



NORTHROP GRUMMAN

Fourth Quarter 2022 Conference Call

January 26, 2023

Kathy Warden

Chair, Chief Executive Officer
and President

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Corporate Vice President
and Chief Financial Officer

Forward-Looking Statements

This presentation and the information we are incorporating by reference, and statements to be made on the earnings conference call, contain or may contain statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “will,” “expect,” “anticipate,” “intend,” “may,” “could,” “should,” “plan,” “project,” “forecast,” “believe,” “estimate,” “guidance,” “outlook,” “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 the Form 10-K for the year ended December 31, 2022, and from time to time in our other filings with the Securities and Exchange Commission (SEC). These risks and uncertainties are amplified by the global macroeconomic, health, security and political environments, including inflationary pressures, labor and supply chain challenges and the COVID-19 pandemic, which have caused and will continue to cause significant challenges, instability and uncertainty. They include:

Industry and Economic Risks

- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations and/or for our programs, and U.S. government funding and program support more broadly, including as a result of a prolonged continuing resolution and/or government shutdown, and/or related to hostilities and other global events
- significant delays or reductions in payments as a result of or related to a breach of the debt ceiling
- the use of estimates when accounting for our contracts and the effect of contract cost growth and our efforts to recover or offset such costs and/or changes in estimated contract costs and revenues, including as a result of inflationary pressures, labor shortages, supply chain challenges and/or other macroeconomic factors, and risks related to management’s judgments and assumptions in estimating and/or projecting contract revenue and performance which may be inaccurate
- continued pressures from macroeconomic trends, including inflation, supply chain delays and disruptions, and labor challenges, including on costs, schedules, performance and ability to meet expectations
- increased competition within our markets and bid protests

Legal and Regulatory Risks

- investigations, claims, disputes, enforcement actions, litigation (including criminal, civil and administrative) and/or other legal proceedings
- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate, including the impact on our reputation and our ability to do business
- changes in procurement and other laws, SEC, DoD and other rules and regulations, contract terms and practices applicable to our industry, findings by the U.S. government as to our compliance with such requirements, more aggressive enforcement of such requirements and changes in our customers’ business practices globally
- environmental matters, including unforeseen environmental costs and government and third party claims
- unanticipated changes in our tax provisions or exposure to additional tax liabilities

Business and Operational Risks

- impacts related to health epidemics, pandemics, including the COVID-19 pandemic, such as labor, supply chain or financial, schedule or cost impacts (without corresponding recovery), among other impacts
- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners, and changes in related regulations
- our ability to attract and retain a qualified, talented and diverse workforce with the necessary security clearances to meet our performance obligations
- the performance and viability of our subcontractors and suppliers and the availability and pricing of raw materials and components, particularly with inflationary pressures, increased costs, shortages in labor and financial resources, supply chain disruptions, and extended material lead times
- environmental, social and governance matters, including especially climate change, their impacts on our company, our operations and our stakeholders (employees, suppliers, customers, shareholders and regulators), and changes in laws, regulations and priorities related to these issues
- our exposure to additional risks as a result of our international business, including risks related to global security, geopolitical and economic factors, misconduct, suppliers, laws and regulations
- our ability to meet performance obligations under our contracts, including obligations that require innovative design capabilities, are technologically complex, require certain manufacturing expertise or are dependent on factors not wholly within our control
- natural disasters
- products and services we provide related to hazardous and high risk operations, including the production and use of such products, which subject us to various environmental, regulatory, financial, reputational and other risks
- our ability appropriately to exploit and/or protect intellectual property rights
- our ability to develop new products and technologies, progress digital transformation, and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers

General and Other Risk Factors

- the adequacy and availability of, and ability to obtain, insurance coverage, customer indemnifications or other liability protections
- the future investment performance of plan assets, gains or losses associated with changes in valuation of marketable securities related to our non-qualified benefit plans, changes in actuarial assumptions associated with our pension and other postretirement benefit plans and legislative or other regulatory actions impacting our pension and postretirement benefit obligations
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets, and other potential future liabilities

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 this presentation is first issued 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 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.

2022 Highlights

Enterprise Spotlight

- First images from James Webb Space Telescope released
- B-21 unveiled
- Integrated Battle Command System (IBCS) successfully completed Operational Test & Evaluation
- Developing next generation AESA radar for the F-35

Financial Results

- Awards of \$39.3 billion, book to bill of 1.07x
- Organic Sales* growth of ~3%, at high end of guidance range
- GAAP EPS of \$31.47, Transaction-adjusted EPS* of \$25.54, above high end of guidance range
- Generated over \$2.9 billion in operating cash flow

Capital Deployment

- Invested over \$2.6 billion in R&D and capital expenditures, over 7 percent of sales
- Increased our dividend by 10%, our 19th consecutive increase
- Returned over \$1.5 billion to investors via share repurchases

* Non-GAAP financial measure. See Appendix.



