



Northrop Grumman Reports Second Quarter 2001 Results

July 25, 2001

Economic Earnings Increase 14 Percent; Business Backlog Totals \$16.8 Billion; Litton Integration and Projected Cost Savings on Track

LOS ANGELES, July 25, 2001 -- Northrop Grumman Corporation (NYSE:NOC) today reported second quarter 2001 economic earnings of \$137 million, a 14 percent increase compared with \$120 million in economic earnings reported for the second quarter of 2000. On a per share basis, 2001 economic earnings were \$1.57 per share on average diluted shares outstanding of 84.0 million, compared with economic earnings of \$1.71 per share on average diluted shares outstanding of 70.1 million for the comparable period in 2000. Northrop Grumman's second quarter results include the operations of Litton Industries Inc., which the company acquired April 3, 2001.

Under Generally Accepted Accounting Principles (GAAP), the company reported second quarter 2001 net income of \$114 million, or \$1.28 per share, compared with net income from continuing operations of \$175 million, or \$2.50 per share, reported for the second quarter last year. The comparable decline reflects a substantial decrease in pension income.

Sales for the quarter ended June 30, 2001, were \$3.7 billion, compared with \$1.9 billion reported for the second quarter of 2000. Northrop Grumman's operating margin for the quarter was \$275 million compared with the \$317 million reported for the same period a year ago. Operating margin for the 2001 second quarter included \$91 million of pension income, down from the \$140 million reported in the second quarter of 2000. With the inclusion of the Litton plans, pension income for 2001 is expected to be approximately \$340 million, in line with previous guidance.

"We are pleased to report another strong quarter of operating results, led by our Electronic Sensors and Systems Sector, which generated 35 percent organic sales growth, and by our Integrated Systems Sector, which exceeded our operational performance expectations," said Kent Kresa, Northrop Grumman's chairman, president and chief executive officer. "The integration of Litton's businesses into Northrop Grumman is also well under way and we remain confident that we will achieve our future annual cost savings objectives of \$100 million by the end of the first 12 months and \$250 million by the end of 2003. We expect combined revenues this year of more than \$13 billion, growing to approximately \$16 billion in 2002."

Mr. Kresa added that due to a change in the planned accounting treatment of certain Litton research and experimental tax credits, the effective tax rate for 2001 will be higher than previously estimated, reducing economic earnings by 80 cents per share. As a result, the company's economic earnings for 2001 are expected to range from \$6.20 to \$6.50 per share, down from earlier guidance of \$7.00 to \$7.40 per share. The company added that this accounting change will not affect 2001 cash generation, which is expected to range between \$100 million and \$200 million.

The company also said that it now anticipates a 15 percent to 20 percent increase in 2002 economic earnings based on the revised 2001 guidance. The new guidance reflects the continued strong operational performance across the company, partially offset by a higher than expected tax rate and continued uncertainty in the telecommunications market.

Northrop Grumman's contract acquisitions in the second quarter of 2001 totaled \$10.1 billion and include \$7.5 billion of funded order backlog acquired in the Litton transaction. The company's business backlog at June 30, 2001, was \$16.8 billion, compared with the \$8.8 billion reported a year earlier.

Due to additional statement of work, the company also said that the B-2 stealth bomber engineering and manufacturing development (EMD) contract would now be completed in the fourth quarter of 2002. The corresponding federal and state income taxes totaling approximately \$1 billion will become payable in March 2003.

As previously announced, Northrop Grumman completed its acquisition of Litton Industries Inc., for approximately \$5.2 billion in cash and stock, including the assumption of Litton's \$1.3 billion of net debt. As a result, the company now has five reporting segments: Electronic Sensors and Systems Sector (ES3), which includes Litton's Advanced Electronics business; Logicon Inc., which includes Litton's Information Systems business; Integrated Systems Sector (ISS), which is unchanged by the acquisition of Litton; Ship Systems, a new segment comprised of the former Litton Ship Systems business; and Electronic Components and Materials (EC&M), a new segment comprised of the former Litton EC&M business.

ES3 sales in the second quarter of 2001 were \$1.2 billion compared with the \$664 million reported in the second quarter of 2000. The increase is due to both the inclusion of Litton's Advanced Electronics business and higher land combat systems and combat avionics systems revenues in the Aerospace Electronic Systems business area. Operating margin for the quarter was \$79 million compared with \$48 million for the same period last year, reflecting the addition of the Litton business and improved performance in the automation and information business.

Logicon reported second quarter sales of \$1 billion and operating margin of \$48 million compared with sales of \$425 million and operating margin of \$33 million reported in the second quarter of 2000. The increases are due to the addition of Litton's Information Systems business as well as to sales generated by Federal Data, Sterling's Federal Systems Group and the Federal Systems unit of Comptek Research Inc., which were acquired in the second half of 2000. Last year's second quarter operating margin included a \$5 million noncash positive adjustment related to retiree benefits.

