

Section 172(1) Statement

Introduction to the Company's Section 172(1) Statement

The Companies (Miscellaneous Reporting) Regulations 2018 (Reporting Regulations 2018) require that large private companies include additional corporate governance reporting disclosures in their directors' report and strategic report, effective for financial years beginning on or after 1 January 2019.

Large private companies are now required to include in their strategic report a separate statement describing how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 when performing their duty under section 172. Companies must also make disclosures in their directors' report regarding the company's engagement with employees, suppliers, customers and others in a business relationship with the company.

In light of the above reporting requirements, this Section 172(1) Statement, which has been introduced for the first time in the Annual Report and Financial Statements 2019 of Northrop Grumman UK Limited (the "Company"), summarises the actions taken by the directors to demonstrate how they:

- have had regard to the matters set out in section 172(1)(a) to (f) when acting to promote the success of the Company;
- have engaged with the Company's employees, contractors, suppliers, customers, partners and others during the financial year; and
- have had regard to employee interest, the need to foster the Company's business relationships with its key stakeholders, and the effect of that regard on the principal decisions taken by the Company during the financial year.

The directors believe that the contents of and level of information in this statement rightly address all the relevant matters that the Company is required to disclose in accordance Reporting Regulations 2018, having regard to its size and corporate structure.

Companies Act Section 172(1)

In accordance with Section 172(1) of the Companies Act 2006 "A director of a company must act in the way, he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the following factors:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the company's employees;
- (c) the need to foster the company's business relationships with suppliers, customers and others;
- (d) the impact of the company's operations on the community and the environment;
- (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly as between members of the company."

As the Company has grown in size and maturity in recent years, our focus as directors has been to ensure that the governance structures we have in place allow us to discharge these duties. The board of directors consider, both individually and together, that we have acted in the way that we consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in the decisions taken during the year.

As a board of directors, our intention is to behave responsibly and ethically at all times, very much in line with Northrop Grumman values, and to ensure that our management teams operate the business in a responsible manner and to the highest standards of business conduct and good governance. Fundamentally, doing what is right because it is the right thing to do is the foundation for the Company's business culture and this is reflected in the following values which are made available publically and are shared throughout the global corporation:

- We take responsibility for QUALITY ...
- We deliver CUSTOMER satisfaction ...
- We provide LEADERSHIP as a company and as individuals ...
- We act with INTEGRITY in all we do ...
- We value Northrop Grumman PEOPLE ...
- We focus on SAFETY ...
- We regard our SUPPLIERS as essential team members

In the following sections, we set out examples of our approach to addressing the focus of section 172(1) and summarise the stakeholders that we take into account as we make decisions.

Who are our Stakeholders?

- Our customers
- Our people
- Our wider workforce including contractors
- Our partners and suppliers
- Our communities

Why it is important we engage

- **Our customers-** We recognise that engagement with our customers is vital so that we understand their objectives and priorities and can tailor our product strategies and business plans accordingly. It is also very important that we regularly engage with customers throughout procurement and programme life cycles to ensure that we continue to deliver value for money and provide customer satisfaction, listening and taking action where any areas of concern are highlighted.
- **Our people-** Our employees are critical to our success within the UK which remains significantly dependent on the quality of our technical expertise and service delivery. As we continue to position our business for growth, maintaining and continuing to develop a highly skilled motivated workforce that is focused on solving challenging problems for our customers is critical to our success. Engaging frequently with our people is essential to ensure that we understand how our workforce relates to our business and to ensure that we listen to and address employee concerns and feed our employees' ideas and understanding into our own approaches and strategies.
- **Our wider workforce-** Because a significant proportion of our revenue is generated through the provision of services, having an agile workforce is important to us and we therefore employ a number of contractors across our business. Whilst we are careful to ensure that contractors are treated in an appropriate manner, distinct from permanent on-payroll staff, we also recognise that contractors have to have a good relationship with us to represent us well in front of customers and to support us in working in a compliant manner across the business.
- **Our partners and suppliers-** One of Northrop Grumman's key values is to consider our suppliers and partners as essential members of our team and we recognise that, as a business with aspiration for further growth in the UK, our success and reputation is closely aligned with

the performance and prosperity of this stakeholder group. We also recognise that, for those of our suppliers who are Small to Medium sized Enterprises (SMEs), are heavily dependent on customers like Northrop Grumman to appropriately plan and maintain regular cashflow and that uncertainties created by situations like BREXIT may be amplified for such companies.

- **Our communities-** The Company is mindful of its impact on and its responsibilities for the communities in which it operates. This is particularly relevant for our responsibility to our government customer and to the broader armed forces community, as well as the promotion and active support of STEM activities across schools and universities.

