

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____ Commission file number 1-16411

NORTHROP GRUMMAN CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

80-0640649

(I.R.S. Employer
Identification Number)

2980 Fairview Park Drive, Falls Church, Virginia 22042 (703) 280-2900
(Address and telephone number of principal executive offices)

Securities registered pursuant to section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$1 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No *

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes *

No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No *

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No *

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer *

Non-accelerated filer *

Smaller reporting company *

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes *

No

As of June 30, 2014, the aggregate market value of the common stock (based upon the closing price of the stock on the New York Stock Exchange) of the registrant held by non-affiliates was approximately \$24.9 billion.

As of January 29, 2015, 198,405,799 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Northrop Grumman Corporation's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for the 2015 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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PART I

Item 1. Business

HISTORY AND ORGANIZATION

History

Northrop Grumman Corporation (herein referred to as “Northrop Grumman,” the “company,” “we,” “us,” or “our”) is a leading global security company. We offer a broad portfolio of capabilities and technologies that enable us to deliver innovative products, systems and solutions for applications that range from undersea to outer space and into cyberspace. We provide products, systems and solutions in unmanned systems; cyber; command, control, communications and computers (C4), intelligence, surveillance, and reconnaissance (C4ISR); strike aircraft; and logistics and modernization to government and commercial customers worldwide through our four segments: Aerospace Systems, Electronic Systems, Information Systems and Technical Services. We participate in many high-priority defense and government programs in the United States (U.S.) and abroad. We conduct most of our business with the U.S. Government, principally the Department of Defense (DoD) and intelligence community. We also conduct business with foreign, state and local governments and domestic and international commercial customers. For a discussion of risks associated with our operations, see Risk Factors in Part I, Item 1A.

The company originally was formed in Hawthorne, California in 1939, as Northrop Aircraft Incorporated and was reincorporated in Delaware in 1985, as Northrop Corporation. Northrop Aircraft Incorporated was a principal developer of flying wing technology, including the B-2 Stealth Bomber. The company developed into one of the largest defense contractors in the world through a series of acquisitions, as well as organic growth. In 1994, we acquired Grumman Corporation (Grumman), after which time the company was renamed Northrop Grumman Corporation. Grumman was a premier military aircraft systems integrator and builder of the Lunar Module that first delivered men to the surface of the moon. In 1996, we acquired the defense and electronics businesses of Westinghouse Electric Corporation, a world leader in the development and production of sophisticated radar and other electronic systems for the nation’s defense, civil aviation, and other international and domestic applications. In 2001, we acquired Litton Industries, a global electronics and information technology company, and one of the nation’s leading full service shipbuilders. In 2002, we acquired TRW Inc., a leading developer of military and civil space systems and satellite payloads, as well as a leading global integrator of complex, mission-enabling systems and services. In 2011, the company completed the spin-off to its shareholders of Huntington Ingalls Industries, Inc. (HII). HII operates our former Shipbuilding business, which was acquired in 2001, through the acquisitions of Newport News Shipbuilding and Litton Industries.

Organization

From time to time, we acquire or dispose of businesses and realign contracts, programs or business areas among and within our operating segments. Internal realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services. The operating results for all periods presented have been revised to reflect these changes made through December 31, 2014. We are currently aligned into four operating segments: Aerospace Systems, Electronic Systems, Information Systems and Technical Services. See Note 3 to our consolidated financial statements in Part II, Item 8 for further information.

AEROSPACE SYSTEMS

Aerospace Systems, headquartered in Redondo Beach, California, is a leader in the design, development, integration and production of manned aircraft, unmanned systems, spacecraft, high-energy laser systems, microelectronics and other systems and subsystems. Aerospace Systems’ customers, primarily U.S. Government agencies, use these systems in mission areas including intelligence, surveillance and reconnaissance (ISR), communications, battle management, strike operations, electronic warfare, earth observation, satellite communications, space science and space exploration. The segment consists of four business areas: Unmanned Systems, Military Aircraft Systems, Space Systems, and Strategic Programs & Technology.

Unmanned Systems - designs, develops, manufactures, and integrates ISR unmanned systems for tactical and strategic missions. Key ISR programs include the RQ-4 Global Hawk reconnaissance system, a proven high-altitude long-endurance system providing near real-time high resolution imagery of large geographical areas; the Triton aircraft system providing real-time ISR over vast ocean and coastal regions; the trans-Atlantic North Atlantic Treaty Organization (NATO) Alliance Ground Surveillance (AGS) system for multinational theater operations, peacekeeping missions, and disaster relief efforts; the Fire Scout aircraft system providing unprecedented situational awareness and precision targeting support; the Navy Unmanned Combat Air System demonstrating an unmanned

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combat air vehicle for carrier-based operations; and the Common Mission Management System, providing high performance service based on ground control solutions enabling unmanned mission capabilities.

Military Aircraft Systems - designs, develops, manufactures, and integrates airborne C4ISR, electronic warfare mission systems, and long range strike and tactical aircraft systems. Key airborne C4ISR programs include the E-2D Advanced Hawkeye and Joint Surveillance Target Attack Radar System (JSTARS). Electronic warfare includes the EA-18G Growler and EA-6B Prowler airborne electronic attack weapon systems in addition to the design, development, and integration of laser weapon systems for air, sea, and ground platforms. This business area also designed, developed and manufactured the B-2 Spirit bomber and now provides sustainment and upgrade services for the B-2, the nation's most advanced long range strike aircraft system. Tactical aircraft includes the design, development, manufacture and integration of F/A-18 aft sections and F-35 center sections.

Space Systems - designs, develops, manufactures, and integrates spacecraft systems, subsystems, sensors and communications payloads in support of space science and C4ISR. Key programs include the James Webb Space Telescope, a large infrared telescope being built for the National Aeronautics and Space Administration that will be deployed in space to study the origins of the universe; Advanced Extremely High Frequency payloads providing survivable, protected communications to U.S. forces; and restricted programs.

Strategic Programs & Technology - creates and matures advanced technologies and innovative concepts to provide affordable solutions addressing current and future customer needs. The Strategic Programs & Technology business area maintains a broad portfolio of contracts ranging from development of components to prototypes to initial operational systems across the air, land and space domains.

ELECTRONIC SYSTEMS

Electronic Systems, headquartered in Linthicum, Maryland, is a leader in the design, development, manufacture and support of solutions for sensing, understanding, anticipating and controlling the operating environment for our global military, civil and commercial customers. Electronic Systems provides a variety of defense electronics and systems, airborne fire control radars, situational awareness systems, early warning systems, electronic warfare systems, air defense radars and management systems, navigation systems, communications systems, marine power and propulsion systems, space systems and logistics services. The segment consists of three business areas: Intelligence, Surveillance, Reconnaissance & Targeting Systems, Land & Self Protection Systems, and Navigation & Maritime Systems.

Intelligence, Surveillance, Reconnaissance & Targeting Systems - delivers products and services for space satellite applications, airborne and ground-based surveillance, multi-sensor processing, analysis and dissemination for combat units and national agencies, both domestic and international. These systems provide battle space awareness, missile defense, command and control, combat avionics (fire control radars, multi-function apertures and pods), airborne electro-optical/infrared (EO/IR) targeting systems and postal automation systems. Key programs include airborne fire control radars such as the Scalable Agile Beam Radar (SABR), which provides affordable Active Electronically Scanned Array (AESA) capabilities for domestic and international fighters; the F-35 fire control radar, a multi-function AESA radar for the U.S. Armed Forces and a large number of international partners; EO/IR systems such as the LITENING targeting pod and the Distributed Aperture System (DAS), a 360 degree spherical situational awareness system; airborne surveillance radars such as the Multirole Electronically Scanned Array (MESA) for Airborne Early Warning & Control (AEW&C), which provides air-to-air and air-to-surface coverage; and space systems such as the Space-Based Infrared System (SBIRS), which provides data for missile surveillance, missile defense, technical intelligence and battlespace characterization.

Land & Self Protection Systems - delivers products, systems and services that support ground-based, helicopter and fixed wing platforms (manned and unmanned) with sensor and protection systems. A major product line of this business area consists of systems that perform threat detection and countermeasures that defeat infrared and radio frequency (RF) guided missile and tracking systems. This business area also provides integrated electronic warfare capability, communications and intelligence systems, unattended ground sensors, automatic test equipment, advanced threat simulators, ground-based air defense and multi-function radars, situational awareness systems, laser/electro-optical systems and digitized and open architecture cockpits and applications. Key programs include the Ground/Air Task Oriented Radar (G/ATOR), which is a ground-based multi-mission radar designed to detect and track a wide variety of threats; the TPS-78 ground-based radar, which provides air defense and air surveillance for the global market; the Large Aircraft Infrared Countermeasures (LAIRCM), which is an infrared countermeasure system designed to protect aircraft against man-portable (shoulder-launched) infrared-guided surface-to-air missiles; and the AN/APR-39, which provides rapid identification and continuous radar threat warning for today's complex battlefields.

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Navigation & Maritime Systems - delivers products and services to domestic and international defense, civil and commercial customers supporting smart navigation, shipboard radar surveillance, ship control, machinery control and integrated combat management systems for naval surface ships; high-resolution undersea sensors for mine hunting, situational awareness and other applications; unmanned marine vehicles; shipboard missile and encapsulated payload launch systems, propulsion and power generation systems, nuclear reactor instrumentation and control and acoustic sensors for submarines and aircraft carriers; inertial navigation systems for all domains (air, land, sea, and space); and embedded Global Positioning Systems. Key programs include the AN/SPQ-9B Anti-Ship Missile Defense radar, which provides the US Navy's cruisers and destroyers with situational awareness and contact information from aircraft, cruise missiles, surface vessels and periscope detection; inertial navigation and positioning products for a range of platforms including ships, aircraft, spacecraft and weapons systems.

In addition to the product and service lines discussed above, our Electronic Systems segment also includes Advanced Concepts & Technologies (AC&T), which develops next-generation systems to position the segment in key developing markets. AC&T focuses on understanding customer mission needs; conceiving affordable, innovative and open solutions; and demonstrating the readiness and effectiveness of Electronic Systems' products. AC&T focuses on the following enterprise-wide and cross cutting technology development thrust areas: RF systems; EO/IR systems; multi-function systems; modular open systems architectural approaches and designs; precision navigation and timing capabilities; and secure and trusted solutions.

INFORMATION SYSTEMS

Information Systems, headquartered in McLean, Virginia, is a leading provider of advanced solutions for the DoD, national intelligence, federal civilian, state, international and commercial customers. Products and services focus on the fields of command and control (C2), communications, cyber, air and missile defense, intelligence processing, civil security, health technology and government support systems. The segment consists of seven business areas: Cyber, C2, Communications, ISR, Integrated Air and Missile Defense (IAMD), Civil and Health.

Cyber - provides full spectrum solutions that address cyber security threats, cyber mission management and special cyber systems. Cyber offerings span intelligence, defense, federal, state, international and commercial customers, providing dynamic cyber defense and specialized cyber systems and services in support of critical government missions. This business specializes in active defense, malware detection, analytics platforms and large scale cyber solutions for national security applications.

C2 - provides net-enabled C2, battle management, command center integration, combat support systems, mission-enabling solutions and critical infrastructure protection systems. C2 systems support operations, managing assets and forces employed to accomplish national and military missions, and optimizing legacy platforms, sensors and weapons systems. These systems are installed in operational and command centers world-wide and across DoD services, joint commands and the international security community.

Communications - provides the underlying networks, network management, gateway systems and radio frequency devices that support national military C4ISR missions and help make C4ISR more integrated and interoperable. Communications capabilities include gateways and products for aircraft interoperability, multi-function avionics, software defined radios and protected communications.

ISR - delivers systems and services in Signals Intelligence (SIGINT), airborne reconnaissance, geospatial intelligence and data fusion, specializing in the collection, processing, and exploitation of data to achieve a deep understanding of the environment. Offerings include intelligence integration, large scale information processing, multi-source intelligence, big data applications and geo-location techniques.

IAMD - provides integration and interoperability of net-enabled battle management, sensors, targeting and surveillance systems, air and missile defense C2, missile warning systems and critical situational awareness for weapons and fire control systems. This business provides solutions for both domestic and international customers, advanced IAMD integration with land and air assets, and cost effective flexible architectures.

Civil - provides civilian IT solutions, civil financial operations, public safety systems, law enforcement and state programs. This business is a provider in global homeland security and public safety, federal law enforcement information sharing and analysis, and IT systems and services that enable civil missions and satisfy infrastructure and back office requirements.

Health - provides healthcare expertise combined with IT capabilities to support effective healthcare services and efficient health and human services systems. Capabilities include benefits management, population health, clinical data integration and health analytics. This business provides system engineering and integration, affordable national healthcare IT, and solutions to meet health and human services challenges.

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Key programs for the Information Systems segment include the Joint National Integration Center Research and Development (JRDC) contract, which supports the technical infrastructure, modeling and simulation, test and evaluation, and management of the Missile Defense Agency network at multiple sites; the Battlefield Airborne Communications Node (BACN), a high-altitude, airborne communications and information gateway system that provides situational awareness and C2 coordination between warfighters and commanders; the Communications, Navigation and Identification (CNI) integrated avionics system for the F-35 Joint Strike Fighter based on software-defined technology with advanced capabilities for interoperability; and the Integrated Air and Missile Defense Battle Command System (IBCS), a C2 system that delivers a single, unambiguous view of the battlespace with enhanced aircraft and missile tracking improving the ability of combatant commanders and air defenders to make critical decisions within seconds.

TECHNICAL SERVICES

Technical Services, headquartered in Herndon, Virginia, is a leader in innovative and affordable logistics, modernization and sustainment support and also provides an array of other advanced technology and engineering services, including space, missile defense, nuclear security, training and simulation. The segment consists of two business areas: Integrated Logistics and Modernization; and Mission Solutions and Readiness.

Integrated Logistics and Modernization - provides complete life cycle support and weapon system sustainment and modernization products and services, and provides direct support to warfighters while delivering aircraft and subsystem maintenance, repair and overhaul (MRO). Competencies include aircraft and electronics sustaining engineering, supply chain management services, manned and unmanned weapons systems deployed logistics support, field services and on-going maintenance and technical assistance, and delivering rapid response in support of global customers. Key programs include KC-10 Contractor Logistics Support (CLS), which provides total weapons systems CLS to the Air Force for the entire fleet of 59 KC-10 aircraft; Intercontinental Ballistic Missile (ICBM) Systems, which provides systems engineering and integration for the land-based leg of the U.S. nuclear deterrent force; UK Airborne Warning and Control System (AWACS), which provides through life management of the UK Royal Air Force fleet of E-3D AWACS aircraft; KC-30A Multi-Role Tanker Transport (MRTT) which provides through life support for the Royal Australian Air Force (RAAF) KC-30A air to air refueling aircraft; and AAQ24 LAIRCM, which provides repair, testing, component spare procurement, logistics, and data collection related to directional infrared counter measures systems used on multiple fixed and rotary wing aircraft.

Mission Solutions and Readiness - provides realistic and comprehensive training through live, virtual and constructive domains, innovative and diverse training applications ranging from battle command to professional military education, sustainment and modernization of tactical vehicles, high technology and engineering services in the areas of nuclear security, space and launch services, civil engineering and military range-sensor-instrumentation operations. Key programs include Ministry of the National Guard Training Support (MNG TSC), through our interest in a joint venture for which we consolidate the financial results, which provides equipment fielding, training and maintenance, simulator training and operations, tactical exercise development, logistics and operations support and English language training to the Saudi Arabian National Guard; the Mission Command Training Program (MCTP), the Army's premier leadership and staff training exercise program at the tactical and operational level; and Fort Irwin Logistics Services Support, which provides a full range of logistics support services and operates a large-scale maintenance and repair program of both tracked and tactical wheeled vehicles.

SELECTED FINANCIAL DATA AND SEGMENT OPERATING RESULTS

For a more complete understanding of our business, see Selected Financial Data in Part II, Item 6. For a more complete understanding of our segment financial information, see Segment Operating Results in Part II, Item 7 and Note 3 to the consolidated financial statements in Part II, Item 8.

CUSTOMER CONCENTRATION

Our primary customer is the U.S. Government. Sales to the U.S. Government (which excludes foreign military sales - a method to sell U.S. defense equipment and services to foreign governments through the DoD) accounted for approximately 85 percent of total sales in each of the years ended December 31, 2014, 2013 and 2012. International sales (which include foreign military sales) accounted for \$3.0 billion, \$2.5 billion and \$2.1 billion, or 13 percent, 10 percent and 8 percent, of total sales for the years ended December 31, 2014, 2013 and 2012, respectively. No single program accounted for more than ten percent of total sales during any period presented. See Risk Factors in Part I, Item 1A.

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COMPETITIVE CONDITIONS

We compete with many companies in the defense, intelligence and federal markets. BAE Systems, Boeing, Booz Allen Hamilton, Finmeccanica, General Dynamics, L-3 Communications, Lockheed Martin, Raytheon and Thales are some of our primary competitors. Key characteristics of our industry include long operating cycles and intense competition, which is evident through the number of bid protests (competitor protests of U.S. Government procurement awards) and the number of competitors bidding on program opportunities.

It is common in the defense industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract to another competitor, become a subcontractor for the ultimate prime contracting company. It is not unusual to compete for a contract award with a peer company and, simultaneously, perform as a supplier to or a customer of that same competitor on other contracts, or vice versa.

SEASONALITY

No material portion of our business is considered to be seasonal.

BACKLOG

At December 31, 2014, total backlog was \$38.2 billion, compared with \$37.0 billion at the end of 2013. Of the backlog at December 31, 2014, approximately \$19.3 billion is expected to be converted into sales in 2015. For further information, see Backlog in Part II, Item 7.

RESEARCH AND DEVELOPMENT

See Note 1 to the consolidated financial statements in Part II, Item 8.

INTELLECTUAL PROPERTY

We routinely apply for and own a number of U.S. and foreign patents related to the products and services we provide. We also develop and protect intellectual property as trade secrets. In addition to owning a large portfolio of proprietary intellectual property, we license some intellectual property rights to and from third parties. The U.S. Government typically holds licenses to patents developed in the performance of U.S. Government contracts and may use or authorize others to use the inventions covered by these patents for certain purposes. See Risk Factors in Part I, Item 1A.

RAW MATERIALS

We have not experienced significant delays in the supply or availability of raw materials, nor have we experienced a significant price increase for raw materials. See Risk Factors in Part I, Item 1A.

EMPLOYEE RELATIONS

We believe that we maintain good relations with our 64,300 employees, of which approximately 2,800 are covered by 14 collective agreements. We negotiated renewals of two of our collective agreements in 2014 and expect to negotiate renewals of five of our collective agreements in 2015. See Risk Factors in Part I, Item 1A.

REGULATORY MATTERS

Government Contract Security Restrictions

Certain programs with the U.S. Government that are prohibited by the customer from being publicly discussed are generally referred to as "restricted" in this Form 10-K. The consolidated financial statements and financial information in this Form 10-K reflect the operating results of our entire company, including restricted programs, under accounting principles generally accepted in the United States of America (GAAP).

Contracts

We generate the majority of our business from long-term contracts with the U.S. Government for development, production and support activities. Unless otherwise specified in a contract, allowable and allocable costs are billed to contracts with the U.S. Government under the requirements of the Federal Acquisition Regulation (FAR) and U.S. Government Cost Accounting Standards (CAS) regulations. Examples of costs incurred by us and not billed to the U.S. Government in accordance with the requirements of the FAR and CAS regulations include, but are not limited to, lobbying costs, certain legal costs, charitable donations, advertising costs, interest expense and unallowable employee compensation and benefit costs.

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Our long-term contracts typically fall into one of two broad categories:

Cost-type contracts – Cost-type contracts include cost plus fixed fee, award fee and incentive fee contracts. Cost-type contracts provide for reimbursement of the contractor's allowable costs incurred plus a fee. Cost-type contracts generally require that the contractor use its best efforts to accomplish the scope of the work within some specified time and some stated dollar limitation. Fees on cost-type contracts can be fixed in terms of dollar value or percentage of costs. Award and incentive fees are based on performance criteria such as cost, schedule, quality and technical performance. Award fees are determined and earned based on customer evaluation of the company's performance against negotiated criteria, and are intended to provide motivation for excellence in contract performance. Incentive fees that are based on cost provide for an initially negotiated fee to be adjusted later, typically using a formula to measure performance against the associated criteria, based on the relationship of total allowable costs to total target costs. Award and incentive fees that can reasonably be estimated and are deemed reasonably assured are recorded over the performance period of the contract.

Fixed-price contracts – A firm fixed-price contract is a contract in which the specified scope of work is agreed to for a price that is a pre-determined, negotiated amount and not generally subject to adjustment regardless of costs incurred by the contractor, absent changes in scope by the customer. Certain fixed-price incentive fee contracts provide for reimbursement of the contractor's allowable costs plus a fee up to a ceiling amount, typically through a cost-sharing ratio that affects profitability. These types of fixed-price incentive fee contracts effectively become firm fixed-price contracts once the cost-share ceiling is reached. Time-and-materials contracts are considered fixed-price contracts as they specify a fixed hourly rate for each labor hour charged.

See Note 1 to our consolidated financial statements in Part II, Item 8 and Risk Factors in Part I, Item 1A.

The following table summarizes sales for the year ended December 31, 2014, recognized by contract type and customer:

(\$ in millions)	U.S. Government	Other Customers ⁽¹⁾	Total	Percent of Total
Cost-type contracts	\$ 11,691	\$ 506	\$ 12,197	51%
Fixed-price contracts	8,394	3,388	11,782	49%
Total sales	\$ 20,085	\$ 3,894	\$ 23,979	100%

(1) Other customer sales include foreign military sales.

Profit margins may vary materially depending on, among other things, negotiated contract fee arrangements, achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is determined.

We monitor our policies and procedures with respect to our contracts on a regular basis to enhance consistent application under similar terms and conditions, as well as compliance with applicable government regulations and laws. In addition, costs incurred and allocated to contracts with the U.S. Government are routinely audited by the Defense Contract Audit Agency.

Environmental

Our manufacturing operations are subject to and affected by federal, state, local and foreign laws and regulations relating to the protection of the environment. In 2010, we established goals for the reduction of water use and solid waste through implementation of best management practices; those goals were achieved as of December 31, 2014. In addition, after achieving the greenhouse gas (GHG) reduction goals established by the company in 2009, we announced in 2014 our commitment to reduce GHG emissions by 2020 from our 2010 GHG emissions level.

We have incurred and expect to continue to incur capital and operating costs to comply with applicable environmental laws and regulations and to achieve our environmental sustainability commitments. See Risk Factors in Part I, Item 1A; Note 1 and Note 11 to the consolidated financial statements in Part II, Item 8.

EXECUTIVE OFFICERS

See Part III, Item 10, for information about our executive officers.

AVAILABLE INFORMATION

Our principal executive offices are located at 2980 Fairview Park Drive, Falls Church, Virginia 22042. Our telephone number is (703) 280-2900 and our home page on the Internet is www.northropgrumman.com.

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Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statement for the annual shareholders' meeting, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with the Securities and Exchange Commission (SEC). You can learn more about us by reviewing our SEC filings on the investor relations page of our website.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information about SEC registrants, including Northrop Grumman Corporation. You may also obtain these materials at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

References to our website and the SEC's website in this report are provided as a convenience and do not constitute, and should not be viewed as, incorporation by reference of the information contained on, or available through, such websites. Such information should not be considered a part of this report, unless otherwise expressly incorporated by reference in this report.

Item 1A. Risk Factors

Our consolidated financial position, results of operations and cash flows are subject to various risks, many of which are not exclusively within our control, that may cause actual performance to differ materially from historical or projected future performance. We urge you to consider carefully the risk factors described below in evaluating the information contained in this report as the outcome of one or more of these risks could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***We depend heavily on a single customer, the U.S. Government, for a substantial portion of our business. Changes in this customer's priorities and spending could have a material adverse effect on our financial position, results of operations and/or cash flows.***

Our primary customer is the U.S. Government, from which we derived approximately 85 percent of our total sales during each of the past several years. The U.S. Government is implementing significant reductions in government spending and other significant program changes. We cannot predict the impact on existing, follow-on, replacement or future programs from potential changes in priorities due to changes in defense spending levels, military strategy and planning and/or changes in social-political priorities.

The U.S. Government generally has the ability to terminate contracts, in whole or in part, without prior notice, for its convenience or for default based on performance. In the event of termination for the U.S. Government's convenience, contractors are generally protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs up to the amount authorized under the contract, but not the anticipated profit that would have been earned had the contract been completed. Termination by the U.S. Government of a contract due to our default could require us to pay for re-procurement costs in excess of the original contract price, net of the value of work accepted from the original contract, as well as other damages. Termination of a contract due to our default could have a material adverse effect on our financial position, results of operations and/or cash flows and could have a material adverse effect on our ability to compete for other contracts.

The U.S. Government also has the ability to stop work under a contract for a limited period of time for its convenience. It is possible that the U.S. Government could invoke this ability across a limited or broad number of contracts. In the event of a stop work order, contractors are typically protected by provisions covering reimbursement for costs incurred on the contract to date and for costs associated with the temporary stoppage of work on the contract. However, such temporary stoppages and delays could introduce inefficiencies and result in financial and other damages for which we may not be able to negotiate full recovery from the U.S. Government. They could also ultimately result in termination for convenience or reduced future orders.

A significant shift in government priorities to programs in which we do not participate and/or reductions in funding for or the termination of programs in which we do participate, unless offset by other programs and opportunities, could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Significant delays or reductions in appropriations for our programs and U.S. Government funding more broadly may negatively impact our business and programs and could have a material adverse effect on our financial position, results of operations and/or cash flows.***

U.S. Government programs are subject to annual congressional budget authorization and appropriation processes. For many programs, Congress appropriates funds on a fiscal year basis even though the program performance period may extend over several years. Consequently, programs are often partially funded initially and additional funds are

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committed only as Congress makes further appropriations. If we incur costs in excess of funds obligated on a contract, we may be at risk for reimbursement of those costs unless and until additional funds are obligated to the contract. We cannot predict the extent to which total funding and/or funding for individual programs will be included, increased or reduced as part of the annual budget process ultimately approved by Congress or in separate supplemental appropriations or continuing resolutions, as applicable. Plans adopted by the U.S. Government, along with pressures on, and uncertainty surrounding, the federal budget, sequestration, the appropriations process, and the permissible federal debt limit, could adversely affect the funding for individual programs and delay purchasing or payment decisions by our customers. In the event government funding for our significant programs becomes unavailable, or is reduced or delayed, our contract or subcontract under such programs may be terminated or adjusted by the U.S. Government or the prime contractor.

The statutory limit on the amount of permissible federal debt (the debt ceiling) was suspended until March 15, 2015. If the existing debt ceiling is not raised, we may be required to continue to perform for some period of time on certain of our U.S. Government contracts even if the U.S. Government is unable to make timely payments. An extended debt ceiling breach could negatively affect the U.S. Government's timely payment of our billings, resulting in delayed cash collection, and have significant consequences for our company, our employees, our suppliers and the defense industry.

The budget environment, including sequestration as currently mandated, and uncertainty surrounding the appropriations processes, remain significant long-term risks. Considerable uncertainty exists regarding how future budget and program decisions will unfold and what challenges budget reductions will present for the defense industry. We believe continued budget pressures will have serious negative consequences for the security of our country, the defense industrial base, including Northrop Grumman, and the customers, employees, suppliers, investors, and communities that rely on companies in the defense industrial base. Members of Congress continue to discuss various options to address sequestration in future budget planning, but we cannot predict the outcome of these efforts. It is likely budget and program decisions made in this environment will have long-term implications for our company and the entire defense industry.

Long term funding for certain programs in which we participate may be reduced, delayed or cancelled. In addition, budget cuts could adversely affect the viability of our subcontractors and suppliers, and our employee base. While we believe that our business is well-positioned in areas that the Department of Defense (DoD) has indicated are areas of focus for future defense spending, the long-term impact of the Budget Control Act, other defense spending cuts, and the ongoing fiscal debates remain uncertain.