Integrated Systems Sector sales in the second quarter were \$766 million, down 5 percent from the same period a year ago, reflecting lower B-2 sales. Operating margin for the quarter was \$64 million compared with \$113 million reported in the second quarter of 2000, which included the delivery of the last two B-2's under the production contract and an \$8 million upward cumulative margin rate adjustment on the F/A-18E/F program.

The two new segments, Ship Systems and EC&M, reported sales for the quarter of \$549 million and \$158 million, respectively, with operating margin of \$33 million and a loss of \$6 million, respectively. EC&M's margin was impacted by the effect of \$13 million of amortization due to the acquisition of Litton and by the downturn in the telecommunications industry.

Northrop Grumman's net debt at June 30, 2001, was \$5.2 billion, up from the \$1.3 billion reported at Dec. 31, 2000, reflecting both the assumption of

Litton debt and increased borrowings to finance the Litton acquisition. Interest expense for the second quarter was \$114 million, up from the \$46 million reported for the second quarter of 2000.

Northrop Grumman Corporation is a \$15 billion global aerospace and defense company with its worldwide headquarters in Los Angeles. Northrop Grumman provides technologically advanced, innovative products, services and solutions in defense and commercial electronics, systems integration, information technology and non-nuclear shipbuilding and systems. With 80,000 employees and operations in 44 states and 25 countries, Northrop Grumman serves U.S. and international military, government and commercial customers.

Note: Certain statements and assumptions in this release contain or are based on "forward-looking" information (that the company believes to be within the definition in the Private Securities Litigation Reform Act of 1995) and involve risks and uncertainties. Such "forward-looking" information includes the statements above as to future impacts on revenues and earnings. Such statements are subject to numerous assumptions and uncertainties, many of which are outside the company's control. These include the company's ability to successfully integrate the operations of Litton, assumptions with respect to future revenues, expected program performance and cash flows, the outcome of contingencies including litigation, environmental remediation, divestitures of businesses, and anticipated costs of capital investments. The company's operations are subject to various additional risks and uncertainties resulting from its position as a supplier, either directly or as subcontractor or team member, to the U.S. Government and its agencies as well as to foreign governments and agencies; actual outcomes are dependent upon factors, including, without limitation, the company's successful performance of internal plans; government customers' budgetary restraints; customer changes in short-range and long-range plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; government import and export policies; acquisition or termination of government contracts; the outcome of political and legal processes; legal, financial, and governmental risks related to international transactions and global needs for military aircraft, military and civilian electronic systems and support and information technology; as well as other economic, political and technological risks and uncertainties and other risk factors set out in the company's filings from time to time with the Securities and Exchange Commission, including, without limitation, the company's reports on Form 10-K and Form 10-Q.

Northrop Grumman will webcast its security analyst conference call at 2 p.m. E.D.T. on July 25, 2001. A live audio broadcast of the conference call will be available on the investor relations page of the company's Web site at <http://www.northropgrumman.com>.

NORTHROP GRUMMAN CORPORATION
FINANCIAL HIGHLIGHTS
(\$ in millions, except per share)

	SECOND QUARTER 2001*	2000	FIRST SIX MONTHS 2001*	2000
FINANCIAL METRICS (Other Data)				
Economic earnings(1)	\$ 137	\$ 120	\$ 238	\$ 221
Economic earnings per share(1)	\$1.57	\$1.71	\$2.97	\$3.15
Net cash provided by (used in) operating activities	\$ 19	\$ 310	\$ (14)	\$ 401
EBITDAP(2)	\$ 373	\$ 262	\$ 594	\$ 496
EBITDAP per share(2)	\$4.44	\$3.74	\$7.59	\$7.10
		JUN. 30	DEC. 31	
		2001*	2000	
Cash and cash equivalents		\$ 225	\$ 319	
Accounts receivable		2,056	1,557	
Inventoried costs		1,386	585	
Property, plant and equipment, net		2,189	1,015	
Total debt		5,474	1,615	
Net debt(3)		5,249	1,296	
Mandatorily redeemable preferred stock		350	--	
Shareholders' equity		5,211	3,919	
Total assets		\$17,325	\$ 9,622	
Debt to capitalization ratio(4)		50%	29%	

* Includes preliminary estimates of the fair market value of the assets acquired and liabilities assumed and the related allocations of the purchase price related to the Litton acquisition. Final valuations and allocations, which are expected to be completed by December 31, 2001, may differ from the

amounts included herein.

(1) Diluted earnings from continuing operations available to common shareholders per share excluding pension income and amortization of goodwill and other purchased intangibles, after tax. The company believes that economic earnings is a better performance metric of operating results. Pension income is a noncash item which is impacted more by market conditions than by the entity's results from operations. Amortization of goodwill and other purchased intangibles are also noncash items which do not require recurring cash outflows for replenishment and upgrades like property, plant and equipment.

