

# CEOs *for* SUSTAINABILITY

## Get Started with Materiality

CEOs for Sustainability | Sustainable Pittsburgh



# What is materiality?

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Defined by the Supreme Court:

"...presenting a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the total mix of information available".



Defined by AA1000 Assurance Standard's Materiality Principle

"...the reporting organization has included in its public report adequate information about its sustainable performance for its stakeholders to be able to make informed judgments, decisions and actions".



Defined by GRI

Material topics for a reporting organization should include those topics that have a **direct or indirect impact** on an organization's ability to create, preserve or erode economic, environmental and social **value for itself, its stakeholders and society at large**.

# Approaching materiality for reporting purposes

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- The sustainability report should include aspects that —
  - Reflect the organization's significant economic, environmental and social impacts.
  - Substantively influence or impact the assessments, decisions, and actions of stakeholders.
- Materiality is the threshold at which aspects become important enough to stakeholders and the operation of the organization that they should be reported.

# Starting the materiality assessment process

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1. Make a list of perceived sustainability topics in your role.
2. Choose sustainability topics, and imagine that you are about to interview key leaders within the organization. The aim of the interview is to assess and prioritize the impact of that topic on the organization.
3. Ask key questions about that topic.

# Key questions

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- Is this topic a risk to our reputation/brand?
- Does this topic impact our social license to operate?
- Does this topic impact business continuity?
- Is this topic in pending or existing regulation?
- Is this topic related to a core input for our product?
- Could this topic represent a differentiator for us?
- Do the experts generally see this as a risk to sustainability in the long term (50 years)?
- Do our stakeholders view this as a risk to our business?
- Do we have a shareholder proposal about this topic?
- Have customers asked questions about it?
- Do we have lawsuits regarding this topic?
- Fines?
- Does this topic impact our employees?
- Does this topic impact our operations?
- Are potential employees asking about this topic?
- Is this topic related to a vulnerability (e.g., single supplier)?

# More key questions

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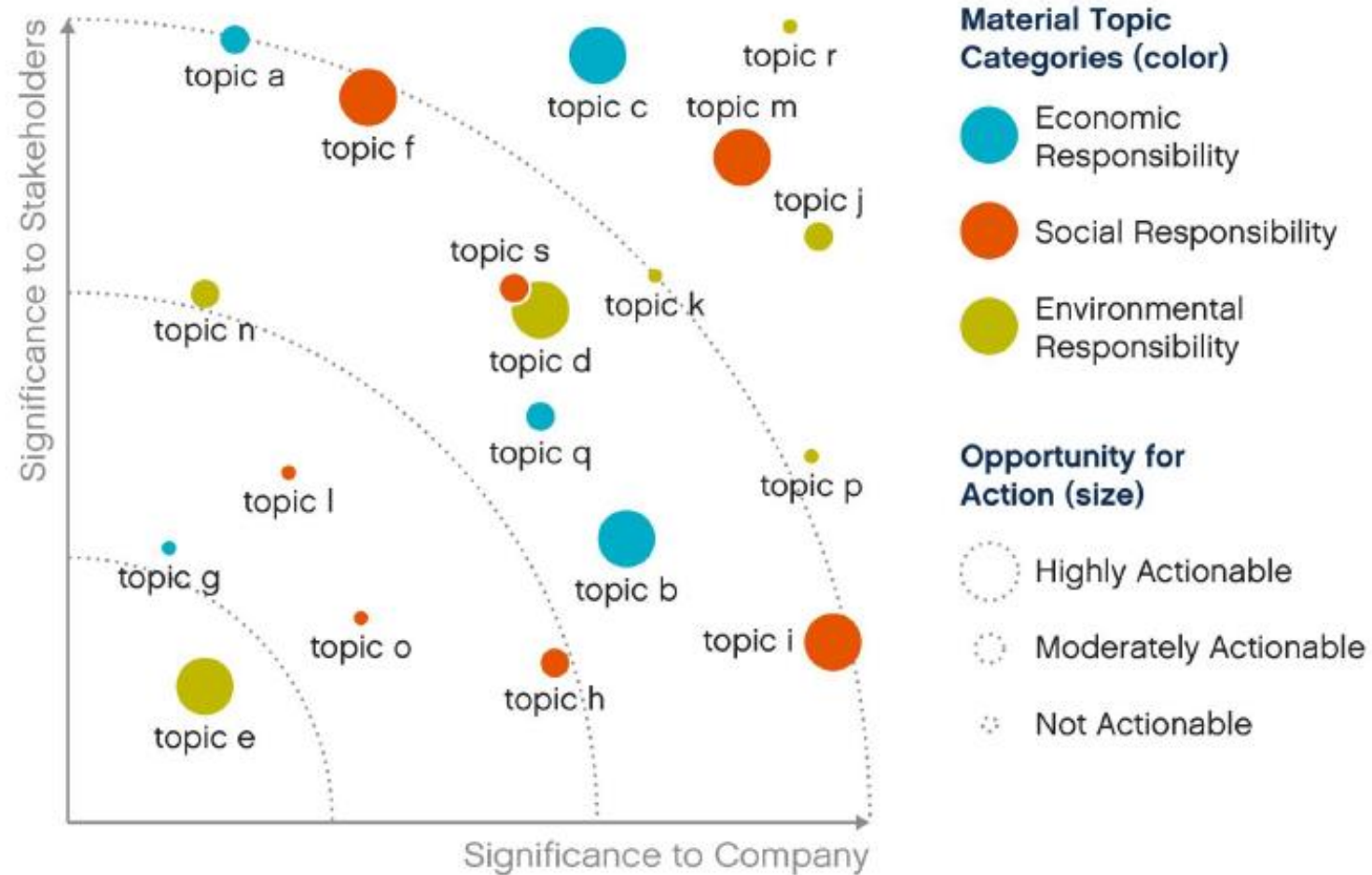
- Does this constitute a future challenge for our sector? Is it already discussed by peers?
- Does this contribute to the likelihood of a significant risk to our organization?
- Is this connected to relevant laws, regulations, international agreements with strategic significance to our organization?
- Is this already mentioned as important by stakeholders?
- Is this recognized by scientists/experts as a risk to sustainability?
- Does this constitute an opportunity for our organization?
- Does our organization have specialized knowledge or core competencies to contribute to sustainable development in this area?
- Does this contribute to successful implementation of our strategy or reinforce the values, policies, strategies, operational management systems, goals, and targets of our organization?