Significant delays or reductions in appropriations, an extended debt ceiling breach, and/or future budget and program decisions may negatively impact our business and programs and could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***We are subject to various investigations, claims and litigation that could ultimately be resolved against us.***

The size, nature and complexity of our business make us susceptible to investigations, claims, and litigation, particularly those involving governments. We are and may become subject to investigations, claims and administrative, civil or criminal litigation globally and across a broad array of matters, including, but not limited to, government contracts, false claims, products liability, fraud, environmental, intellectual property, tax, export/import, labor, health and safety, employee benefits and improper payments. These matters could divert financial and management resources and result in fines, penalties, compensatory, treble or other damages or non-monetary relief. Government regulations also provide that certain allegations against a contractor may lead to suspension or debarment from government contracts or suspension of export privileges for the company or one or more of its components. Suspension or debarment could have a material adverse effect on the company because of our reliance on government contracts and export authorizations. An investigation, claim or litigation, even if fully indemnified or insured, could also negatively impact our reputation among our customers and the public, and make it more difficult for us to compete effectively or obtain adequate insurance in the future. Investigations, claims or litigation could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Our international business exposes us to additional risks.***

Sales to customers outside the U.S. are an increasingly important component of our strategy. Our international business is subject to numerous political and economic factors, legal requirements, cross-cultural considerations and other risks associated with doing business in foreign countries. These risks differ in some respects from those associated with our U.S. business and our exposure to such risks may increase if our international business continues to grow as we anticipate.

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Our international business is subject to both U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export controls, technology transfer restrictions, repatriation of earnings, data privacy and protection, investment, exchange controls, the Foreign Corrupt Practices Act (FCPA) and other anti-corruption laws, the anti-boycott provisions of the U.S. Export Administration Act, labor and employment, taxes, security restrictions and intellectual property. Failure by us, our employees, or others working on our behalf to comply with these laws and regulations could result in administrative, civil, or criminal liabilities, including suspension or debarment from government contracts or suspension of our export privileges.

Changes in regulations, political leadership and environment, or security risks may dramatically affect our ability to conduct or continue to conduct business in international markets. Our international business may also be impacted by changes in foreign national priorities and government budgets, as well as global economic conditions and fluctuations in foreign currency exchange rates. Our international contracts may include industrial cooperation agreements requiring specific in-country purchases, investments, manufacturing agreements or other financial obligations, known as offset obligations, and provide for significant penalties if we fail to meet such requirements.

The services and products we provide internationally, including those provided by subcontractors, are sometimes in countries with unstable governments and/or developing legal systems, in areas of military conflict or at military installations. This increases the risk of political dynamics or an incident resulting in harm or loss of life to our employees, subcontractors or other third parties, or in loss of property or damage to our products. It also exposes the company to additional financial, contractual and legal risks. Accidents or incidents that occur in connection with our international operations could also result in negative publicity, which could adversely affect our reputation and make it more difficult for us to compete for future contracts or attract and retain employees or result in the loss of existing and future contracts.

The occurrence and impact of these factors is difficult to predict, but one or more of them could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Our reputation and our ability to do business may be impacted by the improper conduct of employees, agents, business partners or joint ventures in which we participate.***

We have implemented extensive policies, procedures, training and other compliance controls to prevent misconduct by employees, agents or others working on our behalf or with us that would violate the applicable laws of the jurisdictions in which we operate, including laws governing improper payments to government officials, the protection of export controlled or classified information, cost accounting and billing, competition and data privacy. However, we cannot ensure that we will prevent all such misconduct committed by our employees, agents, subcontractors or others working on our behalf or with us, and this risk of improper conduct may increase as we expand globally. In addition, in the ordinary course of our business we form and are members of joint ventures, some of which we do not control. We may be unable to prevent misconduct or other violations of applicable laws by these joint ventures. Improper actions by our employees, agents, business partners or joint ventures could subject us to administrative, civil or criminal investigations and monetary and non-monetary penalties, including suspension and debarment, which could negatively impact our reputation and ability to conduct business and could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***We use estimates when accounting for contracts. Contract cost growth or changes in estimated contract revenues and costs could affect our profitability and our overall financial position.***

Contract accounting requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and costs at completion is complicated and subject to many variables. Incentives, awards or penalties related to performance on contracts are considered in estimating revenue and profit rates when there is sufficient information to assess anticipated performance. Suppliers' assertions are also assessed and considered in estimating costs and profitability.

Our operating income can be adversely affected when we experience increased contract costs. Reasons for contract cost growth may include: design issues; the nature and complexity of the work to be performed, including technical or quality issues; production challenges, including those resulting from the availability and timeliness of customer funding, unavailability or reduced productivity of labor or the effect of any delays in performance; the availability, performance, quality or financial strength of significant subcontractors; supplier issues, including the costs, timeliness and availability of materials and components; the effect of any changes in laws or regulations; actions deemed necessary for long-term customer satisfaction; and natural disasters or environmental matters.

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Our risk varies with the type of contract. Due to their nature, fixed-price contracts inherently tend to have more risk than cost type contracts. In 2014, approximately half of our sales were derived from fixed-price contracts. We typically enter into fixed-price contracts where costs can be more reasonably estimated based on experience. In addition, our contracts contain provisions relating to cost controls and audit rights. If the terms specified in our contracts are not met, our profitability may be reduced and we may incur a loss. Fixed-price development work comprises a small portion of our fixed-price contracts. This type of work is inherently more uncertain as to future events than production contracts, and, as a result, there is typically more variability in estimates of the costs to complete the development stage. As work progresses through the development stage into production, the risks associated with estimating the total costs of the contract are typically reduced. While management uses its best judgment to estimate costs associated with fixed-price development contracts, future events could result in either upward or downward adjustments to those estimates. Under cost type contracts, allowable costs incurred by the contractor are generally subject to reimbursement plus a fee. We often enter into cost type contracts for development programs with complex design and technical challenges. These cost type programs typically have award or incentive fees that are subject to uncertainty and may be earned over extended periods or towards the end of the contract. In these cases, the associated financial risks are primarily in recognizing profit, which ultimately may not be earned, or program cancellation if cost, schedule, or technical performance issues arise.

Because of the significance of the judgment and estimation processes described above, it is possible that materially different amounts could be obtained if different assumptions were used or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates could have a material adverse effect upon the profitability of one or more of the affected contracts and on our overall financial position, results of operations and/or cash flows. See Critical Accounting Policies, Estimates and Judgments in Part II, Item 7.

- ***Our business could be negatively impacted by cyber and other security threats or disruptions.***

As a defense contractor, we face various cyber and other security threats, including attempts to gain unauthorized access to sensitive information and networks; insider threats; threats to the safety of our directors, officers and employees; threats to the security of our facilities and infrastructure; and threats from terrorist acts or other acts of aggression. Our customers, suppliers and subcontractors face similar threats. Although we utilize various procedures and controls to monitor and mitigate the risk of these threats, there can be no assurance that these procedures and controls will be sufficient. These threats could lead to losses of sensitive information or capabilities, harm to personnel, infrastructure or products, and/or damage to our reputation as well as our or our suppliers' or subcontractors' ability to perform on our contracts.

Cyber threats are evolving and include, but are not limited to, malicious software, destructive malware, attempts to gain unauthorized access to data, disruption or denial of service attacks, and other electronic security breaches that could lead to disruptions in mission critical systems, unauthorized release of confidential or otherwise protected information (ours or that of our customers or partners), and corruption of data, networks or systems. In addition, we could be impacted by cyber threats or other disruptions or vulnerabilities found in products we use or in our partners' or customers' systems that are used in connection with our business. These events, if not prevented or effectively mitigated, could damage our reputation, require remedial actions and lead to loss of business, regulatory actions, potential liability and other financial losses.

We provide cyber and information technology systems, products and services to various customers (government and commercial) who also face cyber threats. Our systems, products and services may themselves be subject to cyber threats and/or they may not be able to detect or deter threats, or effectively to mitigate resulting losses. These losses could adversely affect our customers and our company.

The impact of these factors is difficult to predict, but one or more of them could result in the loss of information or capabilities, harm to individuals or property, damage to our reputation, loss of business, regulatory actions and potential liability, any one of which could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Pension and medical expenses associated with our retirement benefit plans may fluctuate significantly depending upon changes in actuarial assumptions, future investment performance of plan assets and legislative or other regulatory actions.***

A substantial portion of our current and retired employee population is covered by pension and other post-retirement benefit plans, the costs of which are dependent upon various assumptions, including estimates of rates of return on benefit plan assets, discount rates for future payment obligations, mortality assumptions, rates of future cost growth

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and trends for future costs. In addition, funding requirements for benefit obligations of our pension and other post-retirement benefit plans are subject to legislative and other government regulatory actions.

Recently, the Society of Actuaries released revised mortality tables, which update life expectancy assumptions. In consideration of these tables, we modified the mortality assumptions used in determining our FAS (GAAP Financial Accounting Standards) pension and post-retirement benefit obligations as of December 31, 2014, which will have a related impact on our annual FAS benefit expense in future years. We also updated the mortality assumptions used in determining our future CAS benefit expense. We expect the adoption of new mortality assumptions for purposes of funding our plans will likely trail the adoption for both FAS and CAS purposes. The new mortality assumptions may result in additional funding requirements dependent upon the funded status of our plans. These expectations presume all other assumptions remain constant and there are no changes to applicable funding regulations.

Additionally, due to government regulations including the impact of CAS harmonization, pension plan cost recoveries under our U.S. Government contracts occur in different periods from when those pension costs are recognized for financial statement purposes or when pension funding is made. These timing differences could have a material adverse effect on our cash flows. The cost accounting rules have been revised in order to partially harmonize the measurement and period of assignment of defined benefit pension plan costs allocable to U.S. Government contracts and the minimum required contribution under the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act (PPA) of 2006. These rules better align, but do not eliminate, mismatches between ERISA funding requirements and CAS pension costs for U.S. Government CAS covered contracts.

Changes in estimates and assumptions associated with our pension and other post-retirement benefit plans could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Our earnings and profitability depend, in part, on subcontractor performance and financial viability as well as raw material and component availability and pricing.***

We rely on other companies to provide raw materials and major components and subsystems for our products and to produce hardware elements and sub-assemblies, provide intellectual property, and perform some of the services we provide to our customers. Disruptions or performance problems caused by our subcontractors and suppliers could have an adverse effect on our ability to meet our commitments to customers.

Our ability to perform our obligations on time could be adversely affected if one or more of our subcontractors or suppliers were unable to provide the agreed-upon products or materials or perform the agreed-upon services in a timely and cost-effective manner. Changes in economic conditions, including changes in defense budgets or credit availability, could adversely affect the financial stability of our subcontractors and suppliers and/or their ability to perform. The inability of our suppliers to perform could also result in the need for us to transition to alternate suppliers, which could result in significant incremental cost and delay or the need for us to provide other supplemental means to support our existing suppliers.

In connection with our U.S. Government contracts, we are required to procure certain materials, components and parts from supply sources approved by the customer. In some cases, there may be only one supplier for certain components. If a sole source supplier cannot meet our needs, we may be unable to find a suitable alternative. Consistent with the industry's efforts, our procurement practices are intended to reduce the likelihood of our procurement of counterfeit or unauthorized parts or materials. In some circumstances, we must rely on certifications from our subcontractors and suppliers regarding their compliance with applicable laws and regulations regarding the parts or materials we procure.

If certifications received from our subcontractors or suppliers are inaccurate, if we are unable to procure or experience significant delays in supply deliveries of needed materials, components, intellectual property or parts, or if what we receive is counterfeit or otherwise improper, it could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Competition within our markets and an increase in bid protests may affect our ability to win new contracts and result in reduced revenues and market share.***

We operate in highly competitive markets and our competitors may have more extensive or specialized engineering, manufacturing, marketing capabilities or financial capacity or be willing to accept more risk or lower profitability in competing for contracts. We have seen, and anticipate we will continue to see, increased competition in some of our core markets, especially as a result of the reduction in budgets for many U.S. Government agencies and our customer's continued focus on affordability and competition. We are facing increasing competition in our domestic and international markets from U.S., foreign and multinational firms. Additionally, some customers, including the

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DoD, may turn to commercial contractors, rather than traditional defense contractors, for some products and services, or may utilize small business contractors or determine to source work internally rather than hiring a contractor.

We also are seeing an increasing number of bid protests from unsuccessful bidders on new program awards. Bid protests could result in contract modifications or the award decision being reversed and loss of the contract award. Even where a bid protest does not result in the loss of an award, the resolution can extend the time until the contract activity can begin, and delay earnings.

If we are unable to continue to compete successfully against our current or future competitors, or prevail in a protest, we may experience declines in future revenues and market share, which could, over time, have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***As a U.S. Government contractor, we are subject to various procurement and other laws and regulations applicable to our industry and we could be adversely affected by changes in such laws and regulations or any negative findings by the U.S. Government as to our compliance with them.***

U.S. Government contractors must comply with many significant procurement regulations and other specific legal requirements. These regulations and other requirements, although customary in government contracts, increase our performance and compliance costs and risks and are regularly evolving. New laws, regulations or procurement requirements or changes to current ones (including, for example, regulations related to limits on recovery of employee compensation costs, counterfeit parts, specialty metals and conflict minerals), can significantly increase our costs and risks and reduce our profitability.

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its agencies, such as the Defense Contract Audit Agency (DCAA), Defense Contract Management Agency (DCMA) and the DoD Inspector General. These agencies review performance under our contracts, our cost structure and our compliance with applicable laws, regulations and standards, as well as the adequacy of our systems and processes in meeting government requirements. Costs ultimately found to be unallowable or improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties, sanctions, forfeiture of profits or suspension or debarment. Whether or not illegal activities are alleged, the U.S. Government has the ability to decrease or withhold certain payments when it deems systems subject to its review to be inadequate, with significant financial impact. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

Our industry has experienced, and we expect it will continue to experience, significant changes to business practices as a result of an increased focus on affordability, efficiencies, recovery of costs and a reprioritization of available defense funds to key areas for future defense spending. As a result of certain of these initiatives, we have experienced and may continue to experience an increased number of audits and/or a lengthened period of time required to close open audits. More recently, the thresholds for certain allowable costs, including compensation costs, have been significantly reduced; others are being challenged, debated and, in certain cases, modified, all with potentially significant financial costs to the company. In connection with these cost reduction initiatives, the U.S. Government is also pursuing alternatives to shift additional responsibility and performance risks to the contractor.

We also are subject to and expected to perform in compliance with a vast array of federal laws, including but not limited to the Truth in Negotiations Act, the False Claims Act, the Procurement Integrity Act, CAS, FAR, the International Traffic in Arms Regulations promulgated under the Arms Export Control Act, the Close the Contractor Fraud Loophole Act and the FCPA. If we are found to have violated the law, or are found not to have acted responsibly as defined by the law, we may be subject to reductions of the value of contracts; contract modifications or termination; the withholding of payments from our customer; the loss of export privileges; the assessment of penalties, fines, or compensatory, treble or other damages; or suspension or debarment.

If we do not comply with the laws, regulations and processes to which we are subject or if business practices change significantly, including with respect to the thresholds for allowable costs, it could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Our business is subject to disruption caused by natural and/or environmental disasters that could adversely affect our profitability and our overall financial position.***

We have significant operations located in regions that may be exposed to earthquakes, damaging storms and other natural disasters. Our business also may be subject to environmental disasters. Our subcontractors and suppliers are also subject to natural and environmental disasters that could affect their ability to deliver or perform under a

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contract. Although preventative measures may help to mitigate damage, the damage and disruption resulting from natural and environmental disasters may be significant.

Natural and environmental disasters could also disrupt our and our subcontractors' and suppliers' workforce, electrical and other power distribution networks, including computer and internet operation and accessibility, and the critical industrial infrastructure needed for normal business operations.

If insurance or other risk transfer mechanisms are unavailable or insufficient to recover all costs or if we experience a significant disruption to our business due to a natural or environmental disaster, it could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Our insurance coverage, customer indemnifications or other liability protections may be inadequate to cover all of our significant risks or our insurers may deny coverage or be unable to pay for material losses we incur, which could adversely affect our profitability and overall financial position.***

We endeavor to obtain insurance agreements from financially solid, highly rated counterparties in established markets to cover significant risks and liabilities (including, for example, natural disasters and product liability). Not every risk or liability can be insured, and, for risks that are insurable, the policy limits and terms of coverage reasonably obtainable in the market may not be sufficient to cover all actual losses or liabilities incurred. Even if insurance coverage is available, we may not be able to obtain it at a price or on terms acceptable to us. Disputes with insurance carriers over policy terms or the insolvency of one or more of our insurers may significantly affect the amount or timing of cash flows and, if litigation over coverage terms with the insurer becomes necessary, an outcome unfavorable to us may adversely affect us.

In some circumstances we may be entitled to certain legal protections or indemnifications from our customers through contractual provisions, laws, regulations or otherwise. However, these protections are not always available, are typically subject to certain terms or limitations and may not be sufficient to cover all losses or liabilities incurred.

If available insurance coverage, customer indemnifications and/or other legal protections are not sufficient to cover our risks or losses, it could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***We provide products and services related to nuclear operations, which subjects us to various environmental, regulatory, financial and other risks.***

We provide products and services used in nuclear-related activities (including nuclear-powered platforms) and support nuclear-related operations of third parties. This subjects us to various extraordinary risks, including potential liabilities relating to nuclear-related incidents and the harmful effects on the environment and human health that may result from such nuclear-related activities, operations or incidents, as well as the storage, handling and disposal of radioactive materials. We may be subject to reputational harm and potential liabilities arising out of a nuclear incident, whether or not the cause was within our control. Under some circumstances, the U.S. Government and prime contractors provide for certain indemnification and other protection under certain of our government related contracts, including pursuant to, or in connection with, Public Law 85-804, the Price-Anderson Nuclear Industries Indemnity Act and the Terrorism Risk Insurance Reauthorization Act, for certain nuclear-related risks. If there was a nuclear incident or other nuclear-related damages, and that indemnification or other protection was not available to cover our losses and liabilities, it could have a material adverse effect on our financial position, results of operations and/or cash flows.

- ***Changes in future business conditions could cause business investments and/or recorded goodwill and other long-lived assets to become impaired, resulting in substantial losses and write-downs that would reduce our operating income.***

Goodwill accounts for approximately half of our total assets. Market-based inputs to the calculations in the impairment test, such as weighted average cost of capital and terminal value (based on market comparisons) could change significantly from our current assumptions. Additionally, the carrying values of our reporting units are significantly influenced by a number of factors, particularly the discount rate used to determine our net pension liability. We continue to monitor the recoverability of the carrying value of our goodwill and other long-lived assets. Significant write-offs of goodwill or other long-lived assets could have a material adverse effect on our financial condition and/or results of operations.

- ***Our future success depends, in part, on our ability to develop new products and new technologies and maintain technologies, facilities, equipment and a qualified workforce to win new competitions and meet the needs of our customers.***

Many of the markets in which we operate are characterized by rapidly changing technologies. The product, program and service needs of our customers change and evolve regularly. Our success in the competitive defense industry depends upon our ability to develop technologically advanced and innovative products and services and market these products and services to our customers. Our success also depends on our ability to provide the people, technologies, facilities, equipment and financial capacity needed to deliver those products and services with maximum efficiency. If we fail to maintain our competitive position, we could lose a significant amount of future business to our competitors, which would negatively impact our ability to generate favorable financial results and maintain market share.

Our operating results are heavily dependent upon our ability to attract and retain sufficient personnel with requisite skills and/or security clearances. If qualified personnel become scarce or difficult to attract or retain in our industry for geographic, compensation-related or other reasons, we could experience higher labor, recruiting or training costs in order to attract and retain necessary employees. Failure to maintain a qualified workforce would result in significant difficulty in performing under our contracts.

Certain of our employees are covered by collective agreements. We generally have been able to renegotiate renewals to expiring agreements without significant disruption of operating activities. If we experience difficulties with renewals and renegotiations of existing collective agreements or if our employees pursue new collective representation, we could incur additional expenses and may be subject to work stoppages. Any such expenses or delays could adversely affect our programs served by employees who are covered by such agreements or representation.

If we are unable to develop new products and technologies or attract and retain a qualified workforce, we may be unable to maintain our competitive position and our future success could be adversely affected.

- ***Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, require state-of-the-art manufacturing expertise or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our profitability and future prospects.***

We design, develop and manufacture technologically advanced and innovative products and services, which are applied by our customers in a variety of environments. Problems and delays in development or delivery, or system failures, as a result of issues with respect to design, technology, intellectual property rights, labor, inability to achieve learning curve assumptions, manufacturing materials or components could prevent us from meeting requirements and create significant risk.

In addition, our products cannot be tested and proven in all situations and are otherwise subject to unforeseen problems. Examples of unforeseen problems that could negatively affect revenue and profitability include loss on launch of spacecraft, loss of aviation platforms, premature failure of products that cannot be accessed for repair or replacement, problems with design, quality and workmanship, country of origin of procured materials, delivery of subcontractor components or services and degradation of product performance. These failures could result, either directly or indirectly, in loss of life or property. Among the factors that may affect revenue and profitability could be inaccurate cost estimates, design issues, human factors, unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work, and, in the case of certain contracts, repayment to the government customer of contract cost and fee payments we previously received.

Certain contracts, primarily involving space satellite systems, contain provisions that entitle the customer to recover fees in the event of failure of the system upon launch or subsequent deployment for less than a specified period of time. Under such terms, we could be required to forfeit fees previously recognized and/or collected.

If we are unable to meet our performance obligations due to issues regarding the design, development or manufacture of our products or services, or we experience launch, platform or satellite system failures, it could have an adverse impact on our current and future business.

▪ ***Unforeseen environmental costs could have an adverse effect on our financial position, results of operations and/or cash flows.***

Our operations are subject to and affected by a variety of federal, state, local and foreign environmental laws and regulations. In addition, we could be affected by future laws or regulations, including those imposed in response to climate change concerns and other actions. Compliance with current and future environmental laws and regulations currently requires, and is expected to continue to require, significant operating and capital costs. We may be required to incur additional costs in excess of those anticipated as a result of, among other things, new laws and regulations, stricter enforcement of existing laws and regulations, imposition of new cleanup requirements, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts or sanctions or penalties or a determination that certain environmental costs are unallowable. In addition, if other identified responsible parties are insolvent or otherwise unable to pay their share of such costs, we may be required to incur additional costs in excess of those anticipated.

Environmental laws and regulations provide for substantial fines and criminal sanctions for violations. These laws and regulations may limit our operations or require the installation of costly pollution control equipment or operational changes to limit pollution emissions or discharges and/or decrease the likelihood of accidental hazardous substance releases. We also incur, and expect to continue to incur, costs to comply with current environmental laws and regulations related to the cleanup of pollutants previously released into the environment. In addition, if we were found to be in violation of the Federal Clean Air Act or the Clean Water Act, the facility or facilities involved in the violation could be placed by the Environmental Protection Agency (EPA) on a list maintained by the General Services Administration of facilities that generally cannot be used in performing on U.S. Government contracts until the violation is corrected.

The impact of these factors is difficult to predict, but one or more of them could have an adverse effect on our financial position, results of operations and/or cash flows.

▪ ***We may be unable adequately to protect our intellectual property rights, which could affect our ability to compete.***

We own many U.S. and foreign patents, trademarks, copyrights, and other forms of intellectual property, and we license certain intellectual property rights to and from third parties. The U.S. Government generally holds licenses to certain intellectual property that we develop in performance of government contracts, and it may use or authorize others to use certain such intellectual property, typically for government purposes. More recently, we believe the U.S. Government has asserted or sought to obtain more extensive rights in intellectual property. The U.S. Government's efforts could result in a decrease in our ability to control the use of certain of our intellectual property rights in a government contracting environment. Our intellectual property is also subject to challenge, invalidation, misappropriation or circumvention by third parties.

We also rely significantly upon proprietary technology, information, processes and know-how that are not protected by patents. We seek to protect this information through trade secret or confidentiality agreements with our employees, consultants, subcontractors and other parties, as well as through other measures. These agreements and other measures may not provide adequate protection for our unpatented proprietary information. In the event of an infringement of our intellectual property rights, a breach of a confidentiality agreement or divulgence of proprietary information, we may not have adequate legal remedies to maintain our intellectual property. Litigation to determine the scope of intellectual property rights, even if ultimately successful, could be costly and could divert management's attention away from other aspects of our business. In addition, our trade secrets may otherwise become known or be independently developed by competitors. In some instances, we have licensed the proprietary intellectual property of others, but we may be unable in the future to secure the necessary licenses to use such intellectual property on commercially reasonable terms. Moreover, the laws concerning intellectual property rights vary among countries and the protection provided to our intellectual property by these laws and foreign courts may not be the same as the remedies available under U.S. law.

If we are unable adequately to control or protect our intellectual property rights against claims by the U.S. Government or others, or otherwise procure necessary intellectual property, it could have an adverse effect on our financial position, results of operations and/or cash flows.

▪ ***Unanticipated changes in our tax provisions or exposure to additional tax liabilities could affect our profitability and cash flow.***

We are subject to income and other taxes in the U.S. and foreign jurisdictions. Changes in applicable domestic or foreign tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our tax expense and profitability. For example, a change in the U.S. corporate tax rate would

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result in a remeasurement of our net deferred tax assets through the income tax provision because our deferred tax assets are measured at the current statutory tax rate. In addition, the final determination of any tax audits or related litigation could be materially different from our historical income tax provisions and accruals. Changes in our tax provision or an increase in our tax liabilities, whether due to changes in applicable law and regulations, the interpretation or application thereof, changes in the tax rate or a final determination of tax audits or litigation, could have an adverse effect on our financial position, results of operations and/or cash flows.

▪ ***The spin-off of our former Shipbuilding business may expose us to potential claims, liabilities and reputational harm.***

In connection with the spin-off transaction, we entered into a number of agreements with HII setting forth certain rights and obligations of the parties after the separation. For example, under the Separation and Distribution Agreement, from and after the spin-off transaction, each of HII and Northrop Grumman is generally responsible for the debts, liabilities and other obligations related to the business or businesses that it owns and operates following the consummation of the spin-off. It is possible that a court would disregard the allocation agreed to between us and HII, and require that we assume responsibility for certain obligations allocated to HII (for example, tax and/or environmental liabilities), particularly if HII were to refuse or were unable to pay or perform such obligations.

In addition, third parties could seek to hold us responsible for any of the liabilities or obligations for which HII has agreed to be responsible and/or to indemnify us, directly or indirectly. The indemnity related rights we have under our agreements with HII may not be sufficient to protect us against such liabilities. Even if we ultimately succeed in recovering from HII or the U.S. Government any amounts for which we are held liable, we may be required to record these losses ourselves until such time as the indemnity contribution is paid. In addition, certain indemnities that we may be required to provide HII are not subject to a cap, may be significant, and could negatively impact our business.

In connection with the spin-off transaction, we received a letter ruling from the IRS and an opinion of counsel confirming that we and our shareholders would not recognize any taxable income, gain or loss for U.S. federal income tax purposes as a result of the merger, the internal reorganization or the distribution, except that our shareholders who received cash in lieu of fractional shares would recognize gain or loss with respect to such cash. Nevertheless, if the merger, the internal reorganization or the distribution were ultimately determined to be taxable for U.S. federal income tax purposes, we and our shareholders could be subject to additional income tax liabilities.

The impact of these factors is difficult to predict, but one or more of them could cause reputational harm and could have an adverse effect on our financial position, results of operations and/or cash flows.

Item 1B. Unresolved Staff Comments

None.

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

This Form 10-K 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 “expect,” “intend,” “may,” “could,” “plan,” “project,” “forecast,” “believe,” “estimate,” “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 under Risk Factors in Part I, Item 1A and other important factors disclosed in this report 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 this report is first filed 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.

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Item 2. Properties

At December 31, 2014, we had approximately 34 million square feet of floor space at 485 separate locations, primarily in the U.S., for manufacturing, warehousing, research and testing, administration and various other uses. At December 31, 2014, we leased to third parties approximately 350,000 square feet of our owned and leased facilities, and had vacant floor space of approximately 1 million square feet.

At December 31, 2014, we had major operations at the following locations:

AEROSPACE SYSTEMS

Carson, El Segundo, Manhattan Beach, Mojave, Palmdale, Redondo Beach and San Diego, CA; Melbourne and St. Augustine, FL; Devens, MA; Moss Point, MS; and Bethpage, NY.

