

The logo features a large, blue, slanted parallelogram shape on the left side of the slide. Inside this shape, the text "THE VALUE OF PERFORMANCE." is written in a small, white, sans-serif font. Below this, the words "NORTHROP GRUMMAN" are written in a larger, white, bold, sans-serif font, with a thin white horizontal line underneath.

THE VALUE OF PERFORMANCE.
NORTHROP GRUMMAN

Northrop Grumman Fourth Quarter 2014 Conference Call

January 29, 2015

Wes Bush
Chairman, Chief Executive Officer and President

Jim Palmer
Corporate Vice President and Chief Financial Officer

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,” “outlook,” “anticipate,” “trends,” “guidance,” “goals,” and similar expressions generally identify these forward-looking statements. Forward-looking statements in this presentation 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, risks related to: the assumptions on which our guidance is based; our dependence on U.S. Government contracts; the effect of economic and security conditions in the United States and globally; changes in government and customer priorities, requirements and spending for our programs, products and services; government budgetary constraints; shifts or reductions in defense spending resulting from budget pressures and/or changes in priorities; sequestration under the Budget Control Act of 2011, as amended or replaced ; a continuing resolution with limited new starts; the lack of or significant changes to annual appropriations legislation; debt-ceiling limits and disruption to or shutdown of government operations; timing of payments; changes in import and export policies; changes in customer short-range and long-range plans; major program disruptions or terminations; the acquisition, deferral, reduction or termination of contracts or programs; our non-U.S. business, including legal, regulatory, financial, security and governmental risks related to doing business internationally; the outcome of litigation, claims, audits, appeals, bid protests and investigations; our ability to recover certain costs under U.S. Government contracts; market conditions; our ability to access capital; performance and financial viability of key suppliers and subcontractors; interest and discount rates or other changes that may impact pension plan assumptions and actual returns on pension plan assets; the adequacy of our insurance coverage and recoveries; the costs of environmental remediation; our ability to attract and retain qualified personnel; changes in health care costs and requirements; changes in organizational structure and reporting segments; acquisitions, dispositions, spin-off transactions, joint ventures, strategic alliances and other business arrangements; possible impairments of goodwill or other intangible assets; changes in and the effects of laws and regulations that affect our business, including those relating to accounting, tax, defense procurement, corporate liabilities and international business; technical, operational or quality setbacks in contract performance; availability of materials and supplies; controlling costs of fixed-price development programs; domestic and international competition; potential security threats, cyber and information technology attacks, natural disasters and other disruptions not under our control; and other risk factors and other important factors disclosed in our Form 10-K for the year ended December 31, 2014, and other filings with the Securities and Exchange Commission. You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on forward-looking statements. These forward-looking statements speak only as of the date of this presentation, and 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 in this presentation.

CEO Highlights



- Strong 4Q and 2014 performance
- 17% increase in 2014 EPS
- 13% increase in 2014 pension-adjusted EPS⁽¹⁾
- 12.9% segment operating margin rate⁽¹⁾
- \$2.6 billion cash from operations
- \$2.0 billion free cash flow⁽¹⁾
- ~\$3.2 billion cash returned to shareholders through share repurchases and dividends

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

2015 Guidance⁽¹⁾



Sales (\$B)	23.4 – 23.8
Segment operating margin rate ⁽²⁾	~ 12%
Net FAS/CAS pension adjustment (\$M) ⁽²⁾	~290
Operating margin rate	Mid–12%
Diluted EPS	\$9.20 - \$9.50
Cash provided by operating activities before after-tax discretionary pension contributions (\$B) ⁽²⁾	2.4 – 2.7
Free cash flow before after-tax discretionary pension contributions(\$B) ⁽²⁾	1.7 – 2.0

(1) The company's 2015 financial guidance is based on the spending levels provided for in the Bipartisan Budget Act of 2013 and the Consolidated and Further Appropriations Act of 2015. The guidance assumes no disruption or cancellation of any of our significant programs and no disruption or shutdown of government operations resulting from a federal government debt ceiling breach. Guidance for 2015 also assumes adequate appropriations and funding for the company's programs in the first quarter of the U.S. government's fiscal year 2016.