# Starting the materiality assessment - continued

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4. For items that rise to the top from the initial scan, create and execute a plan to engage with key stakeholders for items that appear to cross a materiality threshold.
5. Develop a materiality assessment diagram.
6. Map the issues in a value chain map.
7. Turn the findings into a narrative suitable for sharing in your sustainability report.

# Materiality diagram

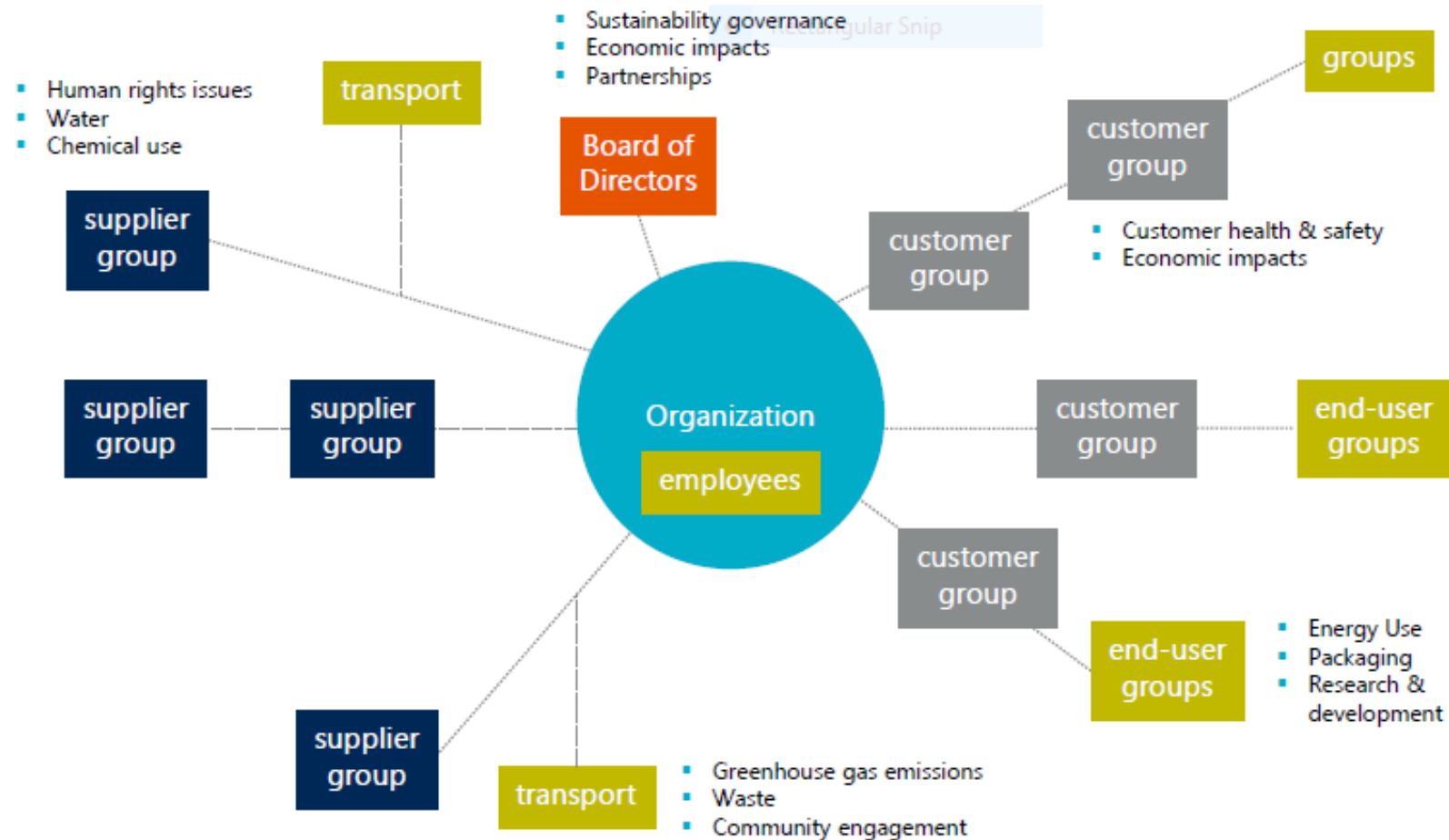


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Source: BrownFlynn



# Map out the issues in a value chain diagram



## HOW WE CHOSE OUR CORE SUSTAINABILITY ISSUES

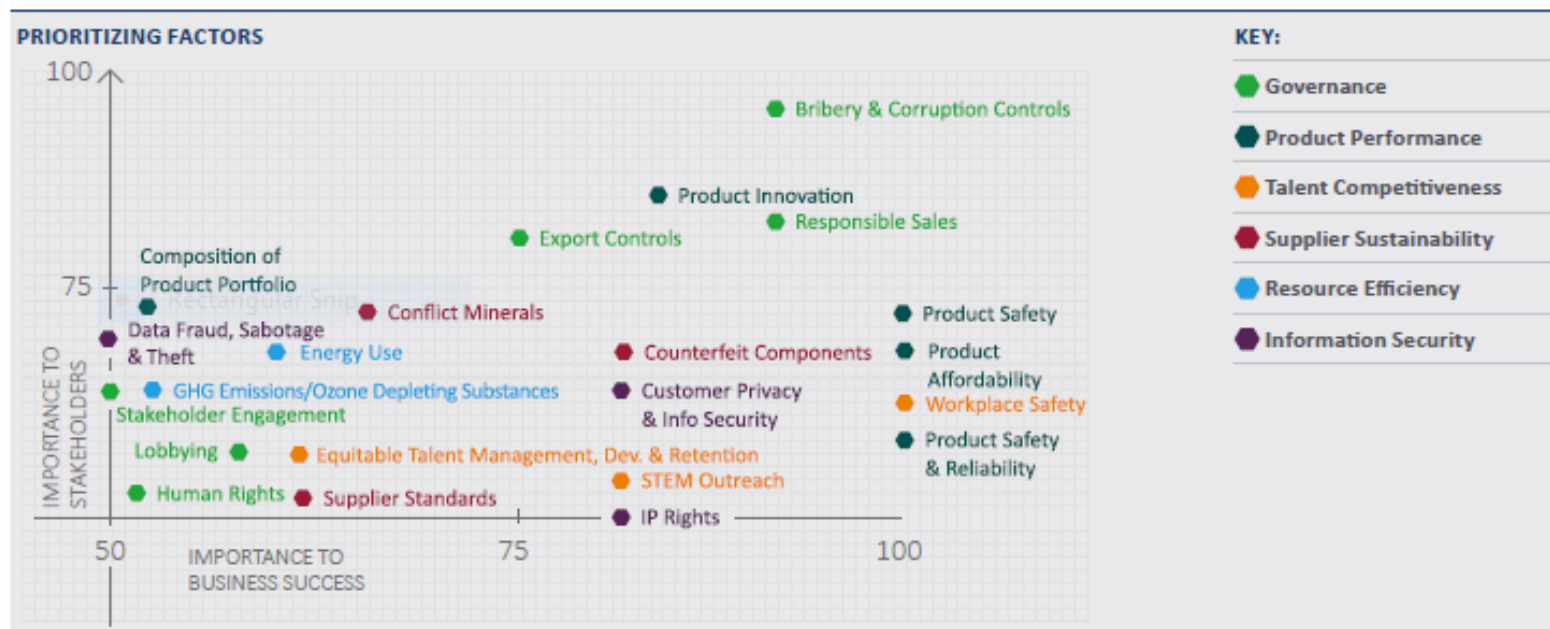
### CORE ISSUES ASSESSMENT

In 2013, we conducted a formal, four-step assessment of sustainability factors based on their importance to our business and stakeholders. We also looked for ways to improve related information disclosure. The six core issues we ultimately identified were reviewed by our Board of Directors. Our process:

1. Convened diverse internal and external stakeholders to collect viewpoints.
2. Plotted 41 factors by multiple dimensions of importance to stakeholders and business success.
3. Evaluated 20 factors that stakeholders deemed high priorities.
4. Agreed to cluster closely correlated factors.

This comprehensive process is the foundation of our sustainability decisions. It also includes:

- » Feedback from institutional stockholders and representatives of five other stakeholder groups on our business model, compliance requirements and competitive positioning.
- » Senior business leaders' perceptions of short-term, medium-term and emerging risks, and the World Economic Forum Global Risks Index.
- » Priorities identified by 35 Lockheed Martin employees from 10 business functions during internal workshops conducted by an independent third-party facilitator.



- » Guidance from the Global Reporting Initiative (GRI) G4 Principles, the Ceres Roadmap to Sustainability, the Sustainability Accounting Standards Board and the International Integrated Reporting Council.