ELECTRONIC SYSTEMS

Azusa, Sunnyvale and Woodland Hills, CA; Apopka, FL; Rolling Meadows, IL; Annapolis, Elkridge, Halethorpe, Linthicum and Sykesville, MD; Williamsville, NY; Cincinnati, OH; Salt Lake City, UT; and Charlottesville, VA. Locations outside the U.S. include France, Germany and Italy.

INFORMATION SYSTEMS

Huntsville, AL; McClellan, Redondo Beach, San Diego and San Jose, CA; Aurora and Colorado Springs CO; Annapolis Junction, MD; Bellevue, NE; Beavercreek, OH; and Chantilly, Chester, Fairfax, Herndon, McLean and Richmond, VA.

TECHNICAL SERVICES

Sierra Vista, AZ; Wamer Robins, GA; Lake Charles, LA; Hill Air Force Base, UT; and Herndon, VA.

CORPORATE

Falls Church and Lebanon, VA and Irving, TX.

The following is a summary of our floor space at December 31, 2014:

<i>Square feet (in thousands)</i>	Owned	Leased	U.S. Government Owned/Leased	Total
Aerospace Systems	6,335	5,629	1,930	13,894
Electronic Systems	8,224	2,380	—	10,604
Information Systems	658	5,868	—	6,526
Technical Services	145	1,841	1	1,987
Corporate	657	596	—	1,253
Total	16,019	16,314	1,931	34,264

We maintain our properties in good operating condition and believe that the productive capacity of our properties is adequate to meet current contractual requirements and those for the foreseeable future.

Item 3. Legal Proceedings

We have provided information about certain legal proceedings in which we are involved in Note 10 to the consolidated financial statements in Part II, Item 8.

We are a party to various investigations, lawsuits, claims and other legal proceedings, including government investigations and claims, that arise in the ordinary course of our business. These types of matters could result in fines; penalties; compensatory, treble or other damages; or non-monetary relief. U.S. Government regulations also provide that certain allegations against a contractor may lead to suspension or debarment from future U.S. Government contracts or suspension of export privileges for the company or one or more of its components. Suspension or debarment could have a material adverse effect on the company because of our reliance on government contracts and authorizations. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. However, based on information available to us to date and other than as noted in Note 10 to the consolidated financial statements, we do not believe that the outcome of any matter currently pending against the company is likely to have a material adverse effect on the company's consolidated financial position as of December 31, 2014, its annual results of operations and/or cash flows. For further information on the risks we face

from existing and future investigations, lawsuits, claims and other legal proceedings, please see Risk Factors in Part I, Item 1A.

Item 4. Mine Safety Disclosures

No information is required in response to this item.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

COMMON STOCK

We have 800,000,000 shares authorized at a \$1 par value per share, of which 198,930,240 shares and 217,599,230 shares were outstanding as of December 31, 2014 and 2013, respectively.

PREFERRED STOCK

We have 10,000,000 shares authorized at a \$1 par value per share, of which no shares were issued and outstanding as of December 31, 2014 and 2013.

MARKET INFORMATION

Our common stock is listed on the New York Stock Exchange and trades under the symbol NOC.

The following table sets forth, for the periods indicated, the intraday high and low prices of our common stock as reported in the consolidated reporting system for the New York Stock Exchange Composite Transactions.

	2014	2013
January to March	\$109.17 to \$125.37	\$64.20 to \$70.21
April to June	116.11 to 126.00	69.13 to 84.34
July to September	118.23 to 134.24	81.74 to 99.10
October to December	118.24 to 153.19	92.51 to 116.19

HOLDERS

The approximate number of common stockholders was 26,699 as of January 29, 2015.

DIVIDENDS

Quarterly dividends per common share for the most recent two years are as follows:

	2014	2013
January to March	\$ 0.61	\$ 0.55
April to June	0.70	0.61
July to September	0.70	0.61
October to December	0.70	0.61
Total	\$ 2.71	\$ 2.38

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The table below summarizes our repurchases of common stock during the three months ended December 31, 2014:

Period	Number of Shares Purchased⁽¹⁾	Average Price Paid per Share⁽²⁾	Numbers of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (\$ in millions)
October	1,960,600	\$ 125.94	1,960,600	\$ 799
November	1,230,310	136.40	1,230,310	632
December	1,266,013	145.55	1,266,013	3,447
Total	4,456,923	\$ 134.40	4,456,923	\$ 3,447

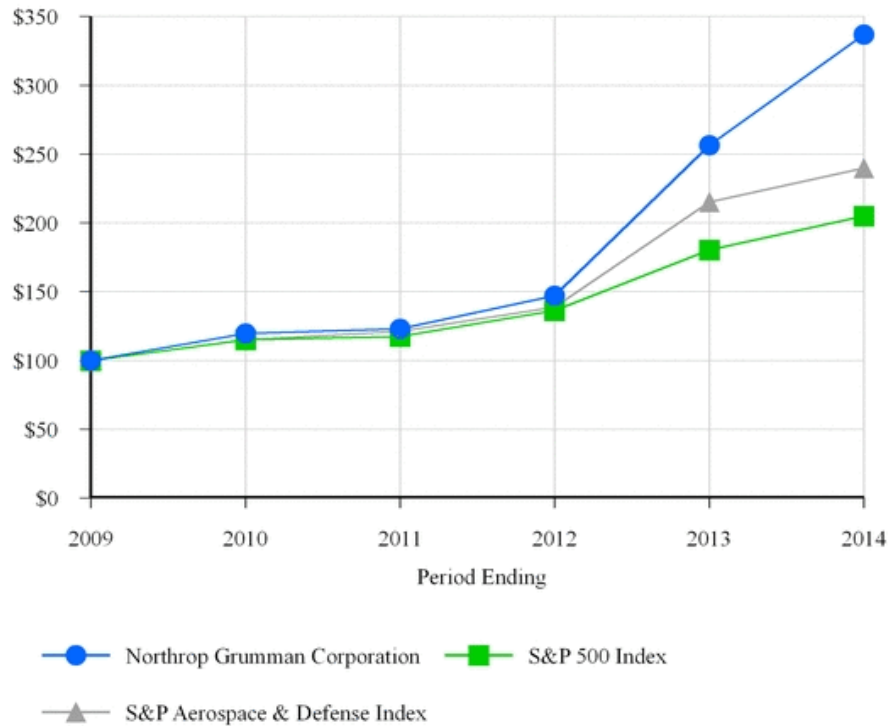
(1) On May 15, 2013, the company's board of directors authorized a share repurchase program of up to \$4.0 billion of the company's common stock ("2013 Repurchase Program"). Repurchases under the 2013 Repurchase Program commenced in September 2013. As of December 31, 2014, repurchases under the 2013 Repurchase Program totaled \$3.6 billion; \$447 million remained under this share repurchase authorization. By its terms, the 2013 Repurchase Program will expire when we have used all authorized funds for repurchases. On December 4, 2014, the company's board of directors authorized a new share repurchase program of up to an additional \$3.0 billion of the company's common stock ("2014 Repurchase Program"). By its terms, repurchases under the 2014 Repurchase Program will commence upon completion of the 2013 Repurchase Program and will expire when we have used all authorized funds for repurchases.

(2) Includes commissions paid.

Share repurchases take place from time to time, subject to market conditions and management's discretion, in the open market or in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

STOCK PERFORMANCE GRAPH

Comparison of Cumulative Five Year Total Return
 Among Northrop Grumman Corporation, the S&P 500 Index,
 and the S&P Aerospace & Defense Index



- (1) Assumes \$100 invested at the close of business on December 31, 2009, in Northrop Grumman Corporation common stock, Standard & Poor's (S&P) 500 Index and the S&P Aerospace & Defense Index.
- (2) The cumulative total return assumes reinvestment of dividends. In March 2011, we completed the spin-off of Huntington Ingalls Industries, Inc. (HII). Our shareholders received one share of HII common stock for every six shares of our common stock held on the record date. The effect of the spin-off is reflected in the cumulative total return as a reinvested dividend.
- (3) The S&P Aerospace & Defense Index is comprised of The Boeing Company, General Dynamics Corporation, Honeywell International Inc., L-3 Communications, Lockheed Martin Corporation, Northrop Grumman Corporation, Precision Castparts Corporation, Raytheon Company, Rockwell Collins, Inc., Textron, Inc. and United Technologies Corporation.
- (4) The total return is weighted according to market capitalization of each company at the beginning of each year.
- (5) This graph is not deemed to be "filed" with the U.S. Securities and Exchange Commission (SEC) or subject to the liabilities of Section 18 of the Securities and Exchange Act of 1934 (the Exchange Act), and should not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act of 1933 or the Exchange Act.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

For a description of securities authorized under our equity compensation plans, see Note 13 to our consolidated financial statements in Part II, Item 8.

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Item 6. Selected Financial Data

The data presented in the following table is derived from the audited consolidated financial statements and other information. 2011 and 2010 data is adjusted to reflect the effects of discontinued operations.

SELECTED FINANCIAL DATA

<i>\$ in millions, except per share amounts</i>	Year Ended December 31				
	2014	2013	2012	2011	2010
Sales					
U.S. Government	\$ 20,085	\$ 21,278	\$ 22,268	\$ 23,432	\$ 25,061
Other customers ⁽¹⁾	3,894	3,383	2,950	2,980	3,082
Total sales	23,979	24,661	25,218	26,412	28,143
Operating income	3,196	3,123	3,130	3,276	2,827
Earnings from continuing operations	2,069	1,952	1,978	2,086	1,904
Basic earnings per share, from continuing operations	\$ 9.91	\$ 8.50	\$ 7.96	\$ 7.54	\$ 6.41
Diluted earnings per share, from continuing operations	9.75	8.35	7.81	7.41	6.32
Cash dividends declared per common share	2.71	2.38	2.15	1.97	1.84
Year-End Financial Position					
Total assets	\$ 26,572	\$ 26,381	\$ 26,543	\$ 25,411	\$ 31,410
Notes payable to banks and long-term debt	5,928	5,930	3,935	3,948	4,724
Other long-term obligations ⁽²⁾	7,520	4,018	7,043	5,005	4,007
Financial Metrics					
Net cash provided by continuing operations	\$ 2,593	\$ 2,483	\$ 2,640	\$ 2,347	\$ 2,056
Free cash flow from continuing operations ⁽³⁾	2,032	2,119	2,309	1,855	1,471
Other Information					
Company-sponsored research and development expenses	\$ 569	\$ 507	\$ 520	\$ 543	\$ 580
Total backlog	38,199	37,033	40,809	39,515	46,842
Square footage at year-end (in thousands)	34,264	34,500	35,053	37,397	38,218
Number of employees at year-end	64,300	65,300	68,100	72,500	79,600

(1) Other customer sales include foreign military sales.

(2) Other long-term obligations include pension and other post-retirement benefit plan liabilities, deferred compensation, unrecognized tax benefits, environmental liabilities and other long-term obligations.

(3) Free cash flow from continuing operations is a non-GAAP financial measure and is calculated as cash provided by continuing operations less capital expenditures. See Liquidity and Capital Resources – Free Cash Flow in Part II, Item 7 for more information on this measure.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Political and Economic Environment

The U.S. Government continues to face substantial fiscal and economic challenges, which affect funding for its discretionary and non-discretionary budgets. Part I of the Budget Control Act of 2011 (Budget Control Act) provided for a reduction in planned defense budgets by at least \$487 billion over a ten year period. Part II mandated substantial additional reductions, through a process known as "sequestration," which took effect in March 2013.

In December 2013, Congress passed the National Defense Authorization Act (NDAA). Congress also passed, and the President signed into law, the Bipartisan Budget Act of 2013, which set discretionary spending levels for fiscal year (FY) 2014 and FY 2015. The legislation provided for additional budget funding of approximately \$63 billion over FY 2014 and FY 2015. The additional funding alleviated some budget cuts that would otherwise have been instituted through sequestration in FY 2014 and FY 2015.

In February 2014, the President signed into law the Temporary Debt Limit Extension Act, suspending the statutory limit on the amount of permissible federal debt (the debt ceiling) until March 15, 2015. If the existing debt ceiling is not raised, we may be required to continue to perform for some period of time on certain of our U.S. Government contracts even if the U.S. Government is unable to make timely payments. An extended debt ceiling breach could negatively affect the U.S. Government's timely payment of our billings, resulting in delayed cash collection, and have significant consequences for our company, our employees, our suppliers and the defense industry.

In March 2014, the DoD released its Quadrennial Defense Review (QDR), a congressionally-mandated report that discusses the DoD's long-term strategies and priorities. The QDR recommends spending above the sequester levels and identifies potential impacts if sequester caps are imposed again in 2016. In July 2014, the National Defense Panel, a bi-partisan group of senior civilians and military officers appointed by Congress to review the QDR, recommended repealing the 2011 Budget Control Act and returning to higher defense funding levels. It is unclear whether or how the results of these strategic reviews could impact future budget plans.

In December 2014, Congress passed and the President signed into law the Consolidated and Further Appropriations Act of 2015, providing for federal spending levels for FY 2015 consistent with the Bipartisan Budget Act of 2013.

The Administration is currently preparing its FY 2016 budget request, which is expected to be submitted to Congress in the first calendar quarter of 2015. Congressional authorization and appropriation of defense and other spending for FY 2016 and beyond (including whether by appropriations bills or continuing resolutions) and the application of sequestration remain marked by significant debate and an uncertain schedule. Congress and the Administration also continue to debate the debt ceiling, among other fiscal issues, as they negotiate plans for long-term national fiscal policy. The outcome of these debates could have a significant impact on defense spending broadly and the company's programs in particular.

The budget environment, including sequestration as currently mandated, remains a significant long-term risk. Considerable uncertainty exists regarding how future budget and program decisions will unfold and what challenges budget reductions will present for the defense industry. We believe continued budget pressures will have serious negative consequences for the security of our country, the defense industrial base, including Northrop Grumman, and the customers, employees, suppliers, investors, and communities that rely on companies in the defense industrial base. Members of Congress continue to discuss various options to address sequestration in future budget planning, but we cannot predict the outcome of these efforts. It is likely budget and program decisions made in this environment will have long-term impacts on our company and the entire defense industry.

We believe spending on recapitalization, modernization and maintenance of defense, intelligence, and homeland security assets will continue to be a national priority. Future defense spending is expected to include the development and procurement of new manned and unmanned military platforms and systems, along with advanced electronics and software to enhance the capabilities of existing individual systems and provide real-time integration of surveillance, information management, strike and battle management platforms. We expect significant new competitive opportunities to include long range strike, missile defense, command and control, network communications, enhanced situational awareness, satellite systems, restricted programs, cyber, technical services and information technology, as well as numerous homeland security programs.

The company believes it has additional international opportunities (direct and foreign military sales), beyond those realized today, to sell its products and services outside the U.S. market, particularly in the domains of unmanned systems, cyber, C4ISR, logistics and manned military aircraft. The Administration has been addressing and supporting export control reforms that could enhance our ability to take advantage of these opportunities. The

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company is dedicating additional resources to expanding its international sales with emphases on Australia, the Middle East, Asia and Europe. To the extent these efforts are successful, increases in international awards, sales, profits and cash flows may offset, or partially offset, potential declines resulting from the U.S. political and economic environment described above.

For further information on the risks we face from the current political and economic environment, see Risk Factors in Part I, Item 1A.

Operating Performance Assessment

We manage and assess our business based on our performance on contracts and programs (typically two or more closely-related contracts). Sales from our portfolio of long-term contracts are primarily recognized using the cost-to-cost method of percentage of completion accounting, but in some cases the units-of-delivery method of percentage of completion accounting is utilized. As a result, sales tend to fluctuate in concert with costs incurred across our large portfolio of contracts. Due to Federal Acquisition Regulation (FAR) rules that govern our U.S. Government business and related Cost Accounting Standards (CAS), most types of costs are allocable to U.S. Government contracts, and we do not focus on individual cost groupings (such as manufacturing, engineering and design labor costs, subcontractor costs, material costs, overhead costs and general and administrative costs), as much as we do on total contract cost, which is the key driver of our sales and operating income.

In evaluating our operating performance, we look primarily at changes in sales and operating income, including the effects of meaningful changes in operating income as a result of changes in contract estimates. Where applicable, significant fluctuations in operating performance attributable to individual contracts or programs, or changes in a specific cost element across multiple contracts, are described in our analysis. Based on this approach and the nature of our operations, the discussion below of results of operations first focuses on our four segments before distinguishing between products and services. Changes in sales are generally described in terms of volume, deliveries or other indicators of sales activity, and contract mix. For purposes of this discussion, volume generally refers to increases or decreases in sales or cost from production/service activity levels or delivery rates. Performance generally refers to changes in contract operating margin rates for the period, as well as the continuing effect of prior cumulative catch-up adjustments. Both are primarily related to the changes in estimates referred to above.

CONSOLIDATED OPERATING RESULTS

Selected financial highlights are presented in the table below:

<i>\$ in millions, except per share amounts</i>	Year Ended December 31		
	2014	2013	2012
Sales	\$ 23,979	\$ 24,661	\$ 25,218
Operating costs and expenses	20,783	21,538	22,088
Operating income	3,196	3,123	3,130
<i>Operating margin rate</i>	13.3%	12.7%	12.4%
Federal and foreign income tax expense	\$ 868	\$ 911	\$ 987
<i>Effective income tax rate</i>	29.6%	31.8%	33.3%
Net earnings	\$ 2,069	\$ 1,952	\$ 1,978
Diluted earnings per share	\$ 9.75	\$ 8.35	\$ 7.81
Net cash provided by operating activities	\$ 2,593	\$ 2,483	\$ 2,640

Sales
Sales for 2014 decreased \$682 million, or 3 percent, as compared with 2013. Sales for 2013 decreased \$557 million, or 2 percent, as compared with 2012.

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The table below shows the variances in segment sales from the respective prior years:

<i>\$ in millions</i>	Variance from Prior Year			
	2014		2013	
Aerospace Systems	\$ (17)	0%	\$ 37	0%
Electronic Systems	(198)	(3%)	199	3%
Information Systems	(374)	(6%)	(760)	(10%)
Technical Services	(44)	(2%)	(176)	(6%)
Intersegment sales elimination	(49)	3%	143	(7%)
Total sales variance	\$ (682)	(3%)	\$ (557)	(2%)

For further information by segment refer to Segment Operating Results below, and for product and service detail, refer to the Product and Service Analysis section that follows Segment Operating Results.

Operating Costs and Expenses

Operating costs and expenses primarily comprise labor, material, subcontractor and overhead costs, and are generally allocated to contracts as incurred. In accordance with industry practice and the regulations that govern cost accounting requirements for government contracts, most general management and corporate expenses incurred at the segment and corporate locations are considered allowable and allocable costs. Allowable and allocable general and administrative costs are allocated on a systematic basis to contracts in progress.

Operating costs and expenses comprise the following:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Product Costs	\$ 10,431	\$ 10,623	\$ 10,415
Service Costs	7,947	8,659	9,223
General and administrative expenses	2,405	2,256	2,450
Operating costs and expenses	\$ 20,783	\$ 21,538	\$ 22,088

2014 – Product costs as a percentage of product sales for 2014 were 74.4 percent, as compared to 75.7 percent during 2013. The decrease is mainly due to the settlements described in the Segment Operating Results section below, and the continuing benefit of higher margin rates resulting from previous net favorable adjustments. Service costs as a percentage of service sales for 2014 were 79.8 percent, as compared to 81.5 percent during 2013. The decrease was mainly due to improved performance across a number of service programs at Information Systems and the continuing benefit of higher margin rates resulting from previous net favorable adjustments at Aerospace Systems.

2013 – Product costs as a percentage of product sales for 2013 were 75.7 percent, as compared to 75.3 percent during 2012; the increase is primarily due to lower product operating margins in newly awarded programs at Information Systems. Service costs as a percentage of service sales for 2013 were 81.5 percent, as compared to 81.0 percent during 2012; the increase is primarily due to lower service operating margins at Aerospace Systems and Information Systems.

For further information regarding product and service sales and costs, see the Product and Service Analysis section that follows Segment Operating Results.

2014 – General and administrative expenses as a percentage of total sales increased to 10.0 percent in 2014, from 9.1 percent in 2013. The increase largely reflects increased investment for future business.

2013 – General and administrative expenses as a percentage of total sales decreased to 9.1 percent in 2013, from 9.7 percent in 2012. The decrease reflects lower indirect costs principally related to cost reduction initiatives at Information Systems, as well as lower bid and proposal expenses.

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Operating Income

We define operating income as sales less operating costs and expenses, which includes general and administrative expenses. Changes in estimated contract operating margin at completion, resulting from changes in estimated sales, operating costs and expenses, are recorded using the cumulative catch-up method of accounting, which in aggregate can have a significant effect on our reported sales and operating income in each of our reporting periods. Cumulative catch-up adjustments are presented in the table below:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Favorable adjustments	\$ 922	\$ 1,044	\$ 1,270
Unfavorable adjustments	(258)	(291)	(285)
Net favorable adjustments	\$ 664	\$ 753	\$ 985

Net cumulative catch-up adjustments by segment are presented in the table below:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Aerospace Systems	\$ 372	\$ 394	\$ 436
Electronic Systems	207	312	426
Information Systems	73	49	120
Technical Services	44	43	53
Eliminations	(32)	(45)	(50)
Net favorable adjustments	\$ 664	\$ 753	\$ 985

Federal and Foreign Income Taxes

2014 – Our effective tax rate for 2014 was 29.6 percent, as compared with 31.8 percent in 2013. The company's lower effective tax rate for 2014 reflects a \$51 million benefit for the partial resolution of its 2007-2009 Internal Revenue Service (IRS) examination.

2013 – Our effective tax rate for 2013 was 31.8 percent, as compared with 33.3 percent in 2012. The company's lower effective tax rate for 2013 includes a \$37 million benefit for the American Taxpayer Relief Act, enacted in January 2013, which reinstated research tax credits for 2012 and 2013, and a \$21 million benefit for higher section 199 manufacturing deductions than in prior year.

Net Earnings

2014 – Net earnings for 2014 increased by \$117 million, or 6 percent, as compared with 2013. The higher earnings are primarily due to an increase in net FAS (GAAP Financial Accounting Standards)/CAS pension adjustment and the lower effective tax rate described above, which were partially offset by an increase in unallocated corporate expenses. For further information regarding net FAS/CAS pension adjustment and unallocated corporate expenses, see the Segment Operating Results section.

2013 – Net earnings for 2013 decreased \$26 million, or 1 percent, as compared with 2012. The lower earnings reflect lower segment operating income, partially offset by the lower effective tax rate described above. For further information regarding segment operating income, see the Segment Operating Results section.

Diluted Earnings Per Share

2014 – Diluted earnings per share for 2014 increased by \$1.40, or 17 percent, as compared with 2013. The increase reflects lower weighted-average shares outstanding resulting from shares repurchased in 2013 and 2014 and the higher net earnings discussed above.

2013 – Diluted earnings per share for 2013 increased by \$0.54, or 7 percent, as compared with 2012. The increase principally reflects lower weighted-average shares outstanding resulting from shares repurchased in 2012 and 2013.

Net Cash Provided by Operating Activities

2014 – Net cash provided by operating activities for 2014 increased by \$110 million, or 4 percent, as compared with 2013, principally due to a \$500 million voluntary pre-tax pension contribution made in April 2013, partially offset by changes in trade working capital during 2014.

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2013 – Net cash provided by operating activities for 2013 decreased by \$157 million, or 6 percent, as compared with 2012, principally due to higher voluntary pension contributions in 2013, partially offset by changes in trade working capital. In 2013, we contributed \$579 million to our pension plans, of which \$500 million was voluntarily pre-funded, as compared with \$367 million in 2012, of which \$300 million was voluntarily pre-funded.

SEGMENT OPERATING RESULTS

Basis of Presentation

We are aligned in four segments: Aerospace Systems, Electronic Systems, Information Systems and Technical Services. This section discusses segment sales, operating income and operating margin rates. The reconciliation of segment sales to total sales is provided in Note 3 to the consolidated financial statements in Part II, Item 8. The reconciliation of segment operating income to total operating income, as well as discussion of the reconciling items, is provided in Note 3 to the consolidated financial statements in Part II, Item 8. For purposes of the discussion in this Segment Operating Results section, references to operating income and operating margin rate reflect segment operating income and segment operating margin rate.

In 2014, the company acquired Qantas Defence Services Pty Limited (QDS), now called Northrop Grumman Integrated Defence Services Pty Limited (Northrop Grumman IDS) for a final purchase price of \$85 million in cash. Northrop Grumman IDS provides integrated logistics, sustainment and modernization support primarily to Australian government and military customers. The fair value of the assets acquired and liabilities assumed and the results of operations of Northrop Grumman IDS are included in the Technical Services segment. These amounts were not material to the company's consolidated financial statements.

For a more complete description of each segment's products and services, see the business descriptions in Part I, Item 1.

Segment Operating Income

Segment operating income, as reconciled below, is a non-GAAP measure and is used by management as an internal measure of financial performance for our operating segments. Segment operating income reflects total earnings from our four segments, including allocated pension expense recognized under CAS and excludes unallocated corporate items, including FAS pension expense.

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Segment operating income	\$ 3,099	\$ 3,080	\$ 3,176
Segment operating margin rate	12.9%	12.5%	12.6%

2014 - Segment operating income for 2014 increased by \$19 million, or 1 percent, as compared with 2013. The increase in segment operating income was principally due to a \$75 million benefit realized in connection with agreements reached with the U.S. Government to settle certain claims relating to use of the company's intellectual property and a terminated program and a segment operating margin benefit of approximately \$45 million as a result of lower 2014 CAS costs due to the Highway and Transportation Funding Act of 2014 (HATFA) legislation described below, which more than offset the impact of lower sales volume.

2013 - Segment operating income for 2013 decreased by \$96 million, or 3 percent, as compared with 2012. The decrease in segment operating income was principally due to lower sales. The decrease in operating margin rate reflects lower net favorable adjustments in 2013, partially offset by higher contract margin rates across our portfolio resulting from several factors, including the continuing effect of prior net favorable adjustments.

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The table below reconciles segment operating income to total operating income by including the impact of net FAS/CAS pension adjustments, as well as certain corporate-level expenses, which are not considered allowable or allocable under applicable CAS or FAR:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Segment operating income	\$ 3,099	\$ 3,080	\$ 3,176
CAS pension expense	384	542	506
Less: FAS pension expense	(115)	(374)	(374)
Net FAS/CAS pension adjustment	269	168	132
Unallocated corporate expenses	(169)	(119)	(168)
Other	(3)	(6)	(10)
Total operating income	\$ 3,196	\$ 3,123	\$ 3,130

Net FAS/CAS Pension Adjustment

For financial statement purposes, we account for our employee pension plans in accordance with GAAP under FAS. However, the cost of these plans is charged to our contracts in accordance with the FAR and the related CAS that govern such plans. The net FAS/CAS pension adjustment reflects the difference of pension expense charged to contracts and included as cost in segment operating income less pension expense determined in accordance with GAAP.

2014 - The increase in net FAS/CAS pension adjustment is principally due to a reduction in FAS expense, largely due to the increase in our FAS discount rate assumptions as of December 31, 2013. The reduction in FAS expense was partially offset by lower CAS expense due to the passage of HATFA, which included provisions that reduce the amount of CAS expense charged to our contracts.

2013 - The increase in net FAS/CAS pension adjustment reflects an update for actual demographic experience as of January 1, 2013, which resulted in an increase to the company's 2013 CAS expense.

Unallocated Corporate Expenses

Unallocated corporate expenses generally include the portion of corporate expenses, other than FAS pension costs, not considered allowable or allocable under applicable CAS and FAR rules, and therefore not allocated to the segments, such as a portion of management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses.

2014 - The increase in unallocated corporate expense for 2014, as compared to 2013, is primarily due to increases in year-over-year provisions for environmental matters.

2013 - The decrease in unallocated corporate expenses for 2013, as compared to 2012, is primarily due to lower year-over-year provisions for disallowed costs and litigation matters and the favorable settlement of overhead claims, partially offset by changes in deferred tax assets due to lower blended state income tax rates.