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

2015 Sector Guidance Summary



Sector	Sales (\$B)	OM Rate %
Aerospace Systems	9.8 – 10.0	High 11%
Electronic Systems	6.7 – 6.9	Low to mid 15%
Information Systems	5.9 – 6.1	Mid to high 9%
Technical Services	2.7 – 2.8	~ 9%

EPS Bridge



2014 Actual	\$9.75
<u>2014 one-time items</u>	
Legal settlements	~ (0.25)
IRS resolution	~ (0.24)
R&D tax credit	~ (0.18)
2014 Adjusted Total	\$9.08
Sales	(0.25) – (0.10)
Segment margin rate ⁽¹⁾	~ (0.45)
Share count	~ 0.75
Other	0.07 – 0.22
2015 Guidance	\$9.20 – 9.50

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

Cash from Operations Bridge



2014 Actual (\$M)	\$2,593
2014 one-time items	~ (125)
2014 Adjusted Total	\$2,468
Segment operating income ⁽¹⁾	(225) – (175)
CAS pension recoveries	~ 300
Additional payroll period	~ (125)
Working capital/other	(25) – 225
2015 Guidance	\$2,400 – 2,700

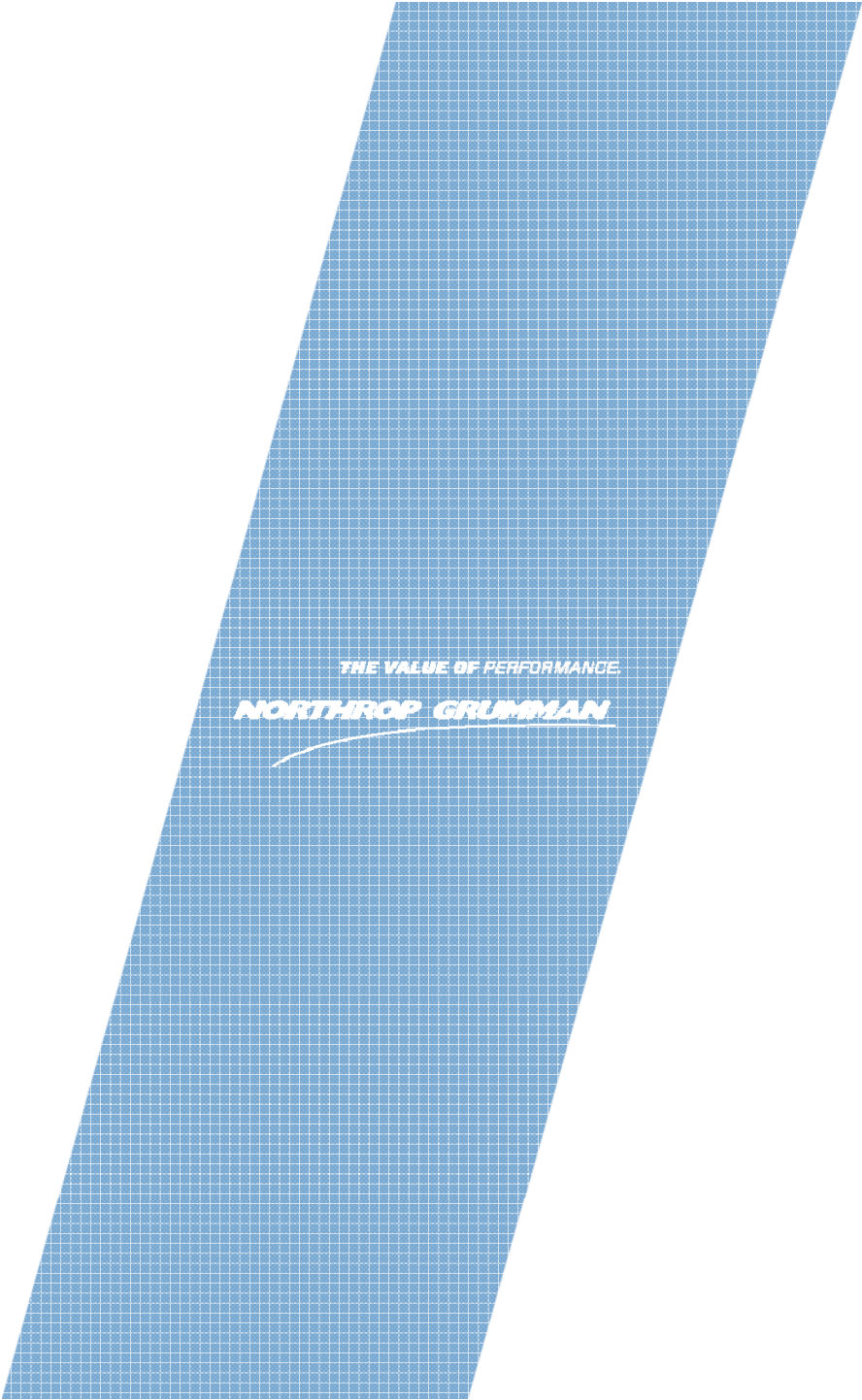
(1) Non-GAAP metric as defined in the Appendix of this presentation.