How we engage

- **Our customers-** We maintain customer contact plans and ensure that we engage in a coordinated manner throughout the organisation. We host an annual reception to ensure that our key customers have the opportunity to meet a variety of Northrop Grumman personnel (from the Company and also from Northrop Grumman Corporation). At the director level, we hold meetings with our customer counterparts and ensure that throughout our business development, account management and commercial teams that similar meetings take place, together with regular performance reviews on our delivery programmes.
- **Our people-** We engage in a number of ways including frequent 'all-hands' meetings and regular 1-2-1 contact between our staff and their direct managers. We ensure that key messages are reinforced in writing for those unable to attend all-hands communication sessions. In addition, we undertake an annual engagement survey which is sent to all personnel who complete the survey on an anonymous basis. Finally, we make sure that our employees have multiple channels through which any concerns about the Company can be raised quickly and safely including an anonymous ethics line.
- **Our wider workforce-** Formal engagement with our contractors related to their employment is managed by our recruitment partner. We ask that our tasking managers engage frequently with our contract labour workforce to ensure that they understand our mission and processes.
- **Our partners and suppliers-** For strategic partners, engagement is held in person with an appropriate NG counterpart identified to undertake discussions. We work to maintain regular contact with key suppliers throughout our organisation and communicate through agreed channels within our supply chain team.
- **Our communities-** We promote and actively support a number of activities in support of STEM activities in schools. For example, we run a nation-wide competition aimed at engaging school teams with cyber challenges (Cyber Centurion), and have, via the Northrop Grumman Foundation, offered UK pupils and teachers the opportunity to attend a Space Camp held at the US Space Rocket Centre in Huntsville, Alabama. Furthermore, we offer sponsorship and support to a number of charities related to our Government customer (SSAFA, RAF Museum) in addition to sponsoring a STEM Award as part of the annual Women in Defence awards within the UK.

What were the key topics of engagement and what feedback and input did we obtain?

- **Our customers-** In FY2019, we held a series of strategic meetings with key customers and obtained feedback in the following areas:
 - 1) Performance on delivery programmes.
 - 2) Planned customer procurements.
 - 3) Direction of customers' strategy.
- **Our people-** In FY2019, we spent time working with staff to understand specific ideas on how to better provide them tools to perform their roles and how to improve staff attraction and retention.

- **Our wider workforce-** In FY2019, key engagements related to:
 - 1) Ensuring compliance for example with our export controls policies.
 - 2) Preparation for the changes to IR35 legislation (originally planned to become effective in April 2020 but postponed owing to COVID-19).
- **Our partners and suppliers-** Good examples of open dialogue with our supply chain and partners in FY2019 include:
 - 1) Discussions related to teaming to support a strategically important bid in a competitive landscape.
 - 2) Separate conversations with key suppliers who were anticipating entering an acquisition process and who engaged with us as early as reasonably possible in recognition of the strength of our relationship.
- **Our communities-** We have received strong and positive feedback particularly from schools involved in the Cyber Centurion and Space Camp activities, and remain convinced that this is fundamentally consistent with our objective be an advocate and champion for STEM development in the UK.

What were the outcomes and actions resulting from the engagement?

- **Our customers-** From the engagements held with our clients we have built a deeper understanding of their key interests and concerns which we consider important in building a long-term relationship with them as a supplier and partner. As a result the Company has taken the following actions:
 - 1) Implemented reward/recognition of high performing teams and taking action to address customer performance concerns.
 - 2) We have planned to support key competitions, aligning our resources accordingly.
 - 3) We have taken steps to align our own strategy taking into account customer direction. This impacts the type of capabilities we build within the business, what research and development we chose to fund and locations in which we chose to invest in developing physical presence.
- **Our people-** As a result of the engagement with our staff in FY2019, we have shaped investment to provide more accessible development environments. We have also published a revised Employee Value Proposition, investing in new tools to allow personnel greater flexibility to tailor their compensation packages.
- **Our wider workforce-** As a result of our engagements we introduced revised methods for implementation of our procedures with any contractors in our workforce. We also made changes to our approach for deployment of some contractors based on what we learnt through our engagements on changes to the IR35 regulations impacting off-payroll staff.
- **Our partners and suppliers-** As a result of the engagements described:
 - 1) Northrop Grumman undertook a successful bid with a team which positioned Northrop Grumman and the associated partners for entry to a new market.
 - 2) Northrop Grumman was able to work with the impacted suppliers to support them through their transition and to mitigate resulting impact to Northrop Grumman's business.
- **Our communities-** Our activity in these areas has been positively received both by individual beneficiaries and by the broader (customer, industry and local) communities in which we as a company operate. This has tended to confirm our belief that we have a positive role to play in the development and support for our communities as part of a broader industry objective.

In addition to the focus applied above, in 2019, the Company's board of directors applied renewed attention to environmental aspects, submitting reporting as required to achieve both ISO 14001 certification and the Energy Savings Opportunity Scheme.