\$79B
Backlog



\$36.6B
Sales



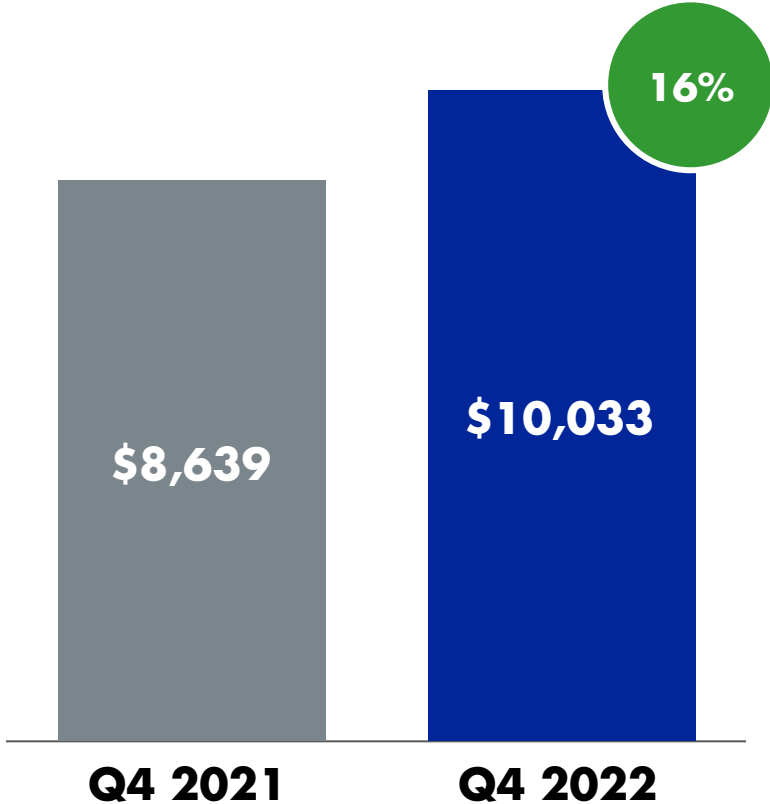
\$25.54
Transaction-
adjusted EPS*



\$2.9B
Operating Cash
Flow

Q4 Sales

Sales

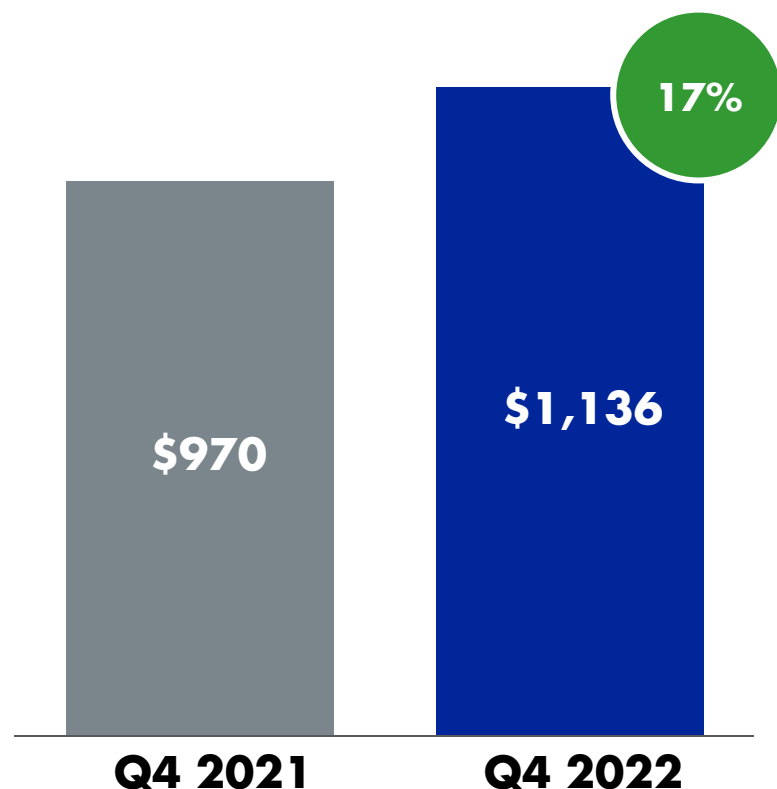


(\$M)	Three Months Ended December 31		
	2021	2022	▲%
Aeronautics Systems	\$2,631	\$2,757	5%
Defense Systems	1,378	1,657	20%
Mission Systems	2,521	2,927	16%
Space Systems	2,658	3,278	23%
Intersegment Eliminations	(549)	(586)	
Total Sales	\$8,639	\$10,033	16%

Timing of material receipts and strong hiring generated outstanding Q4 sales growth

