advisory Council, National Industry Liaison Board, OFCCP Institute, and National Labor Exchange.

The frequency of our engagement with stakeholders

During 2014 we met regularly with our various stakeholder groups. Key discussion topics included primary, secondary and university education, informal education, corporate philanthropy, environmental programs in our operating communities, wounded veterans, veteran homelessness, and support to programs in our focus. We engaged daily with many different stakeholders, particularly in the area of support to programs in our focus areas and non-profit agencies.

STAYING INFORMED

Our stakeholder engagement efforts, and frequency of contact, related to our diversity and inclusion efforts included:

- Diversity and Inclusion Leadership Council meetings: monthly
- Sector Diversity and Inclusion Council meetings: monthly
- Employee Resource Group meetings: monthly
- Individual employee and Employee Resource Group collaboration: daily
- External diversity organizations/partners (Society of Women Engineers, National Society of Black Engineers, US Business Leadership Network, etc.): daily to monthly
- Senior management EEO and diversity metrics review: quarterly/monthly/semi-annually

We maintain a proactive approach to stakeholder engagement related to Environmental, Health, and Safety management across the company. For example, externally, we meet with stakeholders regularly and at a frequency appropriate for the depth of the relationship. We engage with internal subject matter experts at least bi-weekly, sector EHS and executive representatives monthly, and at least semi-annually with internal executives, partner organizations, and other interested parties. Our engagement strategy includes conference briefings, white papers, and peer-to-peer collaboration via industry association meetings. For a complete list of our engagement activities with our various stakeholders, see the relevant sections of this report where those functions and activities are discussed.

OUR KEY STAKEHOLDERS

Community // Customers // Employees // Government & Industry
Shareholders // Partners & Professional Associations
Scientists & Policymakers // Suppliers

COMMUNITY

Our presence in communities across the United States offers our employees the opportunity to volunteer to support local initiatives, for example:

- Teaching in Northrop Grumman summer STEM camps that reached 176 high school students in Chantilly, Virginia, and Aurora and Colorado Springs, Colorado.
- Volunteering with Habitat for Humanity in Palmdale, California, and Sandtown, Maryland, to build affordable housing for military families, and with Habitat's home repair program for veterans.
- Working to revitalize six square blocks of the Boyle Heights neighborhood of East Los Angeles as part of L. A. Works Day of Community Service. The area includes two Los Angeles Unified School District Title I schools, a public preschool, a city park, and a community garden.
- Supporting American Cancer Society Relay for Life walks across the country. Northrop Grumman had 30 teams, with 413 employees who participated, and their collective efforts raised more than \$150,000.

CUSTOMERS

We have a diverse range of customers, including the military services, defense agencies, civil agencies, state and local governments, industry partners, and foreign governments. We build and maintain relationships with our customers through frequent direct engagements and participation in industry associations and events. We work closely with our customers to support our programs, including advancing credible advocacy that adheres to our values and providing strategic guidance and insights to inform decisions. Our engagement with customers in 2014 was widespread. One example involves our continued technical engineering support for the U.S. Air Force Civil Engineer Center Energy Directorate's centralized energy program management. Northrop Grumman employees conducted engineering, financial and technical analysis of Air Force energy program management activities worldwide, including renewable and alternative energy systems. These initiatives support the long-term energy efficiency objectives for Air Force facilities and operations.

EMPLOYEES

We engage our employees in numerous ways. For example, Employee Resource Groups are committed to providing their members the opportunity to develop and build leadership skills, raise awareness, educate others, and give back to the communities where we work and live. Employees unite as volunteers to coordinate events based on foundational pillars: personal development, community service, recruiting of prospective employees, and leadership experience. Northrop Grumman supports its workforce and their families by providing a culture that allows employees to be their best at work, at home, and in the community by providing a portfolio of work-life services that reflects a culture of inclusion, engagement, and innovation.

We recognized nearly 11,000 employees, around the world, with service milestones through our service award catalog, onsite programs, and service award dinners.



Northrop Grumman received a 100 percent score on the Corporate Equality Index 2015, a national benchmarking survey and report on corporate policies and practices related to lesbian, gay, bisexual, and transgender (LGBT) workplace equality.

GOVERNMENT AND INDUSTRY

Northrop Grumman employees provide leadership and expertise to establish industry best practices and policies to help achieve environmental sustainability. We interact with our government and industry partners every day and often collaborate to achieve shared goals. One example is our involvement with the International Aerospace Environmental Group (IAEG). As a founding member of this global industry association, we are supporting peer collaboration initiatives to address common industry challenges. We serve as Board members and support the organization's governance. We are also subject matter experts for various work groups including Chemical Reporting, Greenhouse Gas (GHG) Accounting and Reporting, and Supply Chain Environmental Sustainability Survey Harmonization. Our engagement in IAEG helps guide the industry to greater and more consistent environmental accounting and reporting.



In June 2014 IAEG published "Greenhouse Gas Reporting Guidance for the Aerospace Industry," an aerospace-industry-focused supplement to the GHG Protocol Corporate Accounting and Reporting Standard. The reporting:

- Represents IAEG's first published voluntary consensus standard.
- Coordinates with the World Resources Institute and its "The GHG Protocol – Corporate Accounting and Reporting Standard."
- Promotes voluntary and consistent reporting of corporate GHG emissions by aerospace companies and their suppliers to enable more accurate accounting of value chain GHG emissions.

Our content and leadership contributions led to its completion and formal recognition of conformance with The Greenhouse Gas Protocol, earning the World Resources Institute's "Built on GHG Protocol" designation.

G4-2 G4-15 G4-26 G4-27 G4-EC1 G4-EC2

Also in 2014, we joined the newest IAEG work group, Supply Chain Environmental Sustainability Survey Harmonization. The objective: to collaboratively define a methodology and mechanism(s) to request environmental sustainability data from suppliers without imposing undue burden. This environmental sustainability data from suppliers will be structured for easier evaluation and benchmarking by IAEG member companies.

SHAREHOLDERS

As of January 2015 there were approximately 27,000 Northrop Grumman common stockholders. As a public company, we communicate regularly with our shareholders through our quarterly financial reports and other filings with the Securities and Exchange Commission, postings on the Investor Relations section of our website, regular public announcements, and meetings. We report to our Board of Directors regarding our performance for shareholders, customers, and employees against financial and non-financial metrics, which factor into executive compensation. Our financial performance metrics are operating margin, free cash flow conversion, return on net assets, net income, and awards. Our non-financial metrics are quality and customer satisfaction, environmental sustainability, and employee engagement, diversity, and safety.

Our continued leadership distinction in the CDP Climate Change assessment of S&P 500 companies signals to shareholders and the investor community that we are taking proactive measures to address the interrelationship between environmental risks (e.g., resource availability) and operational sustainment and growth.



Northrop Grumman was named to CDP's "A" List, a distinguished list of public companies with demonstrated greenhouse gas emissions reduction performance using financially and environmentally beneficial business strategies.



The Carbon Disclosure Leadership Index (CDLI) is a distinguished subset of public companies whose CDP Climate Change disclosure provides transparency to environmental sustainability strategy, governance, greenhouse gas inventory, and risks and opportunities.



PARTNERS AND PROFESSIONAL ASSOCIATIONS

To enhance business performance, collaboration, community involvement, diversity and inclusion, employee relations, innovation, and supplier relationships, we maintain strong affiliations with numerous organizations, including:

- ◉ 100,000 Jobs Mission
- ◉ AbilityOne
- ◉ American Indian Science and Engineering Society
- ◉ Asian American Engineer of the Year
- ◉ Asian Business Association
- ◉ Association of Corporate Contributions Professionals
- ◉ Black Business Association
- ◉ Black Engineer of the Year
- ◉ Boston College Center for Corporate Citizenship
- ◉ Capital Area Gay and Lesbian Chamber of Commerce
- ◉ Great Minds in STEM
- ◉ Latin Business Association
- ◉ Military Spouse Employment Partnership
- ◉ National Association of Asian American Professionals
- ◉ National Association of Women Business Owners
- ◉ National Center for American Indian Enterprise Development
- ◉ National Society of Black Engineers
- ◉ Out and Equal Workplace Summit
- ◉ Small Business Innovation Research and Small Business Technology Transfer programs
- ◉ Society of Hispanic Professional Engineers
- ◉ Society of Women Engineers
- ◉ United States Hispanic Chamber of Commerce
- ◉ U.S. Business Leadership Network
- ◉ U.S. Department of Veterans Affairs Center for Verification and Evaluation
- ◉ Women of Color in Technology

SCIENTISTS AND POLICYMAKERS

We interact with many scientists and policymakers across our business on a regular basis, including providing key decision-making data. For more than 25 years, our satellites, airborne platforms, sensor technologies, and modeling systems have provided climate monitoring and measurement data, from air and space to land and sea. Our technology supports critical applications and provides data for advancing the understanding of climate science. In turn, we are able to inform policymakers about climate-related environmental risks and impacts to adaptation and resiliency plans.

2014 HIGHLIGHTS

Climate Science and Energy

- ▶ **Space** // The Northrop Grumman-built Aura satellite celebrated its 10th year in orbit on July 15, 2014, delivering earth-observing and climate data that supports scientific study of the atmosphere.
- ▶ **Air** // The Northrop Grumman-built Global Hawk was used (and is still operated) by the National Aeronautics and Space Administration (NASA) to collect data about the humidity and chemical composition of air entering the upper atmosphere and impacts to the Earth's overall climate.
- ▶ **Land** // We developed software to support the Department of Energy's SunShot Initiative, a collaborative effort to make solar energy cost competitive with other forms of electricity by 2020. The software provides regional cloud cover and solar forecasts by blending geostationary satellite imagery with weather forecast data.
- ▶ **Sea** // The Northrop Grumman Earth Observation Systems monitored sea temperatures, sea ice characterization, ocean color, and chlorophyll concentrations – all critical indicators of ocean health.

IN 2014, “DIVERSITY BUSINESS” RANKED NORTHROP GRUMMAN AS THE THIRD-BEST COMPANY IN THE NATION FOR PROVIDING BUSINESS OPPORTUNITIES TO DIVERSE BUSINESS OWNERS.

SUPPLIERS

During government fiscal year 2014 we subcontracted more than \$7.5 billion to a broad base of approximately 9,500 suppliers. We subcontracted more than 32 percent, or \$2.45 billion, to small business suppliers. We have met and exceeded the 23 percent small business statutory goals for more than 10 consecutive years and have received recognition and numerous awards for our global supplier diversity programs.

Monitoring Critical Suppliers

Mitigation strategies in 2014 for our most critical suppliers included:

- Focus on the risks from single-source, small, and foreign businesses that may be more vulnerable to program performance deficiencies
- On-site supplier support
- Structuring financial relationships to ensure the vitality of critical suppliers
- Monthly review of supplier financial performance

Another element of our corporate risk analysis process was maintaining a watch list of those suppliers that potentially have a financial health risk. We managed supplier performance with a robust improvement process and risk-mitigation exchange with suppliers. Increasingly, past performance by a supplier was an important element in our sourcing decisions, with added consideration given to suppliers that demonstrate outstanding performance.

OUR GOVERNANCE

The Board of Directors has adopted Principles of Corporate Governance that align with and reinforce our values and strong commitment to ethics and integrity. Our commitment ensures that integrity is at the center of all our actions, from our Board of Directors and company leaders to each employee on the line. The Board of Directors annually reviews the governance principles and modifies the principles in response to changing circumstances and legal or other requirements. The Principles of Corporate Governance are posted on Northrop Grumman's [website](#).

WE ACT WITH
INTEGRITY IN ALL
WE DO.

2014 GOAL AND PERFORMANCE SUMMARY

GOAL // Effective corporate governance to ensure long-term value creation.

PERFORMANCE // The Board has adopted the Principles of Corporate Governance, which reinforce the company's values and provide for effective governance and responsible business practices.

GOVERNANCE OVERVIEW AND HIGHLIGHTS

The primary responsibility of our Board is to foster the long-term success of the company, promoting the interests of our shareholders. Our directors exercise their business judgment in a manner they reasonably believe to be in the best interests of the company and our shareholders and in a manner consistent with their fiduciary responsibilities. The responsibilities of the Board include, but are not limited to, the following:

- Overseeing our long-term business strategies, operations, and performance
- Overseeing our risk management activities
- Selecting the chief executive officer and electing officers of the company
- Overseeing senior executive succession planning
- Electing directors to fill vacant positions between annual meetings
- Reviewing and approving executive compensation
- Reviewing and approving significant corporate actions
- Determining proposals for shareholder vote
- Overseeing and evaluating management and Board performance
- Overseeing ethics and compliance programs; and
- Providing advice and counsel to management

The Board is responsible for overseeing our risk management activities, among other duties. Each of our Board committees assists the Board in this role. The Audit Committee focuses on risks that could impact our financial performance, and periodically receives reports from management addressing the nature of the material financial risks and how we respond to and mitigate these risks. The Audit Committee also reviews the company's periodic filings with certain government agencies. The Compensation Committee reviews a risk assessment of our compensation programs and, together with its independent compensation consultant, evaluates the mix of at-risk compensation linked to stock performance. The Policy Committee assists the Board in identifying and evaluating global security, political, budgetary, environmental and sustainability issues, health and safety matters, and trends that could impact Northrop Grumman business. The Policy Committee also receives a periodic report from management on our ethics and corporate responsibility programs, including a review of the Corporate Responsibility Report. The Governance Committee regularly reviews our corporate governance policies and practices. Each of the Committee charters are posted on the Northrop Grumman [website](#).

As of December 31, 2014, the Board was composed of 11 directors, 91 percent of whom are independent under applicable NYSE and SEC rules. The Board recruited a diverse group of accomplished directors who bring a wide range of experience. Among other things, we believe our directors possess the professional reputation, education, professional background, and skills relevant and most beneficial to the Board and to our shareholders. Every year the Board and each of its Committees conducts an assessment

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GOVERNANCE PERFORMANCE

- In the United States and globally we have an OpenLine operated by an independent third party that is available 24 hours a day, seven days a week. We investigate allegations of violations of law or company policy and, when allegations have merit, administer appropriate discipline including termination.
- We have always had a strong commitment to human rights, which is reflected in our business practices. We have a formal Human Rights policy that highlights our commitment to treat employees, suppliers, customers, and competitors with dignity and respect and not tolerate discrimination, harassment, or retaliation. Additionally, the policy covers freedom of association, fair working conditions, ethical procurement practices, health and safety of employees and business associates, protection of the environment, and the well-being of our communities. We have also adopted policies to combat human trafficking.
- When we participate in the political process at the federal, state, and local levels in the United States, we do so consistent with all legal requirements. We provide information regarding federal political contributions made by the Employees of Northrop Grumman Political Action Committee (ENGPAC), our policy regarding independent political expenditures, and our trade association memberships, on the Northrop Grumman [website](#), where information is accessible to our shareholders and the public.
- Total ENGPAC contributions for 2014 include:
 - 2014 PAC contributions: \$1.677 million
 - ▶ 206 House candidates: \$854,500
 - ▶ 121 leadership PACs: \$545,500
 - ▶ 25 Senate candidates: \$82,000
 - ▶ 11 party committees/other PACs: \$195,000
- All of ENGPAC's contributions to political parties, political candidates, and related institutions were made within the United States.
- We disclose litigation, investigations, and penalties for noncompliance with laws and regulations as appropriate in our public filings.