AEROSPACE SYSTEMS

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Sales	\$ 9,997	\$ 10,014	\$ 9,977
Operating income	1,315	1,215	1,218
Operating margin rate	13.2%	12.1%	12.2%

2014 - Aerospace Systems sales for 2014 were comparable to 2013, and include the impact of the settlements described in the Segment Operating Income section above. Excluding the settlements, Aerospace Systems had lower sales in unmanned, space and manned military aircraft programs. The decrease in unmanned programs reflects declines of \$136 million on Global Hawk due to lower production activity and \$111 million on Fire Scout as a result of lower development activity. These declines were partially offset by \$135 million of higher volume on the NATO Alliance Ground Surveillance (AGS) program. The decrease in space programs was mainly due to lower volume on the James Webb Space Telescope (JWST) and Advanced Extremely High Frequency (AEHF) programs. The decrease in manned military aircraft programs was primarily the result of lower volume on the Joint Surveillance

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Target Attack Radar System, F-35 and B-2 programs, partially offset by higher volume of \$87 million on the E-2D Advanced Hawkeye program.

Operating income for 2014 increased \$100 million, or 8 percent, and operating margin rate increased to 13.2 percent, from 12.1 percent. Higher operating income and margin rate in 2014 were primarily due to the settlements described above and improved performance.

2013 - Aerospace Systems sales for 2013 were slightly higher than 2012, due to higher volume on manned military aircraft programs, offset by lower volume on unmanned and space programs. The increase in manned military aircraft programs reflects higher sales of \$107 million from increased deliveries on the F-35 program, as well as higher volume on the B-2 and E-2D Advanced Hawkeye programs, partially offset by lower volume on various other programs. The decrease for unmanned programs reflects lower sales of \$295 million on the Global Hawk program largely due to ramp-down on sustainment, support and logistics contracts, partially offset by higher sales of \$187 million on the NATO AGS program resulting from ramp-up activities. The decrease in space programs reflects lower volume for restricted programs due to ramp-down activities, and higher volume on the JWST and AEHF programs.

Operating income and operating margin rate for 2013 were comparable to 2012. Operating income and operating margin rate also reflect the impact of a forward loss recognized on a restricted program, which was offset by the continuing effect of higher contract margin rates across the segment principally related to prior net favorable adjustments.

ELECTRONIC SYSTEMS

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Sales	\$ 6,951	\$ 7,149	\$ 6,950
Operating income	1,148	1,226	1,187
Operating margin rate	16.5%	17.1%	17.1%

2014 - Electronic Systems sales for 2014 decreased \$198 million, or 3 percent, as compared with 2013. Lower sales are principally due to lower volume for land and self-protection programs, including lower deliveries of \$174 million on infrared countermeasures and laser systems; lower volume for domestic intelligence, surveillance, reconnaissance and targeting programs, including \$93 million of lower deliveries on combat avionics; and \$109 million of lower volume for navigation and maritime programs. The declines were partially offset by higher sales of \$178 million on international programs.

Operating income for 2014 decreased \$78 million, or 6 percent, and operating margin rate decreased to 16.5 percent from 17.1 percent. Operating income and margin rate for 2014 declined primarily due to a reduction in net favorable adjustments, lower volume and the absence in 2014 of the benefit from the reversal of a \$26 million non-programmatic risk reserve in 2013.

2013 - Electronic Systems sales for 2013 increased \$199 million, or 3 percent, as compared with 2012. The increase was due to higher sales on international programs of \$244 million and space programs, partially offset by lower sales on navigation and maritime systems programs of \$132 million due to decreased deliveries, as well as lower volume on laser systems programs associated with in-theater force reductions.

Operating income for 2013 increased \$39 million, or 3 percent, as compared with 2012, consistent with the higher sales volume described above. Operating margin rate was comparable with 2012, and reflects higher margin rates on our current portfolio of programs, a reduction in net favorable adjustments and the reversal of a \$26 million non-programmatic risk reserve.

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INFORMATION SYSTEMS

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Sales	\$ 6,222	\$ 6,596	\$ 7,356
Operating income	611	633	761
<i>Operating margin rate</i>	9.8%	9.6%	10.3%

2014 - Information Systems sales for 2014 decreased \$374 million, or 6 percent, as compared with 2013. Sales principally declined as a result of lower volume of \$294 million on C2 programs and \$62 million on Communications programs due to in-theater force reductions, reduced funding levels and the wind-down of various programs.

Operating income for 2014 decreased \$22 million, or 3 percent, and operating margin rate increased to 9.8 percent from 9.6 percent. The lower operating income is primarily a result of the lower sales described above. The higher operating margin rate reflects additional operating income resulting from improved performance.

2013 - Information Systems sales for 2013 decreased \$760 million, or 10 percent, as compared with 2012. The sales decline includes a \$98 million impact for the transfer of intercompany efforts to our corporate shared services organization. Excluding the transfer, 2013 sales declined 9 percent due to lower funding levels, including the impacts of sequestration, and lower volume for programs impacted by in-theater force reductions and contract completions.

Operating income for 2013 decreased \$128 million, or 17 percent, as compared with 2012. Operating margin rate decreased to 9.6 percent in 2013 from 10.3 percent in 2012. Lower operating income and operating margin rate were primarily due to the lower sales volume described above and a \$73 million reduction in net favorable adjustments compared with the prior year.

TECHNICAL SERVICES

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Sales	\$ 2,799	\$ 2,843	\$ 3,019
Operating income	261	262	268
<i>Operating margin rate</i>	9.3%	9.2%	8.9%

2014 - Technical Services sales for 2014 decreased \$44 million, or 2 percent, as compared with 2013. The decrease was primarily due to lower volume on the InterContinental Ballistic Missile (ICBM), Hunter and Combined Tactical Training Range programs, which were partially offset by growth in international sales, principally as a result of the acquisition of QDS in the first quarter of 2014.

Operating income and margin rate for 2014 were comparable to 2013.

2013 - Technical Services sales for 2013 decreased \$176 million, or 6 percent, as compared with 2012. The decrease was primarily due to lower sales of \$127 million on the ICBM and integrated logistics and modernization programs, as well as portfolio shaping efforts.

Operating income for 2013 decreased \$6 million, or 2 percent, as compared with 2012. Operating margin rate increased to 9.2 percent in 2013 from 8.9 percent in 2012. Lower operating income was driven by the lower sales volume described above, partially offset by higher operating margin rate primarily due to improved performance across a number of programs.

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PRODUCT AND SERVICE ANALYSIS

The following table presents product and service sales and operating costs and expenses by segment:

<i>\$ in millions</i>	Year Ended December 31					
	2014		2013		2012	
Segment Information:	Sales	Costs	Sales	Costs	Sales	Costs
Aerospace Systems						
Product	\$ 7,986	\$ 6,897	\$ 8,210	\$ 7,197	\$ 8,729	\$ 7,704
Service	2,011	1,785	1,804	1,602	1,248	1,055
Electronic Systems						
Product	5,532	4,622	5,574	4,612	5,346	4,438
Service	1,419	1,181	1,575	1,311	1,604	1,325
Information Systems						
Product	1,335	1,244	990	895	708	606
Service	4,887	4,367	5,606	5,068	6,648	5,989
Technical Services						
Product	184	173	210	191	213	196
Service	2,615	2,365	2,633	2,390	2,806	2,555
Segment Totals						
Total Product	\$ 15,037	\$ 12,936	\$ 14,984	\$ 12,895	\$ 14,996	\$ 12,944
Total Service	10,932	9,698	11,618	10,371	12,306	10,924
Intersegment eliminations	(1,990)	(1,754)	(1,941)	(1,685)	(2,084)	(1,826)
Total Segment ⁽¹⁾	\$ 23,979	\$ 20,880	\$ 24,661	\$ 21,581	\$ 25,218	\$ 22,042

(1) The reconciliation of segment operating income to total operating income, as well as a discussion of the reconciling items, is included in the Segment Operating Results section above.

Product Sales and Product Costs

2014 - Product sales for 2014 were slightly higher than 2013, primarily due to higher product sales at Information Systems, offset by lower product sales at Aerospace Systems. The increase at Information Systems was primarily due to higher product sales on certain restricted and C2 programs. The decrease at Aerospace Systems was primarily driven by lower product volume in unmanned and space programs, partially offset by the settlements described in the Segment Operating Results section above.

Product costs for 2014 were slightly higher than 2013, primarily due to higher product costs at Information Systems, offset by lower product costs at Aerospace Systems, consistent with the changes in product sales described above.

2013 - Product sales for 2013 were comparable with 2012, primarily due to lower product sales at Aerospace Systems, offset by higher product sales at Information Systems and Electronic Systems. The decrease at Aerospace Systems reflects the revision in the classification of certain operations, maintenance and sustainment contracts from product to service in 2013. The increase at Information Systems was primarily due to newly awarded product contracts and the increase at Electronic Systems was primarily driven by higher volume as described in the Segment Operating Results section above.

Product costs for 2013 were comparable with 2012, primarily due to lower product costs at Aerospace Systems, offset by higher product costs at Information Systems and Electronic Systems. The decrease at Aerospace Systems was consistent with the classification change noted above. The decrease was offset by newly awarded product contracts at Information Systems and higher sales volume at Electronic Systems, as described above.

Service Sales and Service Costs

2014 - Service sales for 2014 decreased \$686 million, or 6 percent, as compared with 2013. The decrease was primarily driven by lower service sales at Information Systems, principally from reduced volume on restricted work and the impacts of in-theater force reductions as described in the Segment Operating Results section above.

Service costs for 2014 decreased \$673 million, or 6 percent, as compared with 2013 consistent with the change in service sales described above.

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2013 - Service sales for 2013 decreased \$688 million, or 6 percent, as compared with 2012, primarily due to lower service sales at Information Systems partially offset by higher service sales at Aerospace Systems. The decrease at Information Systems is due to lower service sales across a number of programs, as described in the Segment Operating Results section above. The higher service sales at Aerospace Systems reflects the revision in the classification of certain contracts from product to service, as described above, and higher volume on certain military aircraft service contracts in 2013.

Service costs for 2013 decreased \$553 million, or 5 percent, as compared with 2012, primarily due to lower service volume at Information Systems, partially offset by higher service sales at Aerospace Systems, consistent with the change in service sales described above.

BACKLOG

Total backlog includes both funded backlog (firm orders for which funding is authorized and appropriated) and unfunded backlog. Unexercised contract options and indefinite delivery indefinite quantity (IDIQ) contracts are not included in backlog until the time the option or IDIQ task order is exercised or awarded. For multi-year service contracts with non-U.S. Government customers having no stated contract values, backlog includes only the amounts committed by the customer. Backlog is converted into sales as costs are incurred or deliveries are made.

Backlog consisted of the following at December 31, 2014 and 2013:

<i>\$ in millions</i>	2014			2013	
	Funded	Unfunded	Total Backlog	Total Backlog	
Aerospace Systems	\$ 9,438	\$ 10,625	\$ 20,063	\$ 18,321	
Electronic Systems	6,845	2,870	9,715	9,037	
Information Systems	2,963	3,152	6,115	6,864	
Technical Services	2,127	179	2,306	2,811	
Total backlog	\$ 21,373	\$ 16,826	\$ 38,199	\$ 37,033	

Approximately \$19.3 billion of the \$38.2 billion total backlog at December 31, 2014, is expected to be converted into sales in 2015. U.S. Government orders comprised 82 percent of total backlog at the end of 2014. International orders, including foreign military sales, accounted for 14 percent of total backlog at the end of 2014. Domestic commercial backlog represented 4 percent of total backlog at the end of 2014.

New Awards

2014 - The estimated value of contract awards recorded during 2014 was \$25.0 billion. Significant new awards during 2014 include \$4.1 billion for the E-2D Advanced Hawkeye program, \$1.4 billion for the Global Hawk program, \$1.3 billion for the F-35 program, \$727 million for the B-2 program and \$560 million for the Virginia Class Submarine program.

2013 - The estimated value of contract awards recorded during 2013 was \$21.9 billion. On a net basis, awards during 2013 totaled \$20.9 billion, reflecting \$1 billion of adjustments during the first half of the year to reduce Information Systems unfunded backlog principally associated with expired periods of performance on active contracts, including several previously awarded task orders on IDIQ contracts. Significant new awards in 2013 include \$2.2 billion for the F-35 program, \$1.3 billion for the E-2D Advanced Hawkeye program, \$866 million for the AEHF program, \$694 million for the B-2 program, and \$632 million for the Triton program.

LIQUIDITY AND CAPITAL RESOURCES

We endeavor to ensure the most efficient conversion of operating income into cash for deployment in our business and to maximize shareholder value. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including cash provided by operating activities, free cash flow, net debt-to-equity and net debt-to-capital. We believe these measures are useful to investors in assessing our financial performance and condition.

During the second quarter of 2013, the company's board of directors authorized a new share repurchase program of up to \$4.0 billion of the company's common stock ("2013 Repurchase Program"). At the same time, the company announced its plan to repurchase shares with the goal of retiring approximately 25 percent of its then outstanding shares (60 million shares) by the end of 2015, market conditions permitting. As of December 31, 2014, we had repurchased 42.2 million shares towards that goal. Additionally, during the fourth quarter of 2014, the company's

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board of directors authorized a new share repurchase program of up to an additional \$3.0 billion of the company's common stock ("2014 Repurchase Program"). By its terms, repurchases under the 2014 Repurchase Program will commence upon completion of the 2013 Repurchase Program.

Cash balances and cash generated from operating activities, supplemented by borrowings under credit facilities and/or in the capital markets, if needed, are expected to be sufficient to fund our operations for at least the next 12 months. As of December 31, 2014, the amount of cash, cash equivalents and marketable securities held outside of the U.S. by foreign subsidiaries was \$537 million. We currently do not anticipate repatriating these balances to fund domestic operations. Capital expenditure commitments were \$533 million at December 31, 2014, and are expected to be paid with cash on hand.

The table below summarizes the key components of cash flow provided by operating activities:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Net earnings	\$ 2,069	\$ 1,952	\$ 1,978
Non-cash items ⁽¹⁾	731	724	726
Changes in assets and liabilities:			
Trade working capital	(121)	54	19
Retiree benefits	(17)	(281)	(71)
Other, net	(69)	34	(12)
Net cash provided by operating activities	\$ 2,593	\$ 2,483	\$ 2,640

(1) Includes depreciation and amortization, stock based compensation expense and deferred income taxes

Free Cash Flow

Free cash flow is defined as cash provided by operating activities less capital expenditures. We believe free cash flow is a useful measure for investors to consider as it represents the cash flow the company has available after capital spending to invest for future growth, strengthen the balance sheet and/or return to shareholders through dividends and share repurchases. Free cash flow is a key factor in our planning for and consideration of strategic acquisitions, the payment of dividends and stock repurchases.

Free cash flow is not a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner. 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 as indicators of performance.

The table below reconciles cash provided by operating activities to free cash flow:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Net cash provided by operating activities	\$ 2,593	\$ 2,483	\$ 2,640
Less: Capital expenditures	(561)	(364)	(331)
Free cash flow	\$ 2,032	\$ 2,119	\$ 2,309

2014 – Free cash flow for 2014 decreased \$87 million, or 4 percent as compared with 2013. The decrease was principally driven by higher capital expenditures due to a ramp up of investments in our Aerospace Systems' Centers of Excellence, partially offset by an increase in net cash provided by operating activities, as described in the Consolidated Operating Results Section above. We currently expect capital expenditures to continue to increase in 2015.

2013 – Free cash flow for 2013 decreased \$190 million, or 8 percent, as compared with 2012. The decrease was principally driven by higher voluntary pension contributions in 2013. We contributed \$579 million to our pension plans during 2013 as compared with \$367 million in 2012.

Credit Facilities

The company maintains an unsecured credit facility in an aggregate principal amount of \$1.775 billion (the Credit Agreement). The Credit Agreement contains customary terms and conditions, including covenants restricting the company's ability to sell all or substantially all of its assets, merge or consolidate with another entity or undertake

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other fundamental changes and incur liens. The company also cannot permit the ratio of its debt to capitalization (as set forth in the Credit Agreement) to exceed 65 percent. At December 31, 2014, the company was in compliance with all covenants under the Credit Agreement and there was no balance outstanding under this facility.

Other Sources and Uses of Capital

Additional Capital – We believe we can obtain additional capital, if necessary for long-term liquidity, from such sources as the public or private capital markets, the sale of assets, sale and leaseback of operating assets, and leasing rather than purchasing new assets. We have an effective shelf registration statement on file with the SEC, which allows us to access capital in a timely manner.

Financial Arrangements – See Note 11 to the consolidated financial statements in Part II, Item 8.

Contractual Obligations

The following table presents our contractual obligations as of December 31, 2014, and the estimated timing of future cash payments:

<i>\$ in millions</i>	Total	2015	2016-2017	2018-2019	2020 and beyond
Long-term debt	\$ 5,925	\$ 3	\$ 113	\$ 1,557	\$ 4,252
Interest payments on long-term debt	3,711	279	545	498	2,389
Operating leases	840	267	354	141	78
Purchase obligations ⁽¹⁾	7,974	4,150	2,379	544	901
Other long-term liabilities ⁽²⁾	1,116	326	325	135	330
Total contractual obligations	\$ 19,566	\$ 5,025	\$ 3,716	\$ 2,875	\$ 7,950

- (1) A “purchase obligation” is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. These amounts are primarily comprised of open purchase order commitments to suppliers and subcontractors pertaining to funded contracts.
- (2) Other long-term liabilities, including their current portions, primarily consist of total accrued environmental reserves, deferred compensation and other miscellaneous liabilities, of which \$142 million is related to environmental reserves recorded in other current liabilities. It excludes obligations for uncertain tax positions of \$235 million, as the timing of such payments, if any, cannot be reasonably estimated.

The table above also excludes estimated minimum funding requirements for retirement and other post-retirement benefit plans, as set forth by the Employee Retirement Income Security Act, as amended (ERISA). For further information about future minimum contributions for these plans, see Note 12 to the consolidated financial statements in Part II, Item 8. Further details regarding long-term debt and operating leases can be found in Notes 9 and 11, respectively, to the consolidated financial statements in Part II, Item 8.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

Our consolidated financial statements are based on the application of U.S. GAAP, which require us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and the accompanying notes. We employ judgment in making our estimates in consideration of historical experience, currently available information and various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from our estimates and assumptions, and any such differences could be material to our consolidated financial statements. We believe the following accounting policies are critical to the understanding of our consolidated financial statements and require the use of significant management judgment in their application. For a summary of our significant accounting policies, see Note 1 to the consolidated financial statements, Part II, Item 8.

Revenue Recognition

Due to the long-term nature of our contracts, we generally recognize revenue using the percentage-of-completion method of accounting as work on our contracts progresses, which requires us to make reasonably dependable estimates for the design, manufacture and delivery of our products and services. In accounting for these contracts, we utilize either the cost-to-cost or the units-of-delivery method of percentage-of-completion accounting, with cost-to-cost being the predominant method.

Contract sales may include estimated amounts not contractually agreed to by the customer, including cost or performance incentives (such as award and incentive fees), un-priced change orders, claims and requests for equitable adjustment. Amounts pertaining to cost and/or performance incentives are included in estimated contract sales when they are reasonably estimable.

Our cost estimation process is based on the professional knowledge of our engineers, program managers and financial professionals, and draws on their significant experience and judgment. We prepare estimates-at-completion (EACs) for our contracts which include an estimated contract operating margin based initially on estimated contract sales and cost. Since contract costs are typically incurred over a period of several years, estimation of these costs requires the use of judgment. Factors considered in estimating the cost of the work to be completed include the availability, productivity and cost of labor, the nature and complexity of work to be performed, the effect of change orders, availability and cost of materials, the effect of any delays in performance and the level of indirect cost allocations.

We generally review and reassess our sales, cost and profit estimates for each significant contract at least annually or more frequently as determined by the occurrence of events, changes in circumstances and evaluations of contract performance to reflect the latest reliable information available. Changes in estimates of contract sales and cost are frequent. The company performs on a broad portfolio of long-term contracts, including the development of complex and customized military platforms and systems, as well as advanced electronic equipment and software, that often include technology at the forefront of science. Changes in estimates occur for a variety of reasons, including changes in contract scope, the resolution of risk at lower or higher cost than anticipated, unanticipated risks affecting contract costs, availability, performance or other issues with our subcontractors or suppliers, changes in indirect cost allocations, such as overhead and general and administrative expenses, and changes in estimated award and incentive fees. EACs are also adjusted to reflect estimated risks related to contract performance. These risks typically include technical, schedule and performance risk based on our evaluation of the contract effort. Similarly, the changes in estimates may include identified opportunities for operating margin improvement.

For the impacts of changes in estimates on our consolidated statement of earnings and comprehensive (loss) income, see the Consolidating Operating Results section above and Note 1 to the consolidated financial statements in Part II, Item 8.

Goodwill

Overview – We allocate the purchase price of acquired businesses to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective fair values, with the excess recorded as goodwill. Such fair value assessments require judgments and estimates that can be affected by contract performance and other factors over time, which may cause final amounts to differ materially from original estimates. Adjustments to the fair value of purchased assets and liabilities after the initial measurement period are recognized in net earnings.

Impairment Testing – We test for impairment of goodwill annually at each of our reporting units, which comprise our operating segments. The results of our annual goodwill impairment test as of December 31, 2014 and 2013, respectively, indicated that the estimated fair value of each reporting unit substantially exceeded its respective carrying value. There were no impairment charges recorded in the years ended December 31, 2014, 2013 and 2012.

In addition to performing an annual goodwill impairment test, an interim impairment test may be required if events occur or circumstances change that suggest goodwill of our reporting units may be impaired during an interim period. Such indicators may include, but are not limited to, the loss of significant business, significant reductions in federal government appropriations or other significant adverse changes in industry or market conditions.

When testing goodwill for impairment, we compare the fair values of each of our reporting units to their respective carrying values. To determine the fair value of our reporting units, we primarily use the income approach based on the cash flows that the reporting unit expects to generate in the future, consistent with our operating plans. This income valuation method requires management to project sales, operating expenses, working capital, capital spending and cash flows for the reporting units over a multi-year period, as well as determine the weighted-average cost of capital (WACC) used as a discount rate and terminal value assumptions.

The WACC takes into account the relative weights of each component of our consolidated capital structure (equity and debt) and represents the expected cost of new capital adjusted as appropriate to consider lower risk profiles associated with longer-term contracts and barriers to market entry. The terminal value assumptions are applied to the final year of the discounted cash flow model. Impairment assessment inherently involves management judgments as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Due to

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the many variables inherent in the estimation of a business' fair value and the relative size of our recorded goodwill, differences in assumptions may have a material effect on the results of our impairment analysis.

We corroborate the fair values determined under the income approach using the market valuation method to estimate the fair value of our reporting units, by utilizing industry multiples (including relevant control premiums) of operating earnings.

Retirement Benefits

Overview – The determination of projected benefit obligations and the fair value of plan assets for our pension and other post-retirement plans requires the use of several actuarial assumptions. We perform an annual review of these assumptions in consultation with our outside actuaries. In the event we determine changes in the assumptions are warranted, or as a result of plan amendments, future pension and other post-retirement benefit expense could increase or decrease. The principal assumptions that have a significant effect on our consolidated financial position and annual results of operations are the discount rate, cash balance crediting rate, expected long-term rate of return on plan assets, estimated fair market value of plan assets, and life expectancy for those covered by our pension and other post-retirement benefit plans.

Discount Rate – The discount rate represents the interest rate that is used to determine the present value of future cash flows currently expected to be required to settle our pension and other post-retirement benefit obligations. The discount rate is generally based on the yield of high-quality corporate fixed-income investments. At the end of each year, the discount rate is determined using a portfolio of bonds matching the notional cash outflows related to benefit payments for each significant benefit plan. Taking into consideration the factors noted above, our weighted-average pension composite discount rate was 4.12 percent at December 31, 2014, and 4.99 percent at December 31, 2013.

The effects of a hypothetical change in the discount rate may be nonlinear and asymmetrical for future years as the discount rate changes and the accounting corridor is applied. The accounting corridor is a defined range within which amortization of net gains and losses is not required and is equal to 10 percent of the greater of plan assets or benefit obligations. Holding all other assumptions constant, an increase or decrease of 25 basis points in the December 31, 2014, discount rate assumption would have the following estimated effects on 2014 pension and other post-retirement benefit obligations and 2015 expected pension and other post-retirement expense:

<i>\$ increase/(decrease) in millions</i>	25 Basis Point Decrease in Rate	25 Basis Point Increase in Rate
Pension expense	\$ 100	\$ (96)
Other post-retirement benefit expense	4	(3)
Pension obligation	1,064	(1,008)
Other post-retirement benefit obligation	68	(64)

Cash Balance Crediting Rate - A portion of the company's pension obligation and resulting pension expense is based on a cash balance formula, where participants' hypothetical account balances are accumulated over time with pay-based credits and interest. Interest is credited monthly using the 30-Year Treasury bond rate. The interest crediting rate is part of the cash balance formula and independent of actual pension investment earnings. The cash balance crediting rate tends to move in concert with the discount rate but has an offsetting effect on pension benefit obligations and pension expense in comparison to the discount rate. Although current 30-Year Treasury bond rates are near historically low levels, we expect such bond rates to rise in the future. The cash balance crediting rate assumption has been set to its current level of 2.75 percent as of December 31, 2014, growing to 3.5 percent by 2020. Holding all other assumptions constant, an increase or decrease of 25 basis points in the December 31, 2014, cash balance crediting rate assumption would have the following estimated effects on 2014 pension benefit obligations and 2015 expected pension expense:

<i>\$ increase/(decrease) in millions</i>	25 Basis Point Decrease in Rate	25 Basis Point Increase in Rate
Pension expense	\$ (25)	\$ 26
Pension obligation	(121)	127

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Expected Long-Term Rate of Return on Plan Assets – The expected long-term rate of return on plan assets represents the average rate of earnings expected on funds invested. Through consultation with our investment management team and outside investment advisers, management develops expected long-term returns for each of the plans' strategic asset classes. In addition to our historical investment performance, we consider several factors, including current market data such as yields/price-earnings ratios, historical market returns over long periods and periodic surveys of investment managers' expectations. Using policy target allocation percentages and the asset class expected returns, a weighted-average expected return is calculated.

The assumptions used for pension benefits are consistent with those used for other post-retirement benefits. The long-term rate of return on plan assets used for medical and life benefits is reduced to allow for the impact of tax on expected returns as the earnings of certain Voluntary Employee Beneficiary Association (VEBA) trusts are taxable, unlike the pension trust.

For 2014 and 2013, we assumed an expected long-term rate of return on pension plan assets of 8.0 percent, and assumed an expected long-term rate of return on other post-retirement benefit plan assets of 7.45 percent and 7.33 percent, respectively. For 2015, we have assumed an expected long-term rate of return on plan assets of 8.0 percent on pension plans and 7.58 percent on other post-retirement benefit plans. Holding all other assumptions constant, an increase or decrease of 25 basis points in the December 31, 2014, expected long-term rate of return on plan asset assumption would have the following estimated effects on 2015 pension and other post-retirement benefit expense:

<i>\$ increase/(decrease) in millions</i>	25 Basis Point Decrease	25 Basis Point Increase
Pension expense	\$ 62	\$ (62)
Other post-retirement benefit expense	3	(3)

Estimated Fair Market Value of Plan Assets – For certain plan assets where the fair market value is not readily determinable, such as real estate, private equity and hedge funds, estimates of fair value are determined using the best information available. Estimated fair values on these plan assets are based on redemption values and net asset values, as well as valuation methodologies that include third party appraisals, comparable transactions, discounted cash flow valuation models and public market data.

Mortality Rate – Mortality assumptions are used to estimate life expectancies of plan participants. In October 2014, the Society of Actuaries (SOA) issued updated mortality tables (RP-2014) and a mortality improvement scale (MP-2014), which reflect longer life expectancies than previously projected. In consideration of this information, we studied our historical mortality experience and developed an expectation for continued future mortality improvements. Based on this data and the RP-2014 tables, we updated the mortality assumptions used in calculating our pension and post-retirement benefit obligations recognized at December 31, 2014, and the amounts estimated for our 2015 pension and post-retirement benefit expense. Our updated mortality assumptions resulted in an increase of \$1.8 billion in our pension and post-retirement benefit obligations as of December 31, 2014.

For further information regarding our pension and post-retirement benefits, see Risk Factors in Part I, Item 1A and Note 12 to the consolidated financial statements in Part II, Item 8.