Q4 Segment Operating Income* and Margin Rate*

Segment Operating Income*



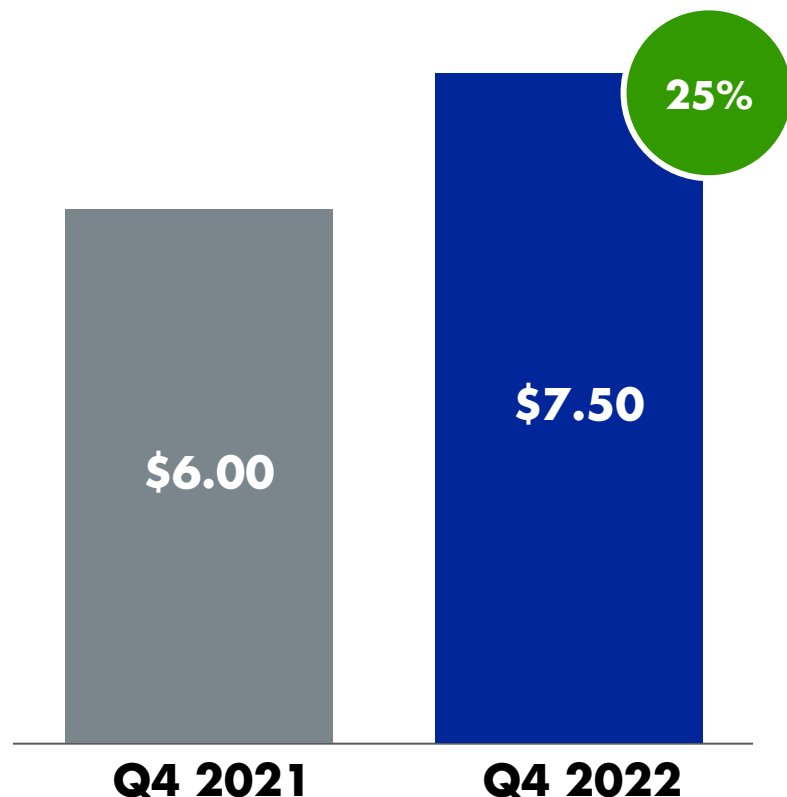
(\$M)	Three Months Ended December 31					
	Segment Operating Income*			Segment Margin Rate*		
	2021	2022	▲%	2021	2022	▲
Aeronautics Systems	\$220	\$289	31%	8.4%	10.5%	210 bps
Defense Systems	167	183	10%	12.1%	11.0%	(110) bps
Mission Systems	402	452	12%	15.9%	15.4%	(50) bps
Space Systems	256	297	16%	9.6%	9.1%	(50) bps
Intersegment Eliminations	(75)	(85)				
Total	\$970	\$1,136	17%	11.2%	11.3%	10 bps

Q4 Segment Operating Income* reflects higher sales and continued strong execution

* Non-GAAP financial measure. See Appendix.

Q4 Transaction-adjusted EPS⁽¹⁾ Bridge

Transaction-adjusted EPS⁽¹⁾



Q4 2021	\$6.00
Segment Performance	0.96
Net Pension ⁽²⁾	(0.30)
Federal Tax Rate	0.43
Interest, Marketable Securities, and Other	0.41
Q4 2022	\$7.50

Strong sales growth and segment performance drivers of year over year EPS growth

¹ Non-GAAP financial measure. See Appendix.

² Net Pension tax effected on a 21% federal statutory tax rate and a 5.25% blended state tax rate.

Note - Year over year benefit from share reduction embedded in individual items, tax effected at 21%.

Pension Estimates* as of 1/26/2023

(\$M)	2022 Actual	2023E	2024E	2025E
Actual / Expected Return on Plan Assets	(15.4)%	←	7.5%	→
Discount Rate	5.54%	←	5.54%	→
Required Funding	~100	←	~100	→
Mark-to-Market Pension & OPB Benefit	1,232			

(\$M)	2022 Actual	2023E	2024E	2025E
CAS Pension Expense	167	~160	~260	~460
FAS Pension Service Expense	(367)	~(240)	~(230)	~(210)
FAS / CAS Operating Adjustment	(200)	~(80)	~30	~250
Non-Operating FAS Pension Benefit	1,505	~530	~550	~570
Total Net FAS / CAS Pension Adjustment	1,305	~450	~580	~820

* See Page 15 – “Financial Guidance” regarding certain of the company’s underlying assumptions, judgments and factors that can affect the company’s ability to achieve guidance or meet expectations.

Pension Sensitivities as of 1/26/2023

Mark to Market / Net Pension Liability ⁽¹⁾		Inc/(Dec) to Expense (\$M)
Discount rate⁽²⁾	+25 bps	~(660)
	– 25 bps	~690
Plan asset returns	+100 bps	~(280)
	– 100 bps	~280
FAS Pension Service Expense		Inc/(Dec) to Expense (\$M)
Discount rate⁽²⁾	+25 bps	~(5)
	– 25 bps	~5
Plan asset returns	+100 bps	N/A
	– 100 bps	N/A
Non-Operating FAS Pension Benefit		Inc/(Dec) to Expense (\$M)
Discount rate⁽²⁾	+25 bps	~35
	– 25 bps	~(35)
Plan asset returns	+100 bps	~(20)
	– 100 bps	~20

1. From 2023 discount rate of 5.54% and assumed net pension returns of 7.5%.

2. Discount rate and cash balance credit rating assumptions are linked.

Note: CAS costs not directly impacted in the short term by changes in discount rate.