This report uses Global Reporting Initiative (GRI) "Indicators" such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.

of its performance and discusses the results and opportunities for improvement in executive session. In addition, the directors conduct an annual assessment of each individual director's performance. The Lead Independent Director discusses the results of this assessment with each director individually.

All our directors are required to have a significant financial interest in Northrop Grumman to help ensure their interests align with those of the company's shareholders.

Directors receive part of their compensation in the form of deferred stock units, which are generally not paid out until the termination of the director's service. Directors may also elect to defer the remaining part of their cash compensation into deferred stock units. In addition, all directors are required to own Northrop Grumman stock equal to five times the annual cash compensation they receive for their service as a director.

Shareholders, employees, and others can communicate directly with the Board by writing the Board of Directors in care of the Corporate Secretary's Office. Management and certain members of the Board of Directors meet with shareholders periodically.

BOARD OF DIRECTORS 2014



Contact Us

Please address all correspondence to any of our directors:

Northrop Grumman
c/o Secretary of the Corporation
2980 Fairview Park Drive
Falls Church, VA 22042

THE BOARD OF DIRECTORS HAS APPROVED PRINCIPLES OF CORPORATE GOVERNANCE, WHICH ARE ALIGNED WITH AND SUPPORT THE COMPANY'S VALUES.

Board of Directors as of December 31, 2014.

**Wes Bush**

Chairman, Chief Executive Officer, and President
—Northrop Grumman

**Victor H. Fazio**

Former Member of Congress
Senior Advisor—
Akin Gump Strauss Hauer & Feld LLP

**Donald E. Felsing**

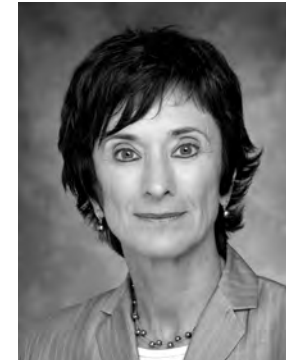
Lead Independent Director — Northrop Grumman
Former Chairman and Chief Executive Officer
— Sempra Energy

**Bruce S. Gordon**

Former President and Chief Executive Officer — NAACP
Former President, Retail Markets Group — Verizon Communications

**William H. Hernandez**

Former Senior Vice President and Chief Financial Officer — PPG Industries, Inc.

**Madeleine A. Kleiner**

Former Executive Vice President and General Counsel — Hilton Hotels Corporation

**Karl J. Krapek**

Former President and Chief Operating Officer
— United Technologies Corporation

**Richard B. Myers**

Former Chairman of the Joint Chiefs of Staff
General — United States Air Force (Ret.)

**Gary Roughead**

Former Chief of Naval Operations
Admiral — United States Navy (Ret.)

**Thomas M. Schoewe**

Former Executive Vice President and Chief Financial Officer
— WalMart Stores, Inc.

**Kevin W. Sharer**

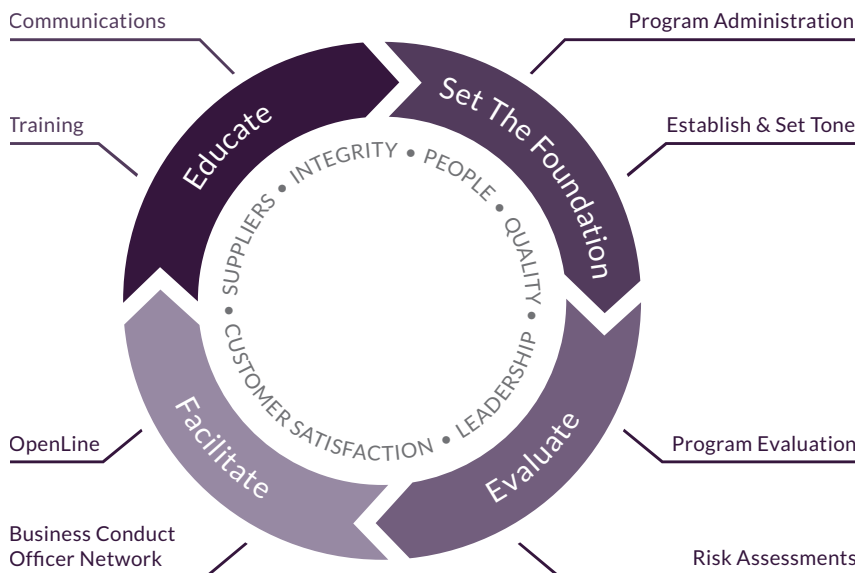
Senior Lecturer — Harvard Business School
Former Chairman and Chief Executive Officer
— Amgen

OUR ETHICS

ETHICS: OUR REPUTATION DEPENDS ON IT

At Northrop Grumman, having a strong ethical culture is fundamental and critical as we pursue sustainable top performance in our industry. As we continue to expand globally, we engage our leadership and employees to demonstrate and promote our commitment to values and personal integrity.

Elements of our Northrop Grumman Ethics Program



2014 GOALS AND PERFORMANCE SUMMARY

GOAL // Continue to strengthen our ethics program with administration and oversight of compliance policies and procedures.

PERFORMANCE // Completed a comprehensive review and revision of the corporate policy on “Ethics and Business Conduct” and corporate procedures for both Northrop Grumman OpenLine and business courtesies.

GOAL // Assess strategic evaluation and risk assessments.

PERFORMANCE // Conducted a company-wide audit of the Ethics and Business Conduct program. All sectors and the corporate office received an “effective” rating, meaning controls are effective in design and operation and provide reasonable assurance process objectives will be met. The single finding we identified pertained to a time delay in the process for the completion of new-hire ethics and compliance training. We have enhanced this process to improve completion time and reinforce follow-up steps.

GOAL // Enhance facilitation of business conduct officer network.

PERFORMANCE // In March 2014, our Ethics and Business Conduct organization hosted the annual two-day domestic Business Conduct Officers workshop at our corporate headquarters in Falls Church, Virginia, and, in April, at the international workshop in Paris, France. Our executive leaders shared their views on ethics and integrity while the business conduct officers discussed challenges, shared best practices, networked, and developed strategic plans for program enhancements. Synergy from these workshops continued with monthly business conduct officers training webinars on compliance topics, trends, and current issues.

GOAL // Develop and deploy ongoing relevant ethics and compliance communications and training.

PERFORMANCE // Ethics and compliance training is a requirement for all Northrop Grumman employees. We created an international version to address global concerns. Training modules include information on anti-corruption, bullying, harassment and human trafficking, conflicts of interest, protecting personal information, information security, key corporate procedures, OpenLine, mandatory disclosure, and export compliance. All salaried U.S. employees completed annual required certifications to disclose any conflicts of interest to a supervisor. Additionally, we supplemented training with the quarterly *High Road*, a company-wide ethics newsletter highlighting key ethics topics.

2014 HIGHLIGHTS

- ▶ **Real Experience** // Initiated an Ethically Speaking discussion series to raise ethics awareness. Executives and employees at all levels shared real scenarios of ethics and integrity positively impacting work and personal commitments.
- ▶ **Tool Kit** // Launched a monthly Integrity Talks tool kit with compliance topics. Provided managers with training resources that can be customized for specific audiences and work settings.
- ▶ **Expert Knowledge** // Established an international advisory group to evaluate and launch ethics program initiatives.
- ▶ **Global Training** // Launched annual ethics and compliance training globally by providing customized international content for in-person and online training.
- ▶ **Boot Camp** // Conducted the first annual Business Conduct Officer Boot Camp that included a full day of training on topics including procedures and compliance, the roles and responsibilities of a business conduct officer, and the importance of ethics in the defense industry.
- ▶ **Trend Study** // In 2014 we implemented multiple initiatives and enhancements to ethics training and communications based on the findings of this committee. The committee had multiple recommendations to develop initiatives to enhance training, communications, and inclusion.



We currently have a network of more than 130 U.S. and international part-time business conduct officers (BCOs) throughout Northrop Grumman. We continue to expand our program, adding Australia, Saudi Arabia, and United Arab Emirates in 2014. We also translated key ethics documents into Chinese, Danish, Dutch, French, German, Spanish, and Italian.



Globally, more than 99 percent of our employees completed ethics and compliance training in 2014, including our executive leadership. Employees on leave, the remaining 1 percent, are required to take the training upon re-entry to the workforce.

NORTHROP GRUMMAN VALUES

Our values-based program promotes an open and honest culture. We continually reinforce our commitment to ethics and integrity by abiding by our values and Standards of Business Conduct while observing all local, U.S., and international laws and regulations.

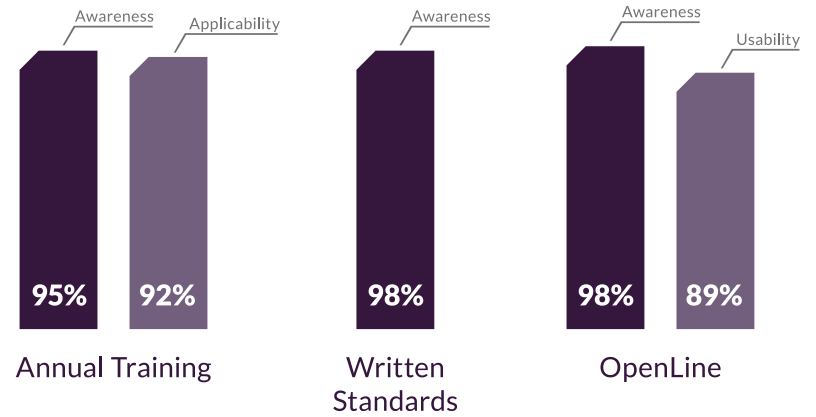
Our ethical obligations extend to all employees and anyone who represents the interests of Northrop Grumman anywhere in the world.

Our global ethics organization and business conduct officer network are available to help raise awareness, assist employees with their concerns, and provide training resources to achieve and surpass our goals. Ultimately, we pledge to conduct ourselves with integrity, deliver superior program performance, and foster an internal environment of innovation, collaboration, and trust.



WE PLEDGE TO
 CONDUCT OURSELVES
 WITH INTEGRITY AND
 FOSTER AN INTERNAL
 ENVIRONMENT OF
 INNOVATION AND TRUST.

Northrop Grumman Ethics Program Effectiveness for Employees



Source: 2012 Biannual Defense Industry Benchmark Survey administered by the Ethics Resource Center, a non-profit research organization based in Arlington, Virginia.

Leadership Engagement: Tone at the Top

Ethics and integrity messaging is a consistent and essential component of corporate and sector communications. The 2014 ethics message from our CEO Wes Bush focused on the employee-generated theme, *Ethics: Our Reputation Depends On It*. The message went to all Northrop Grumman employees, underscoring the absolute importance of maintaining the highest levels of ethics and integrity at all times. All levels of our leadership support this commitment, and the message is reinforced throughout the company using e-mail, the ethics website, videos, and announcements.



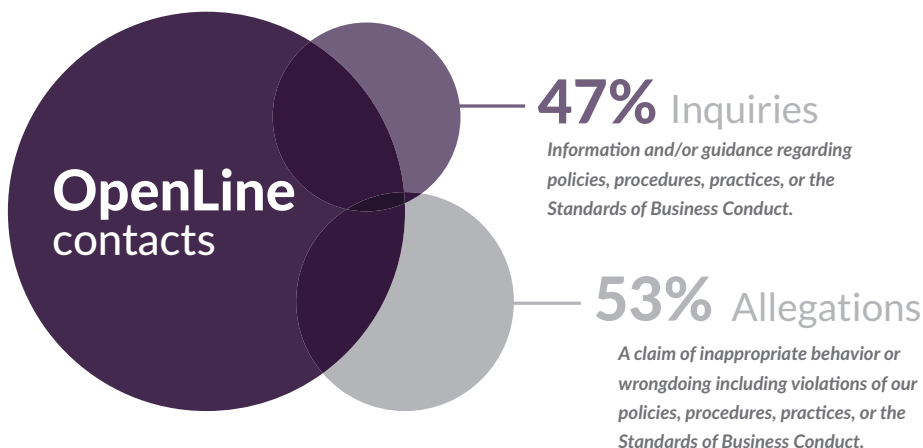
The Ethics and Business Conduct organization, led by the vice president of global corporate responsibility, reports quarterly to the audit committee of the Board of Directors and annually to the Board's policy committee.

SPEAK UP, WE'RE LISTENING: NORTHROP GRUMMAN OPENLINE

In 2014, we launched two new OpenLine employee campaigns: *Speak Up, We're Listening* and *It's Your Line, the OpenLine*. The purpose: to encourage employees to speak up about ethical matters and to promptly raise any ethics issues or concerns to a manager, business conduct officer, the Law Department, or Human Resources.

2014 OpenLine Contacts

We actively encourage our employees to raise ethics concerns or questions through our confidential OpenLine. We monitor trends, track and report aggregated data on issue type, and review actions taken. This tracking enables us to assess training needs to develop targeted training and communications to employees. Every allegation is investigated and addressed in a manner that respects the individual who has reported a concern and the confidence they have placed with us to maintain confidentiality.



2012	2013	2014
1,148 Inquiries	1,087 Inquiries	1,064 Inquiries
1,231 Allegations	1,245 Allegations	1,349* Allegations

*The increase in allegations occurred across several of our business sectors and in multiple allegation categories. We see the increase as positive and a reflection of our communication campaigns that encourage employees to use our OpenLine process.

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PROTECTING OUR EMPLOYEES

- Our Northrop Grumman OpenLine provides an additional resource where employees, business partners, and other stakeholders can seek guidance on ethics questions and report suspected violations of laws, regulations, and company policy. The toll-free 24/7 number, administered by a third-party service provider, is provided on brochures, posters, the company intranet, and Internet sites. Callers may choose to remain anonymous. In addition, an online reporting system is available to employees with international contacts for Europe and Asia.
- The company's non-retaliation policy, prominently posted online and in brochures, does not tolerate direct or indirect retaliation against any individual who reports a concern. Northrop Grumman is committed to non-retaliation, has a clear, enforceable non-retaliation policy for bona fide reporting, and disciplinary measures in place for employees who breach ethics policies.