Business for Social Responsibility (BSR), a global non-governmental organization (NGO), determined our process “uses many elements of leading practice.” Our assessment showed connections between stakeholder priorities and our business strategy, risks and opportunities. It helped us allocate resources to the best opportunities for sustainable growth while mitigating potential risks. The six highest-ranked, most closely related issues were Governance, Product Performance, Talent Competitiveness, Supplier Sustainability, Resource Efficiency and Information Security.

### LOOKING AHEAD

As we concluded our SMP 2013-2015 commitments, we conducted an enhanced core issues assessment with increased stakeholder engagement. We focused on global megatrends and engaged 25% more external and internal stakeholders with U.S., European and global perspectives in structured discussions about their expectations and our priorities throughout 2015. We explored how our largest customer, the U.S. Department of Defense (DoD), defines sustainability through impacts such as reduced fuel consumption and energy-related risk avoidance. We learned that certain stakeholders would prefer more ambitious goals in some areas outside of our sphere of influence, including U.S. foreign policy doctrine. We also learned how sustainability efforts can address our international business growth strategy while adhering to circular economy principles.

These collaborative dialogues will lead to profound shifts in how we prioritize our product capabilities, characterize their impacts and improve our demonstration of those connections. In 2016, we'll finalize and make public a new set of goals and indicators that reflect the feedback we've received. We'll partner with customers, investors, suppliers and other stakeholders in our value chain to translate the biggest sustainability challenges of our time into meaningful goals and high-impact action. I look forward soon to sharing how we will advance The Science of Citizenship.

— Leo S. Mackay, Jr., Vice President, Ethics and Sustainability

## HOW WE ENGAGE

Sustainability engagement at Lockheed Martin is more than a biennial core issues assessment; it is day-to-day action on multiple continents. We include and encourage feedback from employees, customers, investors, analysts, community leaders, suppliers, regulators and NGOs to make sure our sustainability agenda and business strategy have a meaningful impact.