2023 Company-Level Guidance⁽¹⁾

<i>\$ in millions, except per share amounts</i>	As of 1/26/2023
Sales	\$38,000 – \$38,400
Segment operating income⁽²⁾	\$4,300 – \$4,400
Total Net FAS/CAS pension adjustment ⁽³⁾	~\$450
Unallocated corporate expense:	
Intangible asset amortization and PP&E step-up depreciation	~\$120
Other items	~\$150
Operating income	\$3,950 – \$4,050
Interest expense	~\$550
Effective tax rate %	High 16%
Weighted average diluted shares outstanding	~153
MTM-adjusted EPS⁽²⁾⁽⁴⁾	\$21.85 – \$22.45
Capital Expenditures	\$1,650 – \$1,700
Adjusted free cash flow⁽²⁾ (based on current tax law)	\$1,850 – \$2,150

2023 Sales guidance increased from prior outlook

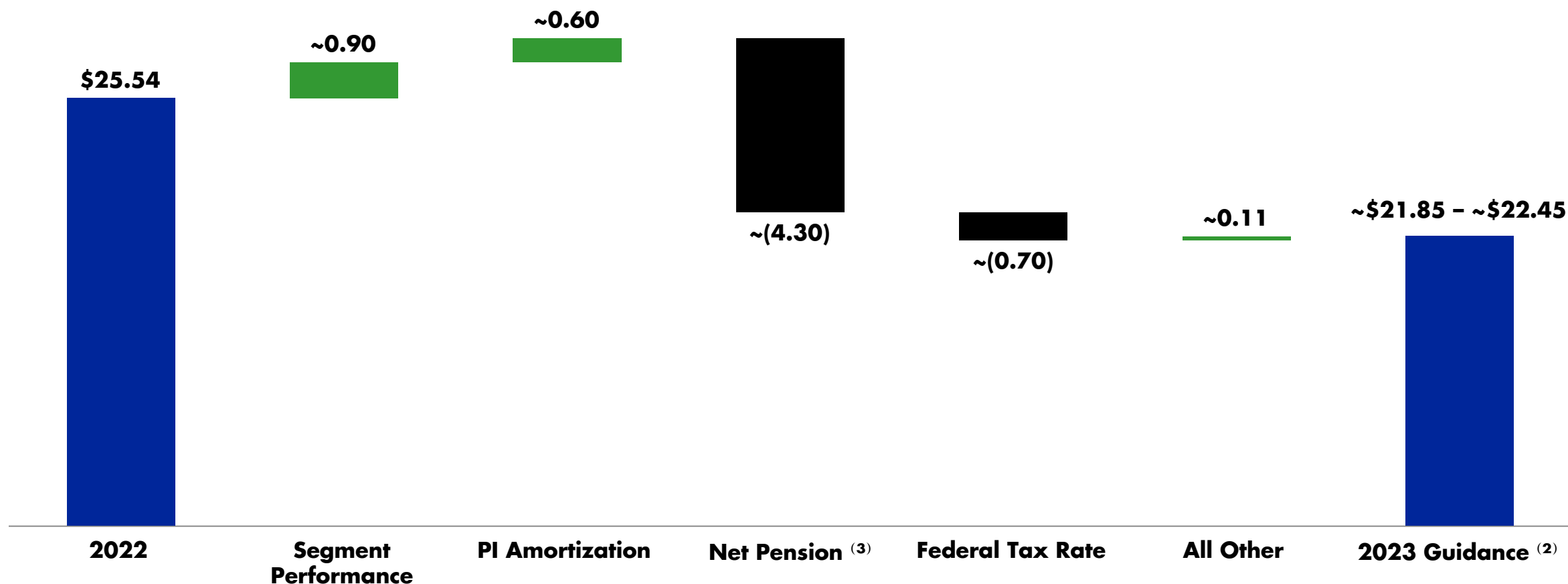
1. See Page 15 – “Financial Guidance” regarding certain of the company’s underlying assumptions, judgments and factors that can affect the company’s ability to achieve guidance or meet expectations.
2. Non-GAAP financial measure. See Appendix.
3. Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes \$160 million of expected CAS pension expense and \$240 million of FAS pension service expense, both of which are reflected in operating income. Non-operating FAS pension benefit of \$530 million is reflected below operating income, and the total net FAS/CAS pension adjustment is \$450 million.
4. As usual, financial guidance does not include any future gains or losses associated with changes in valuations of the company’s marketable securities related to our non-qualified benefit plans and other non-operating assets

2023 Sector Guidance*

	2022 Actual		2023 Guidance* as of 1/26/2023	
	Sales (\$B)	OM Rate %	Sales (\$B)	OM Rate %
Aeronautics Systems	\$10.5	10.6%	Mid \$10	~10%
Defense Systems	\$5.6	11.9%	Mid \$5	~12%
Mission Systems	\$10.4	15.6%	High \$10	Low 15%
Space Systems	\$12.3	9.4%	Mid \$13	Mid 9%
Eliminations	\$(2.2)	13.9%	Low (\$2)	Mid 13%

*See Page 15 – “Financial Guidance” regarding certain of the company’s underlying assumptions, judgments and factors that can affect the company’s ability to achieve guidance or meet expectations.