Employee Training // Each year, our employees collectively receive thousands of hours of training covering a variety of topics. Training on our Standards of Business Conduct emphasizes our culture, integrity, ethical behavior, and treating all people fairly and with respect and dignity.

This report uses Global Reporting Initiative (GRI) "Indicators" such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.

OUR OPERATIONS IN FOCUS

Our goals: Create a workplace that fosters diversity and inclusion, operate the most trusted, world-class, innovative supply-chain organization, and integrate sustainability into the way we do business while providing a safe and productive work environment.

NORTHROP GRUMMAN





DIVERSITY AND INCLUSION

At Northrop Grumman, diversity and inclusion defines our business and our people. We have employees in all 50 states and 25 countries. Our employees are diverse in their cultures, backgrounds, skills, and experiences. It is this diversity and how we leverage it that helps us create a great workplace. With an inclusive environment where diversity can flourish, creativity and innovation are fostered, enabling us to create some of the most technically sophisticated products in the world.

Our collective diversity – culture, background, experience, thoughts, ideas, and work styles – allows us to design, build, and provide some of the most sophisticated products and services in our industry for our customers.



2014 GOALS AND PERFORMANCE SUMMARY

GOAL // Create an inclusive work environment that fosters creativity and innovation and promotes colleague engagement through awareness and inclusive leadership skills training, promoting work-life balance, and supporting Employee Resource Groups.

PERFORMANCE // In 2014 we launched a communications campaign, “Inclusion Begins With Us,” to raise employee awareness and understanding of the importance of inclusion, with a key focus on people with disabilities, veterans, and our LGBT employees. All employees were encouraged to update their voluntary self-identification status in accordance with new categories and updated definitions.

We also launched a centralized Workplace Accommodations team to enhance accessibility for people with disabilities. The team processed over 400 requests from employees for accommodations to facilitate a barrier-free environment, and has designed an online self-service tool and case management tracking. We established a mentoring program for veterans who transition from military service to corporate employment, and engaged our Operation IMPACT employees through regional events to make recommendations for further program enhancements. Employee engagement also increased significantly in 2014, as measured through our annual employee engagement survey. We expanded diversity and inclusion education and conducted new training in topics such as Unconscious Bias, Disability IQ, LGBT Inclusion, Value of a Veteran, and Leveraging Diversity and Inclusion.

As a leader in our communities, Northrop Grumman has taken an active role to advocate on behalf of civil rights and the LGBT community. We partnered with the Human Rights Campaign, a leading civil rights organization working to achieve equality for the LGBT community. We proactively challenged potentially discriminatory legislation, such as the Arizona legislation SB 1062, and we joined the U.S. Business Leadership Network, a national non-profit organization, in the first Disability Equality Index (DEI) Survey Pilot, to shape the 2015 survey launch.

2014 GOALS AND PERFORMANCE SUMMARY CONTINUED

GOAL // Increase representation of women and people of color in leadership (vice presidents and directors), as benchmarked against industry and externally available census metrics. Increase the representation of veterans and people with disabilities.

PERFORMANCE // 2014 marked the end of our five-year plan to increase the diversity of company leadership. During that time we achieved a 64 percent increase (from 16 percent in 2009 to 26.3 percent by Q4 2014) in female representation and an 85 percent increase (from 10 percent in 2009 to 18.5 percent by Q4 2014) in people of color representation within our vice president population. Within our director population, we achieved a 32 percent increase (from 19 percent in 2009 to 25.1 percent by Q4 2014) in female representation and an 18 percent increase (from 12 percent in 2009 to 14.2 percent by Q4 2014) in people of color representation. We also created an enterprise Talent Capture and Redeployment organization that identifies and promotes high-potential candidates including women and people of color. We expanded the slate of diverse interview candidates by including all management positions. In addition, we established a centralized Global Diversity and Inclusion organization to provide greater synergy and leverage best practices across the organization. Our various programs develop top talent by providing mentoring, coaching, and leadership skills that focus on building a diverse talent pipeline for the future.

In addition, in 2014 we launched an expanded self-identification campaign, “Inclusion Begins With Us,” with greater focus on the inclusion of people with disabilities, veterans, and the LGBT communities.

GOAL // Engage various external stakeholder groups that support and serve Northrop Grumman’s values and interests in recruiting, developing, and recognizing a diverse workforce and contracting with diverse suppliers.

PERFORMANCE // We partnered with many external organizations in support of the development and growth of diverse talent. These organizations provide forums for our employees to create long-lasting connections, to volunteer and develop leadership skills in their communities, and to contribute to the company’s success through the recruitment and development of future STEM talent. Several of our ERGs actively participate in and align ERG meetings to annual partner conferences. These events provide access for ERGs to learn about other inclusion strategies and programs that may enhance our work environment.

Our Diversity Representation Chart

Job Category	Total	% Men	% Women	% White	% Black Or African American	% Hispanic Or Latino	% Asian	*% Other
Exec/Senior-Level Officials and Managers	203	73.89%	26.11%	82.27%	6.90%	3.94%	5.42%	1.48%
First/Mid-Level Officials and Managers	10,292	76.53%	23.47%	80.42%	5.83%	5.03%	7.11%	1.60%
Professionals	37,197	73.27%	26.73%	70.43%	7.45%	6.80%	12.80%	2.52%
Technicians	4,487	83.60%	16.40%	61.93%	11.23%	13.68%	10.56%	2.59%
Administrative	3,712	27.10%	72.90%	62.93%	16.35%	13.04%	4.66%	3.02%
Craft Workers	3,763	92.19%	7.81%	59.55%	13.29%	19.27%	5.29%	2.60%
Operatives	1,850	72.27%	27.73%	56.59%	13.35%	14.43%	11.57%	4.05%
Laborers	151	80.13%	19.87%	44.37%	11.92%	34.44%	1.32%	7.95%
Service Workers	298	71.48%	28.52%	48.32%	23.83%	22.82%	3.02%	2.01%
TOTAL U.S. WORKFORCE	61,953	72.92%	27.08%	69.82%	8.61%	8.50%	10.61%	2.46%

*% Other= American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, two or more races

Source = 2014 EEO-1 Report

G4-DMA

OUR PEOPLE

At Northrop Grumman, developing our people goes beyond fulfilling a strategic priority. Our values-based culture provides the framework to help each employee maximize his or her potential. Diversity and inclusion are fundamental to our business, and our programs and talent management processes recognize that every individual's development needs and aspirations are unique.

Development // We track and monitor the diversity of participation in our leadership programs, to ensure the pipeline of talent for the future. We track employee certifications and offer access to learning programs online, virtually and in person. We measure and take actions to improve employee engagement, as we believe there is a strong correlation between this and company performance.

Equal Pay Opportunity // We benchmark our salaries by position, utilizing external salary surveys. We monitor pay rates to ensure equitable remuneration for women and people of color. Our incentive system is performance-based. Women hold more than 26 percent of executive positions and people of color hold nearly 20 percent of executive positions. Our Corporate Policy Council, the most senior executives of the company, is 38.5 percent female and 15.4 percent people of color.

Equal Employment Opportunity // We adhere to Equal Employment Opportunity (EEO) and Affirmative Action principles and policies, and build them into our operations across the company. We develop annual Affirmative Action plans, where applicable, that document specific actions to increase the representation of minorities, women, and people with disabilities, and continually improve our veterans hiring initiatives.

Performance Reviews // All employees receive regular performance feedback and are eligible to participate in development programs, to enable them to perform effectively in their current positions and to encourage achievement of individual career goals. Employees receive formal performance reviews every 12 to 15 months, based on their hire date within a calendar year and scheduling. In 2014, approximately 96 percent of our employees received an annual performance review, which includes feedback on development needs.

Benefits // Our employees who are regularly scheduled to work 20 or more hours per week are eligible for health and welfare benefits under the Northrop Grumman Health Plan, including benefits for domestic partners and transgender benefits. Qualified full-time and part-time employees are eligible for the 401(k) plan, retirement plans, life and disability insurance, education assistance, and many other employee benefits.

Agency Complaints // In 2014 external agencies logged 31 complaints of discrimination across the company. We investigate all such complaints and take appropriate action. Of these complaints, we closed 13, with 18 still open/pending as of December 31, 2014.

Collective Bargaining // Currently, collective bargaining agreements cover approximately 5 percent of Northrop Grumman employees. At Northrop Grumman facilities our employees are free to exercise their rights of freedom of association and collective bargaining.

This report uses Global Reporting Initiative (GRI) "Indicators" such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.



2014 HIGHLIGHTS

- ▶ **Work-Life** // In 2014 we expanded access to child and/or adult care solutions, and College Coach services across the enterprise. We also launched a team to investigate issues facing employees who take company leave due to life-changing events and sometimes face difficult decisions to leave the workforce. Our team conducted in-depth focus groups, surveys and reviewed company policies and developed recommendations for policy changes to retain employees through these challenging times, as well as attract potential new candidates who want to re-start their careers after a hiatus. Our Employee Assistance program also provides support for employees during difficult personal and professional challenges.
- ▶ **Northrop Grumman Women's Conference** // Four hundred high-achieving women from across the enterprise gathered in Long Beach, California, to network and participate in community service projects. The CEO and a member of the company's Board of Directors provided personal perspectives on leadership. Women executives and sector leaders participated as panelists in discussions of work-life balance, careers, and professional development, emphasizing everyone's role in achieving company performance and creating a legacy.
- ▶ **Recruiting** // In 2014 we recruited over 800 college graduates and 1,000 college interns from leading educational institutions and through diversity conference participation. Through these relationships, we hire college graduates who reflect the diversity of college and university students nationally. Half of our college new hires in the past four years have been women or people of color.
- ▶ **Conference Engagement** // Our Global Diversity and Inclusion team collaborated across sectors and functional groups to increase the company's engagement with our external partners (see page 14 for a listing of our external partners). As a result we have ramped up Northrop Grumman's participation by sponsoring more workshops, increasing hiring manager attendance, securing strategic executive speaking opportunities, and increasing hires from these events.
- ▶ **Operation IMPACT** // Operation IMPACT concluded its ninth year as our award-winning initiative focused on supporting severely wounded, ill, and injured service members and their families with transition and career support services. The program supported more than 50 events that included career fairs, employment workshops, conferences, symposiums, and program briefings. These activities and the addition of a contracted resource increased hiring by 100 percent, added 56 new Operation IMPACT candidates, and increased the Network of Champions to 116 partner companies.
- ▶ **Cross-Cultural Resources** // Understanding various cultural settings where we do business is fundamental to developing an inclusive mind-and-skill set. For that purpose, we have implemented a cross-cultural competency resource that is available to all employees. GlobeSmart covers over 90 countries and helps expatriates and business travelers increase their awareness and understanding of local business skills, customs, culture, and much more.
- ▶ **Global Diversity and Inclusion Education** // In 2014, we developed and launched an enterprise Diversity and Inclusion Education Framework. The program is anchored by two key courses: Unconscious Bias and Microinequities. These fundamental courses provide key insights for our leaders to ensure a work environment that is inclusive and respectful. By the end of 2014, more than 3,500 leaders and employees attended Microinequities training and more than 3,400 attended Unconscious Bias training. We also launched a new cohort program for aspiring female leaders and the Women's Executive Program. Over 100 new and aspiring female leaders, from across the company and all business functions, were identified for participation through our enterprise succession planning process for these strategic development and networking opportunities.

ERG mission: *To create an inclusive work environment that empowers Northrop Grumman's diverse employees to support our innovation, recruitment, development, retention, and community outreach efforts to achieve a competitive advantage.*

14 EMPLOYEE RESOURCE GROUPS WITH **190** CHAPTERS **→** **19,000** NORTHROP GRUMMAN EMPLOYEES ENGAGED

EMPLOYEE RESOURCE GROUPS

Our employees are engaged in numerous activities across the enterprise. To demonstrate that statement, in 2014 more than 19,000 Northrop Grumman employees engaged in 14 ERGs in more than 190 chapters across the company, including those representing African Americans, Asian Pacific Islanders, Hispanics, Native Americans, women, people with disabilities, veterans, LGBT employees, young professionals, parents, multiple generations, and environmentalists. All employees are welcome to join any group of their choosing – or more than one.

By providing development opportunities, leading community outreach efforts, and contributing to solving today's business problems, employees feel more engaged and valued by their peers and managers. In turn, we create a more innovative and productive workforce.

An executive sponsor champions each group by providing advice and guidance to those leaders and members. Employees enjoy the events, where they work alongside executives who provide them visibility, leadership, and professional development experiences.

The various disabilities and veterans groups have been instrumental in assisting everyone at Northrop Grumman to prepare for new government regulations on the hiring, employment, and retention of individuals from these populations. The development of training programs for managers and employees encourages education and awareness.

OUR FORMAL EEO/AA POLICY

At Northrop Grumman, a strong commitment to diversity and inclusion is founded on our values and leadership and implemented through written

policies and procedures that mandate a nondiscriminatory workplace. We adhere to Equal Employment Opportunity (EEO) and Affirmative Action (AA) principles and policies, and build them into our operations across the company. We develop annual Affirmative Action plans that document specific actions to improve the representation of minorities, women, and people with disabilities, and continually improve our veteran hiring initiatives. These Affirmative Action plans reflect our commitment to ensuring equal employment opportunities for qualified applicants and employees without regard to race, color, religion, creed, sex, sexual orientation, gender identity/expression, marital status, national origin, age, veteran status, disability, or any other protected class. We adhere to a policy of nondiscrimination and no harassment consistent with applicable, federal, state, and local laws, including our commitment to maintain a working environment free from harassment and bullying. For additional information regarding our EEO/AA policies, please visit our Corporate Responsibility [microsite](#).