To reflect our geographic and product diversity, we decentralize stakeholder engagement to ensure more frequent and localized contacts. Global engagement information and activities coordinated by our corporate sustainability office are harmonized in this report. Significant outreach coordinated by this office in 2015 included, but was not limited to, actions listed in the table at right.

### SUSTAINABILITY ENGAGEMENT

- » **Action:** The Independent Insights Group (IIG) is a panel of experts in academia, business, sustainability, law and government that provides guidance on sustainability issues and best practices to our senior leadership team and key functional leaders. To preserve independent views, we reimburse travel expenses but do not otherwise compensate members.
- » **Value:** The group offered insight into our next core issues assessment by reviewing core issues and factors. They met with our senior leadership team and made recommendations to further incorporate sustainability into our business practices.
- » **Members:** Christopher Bell, Stockholder, Greenberg Traurig; Sheila Bonini, CEO, The Sustainability Consortium; Nabil Nasr, Associate Provost for Academic Affairs and Director, Golisano Institute for Sustainability, Rochester Institute of Technology; Elizabeth Schroyer, President, Schroyer & Associates; and Mohammad Zaidi, Strategic Advisory Board Member, Braemar Energy Ventures and former Executive Vice President and CTO, Alcoa.



Over the past two years as Lockheed Martin ramped up its sustainability office and strategy, it took an appropriate step in stakeholder engagement by convening an independent advisory panel. We have seen some of our recommendations put into action, such as identifying commercial applications of sustainability-oriented technologies and broadening awareness of sustainability in terms of our business outlook. Most notably, the company continues to move toward deeper integration of sustainable decision-making, such as evolving the IIG from a standalone sustainability advisory group into having members join the company's technology advisory group. — Nabil Nasr, IIG member

### STAKEHOLDER ENGAGEMENT

Core Issue	Lockheed Martin Action	Engagement Value
<b>Governance</b>	Members of our senior management team held 37 telephone conferences with large institutional investors and other significant stockholders. During these meetings, stockholders raised environmental, social and/or governance topics, a trend we see increasing.	In 2015, we solicited investor feedback on proxy access and informed our Board of Directors of possible actions. We enhanced disclosures of related party transactions as well as board composition, strategy and refreshment in our annual Proxy Statement.
<b>Product Performance</b>	We've held customer focus team meetings for more than a decade. A steering council, led by our CEO, and a management council review business segment initiatives, best practices, training and effectiveness.	Team meetings occur biannually at customer locations, which allow us to have candid conversations about challenges and how we can partner better. One result of these meetings is the U.S. Air Force Customer Collaboration Program to develop long-range planning.
<b>Talent Competitiveness</b>	We sponsored the Million Women Mentors <sup>®</sup> Movement, led by STEMconnector <sup>®</sup> search company, to engage one million STEM mentors. The goal is to increase the interest and confidence of girls and women to succeed in technical leadership fields.	We partner with organizations aiming to increase the number of students pursuing STEM careers because STEM-educated talent is critical to the aerospace and defense industry now and in the future.
<b>Supplier Sustainability</b>	Through our Supplier Wire website, we offer small businesses a wide range of educational resources, including free webinars, live chats, video tips and supplier testimonials.	We teach small businesses how to build, sustain and expand their business relationship with Lockheed Martin. In 2015 we attended 159 outreach events and held nine Supplier Wire webinars advising businesses how to fill the procurement requirements of our major programs.
<b>Resource Efficiency</b>	Each year, we honor employees' outstanding contributions to our environment, safety and health (ESH) goals through the ESH Excellence Awards. In 2015, all business segments participated with more than 30 nominations.	The winning team implemented a chromium-free structural bond primer for titanium parts resulting in an estimated \$100,000 of cost avoidance per year, and a reduction of environmental and health impacts.
<b>Information Security</b>	Lockheed Martin Cyber Security Alliance members are technology companies collaborating to integrate commercial cyber security offerings for the government. The Alliance combines domain knowledge and "systems-of systems" integration at the NexGen Cyber Innovation and Technology Center.	The center is a global security asset for innovation where members rapidly and virtually develop new capabilities. Members test solutions that can provide early threat detection, protection and multilayer self-healing capabilities.