Litigation, Commitments and Contingencies

We are subject to a range of claims, investigations, lawsuits, overhead cost claims, environmental matters, income tax matters and administrative proceedings that arise in the ordinary course of business. Estimating liabilities and costs associated with these matters requires judgment based upon the professional knowledge and experience of management and counsel. We determine whether to record a charge to earnings and, if so, what amount based on consideration of the facts and circumstances of each matter as then known to us. Determinations regarding whether to record a charge and, if so, of what amount, reflect management's assessment regarding what is likely to occur; they do not necessarily reflect what management believes should occur. The ultimate resolution of any such exposure to us may vary materially from earlier estimates as further facts and circumstances develop or become known to us.

Environmental Matters - We are subject to environmental laws and regulations in the jurisdictions in which we conduct operations. Factors that could result in changes to the assessment of probability, range of estimated costs and environmental accruals include: modification of planned remedial actions, increase or decrease in the estimated time required to remediate, discovery of more or less extensive contamination than anticipated, results of efforts to involve other responsible parties, financial capabilities of other responsible parties, changes in laws and regulations

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or contractual obligations affecting remediation requirements or other obligations, and improvements in remediation technology.

For further information on litigation, commitments and contingencies, see Risk Factors in Part I, Item 1A, and Note 1, Note 10 and Note 11 to the consolidated financial statements in Part II, Item 8.

OTHER MATTERS

Off-Balance Sheet Arrangements

As of December 31, 2014, we had no significant off-balance sheet arrangements other than operating leases. For a description of our operating leases, see Note 11 to the consolidated financial statements in Part II, Item 8.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

EQUITY RISK

We are exposed to market risk with respect to our portfolio of trading and available-for-sale marketable securities with a fair value of \$336 million at December 31, 2014. These securities are exposed to market volatilities, changes in price and interest rates.

INTEREST RATE RISK

We are exposed to interest rate risk on variable-rate short-term credit facilities for which there were no borrowings outstanding at December 31, 2014. At December 31, 2014, we have \$5.9 billion of long-term debt, primarily consisting of fixed-rate debt, with a fair value of approximately \$6.7 billion. The terms of our fixed-rate debt obligations do not generally allow investors to demand payment of these obligations prior to maturity. Therefore, we do not have significant exposure to interest rate risk for our fixed-rate debt; however, we do have exposure to fair value risk if we repurchase or exchange long-term debt prior to maturity.

FOREIGN CURRENCY RISK

We are exposed to foreign currency risk with respect to our international operations. We enter into foreign currency forward contracts to manage a portion of the exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies. We do not hold or issue derivative financial instruments for trading purposes. At December 31, 2014, foreign currency forward contracts with a notional amount of \$139 million were outstanding. At December 31, 2014, a 10 percent unfavorable foreign exchange rate movement would not have a material impact on our foreign currency forward contracts.

INFLATION RISK

We have generally been able to anticipate increases in costs when pricing our contracts. Bids for longer-term firm fixed-price contracts typically include assumptions for labor and other cost escalations in amounts that historically have been sufficient to cover cost increases over the period of performance.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Northrop Grumman Corporation
Falls Church, Virginia

We have audited the accompanying consolidated statements of financial position of Northrop Grumman Corporation and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of earnings and comprehensive (loss) income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northrop Grumman Corporation and subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 2, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 2, 2015

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE (LOSS) INCOME

<i>\$ in millions, except per share amounts</i>	Year Ended December 31		
	2014	2013	2012
Sales			
Product	\$ 14,015	\$ 14,033	\$ 13,838
Service	9,964	10,628	11,380
Total sales	23,979	24,661	25,218
Operating costs and expenses			
Product	10,431	10,623	10,415
Service	7,947	8,659	9,223
General and administrative expenses	2,405	2,256	2,450
Operating income	3,196	3,123	3,130
Other (expense) income			
Interest expense	(282)	(257)	(212)
Other, net	23	(3)	47
Earnings before income taxes	2,937	2,863	2,965
Federal and foreign income tax expense	868	911	987
Net earnings	\$ 2,069	\$ 1,952	\$ 1,978
Basic earnings per share	\$ 9.91	\$ 8.50	\$ 7.96
Weighted-average common shares outstanding, in millions	208.8	229.6	248.6
Diluted earnings per share	\$ 9.75	\$ 8.35	\$ 7.81
Weighted-average diluted shares outstanding, in millions	212.1	233.9	253.4
Net earnings (from above)	\$ 2,069	\$ 1,952	\$ 1,978
Other comprehensive (loss) income			
Change in unamortized benefit plan costs, net of tax benefit (expense) of \$1,423 in 2014, (\$1,177) in 2013 and \$860 in 2012	(2,316)	1,790	(1,303)
Change in cumulative translation adjustment	(59)	14	8
Other, net	3	(1)	(2)
Other comprehensive (loss) income, net of tax	(2,372)	1,803	(1,297)
Comprehensive (loss) income	\$ (303)	\$ 3,755	\$ 681

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>\$ in millions</i>	December 31	
	2014	2013
Assets		
Cash and cash equivalents	\$ 3,863	\$ 5,150
Accounts receivable, net	2,806	2,685
Inventoried costs, net	742	698
Deferred tax assets	404	605
Prepaid expenses and other current assets	369	350
Total current assets	8,184	9,488
Property, plant and equipment, net of accumulated depreciation of \$4,611 in 2014 and \$4,337 in 2013	2,991	2,806
Goodwill	12,466	12,438
Non-current deferred tax assets	1,622	209
Other non-current assets	1,309	1,440
Total assets	\$ 26,572	\$ 26,381
Liabilities		
Trade accounts payable	\$ 1,305	\$ 1,229
Accrued employee compensation	1,441	1,446
Advance payments and amounts in excess of costs incurred	1,713	1,722
Other current liabilities	1,433	1,418
Total current liabilities	5,892	5,815
Long-term debt, net of current portion of \$3 in 2014 and \$2 in 2013	5,925	5,928
Pension and other post-retirement benefit plan liabilities	6,555	2,954
Other non-current liabilities	965	1,064
Total liabilities	19,337	15,761
Commitments and contingencies (Note 11)		
Shareholders' equity		
Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2014—198,930,240 and 2013—217,599,230	199	218
Paid-in capital	—	848
Retained earnings	12,392	12,538
Accumulated other comprehensive loss	(5,356)	(2,984)
Total shareholders' equity	7,235	10,620
Total liabilities and shareholders' equity	\$ 26,572	\$ 26,381

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Operating activities			
Net earnings	\$ 2,069	\$ 1,952	\$ 1,978
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	462	495	510
Stock-based compensation	134	144	183
Excess tax benefits from stock-based compensation	(81)	(43)	(45)
Deferred income taxes	216	128	78
Changes in assets and liabilities:			
Accounts receivable, net	(105)	171	90
Inventoried costs, net	(24)	101	46
Prepaid expenses and other assets	13	(51)	(65)
Accounts payable and other liabilities	(89)	(169)	23
Income taxes payable	84	2	(75)
Retiree benefits	(17)	(281)	(71)
Other, net	(69)	34	(12)
Net cash provided by operating activities	\$ 2,593	\$ 2,483	\$ 2,640
Investing activities			
Capital expenditures	(561)	(364)	(331)
Maturities of short-term investments	—	—	250
Other investing activities, net	(84)	18	(3)
Net cash used in investing activities	(645)	(346)	(84)
Financing activities			
Common stock repurchases	(2,668)	(2,371)	(1,316)
Cash dividends paid	(563)	(545)	(535)
Net proceeds from issuance of long-term debt	—	2,841	—
Payments of long-term debt	—	(877)	—
Other financing activities, net	(4)	103	155
Net cash used in financing activities	(3,235)	(849)	(1,696)
(Decrease) increase in cash and cash equivalents	(1,287)	1,288	860
Cash and cash equivalents, beginning of year	5,150	3,862	3,002
Cash and cash equivalents, end of year	\$ 3,863	\$ 5,150	\$ 3,862

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>\$ in millions, except per share amounts</i>	Year Ended December 31		
	2014	2013	2012
Common stock			
Beginning of year	\$ 218	\$ 239	\$ 254
Common stock repurchased	(21)	(27)	(21)
Shares issued for employee stock awards and options	2	6	6
End of year	199	218	239
Paid-in capital			
Beginning of year	848	2,924	3,873
Common stock repurchased	(999)	(2,345)	(1,310)
Stock compensation	139	274	359
Other	12	(5)	2
End of year	—	848	2,924
Retained earnings			
Beginning of year	12,538	11,138	9,699
Common stock repurchased	(1,637)	—	—
Net earnings	2,069	1,952	1,978
Dividends declared	(578)	(552)	(539)
End of year	12,392	12,538	11,138
Accumulated other comprehensive loss			
Beginning of year	(2,984)	(4,787)	(3,490)
Other comprehensive (loss) income, net of tax	(2,372)	1,803	(1,297)
End of year	(5,356)	(2,984)	(4,787)
Total shareholders' equity	\$ 7,235	\$ 10,620	\$ 9,514
Cash dividends declared per share	\$ 2.71	\$ 2.38	\$ 2.15

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Northrop Grumman Corporation (herein referred to as “Northrop Grumman,” the “company,” “we,” “us,” or “our”) is a leading global security company. We provide innovative products, systems and solutions in unmanned systems; cyber; command, control, communications and computers (C4), intelligence, surveillance, and reconnaissance (C4ISR); strike aircraft; and logistics and modernization to government and commercial customers worldwide through our four segments: Aerospace Systems, Electronic Systems, Information Systems and Technical Services. We participate in many high-priority defense and government services programs in the United States (U.S.) and abroad. We offer a broad portfolio of capabilities and technologies that enable us to deliver innovative systems and solutions for applications that range from undersea to outer space and into cyberspace. We conduct most of our business with the U.S. Government, principally the Department of Defense (DoD) and intelligence community. We also conduct business with foreign, state and local governments, and domestic and international commercial customers.

Principles of Consolidation

The consolidated financial statements include the accounts of Northrop Grumman and its subsidiaries. Material intercompany accounts, transactions and profits are eliminated in consolidation. Investments in equity securities and joint ventures where the company has significant influence, but not control, are accounted for using the equity method.

Accounting Estimates

The company’s financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation thereof requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared using the most current and best available information; however, actual results could differ materially from those estimates.

Related Party Transactions

For all periods presented, the company had no material related party transactions.

Revenue Recognition

The majority of our business results are derived from long-term contracts with the U.S. Government for the production of goods, the provision of services, or in some cases, a combination of both. In accounting for these contracts, we utilize either the cost-to-cost or the units-of-delivery method of percentage-of-completion accounting, with cost-to-cost being the predominant method. Generally, sales under cost-reimbursement contracts and construction-type contracts that provide for deliveries at lower volume rates per year or a small number of units are accounted for using the cost-to-cost method. Under this method, sales, including estimated profits, are recorded as costs are incurred. Generally, sales under contracts that provide for deliveries at higher volume rates per year or a large number of units are accounted for using the units-of-delivery method. Under this method, sales are recognized as units are delivered to the customer. The company estimates profit on contracts as the difference between total estimated sales and total estimated cost of a contract at completion and recognizes that profit either as costs are incurred (cost-to-cost) or as units are delivered (units-of-delivery). The company classifies sales as product or service depending upon the predominant attributes of the contract.

Contract sales may include estimated amounts not contractually agreed to by the customer, including cost or performance incentives (such as award and incentive fees), un-priced change orders, claims and requests for equitable adjustment. Amounts pertaining to cost and/or performance incentives are included in estimated contract sales when they are reasonably estimable. Further, as contracts are performed, change orders can be a regular occurrence and may be un-priced until negotiated with the customer. Un-priced change orders are included in estimated contract sales when they are probable of recovery in an amount at least equal to the cost. Amounts representing claims (including change orders unapproved as to both scope and price) and requests for equitable adjustment are included in estimated contract sales when they are reliably estimable and realization is probable. As of December 31, 2014, the recognized amounts related to claims and requests for equitable adjustment are not material individually or in the aggregate.

The company’s U.S. Government contracts generally contain provisions that enable the customer to terminate a contract for default, or for the convenience of the government. If a contract is terminated for default, we may not be

entitled to recover any of our costs on partially completed work and may be liable to the government for re-procurement costs of acquiring similar products or services from another contractor, and for certain other damages. Termination of a contract for the convenience of the government may occur when the government concludes it is in the best interests of the government that the contract be terminated. Under a termination for convenience, the contractor is typically entitled to be paid in accordance with the contract's terms for costs incurred prior to the effective date of termination, plus a reasonable profit and settlement expenses. At December 31, 2014, the company does not have any contract terminations in process that we anticipate would have a material effect on our consolidated financial position, annual results of operations and/or cash flows.

We recognize changes in estimated contract sales, costs or profits using the cumulative catch-up method of accounting. This method recognizes, in the current period, the cumulative effect of the changes on current and prior periods; sales and profit in future periods of contract performance are recognized as if the revised estimates had been used since contract inception. If it is determined that a loss will result from the performance of a contract, the entire amount of the estimable future loss is charged against income in the period the loss is identified. Loss provisions are first offset against any costs that are included in unbilled accounts receivable or inventoried costs, and any remaining amount is reflected in liabilities.

Significant changes in estimates on a single contract could have a material effect on the company's consolidated financial position or annual results of operations. Where such changes occur, we generally disclose the nature, underlying conditions and financial impact of the change. Aggregate net changes in contract estimates recognized using the cumulative catch-up method of accounting increased operating margin by \$664 million, \$753 million and \$985 million (\$2.04, \$2.09 and \$2.53 per diluted share based on statutory tax rates) in 2014, 2013 and 2012, respectively. No discrete event or adjustments to an individual contract were material to the consolidated statements of earnings and comprehensive (loss) income for any of these periods.

General and Administrative Expenses

In accordance with industry practice and regulations that govern the cost accounting requirements for government contracts, most general and administrative expenses incurred at the segments and corporate office are considered allowable and allocable costs on government contracts. These costs are allocated to contracts in progress on a systematic basis and are included as a component of total estimated contract costs, including any provision for loss contracts.

Research and Development

Company-sponsored research and development activities primarily include independent research and development (IR&D) efforts related to government programs. Company-sponsored IR&D expenses are included in general and administrative expenses in the consolidated statements of earnings and comprehensive (loss) income and are generally allocated to government contracts. Company-sponsored IR&D expenses totaled \$569 million, \$507 million and \$520 million, in 2014, 2013 and 2012, respectively. Expenses for research and development funded by the customer are charged directly to the related contracts.

Environmental Costs

Environmental liabilities are accrued when the company determines that, based on the facts and circumstances known to the company, it is probable the company will incur costs to address environmental impacts and the costs are reasonably estimable. When only a range of amounts is established and no amount within the range is more probable than another, the low end of the range is recorded. The company typically projects environmental costs for up to 30 years, records environmental liabilities on an undiscounted basis, and excludes legal costs or asset retirement obligations. At sites involving multiple parties, the company accrues environmental liabilities based upon our expected share of liability, taking into account the financial viability of other jointly liable parties. Environmental expenditures are capitalized or expensed, as appropriate. As a portion of environmental remediation costs is expected to be recoverable through overhead charges on government contracts, such amounts are deferred in inventoried costs (current portion) and other non-current assets. The portion of environmental expenditures not expected to be recoverable is expensed.

Fair Value of Financial Instruments

The company utilizes fair value measurement guidance prescribed by GAAP to value its financial instruments. The guidance includes a definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements.

The valuation techniques utilized are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions.

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These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Significant inputs to the valuation model are unobservable.

Marketable securities accounted for as trading and available-for-sale are recorded at fair value on a recurring basis. For available-for-sale securities, any changes in unrealized gains and losses are reported as a component of other comprehensive income. Changes in unrealized gains and losses on trading securities are included in other, net in the consolidated statements of earnings and comprehensive (loss) income. In addition, investments in held-to-maturity instruments with original maturities greater than three months are recorded at amortized cost.

Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value on a recurring basis. Changes in the fair value of derivative financial instruments that are designated as fair value hedges are recorded in net earnings, while the effective portion of the changes in the fair value of derivative financial instruments that are designated as cash flow hedges are recorded as a component of other comprehensive income. For derivative financial instruments not designated as hedging instruments, gains or losses resulting from changes in the fair value are reported in other, net in the consolidated statements of earnings and comprehensive (loss) income.

The company may use derivative financial instruments to manage its exposure to interest rate risk for its fixed long-term debt portfolio and foreign currency exchange risk related to receipts from customers and payments to suppliers denominated in foreign currencies. The company does not use derivative financial instruments for trading or speculative purposes, nor does it use leveraged financial instruments. Credit risk related to derivative financial instruments is considered minimal and is managed through the use of multiple counterparties with high credit standards and periodic settlements of positions, as well as by entering into master netting agreements with most of our counterparties.

Income Taxes

Provisions for federal and foreign income taxes are calculated on reported earnings before income taxes based on current tax law and include the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different periods for financial reporting purposes than for income tax purposes. The company recognizes federal and foreign interest accrued related to unrecognized tax benefits in income tax expense. Federal penalties are recognized as a component of income tax expense. In accordance with industry practice and regulations that govern the cost accounting requirements for government contracts, state and local income and franchise taxes are considered allowable and allocable costs on government contracts and are therefore recorded in operating costs and expenses. The company recognizes state interest accrued related to unrecognized tax benefits in unallowable operating costs and expenses.

Uncertain tax positions reflect the company's expected treatment of tax positions taken in a filed tax return, or planned to be taken in a future tax return or claim, which have not been reflected in measuring income tax expense for financial reporting purposes. Until these positions are sustained by the taxing authorities or the statute of limitations concerning such issues lapses, the company does not recognize the tax benefits resulting from such positions and reports the tax effects as a liability for uncertain tax positions in its consolidated statements of financial position.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash in banks and highly liquid instruments with original maturities of three months or less, primarily consisting of bank time deposits and investments in institutional money market funds. The company does not invest in high yield or high risk securities. Cash in bank accounts at times may exceed federally insured limits.

Accounts Receivable and Inventoried Costs

Accounts receivable include amounts billed and currently due from customers, as well as amounts currently due but unbilled (primarily related to costs incurred on contracts accounted for under the cost-to-cost method of percentage-of-completion accounting). Accounts receivable also include certain estimated contract change amounts, claims or requests for equitable adjustment in negotiation that are probable of recovery and amounts retained by the customer pending contract completion.

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Inventoried costs primarily relate to work in process on contracts accounted for under the units-of-delivery method of percentage-of-completion accounting. These costs represent accumulated contract costs less the portion of such costs allocated to delivered items. Product inventory primarily consists of raw materials and is stated at the lower of cost or market, generally using the average cost method.

Accumulated contract costs in unbilled accounts receivable and inventoried costs include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, allowable general and administrative expenses. According to the provisions of U.S. Government contracts, the customer asserts title to, or a security interest in, inventories related to such contracts as a result of contract advances, performance-based payments, and progress payments. In accordance with industry practice, unbilled accounts receivable and inventoried costs are classified as current assets and include amounts related to contracts having production cycles longer than one year. Payments received in excess of inventoried costs and unbilled accounts receivable amounts on a contract by contract basis are recorded as advance payments and amounts in excess of costs incurred in the consolidated statements of financial position.

Property, Plant and Equipment

Property, plant and equipment are depreciated over the estimated useful lives of individual assets. Most of these assets are depreciated using declining-balance methods, with the remainder using the straight-line method. Major classes of property, plant and equipment and their useful lives are as follows:

<i>Useful life in years, \$ in millions</i>	Useful Life	December 31	
		2014	2013
Land and land improvements	Up to 40 ⁽¹⁾	\$ 373	\$ 373
Buildings and improvements	Up to 45	1,589	1,450
Machinery and other equipment	Up to 20	4,401	4,243
Capitalized software costs	3-5	428	418
Leasehold improvements	Length of Lease ⁽¹⁾	811	659
Property, plant and equipment, at cost		7,602	7,143
Accumulated depreciation		(4,611)	(4,337)
Property, plant and equipment, net		\$ 2,991	\$ 2,806

(1) Land is not a depreciable asset. Leasehold improvements are depreciated over the shorter of the useful life of the asset or the length of the lease.

Leases

The company uses its incremental borrowing rate in the assessment of lease classification as capital or operating and defines the initial lease term to include renewal options determined to be reasonably assured. The majority of our leases are operating leases.

Many of the company's real property lease agreements contain incentives for tenant improvements, rent holidays, or rent escalation clauses. For tenant improvement incentives, the company records a deferred rent liability and amortizes the deferred rent over the term of the lease as a reduction to rent expense. For rent holidays and rent escalation clauses during the lease term, the company records rental expenses on a straight-line basis over the term of the lease. For purposes of recognizing lease incentives, the company uses the date of initial possession as the commencement date, which is generally when the company is given the right of access to the space and begins to make improvements in preparation of intended use.

Goodwill and Other Purchased Intangible Assets

The company tests for impairment of goodwill annually as of December 31, or when we believe a potential impairment exists. When performing the goodwill impairment test, the company uses a discounted cash flow approach corroborated by comparative market multiples, where appropriate, to determine the fair value of its businesses. Goodwill and other purchased intangible asset balances are included in the identifiable assets of their assigned business segment. The company charges goodwill impairment, as well as the amortization of other purchased intangible assets, against the respective segment's operating income. Purchased intangible assets are amortized on a straight-line basis over their estimated useful lives.

Cash Surrender Value of Life Insurance Policies

The company maintains whole life insurance policies on a group of executives, which are recorded at their cash surrender value as determined by the insurance carrier. The company also has split-dollar life insurance policies on former officers and executives from acquired businesses, which are recorded at the lesser of their cash surrender value or premiums paid. These policies are utilized as a partial funding source for deferred compensation and other non-qualified employee retirement plans. As of December 31, 2014 and 2013, the carrying values associated with these policies are \$290 million and \$287 million, respectively, and are recorded in other non-current assets in the consolidated statements of financial position.

Litigation, Commitments and Contingencies

Amounts associated with litigation, commitments and contingencies are recorded as charges to earnings when management, after considering the facts and circumstances of each matter as then known to management, has determined it is probable a liability will be found to have been incurred and the amount of the loss can be reasonably estimated. When only a range of amounts is established and no amount within the range is more likely than another, the low end of the range is recorded. Legal fees are expensed as incurred. Due to the inherent uncertainties surrounding gain contingencies, we generally do not recognize potential gains until realized.

Retirement Benefits

The company sponsors various defined benefit pension plans and defined contribution retirement plans covering substantially all of its employees. The company also provides post-retirement benefits other than pensions, consisting principally of health care and life insurance benefits, to eligible retirees and qualifying dependents. In most cases, our defined contribution plans provide for a cash matching of employee contributions up to four percent of compensation.

The liabilities, unamortized benefit plan costs and annual income or expense of the company's defined benefit pension and other post-retirement benefit plans are determined using methodologies that involve several actuarial assumptions. Unamortized benefit plan costs consist primarily of accumulated net after-tax actuarial losses.

Because U.S. Government regulations require that the costs of pension and other post-retirement plans be charged to our contracts in accordance with the Federal Acquisition Regulation (FAR) and the related U.S. Government Cost Accounting Standards (CAS) that govern such plans, we calculate retiree benefit plan costs under both CAS and FAS (GAAP Financial Accounting Standards) methods. While both FAS and CAS recognize a normal service cost component in measuring periodic pension cost, there are differences in the way the remaining components of annual pension costs are calculated under each method. Measuring plan obligations under FAS and CAS includes different assumptions and models, such as in estimating earnings on plan assets and calculating interest expense. In addition, the periods over which gains/losses related to pension assets and actuarial changes are amortized are different under FAS and CAS. As a result, annual retiree benefit plan expense amounts for FAS are different from the amounts for CAS even though the ultimate cost of providing benefits is the same under either method. CAS retiree benefit plan costs are charged to contracts and are included in segment operating income, and the difference between CAS and FAS expense is recorded in operating income at the consolidated company level.

Net actuarial gains or losses are amortized to expense on a plan-by-plan basis when they exceed the accounting corridor. The accounting corridor is a defined range within which amortization of net gains and losses is not required and is equal to 10 percent of the greater of plan assets or benefit obligations. Gains or losses outside of the corridor are subject to amortization over our average employee future service period of approximately nine years. Not all net periodic pension expense is recognized in net earnings in the year incurred because it is allocated as production costs and a portion remains in inventory at the end of a reporting period. The company's funding policy for the qualified pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust.

Stock Compensation

The company's stock compensation plans are classified as equity plans and compensation expense is recognized over the vesting period (generally three years), net of estimated forfeitures. The company issues stock awards in the form of restricted performance stock rights and restricted stock rights under its existing plans. The fair value of stock awards is determined based on the closing market price of the company's common stock on the grant date. At each reporting date, the number of shares is adjusted to equal the number ultimately expected to vest.

Accounting Standards Updates

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing revenue recognition guidance, including Accounting Standards Codification (ASC) No. 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts. ASU 2014-09 outlines a single set of comprehensive principles for

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recognizing revenue under U.S. GAAP. Among other things, it requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time. These concepts, as well as other aspects of ASU 2014-09, may change the method and/or timing of revenue recognition for certain of our contracts. ASU 2014-09 will be effective January 1, 2017, and may be applied either retrospectively or through the use of a modified-retrospective method. We are currently evaluating both methods of adoption as well as the effect ASU 2014-09 will have on the company's consolidated financial position, annual results of operations and/or cash flows.

Other accounting standards updates effective after December 31, 2014, are not expected to have a material effect on the company's financial position, annual results of operations and/or cash flows.

Reclassifications

Our consolidated statements of cash flows for 2014 and 2013 reflect cash flows from operating activities presented solely on the indirect method. The company previously presented both the direct method and indirect method for our cash flows from operating activities. This change in reporting method had no effect on the amount of our net cash flows from operating activities.

In the first quarter of 2014, we reclassified our cash awards incentive compensation accrual from other current liabilities to accrued employee compensation, which are both reported within current liabilities on the consolidated statement of financial position. The reclassification reduced other current liabilities and increased accrued employee compensation by \$226 million and \$277 million, as of December 31, 2014 and 2013, respectively.

Shareholders' Equity

The company records the difference between the cost of shares repurchased and their par value as a reduction of paid-in capital to the extent of its balance and then as a reduction of retained earnings.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

<i>\$ in millions</i>	December 31	
	2014	2013
Unamortized benefit plan costs, net of tax benefit of \$3,395 in 2014 and \$1,972 in 2013	\$ (5,316)	\$ (3,000)
Cumulative translation adjustment	(41)	18
Net unrealized gain (loss) on marketable securities and cash flow hedges, net of tax	1	(2)
Total accumulated other comprehensive loss	\$ (5,356)	\$ (2,984)

Unamortized benefit plan costs consist primarily of net after-tax actuarial losses totaling \$5.6 billion and \$3.3 billion as of December 31, 2014 and 2013, respectively. Net actuarial gains or losses are re-determined annually or upon remeasurement events and principally arise from changes in the rate used to discount our benefit obligations and differences between expected and actual returns on plan assets.

Reclassifications from accumulated other comprehensive income to net earnings related to the amortization of benefit plan costs were \$145 million, \$319 million and \$204 million, net of taxes, for the years ended December 31, 2014, 2013 and 2012, respectively. The reclassifications represent the amortization of net actuarial losses and prior service credits for the company's retirement benefit plans, and are included in the computation of net periodic pension cost (See Note 12 for further information).

Reclassifications from accumulated other comprehensive income to net earnings, relating to cumulative translation adjustments, marketable securities and effective cash flow hedges for the years ended December 31, 2014, 2013 and 2012, respectively, were not material. Reclassifications for cumulative translation adjustments and marketable securities are recorded in other income, and reclassifications for effective cash flow hedges are recorded in operating income.

2. EARNINGS PER SHARE, SHARE REPURCHASES AND DIVIDENDS ON COMMON STOCK

Basic Earnings Per Share

We calculate basic earnings per share by dividing net earnings by the weighted-average number of shares of common stock outstanding during each period.

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Diluted Earnings Per Share

Diluted earnings per share includes the dilutive effect of awards granted to employees under stock-based compensation plans. The dilutive effect of these securities totaled 3.3 million, 4.3 million and 4.8 million shares for the years ended December 31, 2014, 2013 and 2012, respectively. We had no anti-dilutive stock options outstanding for the years ended December 31, 2014 and 2013, respectively. The weighted-average diluted shares outstanding for the year ended December 31, 2012, excludes stock options to purchase 1.8 million shares because such options had exercise prices in excess of the average market price of the company's common stock during the year.