2022 to 2023 MTM-adjusted EPS⁽¹⁾⁽²⁾ Bridge



Segment performance and lower amortization expense partially offset lower net pension income

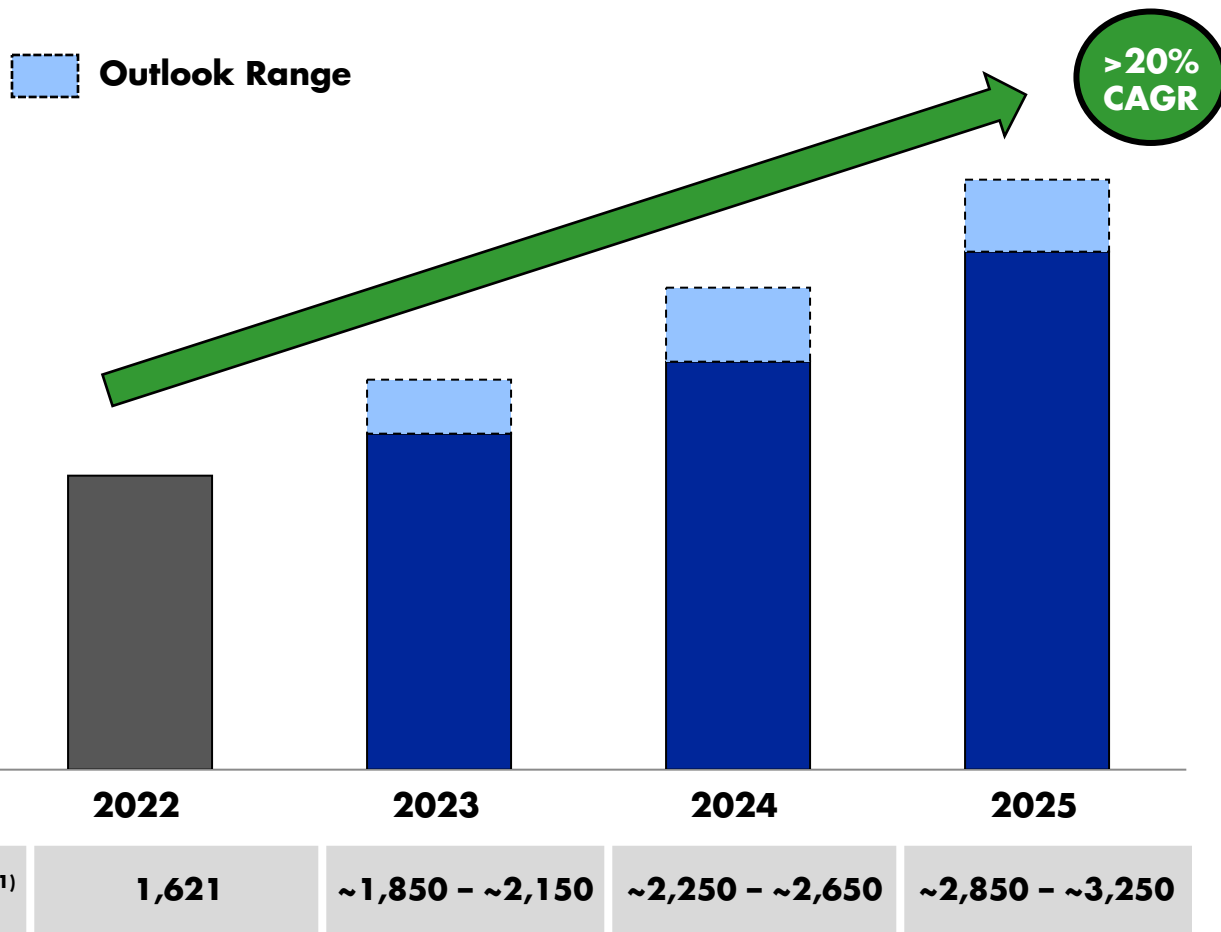
1. Non-GAAP financial measure. See Appendix.

2. See Page 15 – “Financial Guidance” regarding the company’s underlying assumptions, judgments and select factors that can affect the company’s ability to achieve guidance or meet expectations.

3. Net Pension tax effected on a 21% federal statutory tax rate and a 5.25% blended state tax rate

Note - Year over year benefit from share reduction embedded in individual items, tax effected at 21%.

Adjusted FCF⁽¹⁾ Outlook⁽²⁾ as of 1/26/23



Assumes current tax law regarding R&D amortization

2023 growth:

- Operational performance
- Lower R&D cash tax payments and absence of payroll tax headwind
- Higher capital expenditures

2024 & 2025 growth driven by:

- Operational performance
- Lower R&D cash tax payments
- Higher CAS recoveries
- Lower Capex, particularly in 2025

Expect to return at least 100% of Adjusted Free Cash Flow⁽¹⁾ to Shareholders in 2023

Adjusted FCF⁽¹⁾ growing at an accelerated rate driven by strong operational performance

1. Non-GAAP financial measure. See Appendix.

2. See Page 15 – “Financial Guidance” regarding the company’s underlying assumptions, judgments and select factors that can affect the company’s ability to achieve guidance or meet expectations.