PRIDE IN OUR PEOPLE

We partner with many external organizations with missions to develop, support, and grow talent in underrepresented communities. These organizations also offer our employees a forum to create lasting connections and assist in recruiting. Another key strategy is our annual ERG strategy and networking meetings that take place at these external partner conferences. These events allow our employees and leaders to meet and develop strategies and programs that promote more inclusive workplaces throughout the company. The following Employee Resource Groups align their annual meetings to the corresponding national conference:

- **The African American Task Group** // Black Engineer of the Year Conference
- **Asian Pacific Professional Network** // NAAAP Conference
- **Adelante** // Great Minds in STEM HENAAC Conference
- **Northrop Grumman Women Engineers Enterprise** // Society of Women Engineers
- **The Victory of Impairment Challenge Enterprise** // U.S. Business Leadership Network
- **Pride in Diversity Alliance** // Out and Equal

Other Highlights

#3

America's Top Organizations for Multicultural Business Opportunities, by DiversityBusiness.com

#5

Corporate Responsibility Magazine's 25 Most Improved Corporate Citizens 2014, moving up from #135 to #44

#6

Minority Engineer Magazine

#28

Among Top 50 Companies in Diversity by DiversityInc. magazine

#32

"Top 50 Employers" by Woman Engineer magazine



**HALF OF OUR COLLEGE NEW HIRES
IN THE PAST FOUR YEARS HAVE BEEN
WOMEN OR PEOPLE OF COLOR.**

SUPPLIER RESPONSIBILITY AND DIVERSITY

ENSURING HIGH STANDARDS

At Northrop Grumman, our vision is to have the most trusted, world-class, innovative supply-chain organization that delivers value to our customers. We do so through integration of highly skilled people, suppliers, processes, tools, and communications. Additionally, to ensure we attain goals in alignment with our values, we require all

employees with procurement authority to complete additional specialized ethics training each year, as well as the Disclosure of Conflicts of Interest and Certificate of Standards of Business Conduct courses.

2014 GOALS AND PERFORMANCE SUMMARY

GOAL // Ensure performance of suppliers most critical to Northrop Grumman is consistent with our values and our customers' expectations.

PERFORMANCE // We routinely evaluated performance of our most critical suppliers, monthly or quarterly, using standard industry supply chain criteria for schedule, cost, and quality of performance. When a specific subcontract warranted, we also evaluated general management, product performance, systems engineering, software engineering, technical aspects, team commitment, supply chain, proposal adequacy, service levels, and process effectiveness.

GOAL // Establish a single, consistent operational focus promoting best practices in environmental control and sustainability with our supply base and customers.

PERFORMANCE // Our supplier portal Online Automated Supplier Information System (OASIS) provided instant access to our supplier terms and conditions and other important considerations in conducting business with Northrop Grumman. In 2014, we began a multi-year effort to improve our suppliers' experience through an OASIS enhancement that further solidified the "One Northrop Grumman" charter we instill throughout the company.

GOAL // Enhance awareness of counterfeit issues throughout Northrop Grumman and avoid introduction of counterfeit parts through our supply chain.

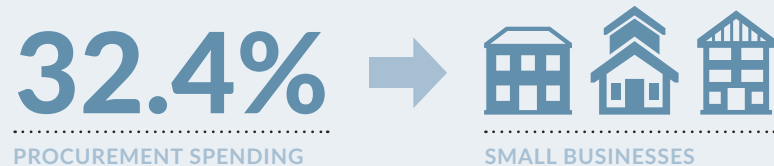
PERFORMANCE // We refreshed our employee counterfeit awareness training and developed five new modules for specific roles and responsibilities, including procurement, data and test, programs, detection, and engineering. We proactively reduced the number of electronic distributors with which we do business, buying only from those who meet our stringent requirements for counterfeit avoidance. We have established operating unit integrated product team structures to ensure all stakeholders are engaged from the early design stages of our products to reduce counterfeit risk. We are reviewing all existing policies and procedures to ensure we are employing the most robust counterfeit avoidance practices.

GOAL // Continue to ensure our procurement employees' commitment to ethical conduct. Identify any conflicts of interest with current and potential suppliers.

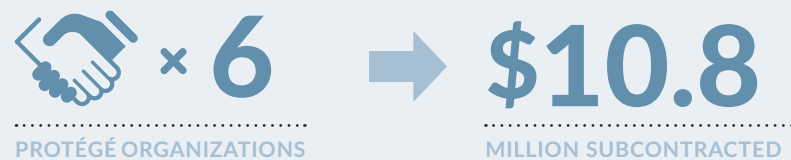
PERFORMANCE // During 2014, each procurement employee reviewed the procurement integrity policy and signed a certification specifying that he or she will not accept supplier gifts, bribes, or kickbacks. We also regularly perform due diligence to assess whether suppliers or potential suppliers have been debarred or suspended from U.S. government contracting.

2014 HIGHLIGHTS

- ▶ **Local Focus** // Whenever possible, we used local small businesses within communities surrounding our operating facilities. More than 32 percent of Northrop Grumman procurement spending went to small, women- and minority-owned businesses.



- ▶ **U.S. Government Mentor-Protégé Program** // We managed six Mentor-Protégé agreements, and in fiscal year 2014 subcontracted \$10.8 million to these protégé organizations.



- ▶ **Small Business Support** // 2014 marked the fourth consecutive year that we hosted a joint technology interchange workshop creating synergy among small business owners, military representatives, and Northrop Grumman employees. As part of the joint Department of Defense Industry Small Business Innovation Research (SBIR)/ Commercialization Readiness Program, Air Force and Navy representatives invited people from SBIR firms for one-on-one meetings at a Northrop Grumman facility.

AT NORTHROP GRUMMAN, OUR VISION IS TO HAVE A HIGHLY TRUSTED, WORLD-CLASS, INNOVATIVE SUPPLY-CHAIN ORGANIZATION, ONE THAT DELIVERS VALUE TO US AND OUR CUSTOMERS.



DEPARTMENT OF DEFENSE (DoD) MENTOR-PROTÉGÉ PROGRAM

This program encourages major DoD prime contractors to develop the technical and business capabilities of:

- Small Disadvantaged Businesses
- Women-Owned Small Businesses
- Service-Disabled Veteran-Owned Small Businesses
- Historically Underutilized Business (HUB) Zone Small Businesses
- Organizations Employing Severely Disabled Individuals

Since the inception of the Mentor-Protégé Program, Northrop Grumman representatives have provided guidance to more than 130 small business firms. Northrop Grumman has won 22 Department of Defense Nunn-Perry awards, the most awards of any prime contractor. Nunn-Perry awards are the highest honor prime contractors can receive for participation in the program. The award honors retired U.S. Senator Sam Nunn, who sponsored legislation to enact the Mentor-Protégé Program in 1991, and former Secretary of Defense William Perry.

BUILDING STRONG SUPPLIER RELATIONSHIPS

Suppliers to Northrop Grumman are valued team members. We expect each to understand the critical need for top performance in quality, schedule, delivery, occupational health and safety, human rights and labor, and environmental responsibility. Northrop Grumman suppliers receive an annual letter outlining our ethics policies and code of conduct. During 2014 we also built awareness throughout our supply base regarding Equal Employment Opportunity/Affirmative Action (EEO/AA) and material authenticity. We communicated with our supply base representatives to emphasize our company's continued commitment to EEO/AA and the detection, avoidance, and reporting of counterfeit material.

Most Critical Suppliers Determination

We use a dynamic set of criteria to determine the “most critical suppliers” to our core business requirements.

This tiered methodology results in leadership engagement with our most critical suppliers at corporate, sector, and program levels. We designed these criteria to be flexible to correlate each element appropriately based on business needs.

Critical Suppliers Criteria

- ✓ Level of criticality of program
- ✓ Past performance
- ✓ Dollar value and total spending
- ✓ Open purchase order value and volume
- ✓ Sole-source versus single-source
- ✓ Multiple programs
- ✓ Affordability
- ✓ Risk and financial health
- ✓ Investments, business agreements, and small business categories
- ✓ Unique technology
- ✓ Current pursuits, future pursuits, and strategic partnering efforts

SMALL BUSINESS PERFORMANCE

At Northrop Grumman we consistently exceed U.S. government performance guidelines. We serve as the prime contractor on government programs. In that role there are diminished opportunities and increased challenges to achieve small business goals, because the most influence on performance is at the component or subassembly level of the process. To that end, we have initiated tools such as Technology Domain Teams to concentrate our supply base management efforts on key technology areas.

Three-Year Company Performance

We emphasize the importance of meeting our small business performance goals, which is key to our corporate values. Throughout Northrop Grumman, we maximize small business performance by aligning individual and organizational performance goals that flow through to our suppliers.

Small Business Innovation Research (SBIR)

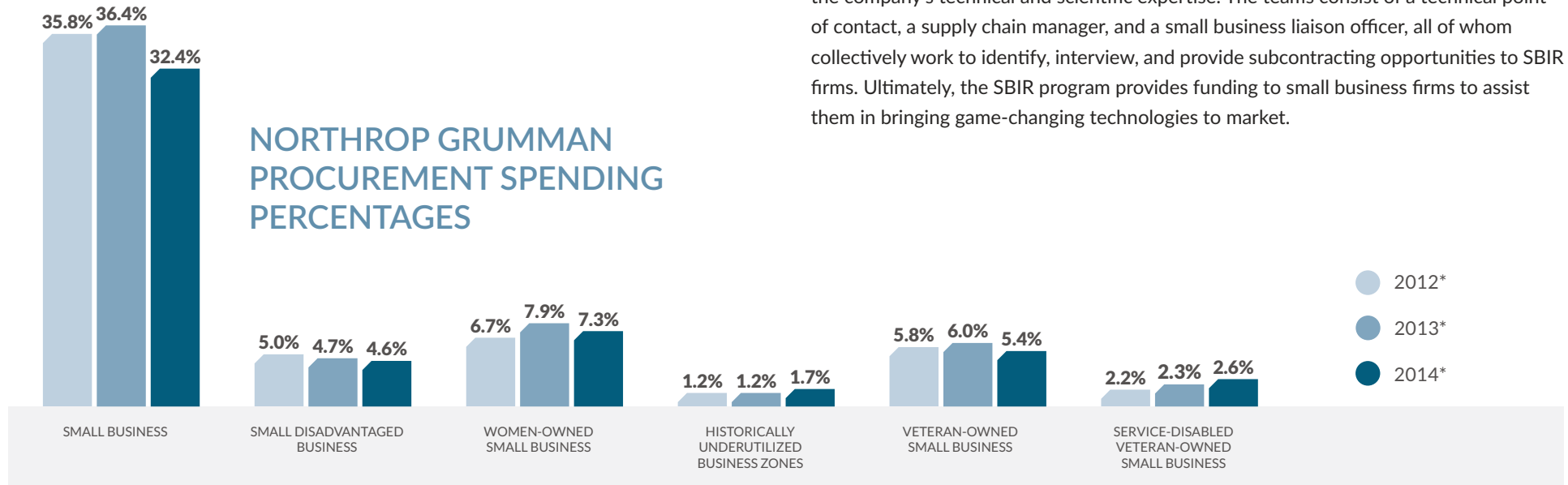
Throughout 2014 we continued to develop our SBIR program, which is a Small Business Administration effort to engage such firms in federal research and development projects with commercialization potential. The SBIR program is a three-phase process of transitioning new small-business technology from proof-of-concept to commercialization within government platforms.

Objectives of SBIR

- Stimulate technological innovation
- Use small businesses to meet federal R&D needs
- Foster and encourage participation by minorities and disadvantaged businesses in technological innovation
- Increase private-sector commercialization innovations derived from federal research and development.

We currently track an estimated 20 SBIR firms involved in all phases of the program.

Technical lead employees at each Northrop Grumman sector use the program to augment the company's technical and scientific expertise. The teams consist of a technical point of contact, a supply chain manager, and a small business liaison officer, all of whom collectively work to identify, interview, and provide subcontracting opportunities to SBIR firms. Ultimately, the SBIR program provides funding to small business firms to assist them in bringing game-changing technologies to market.



*Government Fiscal Year



SUPPLY CHAIN MANAGEMENT / INTERNATIONAL

- As the Northrop Grumman business portfolio expands further into international markets, we are enhancing our efforts to prevent human trafficking and other misconduct within our global supply base. To drive our charter and interactions within the supply base, we developed a standard set of terms and conditions to use when our U.S. domestic entities contract with international parties. We have a robust and comprehensive anti-corruption program focused on ensuring the integrity of our international supply chain and other third-party relationships involved with our international business.
- We established a collective approach to addressing the compliance requirements of Section 1502 of the Dodd-Frank Act, "Conflict Minerals." We are committed to complying with the Dodd-Frank disclosure requirements. Northrop Grumman was compliant with SEC disclosure requirements in 2014, indicating an "undeterminable" status, which is consistent with our industry peers.
- Northrop Grumman has an integrated global supply chain. Each of our suppliers is provided an annual letter stating, "Strict adherence to ethical practices is a Northrop Grumman priority and is an essential element of all our supplier relationships." The letter links the supplier to the Northrop Grumman Associate Values Ethics and Conduct brochure, which outlines our values and company standards for ethical behavior for employees and suppliers.



RISK MANAGEMENT

We have a robust supply chain end-to-end risk management program that addresses all types of risks. Faced with economic and other challenging constraints in 2014, our customers continued to express concerns about the vulnerability of the defense industrial supply base. Our supply chain could be vulnerable in times of budget reductions with a potential impact on our suppliers. Being sensitive to the financial stresses of the supply base in the prevailing economic environment, in 2014 we continued our supplier financial monitoring and reporting of approximately 300 suppliers to identify early signs of financial distress. We implemented proactive mitigation strategies for various critical small businesses where financial stress could impact our ability to meet contractual requirements.

SUPPLY CHAIN DIVERSITY

The Northrop Grumman Global Supplier Diversity Program office is the link to small and disadvantaged business owners interested in procuring work with Northrop Grumman. We have received national recognition for our efforts to increase the number of successful minority and women-owned subcontractors. Along with these outreach and mentoring programs, we sponsor academic, customer, and industry activities that support growth and development in the small business community.

This report uses Global Reporting Initiative (GRI) "Indicators" such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.



STRICT ADHERENCE TO ETHICAL PRACTICES IS A NORTHROP GRUMMAN PRIORITY AND IS AN ESSENTIAL ELEMENT OF ALL OUR SUPPLIER RELATIONSHIPS.

ENVIRONMENTAL, HEALTH, AND SAFETY

INTEGRATING SUSTAINABILITY, COMPLIANCE EXCELLENCE, AND SAFETY

At Northrop Grumman, our objectives are simple:

- Provide a safe and productive work environment to protect our people.
- Strive for environmental compliance and excellence, and promote efficiency, affordability, innovation, and forward thinking in our operations.
- Integrate environmental sustainability into the way we do business.

ENVIRONMENTAL HEALTH AND SAFETY COMPLIANCE

Inherent in our complex and diverse operations are a multitude of environmental, health, and safety risks. Our Environmental, Health, and Safety organization leads assessment and risk-mitigation efforts at Northrop Grumman.

Compliance is fundamental to our operations:

We are committed in our efforts to comply with applicable laws and regulations with the objective of protecting our people and the environment.

Our Environmental, Health, and Safety professionals are responsible for implementing programs and practices that support compliance across our diverse operations. They also work with management to provide employees with the resources and support necessary to operate safely and mitigate environmental impacts.