Share Repurchases

The table below summarizes the company's share repurchases:

Repurchase Program Authorization Date	Amount Authorized (in millions)	Total Shares Retired (in millions)	Average Price Per Share ⁽³⁾	Date Completed	Shares Repurchased (in millions)		
					Year Ended December 31		
					2014	2013	2012
June 16, 2010	\$ 5,350	83.7	\$ 63.86	September 2013	—	18.6	20.9
May 15, 2013 ⁽¹⁾	\$ 4,000	30.1	\$ 118.30		21.4	8.7	—
December 4, 2014 ⁽²⁾	\$ 3,000	—	\$ —		—	—	—
					21.4	27.3	20.9

- (1) On May 15, 2013, the company's board of directors authorized a share repurchase program of up to \$4.0 billion of the company's common stock ("2013 Repurchase Program"). Repurchases under the 2013 Repurchase Program commenced in September 2013. As of December 31, 2014, repurchases under the 2013 Repurchase Program totaled \$3.6 billion; \$447 million remained under this share repurchase authorization. By its terms, the 2013 Repurchase Program will expire when we have used all authorized funds for repurchases.
- (2) On December 4, 2014, the company's board of directors authorized a new share repurchase program of up to an additional \$3.0 billion of the company's common stock ("2014 Repurchase Program"). By its terms, repurchases under the 2014 Repurchase Program will commence upon completion of the 2013 Repurchase Program and will expire when we have used all authorized funds for repurchases.
- (3) Includes commissions paid.

Share repurchases take place from time to time, subject to market conditions and management's discretion, in the open market or in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

Dividends on Common Stock

In May 2014, the company increased the quarterly common stock dividend 15 percent to \$0.70 per share from the previous amount of \$0.61 per share.

In May 2013, the company increased the quarterly common stock dividend 11 percent to \$0.61 per share from the previous amount of \$0.55 per share.

In May 2012, the company increased the quarterly common stock dividend 10 percent to \$0.55 per share from the previous amount of \$0.50 per share.

3. SEGMENT INFORMATION

The company is aligned into four segments: Aerospace Systems, Electronic Systems, Information Systems and Technical Services. The company, from time to time, acquires or disposes of businesses and realigns contracts, programs or business areas among and within our segments. Portfolio shaping and internal realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services.

U.S. Government Sales

Sales to the U.S. Government include sales from contracts for which Northrop Grumman is the prime contractor, as well as those for which the company is a subcontractor and the ultimate customer is the U.S. Government. Each of the company's segments derives substantial revenue from the U.S. Government.

Sales to the U.S. Government amounted to

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\$20.1 billion, \$21.3 billion and \$22.3 billion, or 84 percent, 86 percent and 88 percent, of total sales for the years ended December 31, 2014, 2013 and 2012, respectively.

International Sales

International sales (which include foreign military sales) amounted to \$3.0 billion, \$2.5 billion and \$2.1 billion, or 13 percent, 10 percent and 8 percent, of total sales for the years ended December 31, 2014, 2013 and 2012, respectively.

Assets

Substantially all of the company's operating assets are located or maintained in the U.S.

Results of Operations By Segment

The following table presents sales and operating income by segment:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Sales			
Aerospace Systems	\$ 9,997	\$ 10,014	\$ 9,977
Electronic Systems	6,951	7,149	6,950
Information Systems	6,222	6,596	7,356
Technical Services	2,799	2,843	3,019
Intersegment eliminations	(1,990)	(1,941)	(2,084)
Total sales	23,979	24,661	25,218
Operating income			
Aerospace Systems	1,315	1,215	1,218
Electronic Systems	1,148	1,226	1,187
Information Systems	611	633	761
Technical Services	261	262	268
Intersegment eliminations	(236)	(256)	(258)
Total segment operating income	3,099	3,080	3,176
Reconciliation to operating income:			
Net FAS/CAS pension adjustment	269	168	132
Unallocated corporate expenses	(169)	(119)	(168)
Other	(3)	(6)	(10)
Total operating income	\$ 3,196	\$ 3,123	\$ 3,130

Net FAS/CAS Pension Adjustment

The net FAS/CAS pension adjustment reflects the difference between pension expense charged to contracts and included as cost in segment operating income and pension expense determined in accordance with GAAP.

2014 - The increase in net FAS/CAS pension adjustment is principally due to a reduction in FAS expense, largely due to the increase in our FAS discount rate assumptions as of December 31, 2013. The reduction in FAS expense was partially offset by lower CAS expense due to the passage of the Highway and Transportation Funding Act of 2014 (HATFA), which included provisions that reduce the amount of CAS expense charged to our contracts in 2014.

2013 - The increase in net FAS/CAS pension adjustment reflects an update for actual demographic experience as of January 1, 2013, which resulted in an increase to the company's 2013 CAS expense.

Unallocated Corporate Expenses

Unallocated corporate expenses include the portion of corporate expenses not considered allowable or allocable under applicable CAS regulations and the FAR, and are therefore not allocated to the segments. Such costs consist of a portion of management and administration, legal, environmental, compensation costs, retiree benefits, and certain unallowable costs such as lobbying activities, among others.

2014 - The increase in unallocated corporate expense for 2014, as compared to 2013, is primarily due to increases in year-over-year provisions for environmental matters.

2013 - The decrease in unallocated corporate expenses for 2013, as compared to 2012, is primarily due to lower year-over-year provisions for disallowed costs and litigation matters and the favorable settlement of overhead claims, partially offset by changes in deferred tax assets due to lower blended state income tax rates.

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Intersegment Sales and Operating Income

Sales between segments are recorded at values that include hypothetical operating income for the performing segment based on that segment's estimated operating margin rate for external sales. Such hypothetical operating income is eliminated in consolidation. Intersegment sales and operating income before eliminations were as follows:

<i>\$ in millions</i>	Year Ended December 31					
	2014		2013		2012	
	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income
Intersegment sales and operating income						
Aerospace Systems	\$ 176	\$ 22	\$ 149	\$ 18	\$ 171	\$ 20
Electronic Systems	637	109	629	125	607	110
Information Systems	537	57	504	63	682	78
Technical Services	640	48	659	50	624	50
Total	\$ 1,990	\$ 236	\$ 1,941	\$ 256	\$ 2,084	\$ 258

Other Financial Information

The following tables represent assets, capital expenditures and depreciation and amortization by segment:

<i>\$ in millions</i>	December 31	
	2014	2013
Assets		
Aerospace Systems	\$ 6,844	\$ 6,490
Electronic Systems	4,366	4,400
Information Systems	6,725	6,887
Technical Services	1,539	1,367
Segment assets	19,474	19,144
Corporate assets ⁽¹⁾	7,098	7,237
Total assets	\$ 26,572	\$ 26,381

(1) Corporate assets principally consist of cash and cash equivalents and deferred tax assets.

<i>\$ in millions</i>	Capital Expenditures			Depreciation and Amortization ⁽¹⁾		
	2014	2013	2012	2014	2013	2012
Aerospace Systems	\$ 387	\$ 198	\$ 154	\$ 206	\$ 210	\$ 196
Electronic Systems	82	76	84	119	134	139
Information Systems	40	27	40	70	81	100
Technical Services	1	3	3	7	4	4
Corporate	51	60	50	60	66	71
Total	\$ 561	\$ 364	\$ 331	\$ 462	\$ 495	\$ 510

(1) Depreciation and amortization expense includes amortization of purchased intangible assets, as well as amortization of deferred and other outsourcing costs.

4. ACCOUNTS RECEIVABLE, NET

Unbilled amounts represent sales for which billings have not been presented to customers by period-end. These amounts are usually billed and collected within one year. Substantially all accounts receivable at December 31, 2014, are expected to be collected in 2015. The company does not believe it has significant exposure to credit risk, as accounts receivable and the related unbilled amounts are primarily from contracts where the U.S. Government is the primary customer.

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Accounts receivable consisted of the following:

<i>\$ in millions</i>	December 31	
	2014	2013
Due from U.S. Government		
Billed	\$ 536	\$ 596
Unbilled	6,806	5,801
Progress and performance-based payments received	(5,150)	(4,385)
	2,192	2,012
Due from Other Customers⁽¹⁾		
Billed	283	296
Unbilled	3,461	2,830
Progress and performance-based payments received	(3,062)	(2,384)
	682	742
Total accounts receivable	2,874	2,754
Allowance for doubtful accounts	(68)	(69)
Total accounts receivable, net	\$ 2,806	\$ 2,685

(1) Includes receivables due from the U.S. Government associated with foreign military sales.

5. INVENTORIED COSTS, NET

Inventoried costs consisted of the following:

<i>\$ in millions</i>	December 31	
	2014	2013
Production costs of contracts in process	\$ 1,257	\$ 1,342
General and administrative expenses	252	259
	1,509	1,601
Progress and performance-based payments received	(873)	(1,005)
	636	596
Product inventory	106	102
Total inventoried costs, net	\$ 742	\$ 698

6. INCOME TAXES

Federal and foreign income tax expense consisted of the following:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Income Taxes			
Currently payable			
Federal income taxes	\$ 701	\$ 803	\$ 912
Foreign income taxes	10	28	15
Total federal and foreign income taxes currently payable	711	831	927
Deferred federal and foreign income taxes	157	80	60
Total federal and foreign income taxes	\$ 868	\$ 911	\$ 987

Earnings from foreign operations before income taxes are not material for all periods presented.

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Income tax expense differs from the amount computed by multiplying the statutory federal income tax rate times earnings before income taxes due to the following:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Income tax expense at statutory rate	\$ 1,028	\$ 1,002	\$ 1,038
Settlements with taxing authorities	(51)	—	—
Manufacturing deduction	(48)	(63)	(42)
Research tax credit	(43)	(37)	—
Other, net	(18)	9	(9)
Total federal and foreign income taxes	\$ 868	\$ 911	\$ 987

2014 – The effective tax rate for 2014 was 29.6 percent, as compared with 31.8 percent in 2013. The company's lower effective tax rate for 2014 reflects a \$51 million benefit for the partial resolution of its 2007-2009 Internal Revenue Service (IRS) examination.

2013 – The effective tax rate for 2013 was 31.8 percent, as compared with 33.3 percent in 2012. The company's lower effective tax rate for 2013 includes a \$37 million benefit for the American Taxpayer Relief Act, enacted in January 2013, which reinstated research tax credits for 2012 and 2013, and a \$21 million benefit for higher section 199 manufacturing deductions than in prior year.

Income tax payments, net of refunds received, were \$727 million, \$880 million and \$1.1 billion for the years ended December 31, 2014, 2013 and 2012, respectively.

Uncertain Tax Positions

The company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. In the first quarter of 2014, the U.S. Congressional Joint Committee on Taxation approved a partial resolution of the IRS examination of the company's 2007-2009 tax returns. As a result, the company recorded a reduction of income tax expense of \$51 million. The company also reduced its unrecognized tax benefits by \$59 million and related accrued interest by \$12 million. During the fourth quarter of 2014, the company filed appeals with the IRS for the unresolved 2007-2009 tax return matters and for unresolved 2010-2011 examination matters.

The company believes it is reasonably possible that during the next twelve months, we will resolve the remaining matters on our 2007-2011 tax returns. The combined resolution of these items, excluding interest, could result in a reduction in our unrecognized tax benefits up to \$75 million and a reduction of our income tax expense up to \$40 million. Open tax years related to state and foreign jurisdictions remain subject to examination, but are not considered material.

The change in unrecognized tax benefits during 2014, 2013 and 2012, excluding interest, is as follows:

<i>\$ in millions</i>	December 31		
	2014	2013	2012
Unrecognized tax benefits at beginning of the year	\$ 241	\$ 156	\$ 118
Additions based on tax positions related to the current year	62	56	12
Additions for tax positions of prior years	9	44	28
Settlements with taxing authorities	(61)	(1)	(1)
Other, net	(41)	(14)	(1)
Net change in unrecognized tax benefits	(31)	85	38
Unrecognized tax benefits at end of the year	\$ 210	\$ 241	\$ 156

These liabilities, along with \$25 million of accrued interest and penalties, are included in other current and non-current liabilities in the consolidated statements of financial position. If the income tax benefits from these tax positions are ultimately realized, \$145 million of federal and foreign tax benefits would reduce the company's effective tax rate.

Net interest expense within the company's federal, foreign and state income tax provisions was not material for all years presented.

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Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax purposes. Such amounts are classified in the consolidated statements of financial position as current or non-current assets or liabilities, based upon the classification of the related assets and liabilities.

The tax effects of significant temporary differences and carryforwards that gave rise to year-end deferred federal, state and foreign tax balances, as presented in the consolidated statements of financial position, are as follows:

<i>\$ in millions</i>	December 31	
	2014	2013
Deferred Tax Assets		
Retiree benefits	\$ 2,745	\$ 1,308
Accrued employee compensation	311	333
Provisions for accrued liabilities	392	313
Stock-based compensation	91	109
Other	104	144
Gross deferred tax assets	3,643	2,207
Less valuation allowance	(53)	(55)
Net deferred tax assets	3,590	2,152
Deferred Tax Liabilities		
Goodwill	787	806
Property, plant and equipment, net	315	348
Contract accounting differences	332	134
Other	130	50
Gross deferred tax liabilities	1,564	1,338
Total net deferred tax assets	\$ 2,026	\$ 814

Realization of deferred tax assets is primarily dependent on generating sufficient taxable income in future periods. The company believes it is more-likely-than-not all deferred tax assets will be realized, net of any valuation allowances currently established.

At December 31, 2014, the company has available unused net operating losses of \$211 million that may be applied against future taxable income, primarily in the United Kingdom, that may be used indefinitely. A valuation allowance of \$53 million has been recorded against certain deferred tax assets due to the uncertainty of the realization of these net operating losses and other deferred tax assets, principally in foreign jurisdictions.

Undistributed Foreign Earnings

As of December 31, 2014, the company has accumulated undistributed earnings generated by its foreign subsidiaries. No deferred tax liability has been recorded on these earnings since the company intends to permanently reinvest these earnings. Should these earnings be distributed in the form of dividends or otherwise, the distributions would be subject to U.S. federal income tax at the statutory rate of 35 percent, less foreign tax credits available to offset such distributions, if any. In addition, such distributions may be subject to withholding taxes in the various tax jurisdictions.

7. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

Goodwill and other purchased intangible assets are included in the identifiable assets of the segment to which the operations of the acquired entity have been assigned. Accumulated goodwill impairment losses at December 31, 2014 and 2013, totaled \$570 million at the Aerospace Systems segment.

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Changes in the carrying amounts of goodwill for the years ended December 31, 2014 and 2013, were as follows:

<i>\$ in millions</i>	Aerospace Systems	Electronic Systems	Information Systems	Technical Services	Total
Balance as of December 31, 2012	\$ 3,758	\$ 2,410	\$ 5,287	\$ 976	\$ 12,431
Businesses acquired and other ⁽¹⁾	—	—	7	—	7
Balance as of December 31, 2013	\$ 3,758	\$ 2,410	\$ 5,294	\$ 976	\$ 12,438
Businesses acquired and other ⁽¹⁾	—	—	(8)	36	28
Balance as of December 31, 2014	\$ 3,758	\$ 2,410	\$ 5,286	\$ 1,012	\$ 12,466

(1) Other consists primarily of adjustments for foreign currency translation.

Purchased Intangible Assets

Net contract, program, and other intangible assets comprise the following:

<i>\$ in millions</i>	December 31	
	2014	2013
Gross contract, program and other intangible assets	\$ 1,831	\$ 1,812
Less accumulated amortization	(1,730)	(1,708)
Net contract, program and other intangible assets	\$ 101	\$ 104

Amortization expense for 2014, 2013 and 2012, was \$22 million, \$26 million and \$36 million, respectively. The company's purchased intangible assets are being amortized on a straight-line basis over an aggregate weighted-average period of 21 years and are included in other non-current assets in the consolidated statements of financial position. As of December 31, 2014, the expected future amortization of purchased intangibles for each of the next five years is as follows:

<i>\$ in millions</i>	
Year Ending December 31	
2015	\$ 22
2016	16
2017	14
2018	12
2019	10

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents comparative carrying value and fair value information for our financial assets and liabilities:

<i>\$ in millions</i>	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets (Liabilities)				
Marketable securities				
Trading	\$ 331	\$ 331	\$ 308	\$ 308
Available-for-sale	5	5	2	2
Derivatives	1	1	(2)	(2)
Long-term debt, including current portion	(5,928)	(6,726)	(5,930)	(6,227)

There were no transfers of financial instruments between the three levels of the fair value hierarchy during the years ended December 31, 2014 and 2013.

The carrying value of cash and cash equivalents approximates fair value.

Investments in Marketable Securities

The company holds a portfolio of marketable securities to partially fund non-qualified employee benefit plans consisting of securities that are classified as either trading or available-for-sale. These assets are recorded at fair value on a recurring basis and substantially all of these instruments are valued using Level 1 inputs, with an immaterial amount valued using Level 2 inputs. As of December 31, 2014 and 2013, marketable securities of \$336 million and \$310 million, respectively, were included in other non-current assets in the consolidated statements of financial position.

Derivative Financial Instruments and Hedging Activities

The company's derivative portfolio consists primarily of foreign currency forward contracts. The notional value of the company's derivative portfolio at December 31, 2014 and 2013, was \$146 million and \$161 million, respectively. The portion of the notional value designated as cash flow hedges at December 31, 2014 and 2013, was \$34 million and \$77 million, respectively.

Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value on a recurring basis. Substantially all of these instruments are valued using Level 2 inputs. Where model-derived valuations are appropriate, the company utilizes the income approach to determine the fair value and uses the applicable London Interbank Offered Rate (LIBOR) swap rates.

Unrealized gains or losses on the effective portion of cash flow hedges are reclassified from other comprehensive income to operating income upon the recognition of the underlying hedged transaction. Hedge contracts not designated for hedge accounting and the ineffective portion of cash flow hedges are recorded in other income. The derivative fair values and related unrealized gains/losses at December 31, 2014 and 2013, were not material.

Long-Term Debt

The fair value of long-term debt is calculated using Level 2 inputs, based on interest rates available for debt with terms and maturities similar to the company's existing debt arrangements.

9. LONG-TERM DEBT

Credit Facility

The company maintains an unsecured credit facility in an aggregate principal amount of \$1.775 billion (the Credit Agreement). The Credit Agreement contains customary terms and conditions, including covenants restricting the company's ability to sell all or substantially all of its assets, merge or consolidate with another entity or undertake other fundamental changes and incur liens. The company also cannot permit the ratio of its debt to capitalization (as set forth in the Credit Agreement) to exceed 65 percent. At December 31, 2014, the company was in compliance with all covenants under the Credit Agreement and there was no balance outstanding under this facility.

Issuance and Redemption

During the second quarter of 2013, the company issued \$2.85 billion of unsecured senior notes (the Notes). The company used a portion of the net proceeds to redeem \$850 million of unsecured senior notes due in 2014 and 2015.

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Long-term debt consists of the following:

<i>\$ in millions</i>		December 31	
		2014	2013
Fixed-rate notes and debentures, maturing in	Interest rate		
2016	7.75%	107	107
2018	1.75% - 6.75%	1,050	1,050
2019	5.05%	500	500
2021	3.50%	700	700
2023	3.25%	1,050	1,050
2026	7.75% - 7.88%	527	527
2031	7.75%	466	466
2040	5.05%	300	300
2043	4.75%	950	950
Capital leases	Various	33	35
Other	Various	245	245
Total long-term debt		5,928	5,930
Less: current portion		3	2
Long-term debt, net of current portion		\$ 5,925	\$ 5,928

Indentures underlying long-term debt issued by the company or its subsidiaries contain various restrictions with respect to the issuer, including one or more restrictions relating to limitations on liens, sale-leaseback arrangements and funded debt of subsidiaries. The majority of these fixed rate notes and debentures are subject to redemption at the company's discretion at any time prior to maturity in whole or in part at the principal amount plus any make-whole premium and accrued and unpaid interest. Interest on these fixed rate notes and debentures are payable semi-annually in arrears.

Total interest payments, net of interest received, were \$281 million, \$234 million, and \$200 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Maturities of long-term debt as of December 31, 2014, are as follows:

<i>\$ in millions</i>	
Year Ending December 31	
2015	\$ 3
2016	110
2017	3
2018	1,053
2019	504
Thereafter	4,252
Total principal payments	5,925
Unamortized premium on long-term debt, net of discount	3
Total long-term debt	\$ 5,928

The premium on long-term debt primarily represents non-cash fair market value adjustments resulting from acquisitions, which are amortized over the life of the related debt.

10. INVESTIGATIONS, CLAIMS AND LITIGATION

Litigation

On May 4, 2012, the company commenced an action, *Northrop Grumman Systems Corp. v. United States*, in the U.S. Court of Federal Claims. This lawsuit relates to an approximately \$875 million firm fixed price contract awarded to the company in 2007 by the U.S. Postal Service (USPS) for the construction and delivery of flats sequencing systems (FSS) as part of the postal automation program. The FSS have been delivered. The company's lawsuit is based on various theories of liability. The complaint seeks approximately \$63 million for unpaid portions

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of the contract price, and approximately \$115 million based on the company's assertions that, through various acts and omissions over the life of the contract, the USPS adversely affected the cost and schedule of performance and materially altered the company's obligations under the contract. The United States responded to the company's complaint with an answer, denying most of the company's claims, and counterclaims, seeking approximately \$410 million, less certain amounts outstanding under the contract. The principal counterclaim alleges that the company delayed its performance and caused damages to the USPS because USPS did not realize certain costs savings as early as it had expected. On April 2, 2013, the U.S. Department of Justice informed the company of a False Claims Act complaint relating to the FSS contract that was filed under seal by a relator in June 2011, in the U.S. District Court for the Eastern District of Virginia. On June 3, 2013, the United States filed a Notice informing the Court that the United States had decided not to intervene in this case. The relator alleged that the company violated the False Claims Act in a number of ways with respect to the FSS contract, alleged damage to the USPS in an amount of at least approximately \$179 million annually, alleged that he was improperly discharged in retaliation, and sought an unspecified partial refund of the contract purchase price, penalties, attorney's fees and other costs of suit. The relator later voluntarily dismissed his retaliation claim and reasserted it in a separate arbitration, which he also ultimately voluntarily dismissed. On September 5, 2014, the court granted the company's motion for summary judgment and ordered the relator's False Claims Act case be dismissed with prejudice. On December 19, 2014, the company filed a motion for partial summary judgment asking the court to dismiss the principal counterclaim referenced above. Although the ultimate outcome of these matters ("the FSS matters," collectively), including any possible loss, cannot be predicted or estimated at this time, the company intends vigorously to pursue and defend the FSS matters.

On August 8, 2013, the company received a court-appointed expert's report in litigation pending in the Second Federal Court of the Federal District in Brazil brought by the Brazilian Post and Telegraph Corporation (ECT) a Brazilian state-owned entity, against Solystic SAS (Solystic), a French subsidiary of the company, and two of its consortium partners. In this suit, commenced on December 17, 2004, and relatively inactive for some period of time, ECT alleges the consortium breached its contract with ECT and seeks damages of approximately R\$111 million (the equivalent of approximately \$42 million as of December 31, 2014), plus interest, inflation adjustments and attorneys' fees, as authorized by Brazilian law, which amounts could be significant over time. The original suit sought R\$89 million (the equivalent of approximately \$34 million as of December 31, 2014) in damages. In October 2013, ECT asserted an additional damage claim of R\$22 million (the equivalent of approximately \$8 million as of December 31, 2014). In its counterclaim, Solystic alleges ECT breached the contract by wrongfully refusing to accept the equipment Solystic had designed and built and seeks damages of approximately €31 million (the equivalent of approximately \$38 million as of December 31, 2014), plus interest, inflation adjustments and attorneys' fees, as authorized by Brazilian law. The Brazilian court retained an expert to consider certain issues pending before it. On August 8, 2013 and September 10, 2014, the company received reports from the expert, which contain some recommended findings relating to liability and the damages calculations put forth by ECT. Some of the expert's recommended findings were favorable to the company and others were favorable to ECT. In November 2014, the parties submitted comments on the expert's most recent report. At yet to be specified future dates, the court is expected to hear testimony from witnesses and to issue a decision on the parties' claims and counterclaims that could accept or reject, in whole or in part, the expert's recommended findings.

The company is one of several defendants in litigation brought by the Orange County Water District in Orange County Superior Court in California on December 17, 2004, for alleged contribution to volatile organic chemical contamination of the County's shallow groundwater. The lawsuit includes counts against the defendants for violation of the Orange County Water District Act, the California Super Fund Act, negligence, nuisance, trespass and declaratory relief. Among other things, the lawsuit seeks unspecified damages for the cost of remediation, payment of attorney fees and costs, and punitive damages. Trial on the statutory claims (those based on the Orange County Water District Act, the California Super Fund Act and declaratory relief) concluded on September 25, 2012. On October 29, 2013, the court issued its decision in favor of the defendants on the statutory claims. On May 9, 2014, the court granted defendants' dispositive motions on the remaining tort causes of action. Notice of entry of judgment was filed on July 1, 2014. The Orange County Water District filed a notice of appeal on August 28, 2014. Pursuant to the court's rules, Orange County Water District's opening brief will be due in early March, unless the court directs otherwise.

The company is a party to various investigations, lawsuits, claims and other legal proceedings, including government investigations and claims, that arise in the ordinary course of our business. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. However, based on information available to the company to date, and other than with respect to the FSS matters discussed separately above, the company does not believe that the outcome of any matter pending against the company is likely to have a material

adverse effect on the company's consolidated financial position as of December 31, 2014, or its annual results of operations or cash flows.

11. COMMITMENTS AND CONTINGENCIES

Guarantees of Subsidiary Performance Obligations

From time to time in the ordinary course of business, the company guarantees obligations of its subsidiaries under certain contracts. Generally, the company is liable under such an arrangement only if its subsidiary is unable to perform under its contract. Historically, the company has not incurred any substantial liabilities resulting from these guarantees.

In addition, the company's subsidiaries may enter into joint ventures, teaming and other business arrangements (collectively, Business Arrangements) to support the company's products and services in domestic and international markets. The company generally strives to limit its exposure under these arrangements to its subsidiary's investment in the Business Arrangements or to the extent of such subsidiary's obligations under the applicable contract. In some cases, however, the company may be required to guarantee performance by the Business Arrangements and, in such cases, the company generally strives to obtain cross-indemnification from the other members of the Business Arrangements.

At December 31, 2014, the company is not aware of any existing event of default that would require it to satisfy any of these guarantees.

U.S. Government Cost Claims

From time to time, the company is advised of claims by the U.S. Government concerning certain potential disallowed costs, plus, at times, penalties and interest. When such findings are presented, the company and the U.S. Government representatives engage in discussions to enable the company to evaluate the merits of these claims, as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect the company's estimated exposure for matters raised by the U.S. Government. Such provisions are reviewed periodically using the most recent information available. The company believes it has adequately reserved for disputed amounts that are probable and estimable, and the outcome of any such matters would not have a material adverse effect on its consolidated financial position as of December 31, 2014, or its annual results of operations and/or cash flows.

Environmental Matters

As of December 31, 2014, management estimates that the range of reasonably possible future costs for environmental remediation is between \$363 million and \$809 million, before considering the amount recoverable through overhead charges on U.S. Government contracts. At December 31, 2014, the amount within that range accrued for probable environmental remediation costs was \$381 million, of which \$142 million is recorded in other current liabilities and \$239 million is recorded in other non-current liabilities. A portion of the environmental remediation costs is expected to be recoverable through overhead charges on U.S. Government contracts and, accordingly, such amounts are deferred in inventoried costs and other non-current assets. As of December 31, 2014, \$75 million is deferred in inventoried costs and \$118 million is deferred in other non-current assets. These amounts are evaluated for recoverability on a routine basis. Although management cannot predict whether new information gained as our environmental remediation projects progress, or as changes in facts and circumstances occur, will materially affect the estimated liability accrued, we do not anticipate future remediation expenditures associated with our currently identified projects will have a material adverse effect on the company's consolidated financial position as of December 31, 2014, or its annual results of operations and/or cash flows.

