

Northrop Grumman Fourth Quarter 2015 Conference Call

THE VALUE OF PERFORMANCE.

NORTHROP GRUMMAN

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Forward-Looking Statements



This presentation contains statements, other than statements of historical fact, that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “expect,” “intend,” “may,” “could,” “plan,” “project,” “forecast,” “believe,” “estimate,” “guidance,” “outlook,” “anticipate,” “trends,” “goals,” and similar expressions generally identify these forward-looking statements. Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and cash flows. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, those identified and discussed more fully in the section entitled “Risk Factors” in our 2015 Annual Report on Form 10-K. They include:

- our dependence on a single customer, the U.S. Government
- delays or reductions in appropriations for our programs and U.S. Government funding
- investigations, claims and/or litigation
- our international business
- the improper conduct of employees, agents, business partners or joint ventures in which we participate
- the use of accounting estimates for our contracts
- cyber and other security threats or disruptions
- changes in actuarial assumptions associated with our pension and other post-retirement benefit plans
- the performance and financial viability of our suppliers and the availability and pricing of raw materials and components
- competition within our markets
- changes in procurement and other laws and regulations and business practices applicable to our industry
- natural and/or environmental disasters
- the adequacy of our insurance coverage, customer indemnifications or other liability protections
- the products and services we provide related to hazardous and high risk operations
- changes in business conditions that could impact recorded goodwill or the value of other long-lived assets
- our ability to develop new products and technologies and maintain technologies, facilities, equipment and a qualified workforce
- our ability to meet performance obligations under our contracts
- unforeseen environmental costs
- our ability to protect our intellectual property rights
- changes in our tax provisions or exposure to additional tax liabilities
- the spin-off of our former Shipbuilding business

Additional information regarding these risks and other important factors can be found in the section entitled “Risk Factors” in our 2015 Annual Report on Form 10-K and as disclosed in this presentation and from time to time in our other filings with the SEC. You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of forward-looking statements. These forward-looking statements speak only as of the date of this presentation. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. This presentation also contains non-GAAP financial measures. A reconciliation to the nearest GAAP measure and a discussion of the company’s use of these measures are included.

- Strong 4Q and 2015 performance
- 30.5% total shareholder return in 2015
- 7% increase in 2015 EPS
- 12.4% segment operating margin rate⁽¹⁾
- \$2.5 billion cash from operations before after-tax impact of discretionary pension contributions⁽¹⁾
- \$2.0 billion free cash flow before after-tax impact of discretionary pension contributions⁽¹⁾
- ~\$3.8 billion cash returned to shareholders through share repurchases and dividends

(1) Non-GAAP metric as defined and reconciled in the Appendix of this presentation

2016 Guidance⁽¹⁾

| | |
|---|------------------|
| Sales (\$B) | 23.5 – 24.0 |
| Segment operating margin rate ⁽²⁾ | High 11% |
| Net FAS/CAS pension adjustment (\$M) ⁽²⁾ | ~275 |
| Operating margin rate | ~12% |
| Diluted EPS | \$9.90 – \$10.20 |
| Capital expenditures (\$M) | 700 – 1,000 |
| Free cash flow (\$B) ⁽²⁾ | 1.5 – 1.8 |

(1) The company's 2016 financial guidance is based on the spending levels provided for in the Bipartisan Budget Act of 2015 and the Consolidated Appropriations Act of 2016. The guidance assumes no disruption or cancellation of any of our significant programs and no disruption or shutdown of government operations. Guidance for 2016 also assumes adequate appropriations and funding for the company's programs in the first quarter of the U.S. government's fiscal year 2017.

(2) Non-GAAP metric as defined in the Appendix of this presentation.

2016 Sector Guidance Summary

| Sector | Sales (\$B) | OM Rate |
|---------------------|-------------|-----------------|
| Aerospace Systems | Low 10 | Mid to high 11% |
| Mission Systems | High 10 | Mid to high 12% |
| Technology Services | Mid 4 | ~ 10% |

| | 2016 | 2015A |
|---|-------|---------|
| Discount rate (%) | 4.53 | 4.12 |
| Asset return (%) | 8.0 | ~ (1.0) |
| Net FAS / CAS adjustment (\$M) ⁽¹⁾ | 275 | 348 |
| CAS (\$M) | 860 | 703 |
| FAS (\$M) | (585) | (355) |

(1) Non-GAAP metric as defined in the Appendix of this presentation.

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Appendix

Non-GAAP Financial Measures Disclosure: Today's presentation contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by Securities and Exchange Commission (SEC) Regulation G and indicated by a footnote in the text of this presentation. While we believe that these non-GAAP financial measures may be useful in evaluating our financial information, they should be considered as supplemental in nature and not as a substitute for financial information prepared in accordance with GAAP. Other companies may define these measures differently or may utilize different non-GAAP measures.