G4-EN20, G4-EN21, G4-EN22, G4-EN23

REGULATORY COMPLIANCE

We are subject to a variety of environmental laws and regulations, including those related to ozone-depleting substances (e.g., refrigerants) and other air emissions (e.g., nitrogen dioxide and hazardous air pollutants), hazardous waste management, and pollutant discharge permits. We do not publicly disclose the details of our emissions or discharges because of the proprietary nature of our operations; however, we disclose the required information to applicable regulatory agencies.

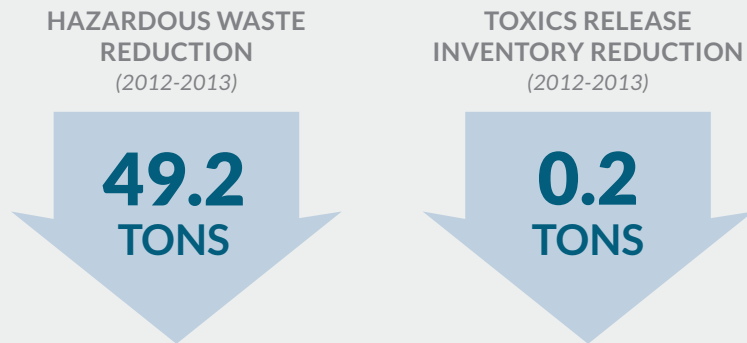
This report uses Global Reporting Initiative (GRI) "Indicators" such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.

Dedicated Mission: *to ensure that everyone at Northrop Grumman is able to deliver their best performance at all times in a safe workplace, applying practices that protect and conserve the environment.*

G4-EN5

HAZARDOUS WASTE AND TOXICS RELEASE INVENTORY

We have a proven history of reducing the toxic and hazardous materials used in Northrop Grumman manufacturing operations. Since 2009 we have reduced our hazardous waste generation by 394.4 tons and toxic release inventory chemical use by 28 tons. Although the intensity of our product and service lines fluctuates in accordance with demand and emerging technologies, we are committed to reducing our environmental impact, from the design phase through final production.



We are implementing process improvements to address the one-year lag in the disclosure of hazardous waste and toxics release inventory performance.

OCCUPATIONAL HEALTH AND EMPLOYEE SAFETY

We are committed to providing a safe and healthy workplace for our employees and visitors. A fundamental aspect of our strategy is to empower employees, using tools and resources, to take ownership of their safety in their day-to-day activities. For example, at many Northrop Grumman sites we employ safety observers who participate in safety committees and provide additional “eyes and ears” for regulatory compliance and safe working conditions. These committee members also engage with employees to share information, report concerns, and make suggestions to management.

G4-LA6

KEEPING OUR PEOPLE SAFE // (Percentage change from 2013)

To evaluate the effectiveness of our health and safety programs and to identify systemic deficiencies or common challenges across our operations, we use the following metrics:

2013	2014	% change
0.99	0.86	-13.1% <i>Lower score = better performance</i>

Total Case Rate // Total number of Occupational Safety and Health Administration-recordable occupational injuries and illnesses; i.e., cases requiring medical treatment beyond first aid, per 100 full-time workers.

2013	2014	% change
14.05	9.89	-29.6%

Lost Work Day Rate // Total number of lost work days per 100 full-time workers.

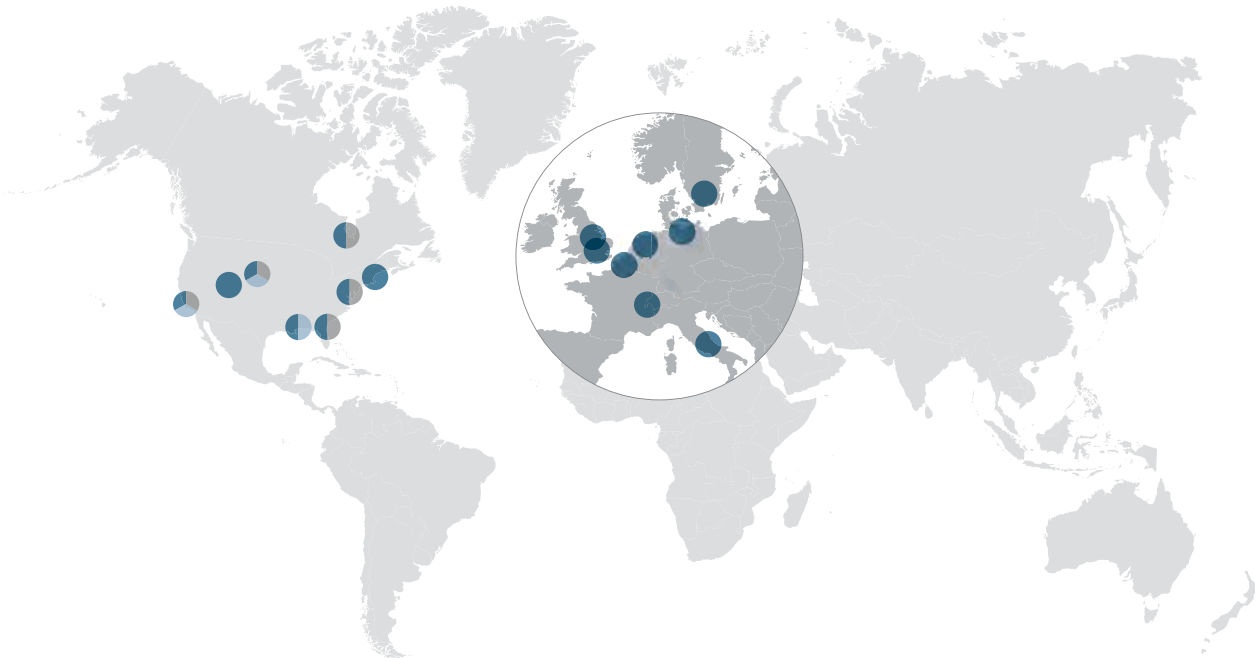
2013	2014	% change
0.28	0.25	-10.7%

Days Away Case Rate // The total number of cases, per 100 full-time workers, that resulted in lost or restricted days or job transfer due to work-related illnesses or injuries. Used in conjunction with the other metrics, Days Away Case Rate helps identify the severity of workplace injuries and illnesses.

This report uses Global Reporting Initiative (GRI) “Indicators” such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.



Global Environmental and Safety Certifications: Major Northrop Grumman Facilities



- **International Organization for Standardization (ISO) 14001 - Environmental Management Systems:** An international standard that establishes the required framework for effective environmental compliance management systems.
- **Occupational Health and Safety Assessment Services (OHSAS) 18001:** An international health and safety management system that supports occupational risk management and health and safety performance.
- **Voluntary Protection Program (VPP):** U.S. Occupational Health and Safety Agency program that requires preventive measures that go beyond regulatory requirements to improve worker health and safety.

ENVIRONMENTAL, HEALTH, AND SAFETY COMPLIANCE AUDITS

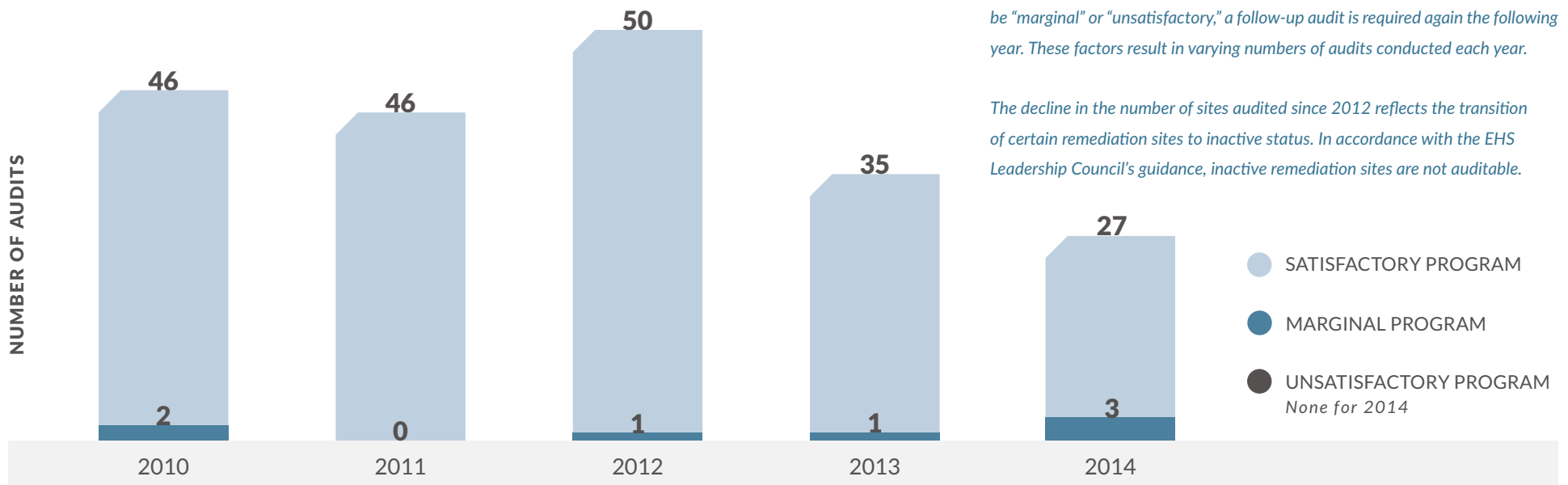
2014 GOALS AND PERFORMANCE SUMMARY

GOAL // To achieve a minimum 90 average score (out of 100) for completeness and implementation of management systems at audited sites. Evaluation of management systems includes assessments of applicable environmental, health, and safety compliance programs, policies, and practices, and is a reliable indicator of risk management.

PERFORMANCE // As part of the audit process, we assessed the degree to which all applicable environmental, health, and safety program elements were implemented at the site level. We then evaluated and scored each site for management systems maturity. In 2014, our overall score was 93 percent (out of 100 percent).

WE ARE COMMITTED TO PROVIDING A SAFE AND HEALTHY WORKPLACE FOR OUR EMPLOYEES AND VISITORS.

Environmental, Health, and Safety Audit Results 2010 - 2014



ENVIRONMENTAL SUSTAINABILITY

greenNG: A Catalyst for Driving Performance

We are integrating environmental sustainability into our organizational culture, which drives performance. To increase focus on this performance, our executives are accountable for achievement of sustainability goals. Environmental sustainability is one of six non-financial corporate performance metrics.

The link between environmental sustainability and executive compensation reflects the level of commitment from our Board of Directors and reinforces the role of leadership and engagement throughout Northrop Grumman.

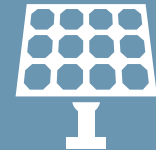
Our Strategy



ENERGY EFFICIENCY



RESOURCE REDUCTION



RENEWABLE ENERGY



ENVIRONMENTAL CONSERVATION



RISK MITIGATION



VALUE CREATION

2014 GOALS SUMMARY

Greenhouse Gas Emissions // Maintain 25 percent greenhouse gas intensity reduction from 2008 levels across our global operations; i.e., metric tonnes of carbon dioxide equivalents per millions of dollars in sales. We achieved a 25.3 percent intensity reduction as of year-end 2012, and committed to maintain the 25 percent intensity reduction level through the inaugural goal period (i.e., year-end 2014).

Water Use and Solid Waste // Implement at least 75 percent of best management practices to reduce water use and solid waste in our large owned and leased domestic buildings (100,000 square feet and greater). We made this commitment in 2010, and developed our practices in collaboration with Conservation International, using U.S. Environmental Protection Agency industry best practices as a foundation.

2014 PERFORMANCE SUMMARY

Greenhouse Gas Emissions // In calendar year 2014 we reduced 14,300 MTCO₂e*, resulting in a 26.2 percent intensity reduction from 2008, equivalent to a 31.4 percent absolute reduction. Through initiatives focused on facilities systems, information technology infrastructure, and engineering and manufacturing process modifications, we achieved an estimated reduction of 12,400 MTCO₂e.

* MTCO₂e = metric tonnes of carbon dioxide equivalent

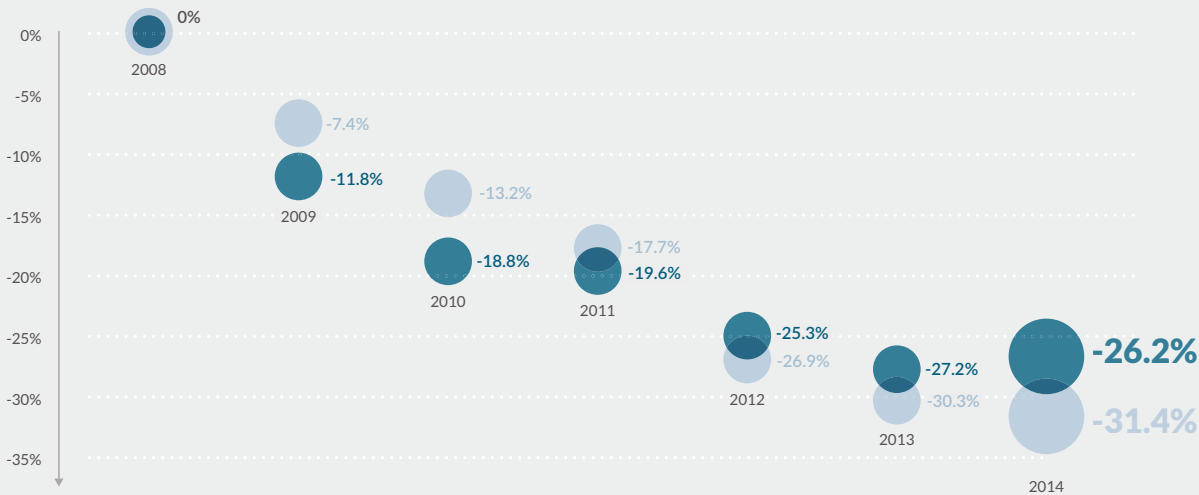
Water Use and Solid Waste // We achieved our 2014 goal to implement at least 75 percent of water use and solid waste reduction best management practices:

- 79.3 percent implementation rate of water best management practices
- 96.5 percent implementation rate of solid waste best management practices

IN 2014 WE MAINTAINED OUR 25 PERCENT GHG INTENSITY PERFORMANCE AND ANNOUNCED OUR 2020 ABSOLUTE GHG REDUCTION GOAL.

G4-EN5, G4-EN6, G4-EN15, G4-EN16, G4-EN19

GREENHOUSE GAS EMISSIONS REDUCTION PERFORMANCE



- ABSOLUTE GHG EMISSIONS
(Unit of Measure = MTCO2e)
- CARBON INTENSITY
(Unit of Measure = MTCO2e/\$USD millions sales)

The change in GHG intensity from 2013 to 2014 was driven by a 3 percent reduction in sales and related reduction in our real estate portfolio as well as an increase in total heating and cooling days (increased energy demand) in regions where we operate.