Financial Arrangements

In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks, and surety bonds issued principally by insurance companies to guarantee the performance on certain obligations. At December 31, 2014, there were \$295 million of stand-by letters of credit and guarantees, and \$163 million of surety bonds outstanding.

Indemnifications

The company has retained certain environmental, income tax and other potential liabilities in connection with certain of its divestitures. The settlement of these liabilities is not expected to have a material adverse effect on the company's consolidated financial position as of December 31, 2014, or its annual results of operations and/or cash flows.

Operating Leases

Rental expense for operating leases was \$304 million in 2014, \$298 million in 2013, and \$347 million in 2012. These amounts are net of immaterial amounts of sublease rental income. Minimum rental commitments under long-term non-cancelable operating leases as of December 31, 2014, are payable as follows:

\$ in millions

Year Ending December 31	
2015	\$ 267
2016	214
2017	140
2018	84
2019	57
Thereafter	78
Total minimum lease payments	\$ 840

12. RETIREMENT BENEFITS**Plan Descriptions**

Defined Benefit Pension Plans – The company sponsors several defined benefit pension plans in the U.S. covering the majority of its employees. Pension benefits for most employees are based on the employee's years of service, age and compensation. It is the policy of the company to fund at least the minimum amount required for all qualified plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into benefit trusts separate from the company.

Defined Contribution Plans – The company also sponsors 401(k) defined contribution plans in which most employees are eligible to participate, including certain employees covered under collective bargaining agreements. Company contributions for most plans are based on a cash matching of employee contributions up to four percent of compensation. In addition to the 401(k) defined contribution benefit, certain employees hired after June 30, 2008, are eligible to participate in a defined contribution program in lieu of a defined benefit pension plan. The company's contributions to these defined contribution plans for the years ended December 31, 2014, 2013 and 2012, were \$282 million, \$285 million and \$293 million, respectively.

Non-U.S. Benefit Plans – The company sponsors several benefit plans for non-U.S. employees. These plans are designed to provide benefits appropriate to local practice and in accordance with local regulations. Some of these plans are funded using benefit trusts that are separate from the company.

Medical and Life Benefits – The company provides a portion of the costs for certain health care and life insurance benefits for a substantial number of its active and retired employees. Certain covered employees achieve eligibility to participate in these plans upon retirement from active service if they meet specified age and years of service requirements. Qualifying dependents are also eligible for plan benefits in certain circumstances. The company reserves the right to amend or terminate the plans at any time. The company has capped the amount of its contributions to substantially all of its remaining post retirement medical and life benefit plans.

In addition to a company and employee cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, conformance to a schedule of reasonable fees, the use of managed care providers and coordination of benefits with other plans. The plans also provide for a Medicare carve-out. Subsequent to January 1, 2005 (or earlier at some segments), newly hired employees are not eligible for subsidized post retirement medical and life benefits.

In the first quarter of 2014, we communicated an amendment to most of our Medicare-eligible retirees, that beginning in the third quarter of 2014, in lieu of the benefits previously provided under the plans, the company will provide subsidies to reimburse retirees for a portion of the cost of individual Medicare-supplemental coverage purchased directly by the retiree through a private insurance exchange. The amendment did not affect Pre-Medicare retirees. We expect that the cost of retiree medical coverage in 2015 will be comparable to 2014.

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Summary Plan Results

The cost to the company of its retirement benefit plans is shown in the following table:

<i>\$ in millions</i>	Year Ended December 31					
	Pension Benefits			Medical and Life Benefits		
	2014	2013	2012	2014	2013	2012
Components of net periodic benefit cost						
Service cost	\$ 457	\$ 516	\$ 522	\$ 34	\$ 36	\$ 34
Interest cost	1,260	1,117	1,184	99	96	109
Expected return on plan assets	(1,871)	(1,809)	(1,708)	(83)	(75)	(68)
Amortization of:						
Prior service credit	(59)	(58)	(58)	(45)	(51)	(51)
Net loss from previous years	327	608	427	13	30	21
Other	1	—	7	—	—	—
Net periodic benefit cost	\$ 115	\$ 374	\$ 374	\$ 18	\$ 36	\$ 45

The table below summarizes the components of changes in unamortized benefit plan costs for the years ended December 31, 2014, 2013 and 2012:

<i>\$ in millions</i>	Pension Benefits		Medical and Life Benefits	Total
Changes in unamortized benefit plan costs				
Change in net actuarial loss	\$ 2,353	\$ 151	\$ 2,504	
Change in prior service cost	(2)	—	(2)	
Amortization of:				
Prior service credit	58	51	109	
Net loss from previous years	(427)	(21)	(448)	
Tax benefit related to above items	(788)	(72)	(860)	
Change in unamortized benefit plan costs – 2012	\$ 1,194	\$ 109	\$ 1,303	
Change in net actuarial loss	\$ (2,158)	\$ (280)	\$ (2,438)	
Amortization of:				
Prior service credit	58	51	109	
Net loss from previous years	(608)	(30)	(638)	
Tax expense related to above items	1,075	102	1,177	
Change in unamortized benefit plan costs – 2013	\$ (1,633)	\$ (157)	\$ (1,790)	
Change in net actuarial loss	\$ 3,833	\$ 234	\$ 4,067	
Change in prior service cost	—	(92)	(92)	
Amortization of:				
Prior service credit	59	45	104	
Net loss from previous years	(327)	(13)	(340)	
Tax benefit related to above items	(1,357)	(66)	(1,423)	
Change in unamortized benefit plan costs – 2014	\$ 2,208	\$ 108	\$ 2,316	

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<i>\$ in millions</i>	Pension Benefits		Medical and Life Benefits	
	2014	2013	2014	2013
Amounts recorded in accumulated other comprehensive loss				
Net actuarial loss	\$ (8,797)	\$ (5,291)	\$ (372)	\$ (151)
Prior service credit	364	423	94	47
Income tax benefits related to above items	3,285	1,928	110	44
Unamortized benefit plan costs	\$ (5,148)	\$ (2,940)	\$ (168)	\$ (60)

The following tables set forth the funded status and amounts recognized in the consolidated statements of financial position for the company's defined benefit pension and retiree health care and life insurance benefit plans. Pension benefits data includes the qualified plans, foreign plans and domestic unfunded non-qualified plans for benefits provided to directors, officers and certain employees. The company uses a December 31 measurement date for its plans.

<i>\$ in millions</i>	Pension Benefits		Medical and Life Benefits	
	2014	2013	2014	2013
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	\$ 25,972	\$ 27,746	\$ 2,224	\$ 2,448
Service cost	457	516	34	36
Interest cost	1,260	1,117	99	96
Participant contributions	19	12	50	77
Plan amendments	—	—	(92)	—
Actuarial (gain) loss	4,273	(2,063)	258	(219)
Benefits paid	(1,409)	(1,365)	(186)	(227)
Other	(47)	9	11	13
Projected benefit obligation at end of year	\$ 30,525	\$ 25,972	\$ 2,398	\$ 2,224

<i>\$ in millions</i>	Pension Benefits		Medical and Life Benefits	
	2014	2013	2014	2013
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 24,098	\$ 22,962	\$ 1,175	\$ 1,062
Net gain on plan assets	2,298	1,907	108	137
Employer contributions	78	579	57	114
Participant contributions	19	12	50	77
Benefits paid	(1,409)	(1,365)	(186)	(227)
Other	(21)	3	12	12
Fair value of plan assets at end of year	25,063	24,098	1,216	1,175
Funded status	\$ (5,462)	\$ (1,874)	\$ (1,182)	\$ (1,049)
Amounts recognized in the Consolidated Statements of Financial Position				
Non-current assets	\$ 3	\$ 117	\$ 80	\$ 72
Current liability	(133)	(122)	(39)	(36)
Non-current liability	(5,332)	(1,869)	(1,223)	(1,085)

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The following table shows those amounts expected to be recognized in net periodic benefit cost in 2015:

<i>\$ in millions</i>	Pension Benefits	Medical and Life Benefits
Amounts expected to be recognized in 2015 net periodic benefit cost		
Net actuarial loss	\$ 682	\$ 27
Prior service credit	(60)	(28)

The accumulated benefit obligation for all defined benefit pension plans was \$30.3 billion and \$25.7 billion at December 31, 2014 and 2013, respectively. Amounts for pension plans with accumulated benefit obligations in excess of fair value of plan assets are as follows:

<i>\$ in millions</i>	December 31	
	2014	2013
Projected benefit obligation	\$ 30,405	\$ 24,129
Accumulated benefit obligation	30,172	23,830
Fair value of plan assets	24,940	22,138

Plan Assumptions

On a weighted-average basis, the following assumptions were used to determine benefit obligations and net periodic benefit cost:

	Pension Benefits		Medical and Life Benefits	
	2014	2013	2014	2013
Assumptions used to determine benefit obligation at December 31				
Discount rate	4.12%	4.99%	4.04%	4.90%
Initial cash balance crediting rate assumed for the next year	2.75%	3.90%		
Rate to which the cash balance crediting rate is assumed to increase (the ultimate rate)	3.50%	4.70%		
Year that the cash balance crediting rate reaches the ultimate rate	2020	2019		
Rate of compensation increase	3.00%	3.00%		
Initial health care cost trend rate assumed for the next year			6.50%	6.50%
Rate to which the health care cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	5.00%
Year that the health care cost trend rate reaches the ultimate trend rate			2019	2017
Assumptions used to determine benefit cost for the year ended December 31				
Discount rate	4.99%	4.12%	4.90%	4.02%
Initial cash balance crediting rate assumed for the next year	3.90%	3.00%		
Rate to which the cash balance crediting rate is assumed to increase (the ultimate rate)	4.70%	4.25%		
Year that the cash balance crediting rate reaches the ultimate rate	2019	2018		
Expected long-term return on plan assets	8.00%	8.00%	7.45%	7.33%
Rate of compensation increase	3.00%	2.75%		
Initial health care cost trend rate assumed for the next year			6.50%	7.00%
Rate to which the health care cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	5.00%
Year that the health care cost trend rate reaches the ultimate trend rate			2017	2017

Plan Assets and Investment Policy

Plan assets are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long term. The investment goal is to exceed the assumed rate of return over the long term within reasonable and prudent levels of risk. Through consultation with our investment management team and outside investment advisers, management develops expected long-term returns for each of the plans' strategic asset classes. In addition to our historical investment performance, we consider several factors, including current market data such as yields/price-earnings ratios, historical market returns over long periods and periodic surveys of investment managers' expectations. Using policy target allocation percentages and the asset class expected returns, a weighted-average expected return is calculated. Liability studies are conducted on a regular basis to provide guidance in setting investment goals with an objective to balance risk. Risk targets are established and monitored against acceptable ranges.

Our investment policies and procedures are designed to ensure the plans' investments are in compliance with ERISA (Employee Retirement Income Security Act). Guidelines are established defining permitted investments within each asset class. Derivatives are used for transitioning assets, asset class rebalancing, managing currency risk and for management of fixed income and alternative investments.

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For the majority of the plans' assets, the investment policies require that the asset allocation be maintained within the following ranges as of December 31, 2014:

	Asset Allocation Ranges
Domestic equities	13% - 33%
International equities	7% - 27%
Fixed income securities	30% - 50%
Alternative investments	10% - 30%

The table below provides the fair values of the company's pension and VEBA trust plan assets at December 31, 2014, and 2013, by asset category. The table also identifies the level of inputs used to determine the fair value of assets in each category (see Note 1 for definition of levels). The significant amount of Level 2 investments in the table results from including in this category investments in pooled funds that contain investments with values based on quoted market prices, but for which the funds are not valued on a quoted market basis, and fixed income securities valued using model-based pricing services.

<i>\$ in millions</i>	Level 1		Level 2		Level 3		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Asset category								
Cash and cash equivalents ⁽¹⁾	\$ 38	\$ 32	\$ 1,737	\$ 1,467			\$ 1,775	\$ 1,499
Domestic equities	4,729	4,163	147	287	\$ 2	\$ 2	4,878	4,452
International equities	2,675	2,473	2,062	1,741			4,737	4,214
Fixed income securities								
U.S. Treasuries			957	1,602			957	1,602
U.S. Government Agency			909	974			909	974
Non-U.S. Government			440	422			440	422
Corporate debt			5,710	4,744			5,710	4,744
Asset backed			604	545	4	4	608	549
High yield debt			586	922	—	1	586	923
Bank loans			228	185			228	185
Alternative Investments								
Hedge funds					632	821	632	821
Private equities					2,030	2,075	2,030	2,075
Real estate					2,759	2,767	2,759	2,767
Other	32	26	(2)	20			30	46
Fair value of plan assets at the end of the year	\$7,474	\$6,694	\$13,378	\$12,909	\$5,427	\$5,670	\$26,279	\$25,273

(1) Cash and cash equivalents are predominantly held in money market funds.

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The changes in the fair value of the pension and VEBA plan trust assets measured using Level 3 significant unobservable inputs during 2014 and 2013, are as follows:

<i>\$ in millions</i>	Hedge funds and High-yield debt	Private equities	Real Estate	Other	Total
Balance as of December 31, 2012	\$ 786	\$ 1,980	\$ 2,256	\$ 6	\$ 5,028
Actual return on plan assets:					
Unrealized (losses) gains, net	(16)	112	262	—	358
Realized gains, net	43	—	—	—	43
Purchases	200	666	763	—	1,629
Sales	(191)	(683)	(514)	—	(1,388)
Balance as of December 31, 2013	\$ 822	\$ 2,075	\$ 2,767	\$ 6	\$ 5,670
Actual return on plan assets:					
Unrealized gains (losses), net	(46)	(60)	173	—	67
Realized gains (losses), net	89	10	71	—	170
Purchases	21	431	61	—	513
Sales	(254)	(426)	(313)	—	(993)
Balance as of December 31, 2014	\$ 632	\$ 2,030	\$ 2,759	\$ 6	\$ 5,427

Generally, investments are valued based on information in financial publications of general circulation, statistical and valuation services, records of security exchanges, appraisal by qualified persons, transactions and bona fide offers. Domestic and international equities consist primarily of common stocks and institutional common trust funds. Investments in common and preferred shares are valued at the last reported sales price of the stock on the last business day of the reporting period. Units in common trust funds and hedge funds are valued based on the redemption price of units owned by the trusts at year-end. Fair value for real estate and private equity partnerships is primarily based on valuation methodologies that include third party appraisals, comparable transactions, discounted cash flow valuation models and public market data.

Non-government fixed income securities are invested across various industry sectors and credit quality ratings. Generally, investment guidelines are written to limit securities, for example, to no more than 5 percent of each trust account, and to exclude the purchase of securities issued by the company. The number of real estate and private equity partnerships is 164 and the unfunded commitments are \$833 million and \$899 million as of December 31, 2014 and 2013, respectively. For alternative investments that cannot be redeemed, such as limited partnerships, the typical investment term is ten years. For alternative investments that permit redemptions, such redemptions are generally made quarterly and require a 90-day notice. The company is generally unable to determine the final redemption date and amount until the request is processed by the investment fund and therefore categorizes such alternative investments as Level 3 assets.

For the years ended December 31, 2014 and 2013, the defined benefit pension and VEBA trusts did not hold any Northrop Grumman common stock.

Benefit Payments

The following table reflects estimated future benefit payments for the next ten years, based upon the same assumptions used to measure the benefit obligation, and includes expected future employee service, as of December 31, 2014:

<i>\$ in millions</i>	Pension Plans	Medical and Life Plans
Year Ending December 31		
2015	\$ 1,395	\$ 154
2016	1,452	158
2017	1,506	161
2018	1,565	164
2019	1,623	166
2020 through 2024	8,975	828

In 2015, the company expects to contribute the required minimum funding level of approximately \$77 million to its pension plans and approximately \$68 million to its other post-retirement benefit plans. The company also expects to make additional voluntary pension contributions of approximately \$500 million in 2015.

13. STOCK COMPENSATION PLANS AND OTHER COMPENSATION ARRANGEMENTS

Stock Compensation Plans

At December 31, 2014, Northrop Grumman had stock-based compensation awards outstanding under the following plans: the 2001 Long-Term Incentive Stock Plan (2001 Plan) and the 2011 Long-Term Incentive Stock Plan (2011 Plan), both applicable to employees, and the 1993 Stock Plan for Non-Employee Directors (1993 SPND) and the 1995 Stock Plan for Non-Employee Directors (1995 SPND), as amended. All of these plans were approved by the company's shareholders. The company has historically issued new shares to satisfy award grants.

Employee Plans – In 2011, the shareholders of the company approved the company's 2011 Plan, which replaced the expired 2001 Plan. The 2011 Plan permits grants to key employees of three general types of stock incentive awards: stock options, stock appreciation rights (SARs) and stock awards. Outstanding stock options granted after January 1, 2008, vest in equal increments over three years from the grant date, and grants outstanding expire seven years after the grant date. No SARs have been granted under either plan. Stock awards in the form of restricted performance stock rights (RPSR) and restricted stock rights (RSR) are granted to key employees without payment to the company. The 2011 Plan also provides equity-based award grants to non-employee directors.

Under the 2011 Plan, the company is authorized to issue or transfer shares of common stock pursuant to the types of awards mentioned above. The 2011 Plan authorized 39.1 million new shares plus 6.9 million shares from the 2001 Plan that were previously authorized and available to be issued at the date the 2001 Plan expired. Under the terms of the 2011 Plan, in the event that outstanding awards under the 2001 Plan expire or terminate without being exercised or paid, as the case may be, such shares (the Forfeited Shares) will become available for award under the 2011 Plan.

Recipients of RPSRs earn shares of stock, based on achievement of financial objectives determined by the board of directors in accordance with the plan. Depending on actual performance against these objectives, recipients earn between 0 and 200 percent of the original grant, as well as dividend equivalents on the ultimate number of shares issued. RPSRs and RSRs issued under either plan generally vest after three years. Termination of employment can result in forfeiture of some or all of the benefits extended. Shares issued under the 2011 Plan, other than for stock options, SARs and the Forfeited Shares, are counted against the 2011 Plan's aggregate share limit as 4.5 shares for every one share actually issued in connection with the award; any shares issued for stock options, SARs and the Forfeited Shares are counted against the 2011 Plan's aggregate share limit on a one-for-one basis.

As of December 31, 2014, 25 million shares are available for grant under the 2011 Plan.

Non-Employee Director Plans – Under the 2011 Plan, each non-employee director must defer a portion of their compensation into a stock unit account (Automatic Stock Units). The Automatic Stock Units accrued under the 2011 Plan and the 1993 SPND are paid out in the form of common stock at the conclusion of the director's board service, or earlier, as specified by the director, if he or she has five or more years of service. In addition, each director may elect to defer payment of all or a portion of his or her remaining cash retainer or committee retainer fees into a stock unit account (Elective Stock Units) or in alternative investment options. The Elective Stock Units are paid at the conclusion of board service or earlier as specified by the director, regardless of years of service. Directors are credited with dividend equivalents in connection with the Automatic and Elective Stock Units until shares of common stock related to such stock units are issued. Since all directors are eligible to receive awards under the 2011 Plan, shares from this plan are available for future director awards following the same share counting limits as described for the employee plans. Awards under the 2011 Plan are made pursuant to the Northrop Grumman Corporation Equity Grant Program for Non-Employee Directors under the 2011 Plan, which sets forth the terms and conditions for the awards of stock units as described above.

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Compensation Expense

Stock-based compensation expense and the related tax benefits for the years ended December 31, 2014, 2013 and 2012, are as follows:

<i>\$ in millions</i>	Year Ended December 31		
	2014	2013	2012
Stock-based compensation expense:			
Stock options	\$ —	\$ 4	\$ 10
Stock awards	134	140	173
Total stock-based compensation expense	134	144	183
Tax benefits from the exercise of stock options	29	25	26
Tax benefits from the issuance of stock awards	52	16	19
Total tax benefits recognized for stock-based compensation	\$ 81	\$ 41	\$ 45

At December 31, 2014, there was \$89 million of unrecognized compensation expense related to unvested stock awards granted under the company's stock-based compensation plans. These amounts are expected to be charged to expense over a weighted-average period of 1.3 years.

Stock Options

There were no stock options issued in 2014 or 2013. As of December 31, 2014 and 2013, there were 0.3 million and 1.7 million stock options outstanding, respectively. There were 1.4 million stock options exercised during the year ended December 31, 2014. All stock options outstanding were fully vested and exercisable at December 31, 2014.

The total intrinsic value of exercised stock options for the years ended December 31, 2014, 2013 and 2012, was \$94 million, \$118 million and \$97 million, respectively. The total intrinsic value for options outstanding for the years ended December 31, 2014, 2013 and 2012, was \$28 million, \$101 million and \$66 million, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised), or at December 31, 2014 (for options outstanding), less the applicable exercise price.

Stock Awards

Compensation expense for stock awards is measured at the grant date based on the fair value of the award and is recognized over the vesting period (generally three years). The fair value of stock awards and performance stock awards is determined based on the closing market price of the company's common stock on the grant date. The fair value of market-based stock awards is determined at the grant date using a Monte Carlo simulation model. For purposes of measuring compensation expense for performance awards, the number of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria.

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Stock award activity for the years ended December 31, 2014, 2013 and 2012, is presented in the table below. Vested awards do not include any adjustments to reflect the final performance measure for issued shares.

	Stock Awards (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)
Outstanding at January 1, 2012	3,622	\$ 58	1.6
Granted	1,860	60	
Vested	(1,800)	55	
Forfeited	(204)	59	
Outstanding at December 31, 2012	3,478	\$ 61	1.6
Granted	1,577	64	
Vested	(1,323)	60	
Forfeited	(312)	62	
Outstanding at December 31, 2013	3,420	\$ 61	1.5
Granted	763	118	
Vested	(1,217)	58	
Forfeited	(158)	70	
Outstanding at December 31, 2014	2,808	\$ 77	1.1

The company issued 2.6 million, 3.4 million and 2.8 million shares to employees in settlement of fully vested stock awards, which had total fair values at issuance of \$305 million, \$226 million and \$172 million and grant date fair values of \$80 million, \$105 million and \$75 million during the years ended December 31, 2014, 2013 and 2012, respectively. The differences between the fair values at issuance and the grant date fair values reflect the effects of the performance adjustments and changes in the fair market value of the company's common stock.

In 2014, the company granted certain employees 0.2 million RSRs and 0.6 million RPSRs under the company's long-term incentive stock plan, with a grant date aggregate fair value of \$90 million. The majority of stock awards were granted in February 2014. The RSRs will typically vest on the third anniversary of the grant date, while the RPSRs will vest and pay out based on the achievement of financial metrics for the three-year period ending December 31, 2016.

In 2015, the company expects to issue to employees approximately 2.6 million shares of common stock with a grant date fair value of \$107 million, principally related to the 2012 RPSR awards that vested as of December 31, 2014. The ultimate amount of shares to be paid out is subject to approval by the Compensation Committee of the Board of Directors and may vary from this estimate.

Cash Awards

In 2014, the company granted certain employees cash units (CUs) and cash performance units (CPUs) with a minimum aggregate payout amount of \$32 million and a maximum aggregate payout amount of \$179 million. The majority of cash awards were granted in February 2014. The CUs will vest and settle in cash on the third anniversary of the grant date, while the CPUs will vest and settle in cash based on the achievement of financial metrics for the three-year period ending December 31, 2016. At December 31, 2014, there was \$122 million of unrecognized compensation expense related to cash awards.

14. UNAUDITED SELECTED QUARTERLY DATA

Unaudited quarterly financial results are set forth in the following tables. It is the company's long-standing practice to establish actual interim closing dates using a "fiscal" calendar in which we close our books on a Friday near each quarter-end date, in order to normalize the potentially disruptive effects of quarterly closings on business processes.

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This practice is only used at interim periods within a reporting year.

2014

<i>In millions, except per share amounts</i>	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Sales	\$ 5,848	\$ 6,039	\$ 5,984	\$ 6,108
Operating income	845	820	769	762
Net earnings	579	511	473	506
Basic earnings per share	2.68	2.41	2.29	2.52
Diluted earnings per share	2.63	2.37	2.26	2.48
Weighted-average common shares outstanding	216.3	212.4	206.2	200.8
Weighted-average diluted shares outstanding	220.4	215.2	209.2	204.2

Significant 2014 Fourth Quarter Events – In the fourth quarter of 2014, the company repurchased 4.5 million shares of common stock for \$599 million.

2013

<i>In millions, except per share amounts</i>	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Sales	\$ 6,104	\$ 6,294	\$ 6,106	\$ 6,157
Operating income	759	806	790	768
Net earnings	489	488	497	478
Basic earnings per share	2.07	2.09	2.18	2.17
Diluted earnings per share	2.03	2.05	2.14	2.12
Weighted-average common shares outstanding	236.4	234.0	228.2	220.5
Weighted-average diluted shares outstanding	241.0	237.5	232.6	225.2

Significant 2013 Fourth Quarter Events – In the fourth quarter of 2013, the company repurchased 6.6 million shares of common stock for \$699 million.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

Our principal executive officer (Chairman, Chief Executive Officer and President) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of December 31, 2014, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (15 USC § 78a et seq) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the three months ended December 31, 2014, no change occurred in our internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting. On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published an updated Internal Control - Integrated Framework (2013) and related illustrative documents. The company adopted the new framework in 2014.

Item 9B. Other Information

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Northrop Grumman Corporation (the company) prepared and is responsible for the consolidated financial statements and all related financial information contained in this Annual Report. This responsibility includes establishing and maintaining effective internal control over financial reporting. The company's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

To comply with the requirements of Section 404 of the Sarbanes–Oxley Act of 2002, the company designed and implemented a structured and comprehensive assessment process to evaluate its internal control over financial reporting across the enterprise. The assessment of the effectiveness of the company's internal control over financial reporting was based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Management regularly monitors its internal control over financial reporting, and actions are taken to correct deficiencies as they are identified. Based on its assessment, management has concluded that the company's internal control over financial reporting is effective as of December 31, 2014.

Deloitte & Touche LLP issued an attestation report dated February 2, 2015, concerning the company's internal control over financial reporting, which is contained in this Annual Report. The company's consolidated financial statements as of and for the year ended December 31, 2014, have been audited by the independent registered public accounting firm of Deloitte & Touche LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States).

/s/ Wesley G. Bush
Chairman, Chief Executive Officer and President

/s/ James F. Palmer
Corporate Vice President and Chief Financial Officer
February 2, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Northrop Grumman Corporation
Falls Church, Virginia

We have audited the internal control over financial reporting of Northrop Grumman Corporation and subsidiaries (the “Company”) as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 2, 2015 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 2, 2015

PART III

Item 10. Directors, Executive Officers and Corporate Governance

DIRECTORS

Information about our Directors will be incorporated herein by reference to the Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year.

EXECUTIVE OFFICERS

Our executive officers as of February 2, 2015, are listed below, along with their ages on that date, positions and offices with the company, and principal occupations and employment, focused primarily on the past five years.