Key Takeaways

**Strong Global
Defense Budget
Outlook**

**Industry-leading
Sales Growth**

**Franchise Programs
Well Aligned to
Customer Priorities**

Our Strategy Remains Focused on:

- Maintaining technology leadership and delivering innovative and affordable solutions with speed
- Sustainably and profitably growing our business in our customers' highest priority missions while maintaining contracting discipline
- Keeping a laser focus on performance and driving cost efficiencies
- Deploying our capital in value creating ways for our customers and investors



Appendix

Financial Guidance

Financial guidance, as well as outlook, trends, expectations and other forward looking statements provided by the company for 2023 and beyond, reflect the company's judgment based on the information available to the company at the time of this release. The company's financial guidance and outlook for 2023 and beyond reflect what the company currently anticipates will be the impacts on the company from, among other factors, the global macroeconomic, health, security, and political/budget environments, including the impacts from inflationary pressures and labor and supply chain challenges; the COVID-19 pandemic; changes in the threat environment; changes in government budget, appropriations and procurement priorities and processes; a potential extended continuing resolution and/or prolonged breach of the debt ceiling or government shutdown; changes in the regulatory environment; and changes in support for our programs. However, the company cannot predict how these factors will evolve or what impacts they will have, and there can be no assurance that the company's current expectations or underlying assumptions are correct. These factors can affect the company's ability to achieve guidance or meet expectations.

For additional factors that may impact the company's ability to achieve guidance or meet expectations, please see the "Forward-Looking Statements" section in our earnings release and Form 10-K.

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 Regulation G and indicated by a footnote in this presentation. Definitions for the non-GAAP measures are provided below and reconciliations are provided in this presentation, except that reconciliations of forward-looking non-GAAP measures are not provided because the company is unable to provide such reconciliations without unreasonable effort due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of certain items, including, but not limited to, the impact of any mark-to-market pension adjustment. Other companies may define these measures differently or may utilize different non-GAAP measures.

MTM-adjusted net earnings: Net earnings excluding MTM expense and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance by presenting the company's operating results before the non-operational impact of pension and OPB actuarial gains and losses. This measure is also consistent with how management views the underlying performance of the business as the impact of MTM accounting is not considered in management's assessment of the company's operating performance or in its determination of incentive compensation awards. MTM-adjusted net earnings is reconciled in the "Transaction-adjusted Net Earnings and EPS" table within this Appendix.

MTM-adjusted EPS: Diluted earnings per share excluding the per share impact of MTM benefit (expense) and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance per share by presenting the company's diluted earnings per share results before the non-operational impact of pension and OPB actuarial gains and losses. MTM-adjusted EPS is reconciled in the "Transaction-adjusted Net Earnings and EPS" table within this Appendix.

Transaction-adjusted net earnings: Net earnings excluding impacts related to the company's IT services divestiture, including the gain on sale of the business, associated federal and state income tax expenses, transaction costs, and the make-whole premium for early debt redemption, as well as MTM benefit (expense) and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance by presenting the company's operating results before the non-operational impact of divestiture activity and pension and OPB actuarial gains and losses. This measure is also consistent with how management views the underlying performance of the business as the impact of the IT services divestiture and MTM accounting is not considered in management's assessment of the company's operating performance or in its determination of incentive compensation awards. Transaction-adjusted net earnings is reconciled in the "Transaction-adjusted Net Earnings and EPS" table within this Appendix.

Transaction-adjusted EPS: Diluted earnings per share excluding the per share impacts related to the company's IT services divestiture, including the gain on sale of the business, associated federal and state income tax expenses, transaction costs, and the make-whole premium for early debt redemption, as well as MTM benefit (expense) and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance per share by presenting the company's diluted earnings per share results before the non-operational impact of the IT services divestiture and pension and OPB actuarial gains and losses. Transaction-adjusted EPS is reconciled in the "Transaction-adjusted Net Earnings and EPS" table within this Appendix.

Non-GAAP Definitions

Organic sales: Total sales excluding sales attributable to the company's IT services divestiture. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying sales growth as well as in providing an understanding of our ongoing business and future sales trends by presenting the company's sales before the impact of divestiture activity. Organic sales is reconciled in the "Organic Sales" table within this Appendix.

Segment operating income and segment operating margin rate: Segment operating income, as reconciled in the "Non-GAAP Reconciliations – Segment Operating Income" table within this Appendix and segment operating margin rate (segment operating income divided by sales) reflect the combined operating income of our four segments less the operating income associated with intersegment sales. Segment operating income includes pension expense allocated to our sectors under FAR and CAS and excludes FAS pension service expense and unallocated corporate items. These measures may be useful to investors and other users of our financial statements as supplemental measures in evaluating the financial performance and operational trends of our sectors. These measures should not be considered in isolation or as alternatives to operating results presented in accordance with GAAP.