2015 Pension Assumptions



	2015	2014A
Discount rate (%)	4.12	4.99
Asset return (%)	8.00	9.75
Net FAS / CAS adjustment (\$M) ⁽¹⁾	290	269
CAS (\$M)	675	384
FAS (\$M)	(385)	(115)

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



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Appendix

Non-GAAP Definitions



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: Pension expense in accordance with Government Cost Accounting Standards (CAS) charged to contracts and included as cost in segment operating income, less pension expense determined in accordance with GAAP.

After-tax net FAS/CAS pension adjustment per share: The per share impact of the net pension adjustment as defined above, after tax at the statutory rate of 35%, provided for consistency and comparability of 2014 and 2013 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: Cash provided by operating activities less capital expenditures (including outsourcing contract & related software costs). We use free cash flow from continuing operations 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 Definitions



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.

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	
	2014	2013	2014	2013
Pension-adjusted Operating Highlights				
Operating income	\$ 762	\$ 768	\$ 3,196	\$ 3,123
Net FAS/CAS pension adjustment	(69)	(43)	(269)	(168)
Pension-adjusted operating income	\$ 693	\$ 725	\$ 2,927	\$ 2,955
<i>Pension-adjusted operating margin rate</i>	11.3%	11.8%	12.2%	12.0%
Pension-adjusted Per Share Data				
Diluted EPS	\$ 2.48	\$ 2.12	\$ 9.75	\$ 8.35
After-tax net FAS/CAS pension adjustment per share	(0.22)	(0.12)	(0.82)	(0.47)
Pension-adjusted diluted EPS	\$ 2.26	\$ 2.00	\$ 8.93	\$ 7.88
Weighted average shares outstanding — Basic	200.8	220.5	208.8	229.6
Dilutive effect of stock options and stock awards	3.4	4.7	3.3	4.3
Weighted average shares outstanding — Diluted	204.2	225.2	212.1	233.9

Non-GAAP Reconciliations – Cash Metrics



<i>\$ millions</i>	Fourth Quarter		Twelve Months	
	2014	2013	2014	2013
Cash provided by operating activities before discretionary pension contributions	\$1,490	\$1,160	\$2,593	\$2,806
After-tax discretionary pension pre-funding impact	—	44	—	(323)
Net cash provided by operating activities	\$1,490	\$1,204	\$2,593	\$2,483
Less: capital expenditures	(276)	(186)	(561)	(364)
Free cash flow	\$1,214	\$1,018	\$2,032	\$2,119
After-tax discretionary pension pre-funding impact	—	(44)	—	323
Free cash flow before discretionary pension contributions	\$1,214	\$974	\$2,032	\$2,442

Non-GAAP Reconciliations – Segment Operating Income



<i>\$ millions</i>	Fourth Quarter		Twelve Months	
	2014	2013	2014	2013
Sales	\$ 6,108	\$ 6,157	\$ 23,979	\$ 24,661
Segment operating income	760	772	3,099	3,080
<i>Segment operating margin rate</i>	12.4%	12.5%	12.9%	12.5%
Reconciliation to operating income				
Net FAS/CAS pension adjustment	\$ 69	\$ 43	\$ 269	\$ 168
Unallocated corporate expenses	(66)	(46)	(169)	(119)
Other	(1)	(1)	(3)	(6)
Operating income	\$ 762	\$ 768	\$ 3,196	\$ 3,123
<i>Operating margin rate</i>	12.5%	12.5%	13.3%	12.7%

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