We develop our inventory in accordance with the GHG Protocol Corporate Accounting and Reporting Standard, which is inclusive of mergers, acquisitions, and divestitures. We disclose our complete GHG inventory and annual environmental performance via CDP. Our annual CDP Climate Change responses are publicly available via the [CDP website](#).

2020 ENVIRONMENTAL SUSTAINABILITY GOALS

In 2014 we renewed our commitment to continued environmental sustainability performance, establishing the following 2020 **greenNG** goals for our global operations. These goals will become effective in 2015 and maintain our focus on reducing our own environmental impacts, mitigating risks associated with climate change, and supporting the commitments of our customers and industry partners.

- Reduce absolute Scope 1 and 2 GHG emissions by 30 percent from 2010 levels.
- Reduce potable water use by 20 percent from 2014 levels.
- Achieve a 70 percent solid waste diversion (from landfill) rate.

These 2020 environmental sustainability goals align our performance targets with those of Northrop Grumman customers and peers. Government leaders in the United States, Australia, Europe, and Japan have established similar 2020 GHG emissions-reduction goals. These commitments are challenging and present opportunities globally and at home.

In 2014 the U.S. Department of Defense (DoD) published their “Quadrennial Defense Review” and “2014 Climate Adaptation Roadmap,” two reports that identify the significance of climate and its impacts related to DoD’s core mission of national defense and security. The Quadrennial Defense Review identified climate change as a “threat multiplier” and the Climate Change Adaptation Roadmap stated, “Climate change will affect the Department of Defense’s ability to defend the Nation and poses immediate risks to national security.”

As a global security company and prime contractor to the U.S. Department of Defense, we share our customers’ priorities and support their strategic objectives. Risk mitigation and business opportunities motivate us to meet our customers’ increasing needs and exceed expectations for high-performing products that contribute to global security.

As world events repeatedly demonstrate, the linkage between social stability, strong governance, environmental protection, and economic health is increasing. Our capabilities support our customers’ environmental goals, including those outlined in Executive Order 13514: Federal Leadership in Environmental, Energy and Economic Performance, and now in Executive Order 13693: Planning for Federal Sustainability in the Next Decade.

Our 2020 GHG goal reflects consideration of science-based climate change projections in sources such as The 3% Solution to ensure our goal is impactful.*

*World Wildlife Fund-US, CDP, 2013

WATER CONSERVATION AND RISK MITIGATION

In support of our objectives, we developed enhanced water-use-reduction practices strategically focused on water reuse, alternative sources, and conservation. Although water usage is not significant at Northrop Grumman facilities collectively, we recognize that wider water stress is creating risks to business continuity in many areas of the world. With operations in California and Australia, two regions where water stress is a reality, we are committed to impactful actions to conserve this precious resource.

G4-EN9, G4-EN12, G4-EN22

WATER USE REDUCTION

We are establishing an Enterprise Water Council to effectively develop and manage water-use-reduction strategies that reduce water use and operational risk associated with current and projected water availability. We are performing water-use assessments across the enterprise to better understand our water usage and opportunities for conservation.

During 2014 we leveraged our energy reporting system to gather water utility data and calculate our 2014 base-year water footprint inventory for our global operations.

This report uses Global Reporting Initiative (GRI) “Indicators” such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.



G4-EN1, G4-EN2, G4-EN23

SOLID WASTE DIVERSION AND VALUE RECOVERY

To support our 2020 solid waste diversion rate goal, we enhanced our solid waste reduction best management practices. Leveraging our expertise in lean manufacturing and Six Sigma, our strategy includes a comprehensive evaluation of solid waste generation throughout our operations, to identify opportunities for reduction and material recapture.

We are undertaking solid waste assessments across the company as a critical initiative to examine our waste streams and identify opportunities for reduction and diversion.

This report uses Global Reporting Initiative (GRI) "Indicators" such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.

Water Use and Solid Waste Diversion



2014 Water Footprint of our Global Operations



2014 Solid Waste Diversion Rate of our Global Operations

G4-EN17

SCOPE 3 EMISSIONS

In addition to accounting for GHG emissions from our own operations (Scope 1 and 2), we account for Scope 3 GHG emissions, which includes indirect upstream and downstream activities. The expanded scope of our GHG emissions accounting mirrors and supports the sustainability objectives of the U.S. federal government, our largest customer, as outlined in Executive Order 13693: Planning for Federal Sustainability in the Next Decade.

In 2014, we received ISO 14064-3 “Limited Assurance” via third-party verification for our Scope 3 – Business Travel GHG inventory.

This report uses Global Reporting Initiative (GRI) “Indicators” such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.

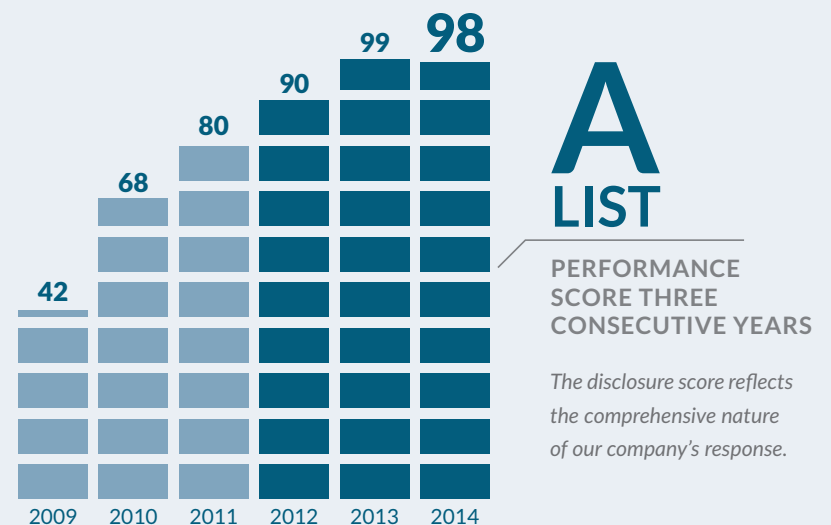
ALTERNATIVE AND RENEWABLE ENERGY

We continue to evaluate options for alternative and renewable energy at our owned sites and maintain our multi-year purchase commitment for renewable energy certificates (RECs) purchased in 2012 that support renewable energy installations directly linked to the electricity grid. Through utility providers and the energy market, our REC purchases support solar, wind, and geothermal energy installations. We intentionally selected Virginia-based wind power due to our business presence in Virginia, including our corporate office.

PERFORMANCE HIGHLIGHTS:

- ▶ **Greenhouse Gas Accounting** // We develop and manage our greenhouse gas inventory in accordance with the GHG Protocol Corporate Accounting and Reporting Standard.
- ▶ **Third-party Verification** // We achieved “Reasonable Assurance” for our 2014 greenhouse gas inventory, the highest level of assurance in accordance with the ISO 14064-3 standard. Northrop Grumman has achieved Reasonable Assurance for five consecutive GHG inventories. We are the only aerospace and defense company to achieve this highest level of assurance in accordance with the ISO 14064-3 standard.
- ▶ **Leadership** // Since 2012 Northrop Grumman has been named to corporate leadership indexes for responding to the increasing expectations for climate change performance and disclosure.
- ▶ **Disclosure** // As our **greenNG** environmental sustainability program has matured, our CDP performance disclosure score has improved, earning Northrop Grumman a 98 (out of 100) in 2014. Our management strategy includes disclosure of our governance model, greenhouse gas inventory, climate-change-related risks and opportunities, and emissions-reduction initiatives.

CDP Disclosure Score



G4-EN12, G4-EN13, G4-EN14, G4-EN27

ECOSYSTEM CONSERVATION

We support protection, conservation, and restoration of critical ecosystems through numerous volunteer cleanup efforts nationwide and financial support of ecosystem conservation-based carbon offset projects. In 2014 we purchased 11,000 MTCO₂e of carbon offsets generated in association with the Mississippi Valley Reforestation Project in the southeastern United States and certified by the American Carbon Registry. The project objective is to reforest 1 million acres of the Lower Mississippi Alluvial Valley, regarded as one of the most important ecosystems in North America that local communities rely on for clean air and drinking water.

This report uses Global Reporting Initiative (GRI) "Indicators" such as these to track and monitor performance. For a full listing, see the GRI Content Index on page 62.

REMEDIATION

2014 GOALS AND PERFORMANCE SUMMARY

GOAL // Effectively address environmentally impacted properties in compliance with applicable regulatory requirements, and ultimately return these properties to productive use. We pursue this goal by seeking to work cooperatively with government agencies, conservation groups, citizen groups, and other stakeholders to address the environmental impacts at our remediation sites in a manner that protects human health and the environment, is cost-effective, and lessens further environmental impact.

PERFORMANCE // In 2014, we were involved in more than 180 environmental remediation projects, with an approximate annual remediation budget of \$65 million. We continued to seek cost-effective alternatives to traditional resource-intensive remediation practices, which reduce environmental disturbance and energy use and promote ecosystem recovery.

G4 Sustainability Report Card: EN27

From 2004 to 2014 we successfully completed active remediation at 90 sites and removed them from the company's portfolio of impacted properties. During the same decade, we also accomplished life-cycle cost reductions totaling \$57 million by using innovative engineering approaches. To learn more about how we're improving remediation efforts and exploring innovative and cost-effective remediation techniques, please visit our Corporate Responsibility [microsite](#).

Green Buildings

Seven Northrop Grumman operating facilities are certified to the U.S. Green Building Council's "Leadership in Energy and Environmental Design" (LEED) standards, and two are certified under the U.S. Environmental Protection Agency's "ENERGY STAR" program promoting energy efficiency.



G4-EN29, G4-EN34

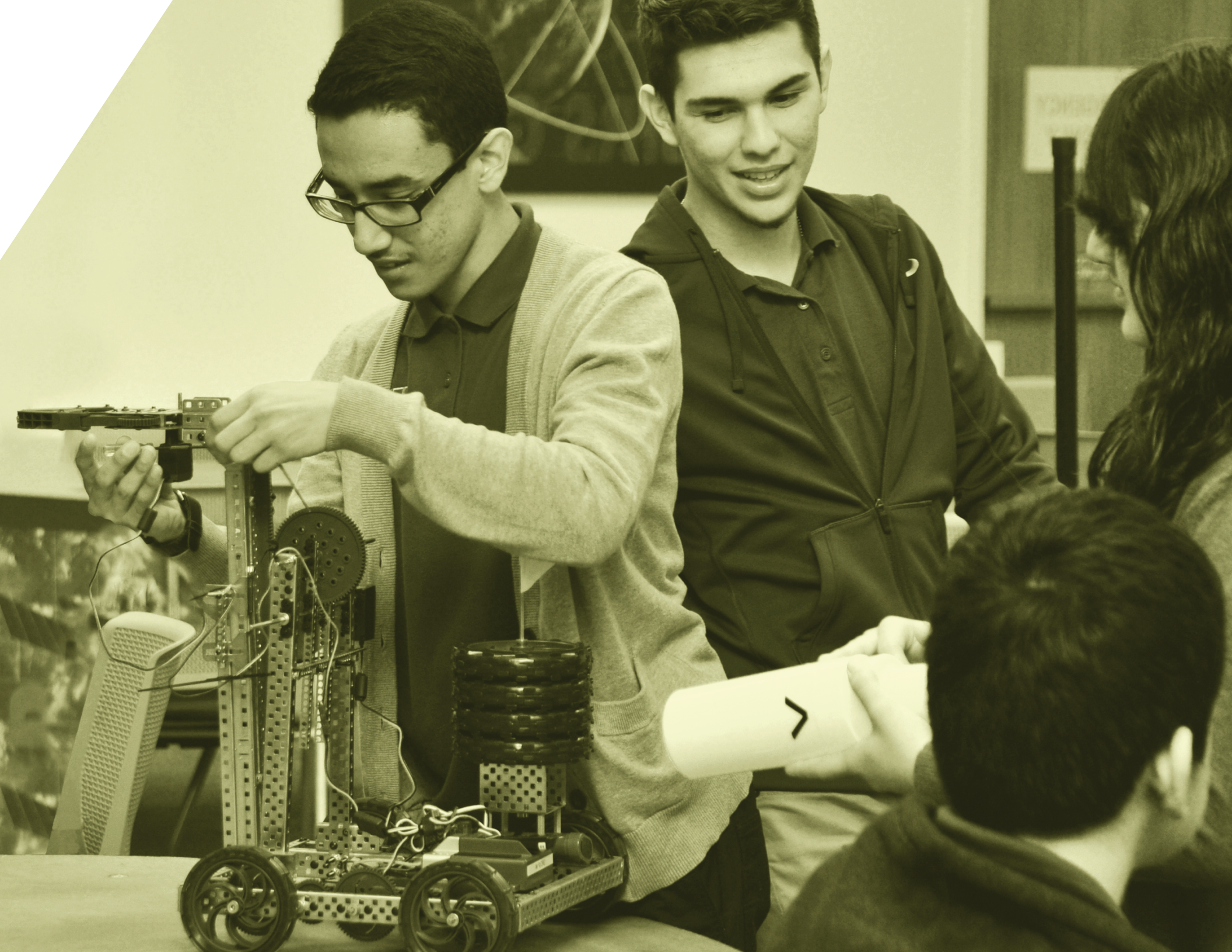
REGULATORY AGENCY REVIEWS

Northrop Grumman operations are subject to review and audit by regulatory agencies and other authorities including federal, state, and local environmental, health, and safety agencies, as well as building inspectors and fire marshals. These reviews and audits provide an important perspective of the operational compliance and effectiveness of our programs and procedures. In 2014 regulatory agency representatives visited or contacted Northrop Grumman sites 165 times, with 23 EHS-related enforcement actions. None of these enforcement actions resulted in significant fines.