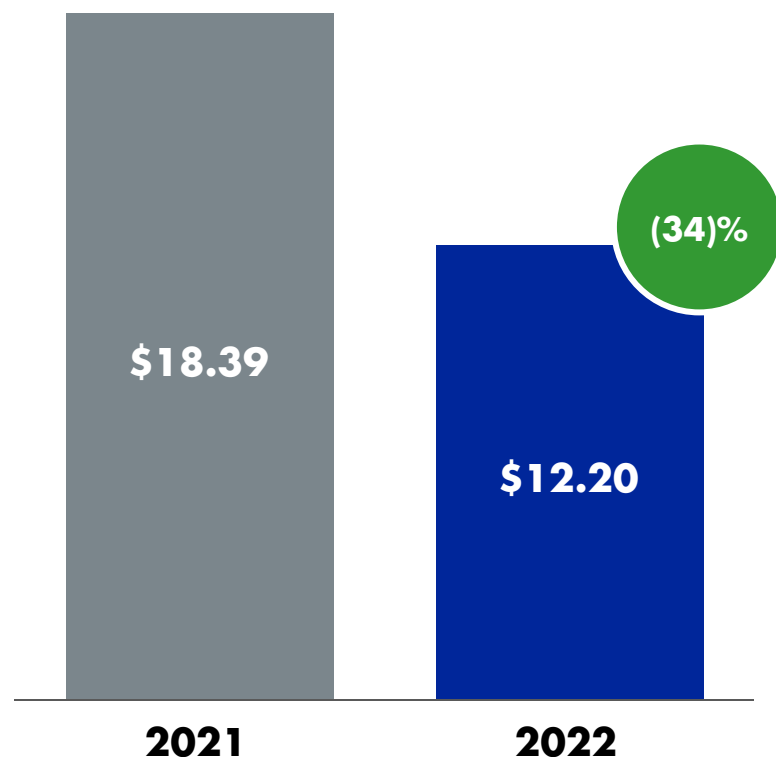
Free cash flow: Net cash provided by operating activities less capital expenditures. We use free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This measure may be useful to investors and other users of our financial 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.

Adjusted free cash flow: Net cash provided by or used in operating activities, less capital expenditures, plus proceeds from the sale of equipment to a customer (not otherwise included in net cash provided by or used in operating activities) and the after-tax impact of discretionary pension contributions. Adjusted free cash flow includes proceeds from the sale of equipment to a customer as such proceeds were generated in a customer sales transaction. It also includes the after-tax impact of discretionary pension contributions for consistency and comparability of financial performance. This measure may not be defined and calculated by other companies in the same manner. We use adjusted free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This non-GAAP 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. Adjusted free cash flow is reconciled in the "Transaction-adjusted Free Cash Flow" table within this Appendix.

Transaction-adjusted free cash flow: Net cash provided by or used in operating activities less capital expenditures, plus proceeds from the sale of equipment to a customer (not otherwise included in net cash provided by or used in operating activities), the after-tax impact of discretionary pension contributions and cash paid for federal and state taxes and transaction costs associated with the IT services divestiture. Transaction-adjusted free cash flow includes proceeds from the sale of equipment to a customer as such proceeds were generated in a customer sales transaction. It also includes the after-tax impact of discretionary pension contributions and cash paid for federal and state taxes and transaction costs associated with the IT services divestiture for consistency and comparability of financial performance. This measure may not be defined and calculated by other companies in the same manner. We use transaction-adjusted free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This non-GAAP 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. Transaction-adjusted free cash flow is reconciled in the "Transaction-adjusted Free Cash Flow" table within this Appendix.

FAS/CAS Pension Adjustment Impact per Share

2022 FAS/CAS Impact per Share



<i>\$ in millions, except per share amounts</i>	Three Months Ended December 31		Year Ended December 31	
	2021	2022	2021	2022
FAS/CAS operating adjustment	\$32	\$(48)	\$130	\$(200)
Non-operating FAS pension benefit	368	376	1,469	1,505
Total net FAS/CAS pension adjustment	400	328	1,599	1,305
MTM pension and OPB benefit	2,355	1,232	2,355	1,232
Total pension-related benefit	2,755	1,560	3,954	2,537
Tax effect*	(693)	(392)	(995)	(638)
After-tax impact	\$2,062	\$1,168	\$2,959	\$1,899
Weighted-average diluted shares outstanding, in millions	158.1	154.5	160.9	155.6
Per share impact	\$13.04	\$7.56	\$18.39	\$12.20

FAS/CAS pension adjustment continues to have decreasing benefit on GAAP EPS

* Based on a 21% federal statutory tax rate and a 5.25% blended state tax rate

Non-GAAP Reconciliations

Organic Sales

(\$M)	Year Ended December 31						
	2021			2022			Organic sales ▲%
	Sales	IT Services Sales	Organic Sales	Sales	IT Services Sales	Organic Sales	
Aeronautics Systems	\$11,259	\$—	\$11,259	\$10,531	\$—	\$10,531	(6)%
Defense Systems	5,776	(106)	5,670	5,579	—	5,579	(2)%
Mission Systems	10,134	(42)	10,092	10,396	—	10,396	3%
Space Systems	10,608	(16)	10,592	12,275	—	12,275	16%
Intersegment Eliminations	(2,110)	2	(2,108)	(2,179)	—	(2,179)	
Total	\$35,667	\$(162)	\$35,505	\$36,602	\$—	\$36,602	3%