Pension-adjusted diluted EPS: Diluted EPS excluding the after-tax net pension adjustment per share, as defined below. These per share amounts are provided for consistency and comparability of operating results. Management uses pension-adjusted diluted EPS as an internal measure of financial performance.

Net FAS/CAS pension adjustment: The difference between pension expense charged to contracts and included as cost in segment operating income in accordance with U.S. Government Cost Accounting Standards (CAS) and pension expense determined in accordance with FAS (GAAP Financial Accounting Standards).

After-tax net pension adjustment per share: The per share impact of the net FAS/CAS pension adjustment as defined above, after tax at the statutory rate of 35%, provided for consistency and comparability of financial performance.

Segment operating income: Total earnings from our four segments including allocated pension expense recognized under CAS. Reconciling items to operating income include the net FAS/CAS pension adjustment, as defined above, as well as certain corporate-level expenses, which are not considered allowable or allocable under applicable CAS or FAR. Management uses segment operating income, as reconciled in this appendix, as an internal measure of financial performance.

Segment operating margin rate: Segment operating income as defined above, divided by sales. Management uses segment operating margin rate as an internal measure of financial performance.

Free cash flow: Net cash provided by operating activities less capital expenditures. We use free cash flow as a key factor in our planning for, and consideration of, strategic acquisitions, stock repurchases and the payment of dividends. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP.

Cash provided by operating activities before after-tax discretionary pension contributions: Cash provided by operating activities before the after-tax impact of discretionary pension contributions. Cash provided by operating activities before discretionary pension contributions has been provided for consistency and comparability of financial performance.

Free cash flow before after-tax discretionary pension contributions: Free cash flow before the after-tax impact of discretionary pension contributions. We use free cash flow before after-tax discretionary pension contributions as a key factor in our planning for, and consideration of, strategic acquisitions, stock repurchases and the payment of dividends. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP.

Non-GAAP Reconciliations – Pension-adjusted EPS

| <i>\$ in millions, except per share amounts</i> | Fourth Quarter | | Twelve Months | |
|--|----------------|---------|---------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Pension-adjusted Operating Highlights | | | | |
| Operating income | \$ 689 | \$ 762 | \$ 3,076 | \$ 3,196 |
| Net FAS/CAS pension adjustment | (87) | (69) | (348) | (269) |
| Pension-adjusted operating income | \$ 602 | \$ 693 | \$ 2,728 | \$ 2,927 |
| <i>Pension-adjusted operating margin rate</i> | 10.6% | 11.3% | 11.6% | 12.2% |
| Pension-adjusted Per Share Data | | | | |
| Diluted EPS | \$ 2.49 | \$ 2.48 | \$ 10.39 | \$ 9.75 |
| After-tax net FAS/CAS pension adjustment per share | (0.31) | (0.22) | (1.18) | (0.82) |
| Pension-adjusted diluted EPS | \$ 2.18 | \$ 2.26 | \$ 9.21 | \$ 8.93 |
| Weighted average shares outstanding — Basic | 182.1 | 200.8 | 189.4 | 208.8 |
| Dilutive effect of stock options and stock awards | 2.1 | 3.4 | 2.2 | 3.3 |
| Weighted average shares outstanding — Diluted | 184.2 | 204.2 | 191.6 | 212.1 |

Non-GAAP Reconciliations – Segment Operating Income

| <i>\$ millions</i> | Fourth Quarter | | Twelve Months | |
|---|----------------|----------|---------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Sales | \$ 5,694 | \$ 6,108 | \$ 23,526 | \$ 23,979 |
| Segment operating income | 717 | 760 | 2,920 | 3,099 |
| <i>Segment operating margin rate</i> | 12.6% | 12.4% | 12.4% | 12.9% |
| Reconciliation to operating income | | | | |
| Net FAS/CAS pension adjustment | \$ 87 | \$ 69 | \$ 348 | \$ 269 |
| Unallocated corporate expenses | (114) | (66) | (190) | (169) |
| Other | (1) | (1) | (2) | (3) |
| Operating income | \$ 689 | \$ 762 | \$ 3,076 | \$ 3,196 |
| <i>Operating margin rate</i> | 12.1% | 12.5% | 13.1% | 13.3% |

Non-GAAP Reconciliations – Cash Metrics



| <i>\$ millions</i> | Fourth Quarter | | Twelve Months | |
|--|----------------|---------|---------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Cash provided by operating activities before after-tax discretionary pension contributions | \$1,633 | \$1,490 | \$2,487 | \$2,593 |
| After-tax discretionary pension pre-funding impact | — | — | (325) | — |
| Net cash provided by operating activities | \$1,633 | \$1,490 | \$2,162 | \$2,593 |
| Less: capital expenditures | (137) | (276) | (471) | (561) |
| Free cash flow | \$1,496 | \$1,214 | \$1,691 | \$2,032 |
| After-tax discretionary pension pre-funding impact | — | — | 325 | — |
| Free cash flow before after-tax discretionary pension contributions | \$1,496 | \$1,214 | \$2,016 | \$2,032 |

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