

The logo features a large, blue, slanted parallelogram 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 it, the words "NORTHROP GRUMMAN" are written in a larger, white, bold, sans-serif font, with a thin white curved line underneath.

THE VALUE OF PERFORMANCE.
NORTHROP GRUMMAN

Northrop Grumman Second Quarter 2018 Conference Call

July 25, 2018

Wes Bush
Chairman and Chief Executive Officer

Kathy Warden
President and Chief Operating Officer

Ken Bedingfield
Corporate Vice President and Chief Financial Officer

Forward-Looking Statements

This presentation and the information we are incorporating by reference contain 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 “will,” “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/or 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 2017 Annual Report on Form 10-K, the section entitled “Risk Factors” in the Form 10-Q for the quarter ended June 30, 2018 and in other filings with the Securities and Exchange Commission (SEC). They include:

- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations for our programs and U.S. government funding more broadly
- investigations, claims, disputes, enforcement actions and/or litigation
- the use of estimates when accounting for our contracts and the effect of contract cost growth and/or changes in estimated contract revenues and costs
- our exposure to additional risks as a result of our international business, including risks related to geopolitical and economic factors, laws and regulations
- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate and the impact on our reputation, our ability to do business, and our financial position, results of operations and/or cash flows
- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners
- the performance and financial viability of our subcontractors and suppliers and the availability and pricing of raw materials, chemicals and components
- changes in procurement and other laws, regulations and practices applicable to our industry, findings by the U.S. government as to our compliance with such laws and regulations, and changes in our customers’ business practices globally
- increased competition within our markets and bid protests
- the ability to maintain a qualified workforce
- our ability to meet performance obligations under our contracts, including obligations that are technologically complex, require certain manufacturing expertise or are dependent on factors not wholly within our control
- environmental matters, including unforeseen environmental costs and government and third party claims
- natural and/or environmental disasters
- the adequacy and availability of our insurance coverage, customer indemnifications or other liability protections
- products and services we provide related to hazardous and high risk operations, which subject us to various environmental, regulatory, financial, reputational and other risks
- the future investment performance of plan assets, changes in actuarial assumptions associated with our pension and other post-retirement benefit plans and legislative or other regulatory actions impacting our pension, post-retirement and health and welfare plans
- our ability successfully to integrate the Orbital ATK business and realize fully the anticipated benefits of the acquisition, without adverse consequences
- our ability to exploit or protect intellectual property rights
- our ability to develop new products and technologies and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers
- the components, production and use of certain of our products involve hazardous and significant risks
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets
- unanticipated changes in our tax provisions or exposure to additional tax liabilities
- qualification of the Alliant Techsystems Inc. spin-off of Vista Outdoor Inc. as a tax-free transaction

Additional information regarding these risks and other important factors can be found in the section entitled “Risk Factors” in our 2017 Annual Report on Form 10-K, the section entitled “Risk Factors” in the Form 10-Q for the quarter ended June 30, 2018 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 or, in the case of any document incorporated by reference, the date of that document. 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 contains non-GAAP financial measures. A discussion of the company’s use of these measures is included in Appendix.

2018 Guidance as of 7/25/18⁽¹⁾



Sales (\$B)	~30.0
Segment operating margin rate ⁽²⁾	Low to Mid 11%
Net FAS/CAS pension adjustment (\$M) ⁽³⁾	~1,080
Unallocated corporate expenses (\$M) ⁽⁴⁾	~425
Operating margin rate	High 11%
Net interest expense (\$M) ⁽⁵⁾	~520
Effective Tax Rate	Mid 16%
Diluted EPS	\$16.60 – \$16.85
Capital expenditures (\$B)	~1.150
Free cash flow (\$B) ⁽²⁾⁽⁶⁾	2.4 – 2.6

(1) 2018 financial guidance reflects the company's judgment based on the best information available to the company at the time of this presentation. The government budget and appropriations process can impact our customers, programs and financial results. Government budgets, appropriations, including the timing of appropriations, and the occurrence of continuing resolutions and government shutdowns can impact the company's ability to achieve 2018 guidance.

(2) Non-GAAP metric see Appendix

(3) Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes expected 2018 CAS pension cost of \$965 million and FAS pension income of \$115 million. In accordance with ASU No. 2017-07, \$405 million of FAS (service-related) pension cost is reflected in operating income and \$520 million of FAS (non-service) pension income is reflected below operating income. CAS pension cost continues to be recorded in operating income. See Schedule 4 of the Second Quarter 2018 earnings release for further information.

(4) Includes initial estimate of \$175 million for approximately seven months of purchased intangibles amortization in 2018. This estimate is subject to the completion of purchase accounting and other post-closing activities.

(5) Includes full year of net interest expense for \$8.25 billion debt issued in October 2017 to finance the Orbital ATK acquisition, as well as estimated net interest for the company's remaining debt.

(6) 2018 Free cash flow guidance is after an expected \$250 million discretionary pension contribution.

2018 Sector Guidance Summary



Sector	Sales (\$B)	OM Rate
Aerospace Systems	~13	~10.5%
Innovation Systems	~3	Mid 10%
Mission Systems	Mid to high 11	~13%
Technology Services	Low to mid 4	~ 10%

2018 – 2020 Pension Estimates (\$M)⁽¹⁾



	2018E	2019E	2020E
Total Net FAS/CAS adjustment ⁽²⁾	~1,080	~1,065	~920
CAS	~965	~865	~615
FAS service expense	~(405)	~(395)	~(375)
FAS non-service benefit	~520	~595	~680
Required Funding	~90	~180	~270

(1) Assumes a 3.68% discount rate for legacy NG plans, a 4.17% discount rate for legacy OATK plans, and an 8% long-term rate of return for all years presented.

2019 Pension Sensitivities



Change ⁽¹⁾	Metric	Total Impact (\$M)
Discount rate +/- 25 bps	Non-Service FAS	~55
	Service FAS	~15
	Net Pension Liability	~1,030
Pension asset returns +/- 100 bps	Non-Service FAS	~50
	Net Pension Liability	~300

⁽¹⁾ From 2018 discount rate of 3.68% for legacy NG plans, discount rate of 4.17% for legacy OATK plans, and assumed net pension asset returns of 8.0%.



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Appendix

Non-GAAP Definitions



Non-GAAP Financial Measures Disclosure: This presentation contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by SEC (Securities and Exchange Commission) Regulation G and indicated by a footnote in the text of the presentation. Definitions for the non-GAAP measures are provided below. Other companies may define these measures differently or may utilize different non-GAAP measures.

Segment operating income: Total earnings from our four segments including allocated pension expense recognized under CAS, and excluding unallocated corporate items and FAS pension expense. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the financial performance and operational trends of our sectors. This measure should not be considered in isolation or as an alternative to operating results presented in accordance with GAAP.

Segment operating margin rate: Segment operating income as defined above divided by sales. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the financial performance and operational trends of our sectors. This measure should not be considered in isolation or as an alternative to operating results presented in accordance with GAAP.

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, acquisitions, stock repurchases and the payment of dividends. This measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating cash flows presented in accordance with GAAP.

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