Non-GAAP Reconciliations

Segment Operating Income

(\$M)	Three Months Ended December 31		Year Ended December 31	
	2021	2022	2021	2022
Total sales	\$8,639	\$10,033	\$35,667	\$36,602
Operating income	\$742	\$906	\$5,651	\$3,601
Operating margin rate	8.6%	9.0%	15.8%	9.8%
Reconciliation to segment operating income:				
FAS/CAS operating adjustment	\$(32)	\$48	\$(130)	\$200
Unallocated corporate expense (income):				
Gain on sale of business	—	—	(1,980)	—
IT services divestiture – unallowable state taxes and transaction costs	—	—	192	—
Intangible asset amortization and PP&E step-up depreciation	63	61	254	242
MTM-related deferred state tax expense	124	65	124	65
Other unallocated corporate expense	73	56	106	145
Unallocated corporate expense (income)	\$260	\$182	\$(1,304)	\$452
Segment operating income	\$970	\$1,136	\$4,217	\$4,253
Segment operating margin rate	11.2%	11.3%	11.8%	11.6%

Non-GAAP Reconciliations

Transaction-adjusted Net Earnings and EPS

\$ in millions, except per share amounts	Three Months Ended December 31		Year Ended December 31	
	2021	2022	2021	2022
Transaction-adjusted net earnings				
Net earnings	\$2,710	\$2,080	\$7,005	\$4,896
MTM (benefit)	(2,355)	(1,232)	(2,355)	(1,232)
MTM-related deferred state tax expense ⁽¹⁾	124	65	124	65
Federal tax expense of items above ⁽²⁾	469	245	469	245
MTM adjustment, net of tax	(1,762)	(922)	(1,762)	(922)
MTM-adjusted net earnings	\$948	\$1,158	\$5,243	\$3,974
Gain on sale of business	—	—	(1,980)	—
State tax impact ⁽³⁾	—	—	160	—
Transaction costs	—	—	32	—
Make-whole premium	—	—	54	—
Federal tax impact of items above ⁽⁴⁾	—	—	614	—
Transaction adjustment, net of tax	\$—	\$—	\$(1,120)	\$—
Transaction-adjusted net earnings	\$948	\$1,158	\$4,123	\$3,974
Transaction-adjusted per share data				
Diluted EPS	\$17.14	\$13.46	\$43.54	\$31.47
MTM (benefit) per share	(14.90)	(7.97)	(14.64)	(7.92)
MTM-related deferred state tax expense per share ⁽¹⁾	0.78	0.42	0.77	0.42
Federal tax expense of items above per share ⁽²⁾	2.98	1.59	2.92	1.57
MTM adjustment per share, net of tax	(11.14)	(5.96)	(10.95)	(5.93)
MTM-adjusted EPS	\$6.00	\$7.50	\$32.59	\$25.54
Gain on sale of business per share	—	—	(12.31)	—
State tax impact per share ⁽³⁾	—	—	0.99	—
Transaction costs per share	—	—	0.20	—
Make-whole premium per share	—	—	0.34	—
Federal tax impact of line items above per share ⁽⁴⁾	—	—	3.82	—
Transaction adjustment per share, net of tax	\$—	\$—	\$(6.96)	\$—
Transaction-adjusted EPS	\$6.00	\$7.50	\$25.63	\$25.54

1 The deferred state tax impact in each period was calculated using the company's blended state tax rate of 5.25 percent.

2 The federal tax impact in each period was calculated by subtracting the deferred state tax impact from MTM benefit and applying the 21 percent federal statutory rate.

3 The state tax impact includes \$62 million of incremental tax expense related to \$1.2 billion of nondeductible goodwill in the divested business.

4 The federal tax impact was calculated by applying the 21 percent federal statutory rate to the adjustment items and also includes \$250 million of incremental tax expense related to \$1.2 billion of nondeductible goodwill in the divested business.

Non-GAAP Reconciliations

Transaction-adjusted Free Cash Flow

(\$M)	Three Months Ended December 31			Year Ended December 31		
	2021	2022	▲%	2021	2022	▲%
Net cash provided by operating activities	\$1,442	\$2,251	56%	\$3,567	\$2,901	(19)%
Capital expenditures	(733)	(632)	(14)%	(1,415)	(1,435)	1%
Proceeds from sale of equipment to a customer	—	55	NM	84	155	85%
Adjusted free cash flow	\$709	\$1,674	136%	\$2,236	\$1,621	(28)%
IT services divestiture transaction costs	—	—	NM	39	—	NM
IT services divestiture federal and state taxes	197	—	NM	785	—	NM
Transaction-adjusted free cash flow	\$906	\$1,674	85%	\$3,060	\$1,621	(47)%

NORTHROP
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The logo graphic consists of a thick black horizontal line extending from the end of the word 'NORTHROP' to the right, and a thick black vertical line extending downwards from the end of the word 'GRUMMAN' to the right, meeting at a 90-degree angle.