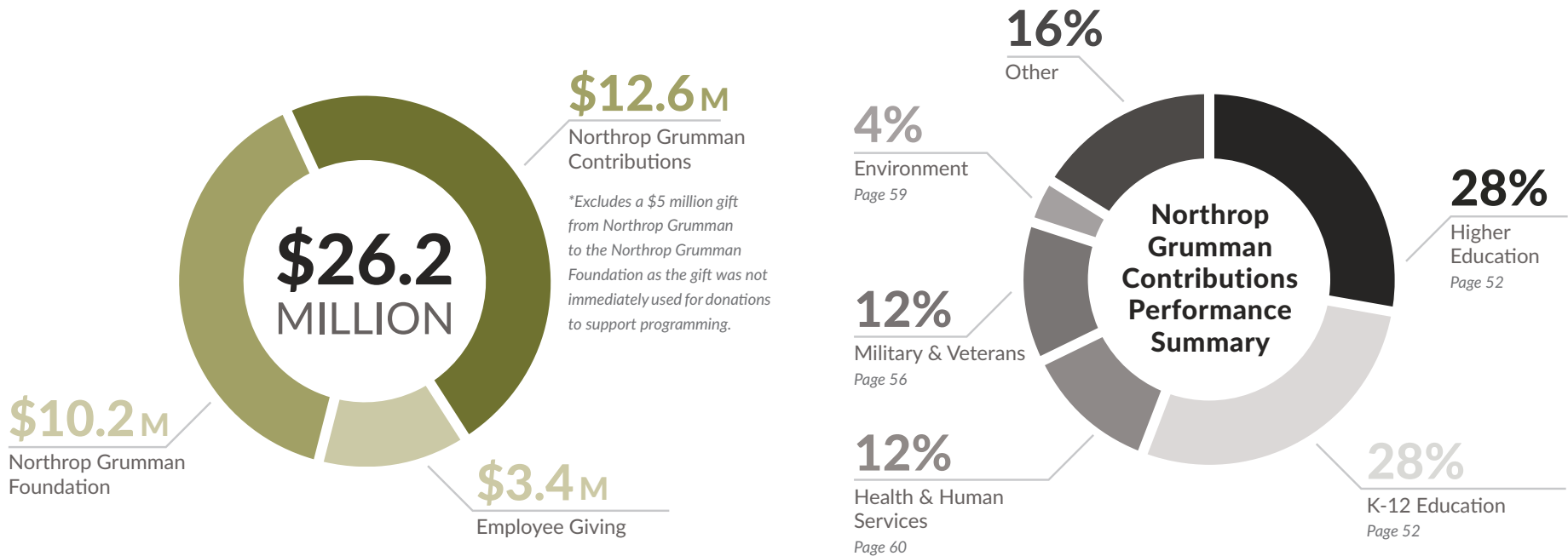
OUR COMMUNITY INVESTMENT

Building partnerships for stronger communities aligns with our vision to be recognized as a responsible corporate citizen, incorporating Northrop Grumman's core values to build sustainable, beneficial partnerships with shareholders, employees, customers, and communities. In our first year of operating in a regional model, the Corporate Citizenship team worked across the globe to implement community engagement initiatives.

These efforts align with our Northrop Grumman business goals by providing financial, in-kind, and volunteer resources in four primary areas: education, military and veterans, health and human services, and the environment.



2014 COMMUNITY INVESTMENT



2014 GOALS AND PERFORMANCE SUMMARY

GOAL // Support initiatives that align with our business goals by providing financial, in-kind, and volunteer resources, particularly in communities where our employees work and live.

PERFORMANCE // Northrop Grumman, the Northrop Grumman Foundation and the employees of Northrop Grumman collectively donated over \$26.2 million. Employees donated over 26,500 unpaid, volunteer hours.

GOAL // Through our philanthropy and volunteerism, strengthen communities where our employees work and live by supporting health and human services programs that address critical needs and offer disaster relief.

PERFORMANCE // We donated \$1.5 million to non-profits that provide health and human services addressing basic human needs.

GOAL // Invest in science, technology, engineering, and math (STEM) programs to improve education.

PERFORMANCE // We invested more than \$15.9 million from Northrop Grumman Contributions and the Northrop Grumman Foundation to fund projects and programs globally that make a difference for students and their teachers while providing opportunities to engage our employees.

GOAL // Continue our strong tradition and commitment to support programs that serve active-duty military and veterans and their families.

PERFORMANCE // We donated \$1.5 million to non-profit agencies that provide services and programs to benefit military and veterans and their families.

OUR GLOBAL COMMUNITY INVESTMENT INCLUDES FOUR PRIMARY AREAS

The symbols on this map indicate our four focus giving categories. In addition, we have highlighted other noteworthy programs. Collectively, the map illustrates our commitment at Northrop Grumman to build partnerships for stronger communities around the world.



Education



Environment



Health and Human Services



Military and Veterans

⊕ We contributed \$1.5 million to non-profit agencies that address basic human needs. Our employee volunteers also contributed regularly, including the "Light the Night Walk," where they raised \$30,000 for the National Capitol Area Leukemia and Lymphoma Society.

🎓 Through our partnership with Camp Invention, the Northrop Grumman Foundation funded one-week experiences for children in grades 1 to 6 to inspire their interest in STEM through hands-on activities.

★ In addition to more than \$1.5 million to non-profit agencies that serve military and veterans, our employees raised more than \$170,000 to support local and national USO efforts, and volunteered time on weekends to assemble care packages for military personnel here and abroad.

🎓 We opened our doors at Northrop Grumman facilities to welcome students and the community in celebration of Manufacturing Week 2014. We also sponsored a series of educational events that celebrates ethnic and cultural diversity at the Smithsonian, with employee volunteers on hand.

🎓 The Northrop Grumman Foundation funded a grant to Teach for America to hire more science and mathematics teachers.

🎓 More than 100,000 elementary, middle, high school, and college students from 33 different countries participated in the VEX Robotics World Championship sponsored by the Northrop Grumman Foundation.

🎓 The Northrop Grumman Foundation partnered with Sally Ride Science to host Sally Ride Educators Institute professional development workshops.

🌿 We contributed more than \$500,000 to non-profit partners with an environmental focus. One such project delivered clean, fresh water to three continents through Engineers Without Borders.

🎓 Through our partnership with the National Science Teachers Association (NSTA), we sponsored Global Conversations in Science Education and funded an educator from Australia to attend the NSTA conference.

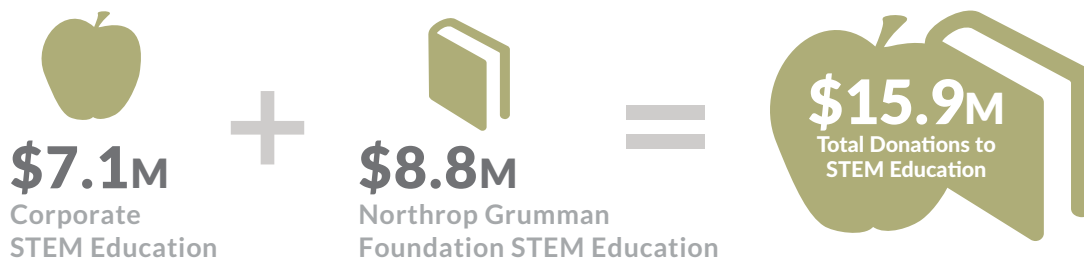
EDUCATION



2014 HIGHLIGHTS

- ▶ **Ongoing Inspiration** // Our employees were in schools throughout the year to promote National Engineers Week and STEM careers in the United States.
- ▶ **Focus on Learning** // We developed a college readiness and access strategy with a portfolio of programs that begin in early childhood and progress through college.
- ▶ **Showcasing Technology** // The Northrop Grumman Foundation was a major sponsor of the USA Science & Engineering Festival in Washington, D.C., an inspiring event for students and their parents that showcases technology and careers.
- ▶ **STEM Camp Scholarships** // Students from Title I middle schools in Northern Virginia received these funds to attend the Middle School Tech Institute at Thomas Jefferson High School for Science and Technology. Title I is a federal grant program that provides educational assistance to students who live in high-poverty areas.
- ▶ **College and Career Readiness** // To introduce high school students to science, technology, engineering, and mathematics careers, we participated in career fairs such as the Northern Valley Career Expo in Grand Forks, North Dakota, for 1,500 high school freshmen from 27 regional school districts. We also participated in the Congresswoman Edwards' College and Career Fair for students in two counties in Maryland.
- ▶ **High School Involvement Partnership (HIP)** // Northrop Grumman employees mentored more than 239 students from 50 high schools to help set career and development goals. The program also provides student internships, graduation incentives, a summer enrichment course, and potential scholarships.

TOTAL DONATIONS GIVEN TO SUPPORT EDUCATION





EARLY CHILDHOOD PROGRAMS

Wolf Trap Foundation for the Performing Arts

2014 marked the third year of our Northrop Grumman partnership with this early childhood STEM “Learning through the Arts” initiative for pre-K and kindergarten students. The program features multi-classroom instruction, professional development workshops for teachers, and family involvement workshops for parents and caregivers. We sponsored Wolf Trap programs in Atlanta, Georgia; Grand Forks, North Dakota; Lake Charles, Louisiana; Melbourne, Florida; Palmdale and San Diego, California; Rolling Meadows, Illinois; and Richmond and Vienna, Virginia.

ELEMENTARY SCHOOL PROGRAMS

We fund the Summer Engineering Experience for Kids (SEEK), offered by the National Society of Black Engineers, to increase elementary student aptitude in mathematics and science and spark interest in STEM careers. The interactive, engineering-based program is now available in 13 U.S. cities.

SciGirls

To introduce more girls to STEM careers, we are in our second year of partnership with SciGirls, a PBS series that showcases bright, curious girls using science and engineering in daily life. We featured a SciGirls workshop in conjunction with our Northrop Grumman Women’s Conference in April.

MIDDLE SCHOOL PROGRAMS

Space Camp

Through the Northrop Grumman Foundation, we hosted 64 students and 32 teachers from Northrop Grumman communities for a week at Space Camp. Four students and two teachers were from the U.K. This renewed partnership with the U.S. Space and Rocket Center in Huntsville, Alabama, supports student and educator participation in Space Camp. Student campers went through the ultimate space adventure by building and launching rockets, experiencing weightlessness in an astronaut-training simulator, and simulating space travel preparation.

Outreach to Girls

In our second year of partnership with the National Center for Women and Information Technology, the Northrop Grumman Foundation is funding the Aspire IT outreach program for middle school girls, to introduce them to careers in computer science.

MATHCOUNTS

The Foundation funds a grant for the MATHCOUNTS Foundation to expand the number of middle school students who participate in after-school math clubs.

Boot Strap Tutoring

In Redondo Beach, California, employee volunteers hosted local middle school students weekly at Northrop Grumman for Boot Strap Tutoring sessions. The Math and Science Enrichment Tutorial program is part of the non-profit organization, Boot Strap Scholarship Foundation. The program targets middle and high school students in the Compton, California, Unified School district for math and science tutoring. Thirty students are provided weekly tutoring in a given school year.

Viva Technology

Our Adelante Employee Resource Group volunteered with Great Minds in STEM to introduce under-served, Hispanic middle school students to technology careers through Viva Technology programs in California (Azusa and Los Angeles) and Falls Church, Virginia.

HIGH SCHOOL

High School Innovation Challenge

This signature program models a challenge after a real-world Northrop Grumman engineering capability to stimulate students' interest. During the 2014 competition, student teams had 12 weeks to design and build a renewable-energy-powered model vehicle, with guidance and mentoring from Northrop Grumman engineers, to efficiently carry a payload over a required distance. Winning teams at each of the five competitions across the country received a grant for their school.

High School Internships

The Northrop Grumman Foundation funded grants to non-profits to provide summer jobs and other employment for low-income and disconnected youth. Through this effort, 24 non-profit agencies received funding to support 77 intern positions in primarily technology and engineering careers.

Science teachers attended the Space Academy for Educators, a program designed to provide teachers the tools to enhance how they use science and math concepts in their classrooms.

TEACHERS

Honoring Science Educators

We believe it is critical to integrate high-quality engineering instruction into science classrooms, which helps students become proficient in practices used by engineers. To recognize top engineering instructors, we partnered with the National Science Teachers Association to create the Northrop Grumman Foundation Excellence in Engineering Education award. The recipient receives \$5,000 for classroom materials and equipment; a cash prize of \$3,000; and \$2,000 to attend the National Science Teachers Association conference on science education.

ECO Classroom

With the goal of providing teachers with resources and hands-on learning opportunities in environmental science, the Northrop Grumman Foundation partnered with Conservation International for the third year of the ECO Classroom program. Conservation International staff hosted 16 middle and high school life sciences teachers at the tropical ecology assessment and monitoring network's field site at La Selva Biological Station in Costa Rica. The teacher teams traveled from California, Colorado, Maryland, and Virginia for this intensive real-world experience.

We believe it is critical to integrate high-quality engineering instruction into science classrooms, which helps students become proficient in practices used by engineers.

Teachers and Engineers for Academic Achievement (TEAACH)

We hosted 91 teachers in Amherst, New York; Baltimore, Maryland; and Rolling Meadows, Illinois to inspire them about engineering careers and encourage students to pursue technology careers.

HIGHER EDUCATION

- Northrop Grumman funded national diversity scholarships to 81 colleges and universities and various organizations including the American Indian Science and Engineering Society (AISES), Great Minds in STEM (GMiS), National Society of Black Engineers (NSBE), Society of Hispanic Professional Engineers (SHPE), Society of Women Engineers (SWE), and United Negro College Fund (UNCF).
- The Northrop Grumman Foundation supported Troops in Engineering at San Diego State University and Student Veteran Association chapters at 12 universities.
- We continued funding to support the development of future leaders in the field of cybersecurity. The University of Maryland, College Park's Advanced Cybersecurity Experience for Students provided rigorous, hands-on learning experiences, an intensive interdisciplinary curriculum, collaborative projects, and professional insight from industry and business leaders. The University of Maryland, Baltimore County continued to recruit, support, and retain competitively credentialed students through their Cyber Scholars Program. Northrop Grumman Foundation support to the United States Naval Academy Foundation allowed the Academy's Center for Cyber Security Studies to fund programs such as the recruitment of experts faculty, the Cyber Lecture Series, specialized security training, participation in national cyber competitions, internships, and cyber experiences for the entire Brigade.
- Our Global Externship summer program, in conjunction with the University of Maryland, Baltimore County, introduced five college students from the United Arab Emirates/Kingdom of Saudi Arabia to cybersecurity, program management, computer engineering, and business soft skills training. The students also worked at startup incubators at the university.



NORTHROP GRUMMAN
MENTORS GUIDED MORE THAN
239 HIGH SCHOOL STUDENTS
FROM 50 SCHOOLS IN 2014 AS
PART OF OUR HIGH SCHOOL
INVOLVEMENT PARTNERSHIP (HIP).

2014 Northrop Grumman Scholarship and National Merit Awards

These scholarships recognize our employees' children who have demonstrated exemplary academic achievement, leadership, school and community engagement, and work experience. We awarded 61 scholarships in 2014 in the form of \$2,000 stipends.