(2) Earnings before interest expense, interest income, federal and foreign income taxes, depreciation, amortization and pension income

(3) Total debt less cash and cash equivalents

(4) Total debt divided by the sum of shareholders' equity, mandatorily redeemable preferred stock and total debt

NORTHROP GRUMMAN CORPORATION
OPERATING RESULTS
QUARTER ENDED JUNE 30, 2001
(\$ in millions, except per share)

	CONTRACT ACQUISITIONS			
	SECOND QUARTER		FIRST SIX MONTHS	
	2001	2000	2001	2000
Electronic Sensors & Systems	\$ 2,231	\$ 1,644	\$ 3,218	\$ 2,239
Logicon	1,437	371	2,073	808
Integrated Systems	448	531	1,063	993
Ship Systems	5,824	--	5,824	--
Electronic Components & Materials	281	--	281	--
Intersegment Eliminations	(104)	(68)	(142)	(103)
Total Sector	\$ 10,117	\$ 2,478	\$ 12,317	\$ 3,937

	FUNDED ORDER BACKLOG JUNE 30	
	2001	2000
	Electronic Sensors & Systems	\$ 6,260
Logicon	1,410	614
Integrated Systems	3,855	3,779
Ship Systems	5,275	--
Electronic Components & Materials	123	--
Intersegment Eliminations	(149)	(113)
Total Sector	\$16,774	\$8,778

	NET SALES			
	SECOND QUARTER		FIRST SIX MONTHS	
	2001*	2000	2001*	2000
Electronic Sensors & Systems	\$ 1,236	\$ 664	\$ 1,937	\$ 1,265
Logicon	1,017	425	1,606	803
Integrated Systems	766	809	1,499	1,665
Ship Systems	549	--	549	--
Electronic Components & Materials	158	--	158	--
Intersegment Eliminations	(63)	(42)	(100)	(75)
Total Sector	\$ 3,663	\$ 1,856	\$ 5,649	\$ 3,658

OPERATING MARGIN (LOSS)
 SECOND QUARTER FIRST SIX MONTHS
 2001* 2000 2001* 2000

Electronic Sensors & Systems	\$ 79	\$ 48	\$ 115	\$ 82
Logicon	48	33	72	64
Integrated Systems	64	113	144	213
Ship Systems	33	--	33	--
Electronic Components & Materials	(6)	--	(6)	--
Total Sector	\$ 218	\$ 194	\$ 358	\$ 359
Other items included in operating margin:				
Corporate expenses	(30)	(4)	(39)	(11)
Deferred state tax provision	(4)	(13)	(14)	(24)
Pension income	91	140	160	280
Operating margin	275	317	465	604
Other income, net	31	2	48	4
Interest expense	(114)	(46)	(161)	(92)
Income from continuing operations before taxes	192	273	352	516
Federal and foreign income taxes	78	98	135	185
Income from continuing operations	114	175	217	331
Income from discontinued operations, net of tax	--	18	--	35
Loss on disposal of discontinued operations, net of tax	--	(15)	--	(15)
Net income	\$ 114	\$ 178	\$ 217	\$ 351
Diluted earnings per share				
Continuing operations	\$1.28	\$2.50	\$2.69	\$4.73
Discontinued operations	--	0.26	--	0.50
Disposal of discontinued operations	--	(0.21)	--	(0.21)
Diluted earnings per share	\$1.28	\$2.55	\$2.69	\$5.02

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Sales by business area within segment:	SECOND QUARTER		FIRST SIX MONTHS	
	2001*	2000	2001*	2000
Electronic Sensors & Systems				
Aerospace Electronic Systems	\$ 439	\$ 291	\$ 764	\$ 548
C3I&N	241	184	441	361
Navigation Systems	238	--	238	--
Defensive Electronic Systems	179	107	262	203
Other	139	82	232	153
Total	\$ 1,236	\$ 664	\$ 1,937	\$ 1,265
Logicon				
Government Information Technology	\$ 617	\$ 203	\$ 893	\$ 386
Enterprise Information Technology	208	64	349	101
Technology Services	129	118	242	235
Commercial Information Technology	63	40	122	81
Total	\$ 1,017	\$ 425	\$ 1,606	\$ 803
Integrated Systems				
ACS	\$ 406	\$ 450	\$ 812	\$ 952
AEW/EW	188	196	354	379
AGS/BM	176	170	341	346
Intrasegment Eliminations	(4)	(7)	(8)	(12)
Total	\$ 766	\$ 809	\$ 1,499	\$ 1,665
Ship Systems	\$ 549	\$ --	\$ 549	\$ --
Electronic Components & Materials	\$ 158	\$ --	\$ 158	\$ --

Amortization of Goodwill and Other Purchased Intangibles	SECOND QUARTER		FIRST SIX MONTHS	
	2001*	2000	2001*	2000
Electronic Sensors and Systems	\$ 41	\$ 34	\$ 75	\$ 68
Logicon	17	4	28	8
Integrated Systems	12	12	24	23
Ship Systems	13	--	13	--
Electronic Components & Materials	13	--	13	--
Total	\$ 96	\$ 50	\$153	\$ 99

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