+ UP CLOSE:

CyberPatriots // Real-world Experience at Northrop Grumman

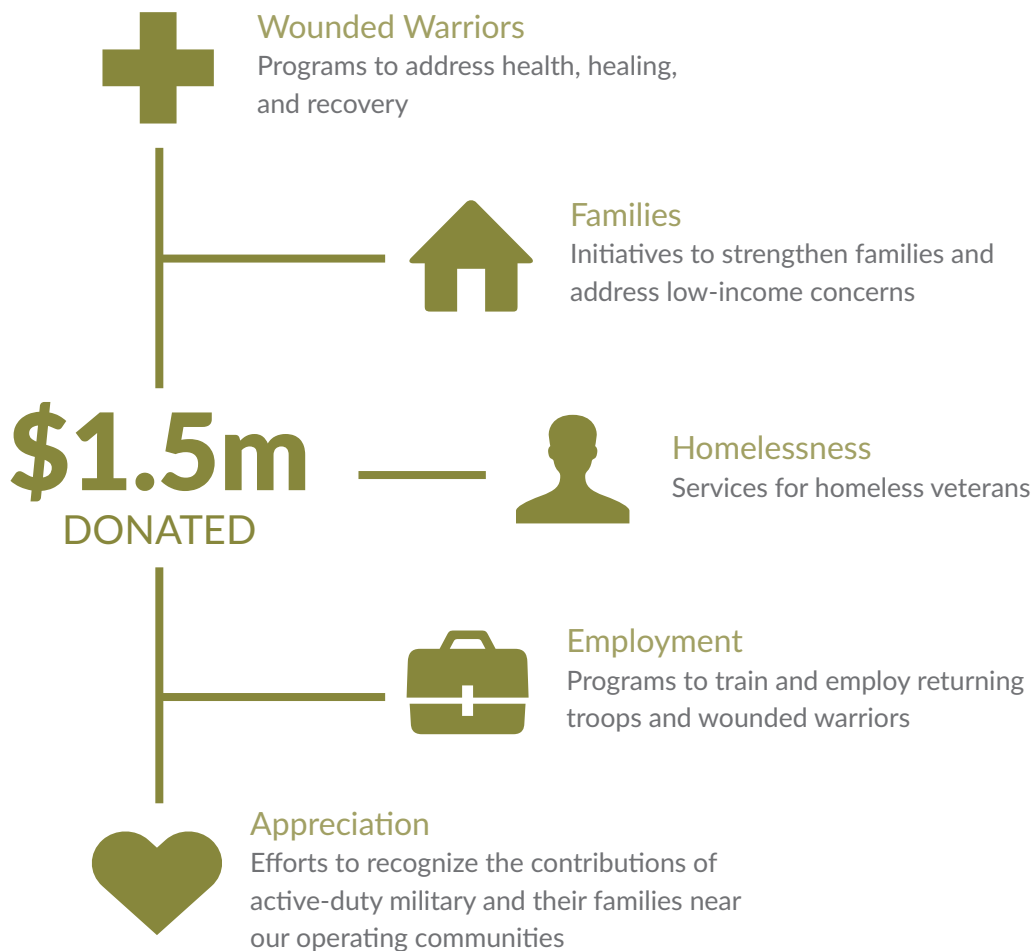


CyberPatriot, established by the Air Force Association with the Northrop Grumman Foundation as presenting sponsor, is the National Youth Cyber Education Program that's inspiring students toward careers in cybersecurity and other science, technology, engineering, and mathematics (STEM) disciplines critical to our nation's future. The program features the National Youth Cyber Defense Competition, cyber camps, and an elementary school education program.

- Teams from all 50 states and Canada
- Expanded to the United Kingdom under the name CyberCenturion

MILITARY AND VETERANS

We donated more than \$1.5 million from Northrop Grumman Contributions to non-profit agencies that provide services and programs to serve military and veterans and their families.



2014 HIGHLIGHTS: SUPPORTING OUR MILITARY AND VETERANS

- ▶ **Operation IMPACT** // As part of our effort to support wounded warriors and their families, we recruited 56 new Operation IMPACT candidates and hired 21, a 100 percent increase from 2013.
- ▶ **Career Transition** // We conducted seven employee transition boot camps providing support to approximately 150 transitioning wounded warriors and a career fair with more than 500 wounded warriors, and 50 employers.
- ▶ **Mentoring Guidance** // We paired 81 mentors with protégés in 11 different states in conjunction with American Corporate Partners, exceeding the goal of 70 mentors.

 × 81

MENTORS & PROTÉGÉS PAIRED IN 2014

- ▶ **USO Support** // Our employees raised more than \$170,000 to support local USO centers and national USO programs.

 **\$170**
THOUSAND

- ▶ **Habitat for Humanity** // We provided funding and volunteers to build homes for homeless veterans in Palmdale, California; St. Augustine, Florida; and Lake Charles, Louisiana.

WOUNDED WARRIORS

At the local level, we funded non-profits nationwide to help wounded warriors, including:

Omaha, Nebraska // Caregivers provided family support for wounded warriors to stay healthy.

Colorado Springs Fine Arts Center // Programs through the Military Artistic Healing Program helped veterans and active duty military suffering post-traumatic stress disorder (PTSD).

Helena, Montana // Employees provided lunches for wounded warriors who participated in a Warriors and Quiet Waters Foundation six-day fishing trip.

USO at Fort Belvoir, Virginia // Employee volunteers helped assemble care packages for local service members going through rehabilitation at the Fort Belvoir Community Hospital.

Camp Pendleton, California // Grants to provide Alpha-Stim medical devices to wounded warriors with PTSD and traumatic brain injury (TBI).

FAMILIES

Our employees at Northrop Grumman offices connected with non-profit agencies that address various issues confronted by military families. We funded the Jacob & Cushman's San Diego Food Bank Emergency Food Programs that serve 28,000 military and veteran families in California.

In partnership with our employee resource group VERITAS (Veterans, Employees and Reservists Inspired To Act and Serve), volunteers assembled 300 bicycles for military families, for distribution during the 2014 holiday season, in Bethpage, New York, and in California (El Segundo, Palmdale, and San Diego).



VOLUNTEERS ASSEMBLED 300 BICYCLES FOR MILITARY FAMILIES DURING THE 2014 HOLIDAY SEASON.

+ UP CLOSE:

Helping Strengthen Families

We funded two national and one international initiative through the Northrop Grumman Foundation:

● United Through Reading

Provides active-duty, deployed military personnel the ability to video-record themselves reading a book, which they send home for their children.

● National Math and Science Initiative

We partnered with this program, which provides consistent, high-level science and mathematics education in high schools serving military base residents, including:

- Carl Albert High School in Midwest City, Oklahoma
- Eisenhower High School in Lawton, Oklahoma
- Howard High School in Macon, Georgia
- Buena High School in Sierra Vista, Arizona (new for 2015)

● Soldier On

In Australia, we partnered with Soldier On to provide funding to support wounded warriors, veterans, and their families during the holiday season.



HOMELESSNESS

For the second year, in partnership with Local Initiatives Support Corporation (LISC), we supported the “Bring Them Homes Initiative” to develop supportive, affordable housing for homeless and at-risk veterans. Our second round of funding helped LISC expedite the predevelopment phase, which will add an additional 250 units of permanent supportive housing. To date we have helped create 260 units of affordable housing for veterans including the Odyssey Family Residences in Denver, Colorado, which targets female veterans and veterans’ families.

Our second round of funding helped LISC expedite the predevelopment phase, which will add an additional 250 units of permanent supportive housing.

Employees at our Clinton, Tennessee, office funded the Tennessee Valley Coalition to End Homelessness to move Tennessee veterans into permanent housing. In Los Angeles, California, we funded the Homeless Veteran Residential Work Re-Entry Program, offered to U.S. veterans in the area. Finally, we supported Veterans Village of San Diego Stand Down and Homeless Alliance Sooner Stand Down, in Oklahoma City, both of which serve hundreds of homeless with hot showers, clean clothing, healthy meals, and medical services.

EMPLOYMENT

At Northrop Grumman, we aim to lead efforts to train and employ troops and wounded warriors with Operation IMPACT (Injured Military Pursuing Assisted Career Transition), and in 2015, we will be celebrating the program’s 10th anniversary. A dedicated team of employees provides program management, personalized placement assistance, community outreach, and workplace accommodations for severely injured service members transitioning to civilian employment. Since its inception, we have hired 147 employees through Operation IMPACT at Northrop Grumman.

When service members are unable to work, we offer career support to a member of the individual’s immediate family, as well as to widows or widowers of fallen service members, who can then become the primary wage earner. In 2014 our team participated on a panel of employers at the White House to discuss support to our employees who are also caregivers to military service members.

APPRECIATION

We recognized the contributions of active-duty military and veterans in myriad ways during 2014 to thank them for their service. At the local level, we sponsored USO Centers at airports and on military installations, Armed Forces YMCAs, and military appreciation nights at sports events. We funded Military Appreciation Day at the Norfolk Zoo in Virginia, where more than 8,100 military service members and their families attended for free. More than 60 employee volunteers participated in the Veterans Administration Day of Service at the Historic Women Veterans Rose Garden in Los Angeles, California.

ENVIRONMENT

Our presence in communities across the United States gave our employees the opportunity to volunteer to support environmental initiatives in 2014. Examples of our environmental volunteer projects included:

- Along with Keep America Beautiful, we launched the 2014 Great American Cleanup Webinar Series to educate and inform employees on current environmental projects, trends, and innovative ways to engage our volunteers. The three topics were: Protecting and Cleaning Your Community's Watershed; Overcoming Challenges of Community Gardening; and Disaster Restoration.
- Our employee volunteers helped across the country in support of National Public Lands Day by beautifying and protecting public spaces.
- Employee volunteers participated in beach and river clean-up events across the country by collecting trash and debris to improve local and regional waterways.

Our ongoing partnership with the Arbor Day Foundation supported replanting efforts with the U.S. Forest Service and Colorado State Forest Service in California and Colorado, where wildfires left forestland barren. Our support also aided forest restoration projects on Ministry of Defense lands in the United Kingdom and rainforest reforestation and protection in Guatemala.

Clean, Fresh Water to Three Continents

Through our relationships with Engineers Without Borders, we supported seven water supply projects in Kenya, Nicaragua, Brazil, Madagascar, and Tanzania. Four of the projects supported university-student-led initiatives, and three supported U.S.-based professional chapter projects.

WE DONATED MORE THAN \$506,000* TOWARD PROJECTS WITH NON-PROFIT PARTNERS THAT ARE ENVIRONMENTALLY FOCUSED.

* Source: Northrop Grumman Contributions

- Water For People
- Council of Governments
- Chesapeake Bay Foundation
- EarthEcho International
- Engineers Without Borders USA
- Fairfax County Park Foundation
- Tree Musketeers
- Arbor Day Foundation
- Heal the Bay

Additionally, a partnership with Conservation International was supported through funding from the Northrop Grumman Foundation.

VOLUNTEERISM

Employees are a key component of our Corporate Citizenship activities. In an effort to enhance Northrop Grumman's employee donation and volunteer process, we launched a new employee giving website, "My Giving: Time. Talents. Dollars." Through this new portal, employees can give back to the communities in which they live and work by using programs such as: Volunteer1NG to log volunteer hours, Employee Charity Organization (ECHO) for payroll contributions to support IRS-approved non-profit organizations, and the matching gifts for education program.

HEALTH AND HUMAN SERVICES

***Our goal:** Through our philanthropy and volunteerism at Northrop Grumman, we support health and human service non-profits where our employees work and live to strengthen those communities, provide critical needs, and offer disaster relief.*

Los Angeles Regional Food Bank

Employee volunteers participated in the fourth annual Los Angeles Regional Food Bank Day of Service by sorting, cleaning, and repackaging donated food items for distribution to people in the Los Angeles area.

American Red Cross

We are a member of the American Red Cross' Annual Disaster Giving Program, which helps provide funding for disaster relief services and enables Red Cross personnel to respond immediately to the needs of individuals and families affected by disaster.

+ UP CLOSE:

Online Holiday Food Drive gave everyone an opportunity to support a non-profit

 **MORE THAN \$8,000**
Donated by Employees

 **27 LOCATIONS**
Across the Country

 **3,866 ITEMS**

We also supported the following* local food banks with grants and food collection drives:

- Manna House - Huntsville, Alabama
- Food For Others - Fairfax, Virginia
- Feeding America - Southwest Virginia
- North Texas Food Bank
- Maryland Food Bank
- Abraham's Tent - Lake Charles, Louisiana

* partial list

2014 HIGHLIGHTS

- ▶ **Volunteer Impact** // Northrop Grumman employees logged more than 26,500 unpaid, volunteer hours in 2014. The community impact of our employee volunteer hours for 2014 was more than \$598,000 (based on Independent Sector's Value of Volunteer Time 2013 at \$22.55/hour).
- ▶ **Direct Support** // 236 employees volunteered 40 hours or more to earn a \$200 Community Service Grant to benefit the non-profit for which they volunteered. The grants were paid out of the company's contributions budget.
- ▶ **Excellence Award** // Ten employees received a Northrop Grumman Excellence in Volunteerism award, a program recognizing those who demonstrate a dedication to volunteerism at non-profit organizations or accredited public schools in their communities. The recipients, chosen from 110 nominations, received a grant of \$5,000 for the respective organization for which they volunteered.
- ▶ **Education Outreach** // Employees are a key component of our company's STEM outreach efforts. Employees volunteer as tutors for students in math and the sciences, act as mentors to aspiring engineers, sponsor university project teams to learn and apply new technologies, and work closely with faculty to shape curriculum for future technology requirements.

DONATIONS GIVEN TO SUPPORT NON-PROFITS BY EMPLOYEES

IN ADDITION TO VOLUNTEERING THEIR TIME, DURING 2014 NORTHROP GRUMMAN EMPLOYEES DONATED MORE THAN \$3.4 MILLION OF THEIR OWN MONEY TO SUPPORT EDUCATION AND LOCAL NON-PROFITS IN THEIR COMMUNITIES.



G4 GRI CONTENT INDEX

STATUS LEGEND //

- FULLY **AR** [2014 ANNUAL REPORT](#)
- PARTIALLY **PR** [2015 PROXY STATEMENT](#)
- X NOT **PCG** [PRINCIPLES OF CORPORATE GOVERNANCE](#)

GENERAL STANDARD DISCLOSURES //

GENERAL STANDARD DISCLOSURES	PAGE NUMBER	EXTERNAL ASSURANCE	GENERAL STANDARD DISCLOSURES	PAGE NUMBER	EXTERNAL ASSURANCE
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Northrop Grumman
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Oct 2015
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STATUS LEGEND //

- FULLY **AR** 2014 ANNUAL REPORT
- PARTIALLY **PR** 2015 PROXY STATEMENT
- ✕ NOT **PCG** PRINCIPLES OF CORPORATE GOVERNANCE