<u>Name</u>	<u>Age</u>	<u>Office Held</u>	<u>Since</u>	<u>Recent Business Experience</u>
Wesley G. Bush	53	Chairman, Chief Executive Officer and President	2010	President and Chief Operating Officer (2007-2009); Prior to March 2007, President and Chief Financial Officer (2006-2007); Corporate Vice President and Chief Financial Officer (2005-2006)
Patrick M. Antkowiak	54	Corporate Vice President and Chief Technology Officer	2014	Vice President and General Manager, Advanced Concepts and Technologies Division, Electronic Systems Sector (2010-2014); Vice President of Engineering, Manufacturing and Logistics, Electronic Systems Sector (2010)
M. Sidney Ashworth	63	Corporate Vice President, Government Relations	2010	Vice President of Washington Operations, GE Aviation (2010); Prior to March 2010, Principal, the Ashworth Group (2009-2010); Professional Staff Member, U.S. Senate Committee on Appropriations (1995-2009)
Mark A. Caylor	50	Corporate Vice President and President, Enterprise Services and Chief Strategy Officer	2013	Corporate Vice President and Treasurer (2011-2012); Assistant Treasurer (2008-2011); Director, Mergers & Acquisitions (2006-2008)
Sheila C. Cheston	56	Corporate Vice President and General Counsel	2010	Executive Vice President and Director, BAE Systems, Inc. (2009 - 2010); Prior to September 2009, Senior Vice President, General Counsel, Secretary and Director, BAE Systems, Inc. (2002-2009)
Gloria A. Flach	56	Corporate Vice President and President, Electronic Systems Sector	2013	Corporate Vice President and President, Enterprise Shared Services (2010-2012); Sector Vice President and General Manager, Targeting Systems Division, Electronic Systems Sector (2010); Prior to 2010, Sector Vice President and General Manager of Engineering, Manufacturing and Logistics, Electronic Systems Sector (2009)
Darryl M. Fraser	56	Corporate Vice President, Communications	2008	Sector Vice President of Business Development and Strategic Initiatives, Mission Systems Sector (2007-2008)

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Name	Age	Office Held	Since	Recent Business Experience
Michael A. Hardesty	43	Corporate Vice President, Controller, and Chief Accounting Officer	2013	Vice President and Chief Financial Officer, Information Systems sector (2011-2013); Vice President, Internal Audit (2010-2011); Vice President and Chief Financial Officer, Enterprise Shared Services (2008-2010)
Christopher T. Jones	50	Corporate Vice President and President, Technical Services	2013	Vice President and General Manager, Integrated Logistics and Modernization Division, Technical Services Sector (2010-2012); Director of Product Support (2004-2010)
James F. Palmer*	65	Corporate Vice President and Chief Financial Officer	2007	Executive Vice President and Chief Financial Officer, Visteon Corporation (2004-2007)
Denise M. Peppard	58	Corporate Vice President and Chief Human Resources Officer	2011	Vice President and Chief Human Resources, Computer Sciences Corporation (2010-2011); Senior Vice President of Human Resources, Wyeth Pharmaceuticals, Inc. (2001-2010)
David T. Perry	50	Corporate Vice President and Chief Global Business Development Officer	2012	Vice President and General Manager of Naval and Marine Systems Division, Electronic Systems Sector (2009-2012); Vice President of Marine Systems, Electronic Systems Sector (2005-2009)
Thomas E. Vice	52	Corporate Vice President and President, Aerospace Systems Sector	2013	Corporate Vice President and President, Technical Services (2010-2012); Sector Vice President and General Manager, Battle Management and Engagement Systems Division, Aerospace Systems Sector (2008-2010)
Kathy J. Warden	43	Corporate Vice President and President, Information Systems Sector	2013	Vice President and General Manager, Cyber Intelligence Division (2011-2012); Vice President, Cyber and SIGINT business unit (2008-2011); Vice President, Intelligence Systems, General Dynamics Corporation (2007-2008)

* As previously announced, James F. Palmer will retire in 2015. Effective the day after the filing of this Form 10-K, Kenneth L. Bedingfield will become our Corporate Vice President and Chief Financial Officer (Principal Financial Officer).

AUDIT COMMITTEE FINANCIAL EXPERT

The information as to the Audit Committee and the Audit Committee Financial Expert will be incorporated herein by reference to the Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

CODE OF ETHICS

We have adopted Standards of Business Conduct for all of our employees, including the principal executive officer, principal financial officer and principal accounting officer. The Standards of Business Conduct can be found on our internet website at www.northropgrumman.com under "Investor Relations – Corporate Governance – Overview." A copy of the Standards of Business Conduct is available to any stockholder who requests it by writing to: Northrop Grumman Corporation, c/o Office of the Secretary, 2980 Fairview Park Drive, Falls Church, VA 22042.

The website and information contained on it or incorporated in it are not intended to be incorporated in this report on Form 10-K or other filings with the Securities and Exchange Commission.

OTHER DISCLOSURES

Other disclosures required by this Item will be incorporated herein by reference to the Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Item 11. Executive Compensation

Information concerning Executive Compensation, including information concerning Compensation Committee Interlocks and Insider Participation and Compensation Committee Report, will be incorporated herein by reference to the Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information as to Securities Authorized for Issuance Under Equity Compensation Plans and Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters will be incorporated herein by reference to the Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information as to Certain Relationships and Related Transactions and Director Independence will be incorporated herein by reference to the Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Item 14. Principal Accountant Fees and Services

The information as to Principal Accountant Fees and Services will be incorporated herein by reference to the Proxy Statement for the 2015 Annual Meeting of Shareholders to be filed within 120 days after the end of the company's fiscal year.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Report of Independent Registered Public Accounting Firm

Financial Statements

Consolidated Statements of Earnings and Comprehensive (Loss) Income
Consolidated Statements of Financial Position
Consolidated Statements of Cash Flows
Consolidated Statements of Changes in Shareholders' Equity
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules have been omitted because they are not applicable, not required, or the information has been otherwise supplied in the financial statements or notes to the financial statements.

3. Exhibits

- 2(a) Separation and Distribution Agreement dated as of March 29, 2011, among Titan II, Inc. (formerly Northrop Grumman Corporation), Northrop Grumman Corporation (formerly New P, Inc.), Huntington Ingalls Industries, Inc., Northrop Grumman Shipbuilding, Inc. and Northrop Grumman Systems Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K filed April 4, 2011)
- 3(a) Amended and Restated Certificate of Incorporation of Northrop Grumman Corporation dated May 29, 2012 (incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended June 30, 2012, filed July 24, 2012)
- 3(b) Amended and Restated Bylaws of Northrop Grumman Corporation dated December 17, 2013 (incorporated by reference to Exhibit 3.1 to Form 8-K filed December 23, 2013)
- 4(a) Registration Rights Agreement dated as of January 23, 2001, by and among Northrop Grumman Corporation (now Northrop Grumman Systems Corporation), NNG, Inc. (now Northrop Grumman Corporation) and Unitrin, Inc. (incorporated by reference to Exhibit(d)(6) to Amendment No. 4 to Schedule TO filed January 31, 2001)
- 4(b) Indenture dated as of October 15, 1994, between Northrop Grumman Corporation (now Northrop Grumman Systems Corporation) and The Chase Manhattan Bank (National Association), Trustee (incorporated by reference to Exhibit 4.1 to Form 8-K filed October 25, 1994)
- 4(c) First Supplemental Indenture dated as of March 30, 2011 by and among Northrop Grumman Systems Corporation, The Bank of New York Mellon (successor trustee to JPMorgan Chase Bank and The Chase Manhattan Bank, N.A.), Titan II, Inc. (formerly known as Northrop Grumman Corporation), and Titan Holdings II, L.P., to Indenture dated as of October 15, 1994, between Northrop Grumman Corporation (now Northrop Grumman Systems Corporation) and The Chase Manhattan Bank, N.A., Trustee (incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(d) Second Supplemental Indenture dated as of March 30, 2011 by and among Northrop Grumman Systems Corporation, The Bank of New York Mellon (successor trustee to JPMorgan Chase Bank and The Chase Manhattan Bank, N.A.), Titan Holdings II, L.P., and Northrop Grumman Corporation (formerly known as New P, Inc.), to Indenture dated as of October 15, 1994, between Northrop Grumman Corporation (now Northrop Grumman Systems Corporation) and The Chase Manhattan Bank, N.A., Trustee (incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(e) Form of Officers' Certificate (without exhibits) establishing the terms of Northrop Grumman Corporation's (now Northrop Grumman Systems Corporation's) 7.75 percent Debentures due 2016 and 7.875 percent Debentures due 2026 (incorporated by reference to Exhibit 4-3 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)

NORTHROP GRUMMAN CORPORATION

- 4(f) Form of Northrop Grumman Corporation's (now Northrop Grumman Systems Corporation's) 7.75 percent Debentures due 2016 (incorporated by reference to Exhibit 4-5 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)
- 4(g) Form of Northrop Grumman Corporation's (now Northrop Grumman Systems Corporation's) 7.875 percent Debentures due 2026 (incorporated by reference to Exhibit 4-6 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)
- 4(h) Form of Officers' Certificate establishing the terms of Northrop Grumman Corporation's (now Northrop Grumman Systems Corporation's) 7.75 percent Debentures due 2031 (incorporated by reference to Exhibit 10.9 to Form 8-K filed April 17, 2001)
- 4(i) Indenture dated as of April 13, 1998, between Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and The Bank of New York, as trustee, under which its 6.75 percent Senior Debentures due 2018 were issued (incorporated by reference to Exhibit 4.1 to the Form 10-Q of Litton Industries, Inc. for the quarter ended April 30, 1998, filed June 15, 1998)
- 4(j) Supplemental Indenture with respect to Indenture dated April 13, 1998, dated as of April 3, 2001, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.5 to Form 10-Q for the quarter ended March 31, 2001, filed May 10, 2001)
- 4(k) Supplemental Indenture with respect to Indenture dated April 13, 1998, dated as of December 20, 2002, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(q) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 4(l) Third Supplemental Indenture dated as of March 30, 2011 by and among Northrop Grumman Systems Corporation (successor-in-interest to Litton Industries, Inc.), The Bank of New York Mellon (formerly known as The Bank of New York) as trustee, Titan II, Inc. (formerly known as Northrop Grumman Corporation), and Titan Holdings II, L.P., to Indenture dated April 13, 1998, between Litton Industries, Inc. and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.3 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(m) Fourth Supplemental Indenture dated as of March 30, 2011 by and among Northrop Grumman Systems Corporation (successor-in-interest to Litton Industries, Inc.), The Bank of New York Mellon (formerly known as The Bank of New York) as trustee, Titan Holdings II, L.P., and Northrop Grumman Corporation (formerly known as New P., Inc.), to Indenture dated April 13, 1998, between Litton Industries, Inc. and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.4 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(n) Senior Indenture dated as of December 15, 1991, between Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and The Bank of New York, as trustee, under which its 7.75 percent and 6.98 percent debentures due 2026 and 2036 were issued, and specimens of such debentures (incorporated by reference to Exhibit 4.1 to the Form 10-Q of Litton Industries, Inc. for the quarter ended April 30, 1996, filed June 11, 1996)
- 4(o) Supplemental Indenture with respect to Indenture dated December 15, 1991, dated as of April 3, 2001, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.7 to Form 10-Q for the quarter ended March 31, 2001, filed May 10, 2001)
- 4(p) Supplemental Indenture with respect to Indenture dated December 15, 1991, dated as of December 20, 2002, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(t) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)

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- 4(q) Third Supplemental Indenture dated as of March 30, 2011 by and among Northrop Grumman Systems Corporation (successor-in-interest to Litton Industries, Inc.), The Bank of New York Mellon (formerly known as The Bank of New York), as trustee, Titan II, Inc. (formerly known as Northrop Grumman Corporation), and Titan Holdings II, L.P., to Senior Indenture dated December 15, 1991, among Litton Industries, Inc., Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.5 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(r) Fourth Supplemental Indenture dated as of March 30, 2011 by and among Northrop Grumman Systems Corporation (successor-in-interest to Litton Industries, Inc.), The Bank of New York Mellon (formerly known as The Bank of New York) as trustee, Titan Holdings II, L.P., and Northrop Grumman Corporation (formerly known as New P, Inc.), to Senior Indenture dated December 15, 1991, among Litton Industries, Inc., Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.6 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(s) Indenture between TRW Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and Mellon Bank, N.A., as trustee, dated as of May 1, 1986 (incorporated by reference to Exhibit 2 to the Form 8-A Registration Statement of TRW Inc. dated July 3, 1986)
- 4(t) First Supplemental Indenture between TRW Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and Mellon Bank, N.A., as trustee, dated as of August 24, 1989 (incorporated by reference to Exhibit 4(b) to Form S-3 Registration Statement No. 33-30350 of TRW Inc.)
- 4(u) Fifth Supplemental Indenture between TRW Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and The Chase Manhattan Bank, as successor trustee, dated as of June 2, 1999 (incorporated by reference to Exhibit 4(f) to Form S-4 Registration Statement No. 333-83227 of TRW Inc. filed July 20, 1999)
- 4(v) Ninth Supplemental Indenture dated as of December 31, 2009 among Northrop Grumman Space & Mission Systems Corp. (predecessor-in-interest to Northrop Grumman Systems Corporation); The Bank of New York Mellon, as successor trustee; Northrop Grumman Corporation; and Northrop Grumman Systems Corporation (incorporated by reference to Exhibit 4(p) to Form 10-K for the year ended December 31, 2009, filed February 9, 2010)
- 4(w) Tenth Supplemental Indenture dated as of March 30, 2011, by and among Northrop Grumman Systems Corporation (successor-in-interest to Northrop Grumman Space & Mission Systems Corp. and TRW, Inc.), The Bank of New York Mellon, as successor trustee to JPMorgan Chase Bank and to Mellon Bank, N.A., Titan II Inc. (formerly known as Northrop Grumman Corporation), and Titan Holdings II, L.P., to Indenture between TRW Inc. and Mellon Bank, N.A., as trustee, dated as of May 1, 1986 (incorporated by reference to Exhibit 4.7 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(x) Eleventh Supplemental Indenture dated as of March 30, 2011, by and among Northrop Grumman Systems Corporation (successor-in-interest to Northrop Grumman Space & Mission Systems Corp. and TRW Inc.), The Bank of New York Mellon, as successor trustee to JPMorgan Chase Bank and to Mellon Bank, N.A., Titan Holdings II, L.P., and Northrop Grumman Corporation (formerly known as New P, Inc.) to Indenture between TRW Inc. and Mellon Bank, N.A., as trustee, dated as of May 1, 1986 (incorporated by reference to Exhibit 4.8 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(y) Indenture dated as of November 21, 2001, between Northrop Grumman Corporation and JPMorgan Chase Bank, as trustee (incorporated by reference to Exhibit 4.1 to Form 8-K filed November 21, 2001)
- 4(z) First Supplemental Indenture dated as of July 30, 2009, between Northrop Grumman Corporation and The Bank of New York Mellon, as successor trustee, to Indenture dated as of November 21, 2001 (incorporated by reference to Exhibit 4(a) to Form 8-K filed July 30, 2009)
- 4(aa) Form of Northrop Grumman Corporation's 5.05 percent Senior Note due 2019 (incorporated by reference to Exhibit 4(c) to Form 8-K filed July 30, 2009)

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- 4(bb) Second Supplemental Indenture dated as of November 8, 2010, between Northrop Grumman Corporation and The Bank of New York Mellon, as successor trustee, to Indenture dated as of November 21, 2001 (incorporated by reference to Exhibit 4(a) to Form 8-K filed November 8, 2010)
- 4(cc) Form of Northrop Grumman Corporation's 3.500% Senior Note due 2021 (incorporated by reference to Exhibit 4(a) to Form 8-K filed November 8, 2010)
- 4(dd) Form of Northrop Grumman Corporation's 5.050% Senior Note due 2040 (incorporated by reference to Exhibit 4(a) to Form 8-K filed November 8, 2010)
- 4(ee) Third Supplemental Indenture dated as of March 30, 2011, by and among Titan II, Inc. (formerly known as Northrop Grumman Corporation), The Bank of New York Mellon, as successor trustee to JPMorgan Chase Bank, and Titan Holdings II, L.P., to Indenture dated as of November 21, 2001 between Northrop Grumman Corporation and JPMorgan Chase Bank, as trustee (incorporated by reference to Exhibit 4.9 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(ff) Fourth Supplemental Indenture dated as of March 30, 2011, by and among Titan Holdings II, L.P., The Bank of New York Mellon, as successor trustee to JPMorgan Chase Bank, and Northrop Grumman Corporation (formerly known as New P., Inc.), to Indenture dated as of November 21, 2001 between Northrop Grumman Corporation and JPMorgan Chase Bank, as trustee (incorporated by reference to Exhibit 4.10 to Form 10-Q for the quarter ended March 31, 2011, filed April 27, 2011)
- 4(gg) Fifth Supplemental Indenture, dated as of May 31, 2013, between Northrop Grumman Corporation and The Bank of New York Mellon, as successor to JPMorgan Chase Bank, Trustee, to Indenture dated as of November 21, 2001 (incorporated by reference to Exhibit 4(a) to Form 8-K filed May 31, 2013)
- 4(hh) Form of 1.750% Senior Note due 2018 (incorporated by reference to Exhibit 4(a) to Form 8-K filed May 31, 2013)
- 4(ii) Form of 3.250% Senior Note due 2023 (incorporated by reference to Exhibit 4(a) to Form 8-K filed May 31, 2013)
- 4(jj) Form of 4.750% Senior Note due 2043 (incorporated by reference to Exhibit 4(a) to Form 8-K filed May 31, 2013)
- 10(a) Credit Agreement dated as of August 29, 2013, among Northrop Grumman Corporation, as Borrower; Northrop Grumman Systems Corporation, as Guarantor; the Lenders party thereto; JPMorgan Chase Bank, N.A., as Administrative Agent; an Issuing Bank and a Swingline Lender, and The Royal Bank of Scotland plc, Citibank, N.A., and Wells Fargo Bank, National Association, as Issuing Banks and Syndication Agents (incorporated by reference to Exhibit 10.1 to Form 8-K filed August 30, 2013)
- 10(b) Form of Guarantee dated as of April 3, 2001, by Northrop Grumman Corporation of the indenture indebtedness issued by Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) (incorporated by reference to Exhibit 10.10 to Form 8-K filed April 17, 2001)
- 10(c) Form of Guarantee dated as of April 3, 2001, by Northrop Grumman Corporation of Northrop Grumman Systems Corporation indenture indebtedness (incorporated by reference to Exhibit 10.11 to Form 8-K and filed April 17, 2001)
- 10(d) Form of Guarantee dated as of March 27, 2003, by Northrop Grumman Corporation, as Guarantor, in favor of JP Morgan Chase Bank, as trustee, of certain debt securities issued by the former Northrop Grumman Space & Mission Systems Corp. (predecessor-in-interest to Northrop Grumman Systems Corporation) (incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended March 31, 2003, filed May 14, 2003)
- +10(e) Northrop Grumman Corporation 1993 Stock Plan for Non-Employee Directors (as Amended and Restated January 1, 2010) (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2009, filed July 23, 2009)

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- +10(f) Northrop Grumman Corporation Non-Employee Directors Equity Participation Plan (Amended and Restated January 1, 2008) (incorporated by reference to Exhibit 10(q) to Form 10-K for the year ended December 31, 2007, filed February 20, 2008)
- +10(g) Northrop Grumman 2001 Long-Term Incentive Stock Plan (As amended through December 19, 2007) (incorporated by reference to Exhibit A to the Company's Proxy Statement on Schedule 14A for the 2008 Annual Meeting of Shareholders filed April 21, 2008)
 - (i) Form of Notice of Non-Qualified Grant of Stock Options and Option Agreement (incorporated by reference to Exhibit 10.5 to Form S-4 Registration Statement No. 333-83672 filed March 4, 2002)
 - (ii) Form of Agreement for 2005 Stock Options (officer) (incorporated by reference to Exhibit 10(d)(v) to Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
 - (iii) Form of letter from Northrop Grumman Corporation regarding Stock Option Retirement Enhancement (incorporated by reference to Exhibit 10.2 to Form 8-K dated March 14, 2005 and filed March 15, 2005)
 - (iv) Form of Agreement for 2006 Stock Options (officer) (incorporated by reference to Exhibit 10(d)(viii) to Form 10-K for the year ended December 31, 2005, filed February 17, 2006)
 - (v) Form of Agreement for 2007 Stock Options (officers) (incorporated by reference to Exhibit 10(2)(ii) to Form 10-Q for the quarter ended March 31, 2007, filed April 24, 2007)
 - (vi) Form of Agreement for 2008 Stock Options (officer) (incorporated by reference to Exhibit 10(4)(i) to Form 10-Q for the quarter ended March 31, 2008, filed April 24, 2008)
 - (vii) Form of Agreement for 2009 Stock Options (incorporated by reference to Exhibit 10.2(i) to Form 10-Q for the quarter ended March 31, 2009, filed April 22, 2009)
 - (viii) Form of Agreement for 2010 Stock Options (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2010, filed April 28, 2010)
 - (ix) Form of Agreement for 2011 Stock Options granted under the Northrop Grumman 2001 Long-Term Incentive Stock Plan (As amended through December 19, 2007) (incorporated by reference to Exhibit 10.1 of Form 8-K filed February 22, 2011)
 - (x) Form of Agreement for 2011 Restricted Performance Stock Rights granted under the Northrop Grumman 2001 Long-Term Incentive Stock Plan (As amended through December 19, 2007) (incorporated by reference to Exhibit 10.2 of Form 8-K filed February 22, 2011)
 - (xvi) Form of Agreement for 2011 Restricted Stock Rights granted under the Northrop Grumman 2001 Long-Term Incentive Stock Plan (As amended through December 19, 2007) (incorporated by reference to Exhibit 10.3 of Form 8-K filed February 22, 2011)
- *+10(h) Northrop Grumman 2011 Long-Term Incentive Stock Plan (as Amended Through December 4, 2014)
 - (i) Summary of Non-Employee Director Award Terms Under the 2011 Long-Term Incentive Stock Plan effective December 21, 2011 (incorporated by reference to Exhibit 10(j)(ii) to Form 10-K for the year ended December 31, 2011, filed February 7, 2012)
 - *(ii) Northrop Grumman Corporation Equity Grant Program for Non-Employee Directors under the Northrop Grumman 2011 Long-Term Incentive Stock Plan, Amended and Restated Effective January 1, 2015
 - (iii) Grant Certificate Specifying the Terms and Conditions Applicable to 2012 Restricted Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed February 17, 2012)
 - (iv) Grant Certificate Specifying the Terms and Conditions Applicable to 2012 Restricted Performance Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to Form 8-K filed February 17, 2012)
 - (v) Grant Certificate Specifying the Terms and Conditions Applicable to 2013 Restricted Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed February 21, 2013)
 - (vi) Grant Certificate Specifying the Terms and Conditions Applicable to 2013 Restricted Performance Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to Form 8-K filed February 21, 2013)
 - (vii) Grant Certificate Specifying the Terms and Conditions Applicable to Special 2013 Restricted Stock Rights Granted to James F. Palmer Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed September 23, 2013)

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- (viii) Grant Certificate Specifying the Terms and Conditions Applicable to 2014 Restricted Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed February 24, 2014)
 - (ix) Grant Certificate Specifying the Terms and Conditions Applicable to 2014 Restricted Performance Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to Form 8-K filed February 24, 2014)
 - (x) Amended and Restated Grant Certificate Specifying the Terms and Conditions Applicable to 2014 Restricted Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2014, filed July 23, 2014)
 - (xi) Amended and Restated Grant Certificate Specifying the Terms and conditions Applicable to 2014 Restricted Performance Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 2014, filed July 23, 2014)
- +10(i) Northrop Grumman Supplemental Plan 2 (Amended and Restated Effective as of January 1, 2014) (incorporated by reference to Exhibit 10(l) to Form 10-K for the year ended December 31, 2013, Filed February 3, 2014)
- (i) Appendix B to the Northrop Grumman Supplemental Plan 2: ERISA Supplemental Program 2 (Amended and Restated Effective as of January 1, 2014) (incorporated by reference to Exhibit 10(l)(i) to Form 10-K for the year ended December 31, 2013, filed February 3, 2014)
 - (ii) Appendix F to the Northrop Grumman Supplemental Plan 2: CPC Supplemental Executive Retirement Program (Amended and Restated Effective as of January 1, 2012) (incorporated by reference to Exhibit 10(k)(iii) to Form 10-K for the year ended December 31, 2011, filed February 8, 2012)
 - (iii) Appendix G to the Northrop Grumman Supplemental Plan 2: Officers Supplemental Executive Retirement Program (Amended and Restated Effective as of January 1, 2012) (incorporated by reference to Exhibit 10(k)(iv) to Form 10-K for the year ended December 31, 2011, filed February 8, 2012)
- +10(j) Northrop Grumman Supplementary Retirement Income Plan (formerly TRW Supplementary Retirement Income Plan) (Amended and Restated Effective January 1, 2014) (incorporated by reference to Exhibit 10(m) to Form 10-K for the year ended December 31, 2013, filed February 3, 2014)
- +10(k) Northrop Grumman Electronic Systems Executive Pension Plan (Amended and Restated Effective as of January 1, 2014) (incorporated by reference to Exhibit 10(n) to Form 10-K for the year ended December 31, 2013, filed February 3, 2014)
- +10(l) Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation (Amended and Restated Effective July 20, 2012) (incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended September 30, 2012, filed October 23, 2012)
- +10(m) Letter dated May 15, 2013, between the Board of Directors and Wesley G. Bush (incorporated by reference to Exhibit 99.1 to Form 8-K filed May 15, 2013)
- +10(n) Non-Employee Director Compensation Term Sheet, effective May 15, 2012 (incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2012, filed July 24, 2012)
- +10(o) Non-Employee Director Compensation Term Sheet, effective May 21, 2014 (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2014, filed July 23, 2014)
- +*10(p) Non-Employee Director Compensation Term Sheet, effective January 1, 2015
- +10(q) Form of Indemnification Agreement between Northrop Grumman Corporation and its directors and executive officers (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2012, filed April 24, 2012)

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- +10(r) Northrop Grumman Deferred Compensation Plan (Amended and Restated Effective as of January 1, 2013) (incorporated by reference to Exhibit 10(t) to Form 10-K for the year ended December 31, 2012, filed February 4, 2013)
- +10(s) The 2002 Incentive Compensation Plan of Northrop Grumman Corporation, As Amended and Restated effective January 1, 2009 (incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended March 31, 2009, filed April 22, 2009)
- +10(t) Northrop Grumman 2006 Annual Incentive Plan and Incentive Compensation Plan (for Non-Section 162(m) Officers), as amended and restated effective January 1, 2009 (incorporated by reference to Exhibit 10.7 to Form 10-Q for the quarter ended March 31, 2009, filed April 22, 2009)
- +*10(u) Northrop Grumman Savings Excess Plan (Amended and Restated Effective as of January 1, 2015)
- +*10(v) Northrop Grumman Officers Retirement Account Contribution Plan (Amended and Restated Effective as of January 1, 2014)
- +10(w) Compensatory Arrangements of Certain Officers (incorporated by reference to Item 5.02(e) of Form 8-K filed February 21, 2014)
- +10(x) Offering letter dated February 1, 2007 from Northrop Grumman Corporation to James F. Palmer relating to position of Corporate Vice President and Chief Financial Officer (incorporated by reference to Exhibit 10(3) to Form 10-Q for the quarter ended March 31, 2007, filed April 24, 2007), as amended by Amendment to Letter Agreement between Northrop Grumman Corporation and James F. Palmer dated December 17, 2008 (incorporated by reference to Exhibit 10.3 to Form 8-K filed December 19, 2008)
- +10(y) Northrop Grumman Supplemental Retirement Replacement Plan, as Restated, dated January 1, 2008 between Northrop Grumman Corporation and James F. Palmer (incorporated by reference to Exhibit 10.4 to Form 8-K filed December 19, 2008)
 - (i) First Amendment to the Northrop Grumman Supplemental Retirement Replacement Plan, dated October 25, 2011 (incorporated by reference to Exhibit 10(bb)(i) to Form 10-K for the year ended December 31, 2011, filed February 7, 2012)
- +10(z) Northrop Grumman Corporation Special Officer Retiree Medical Plan (Amended and Restated Effective January 1, 2008) (incorporated by reference to Exhibit 10(2) to Form 10-Q for the quarter ended March 31, 2008, filed April 24, 2008)
- +10(aa) Executive Life Insurance Policy (incorporated by reference to Exhibit 10(gg) to Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
- +10(bb) Executive Accidental Death, Dismemberment and Plegia Insurance Policy Terms applicable to Executive Officers dated January 1, 2009 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2009, filed April 22, 2009)
- +10(cc) Executive Long-Term Disability Insurance Policy as amended by Amendment No. 2 dated June 19, 2008 and effective as of October 4, 2007 (incorporated by reference to Exhibit 10(2) to Form 10-Q for the quarter ended June 30, 2008, filed July 29, 2008)
- +10(dd) Executive Dental Insurance Policy Group Numbers 5134 and 5135 (incorporated by reference to Exhibit 10(m) to Form 10-K for the year ended December 31, 1995, filed February 22, 1996), as amended by action of the Compensation Committee of the Board of Directors of Northrop Grumman Corporation effective July 1, 2009 (incorporated by reference to Item 5.02(e) of Form 8-K filed May 26, 2009)
- +10(ee) Group Personal Excess Liability Policy (incorporated by reference to Exhibit 10.15 to Form 10-Q for the quarter ended June 30, 2011, filed July 27, 2011)

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- +10(ff) Letter dated December 16, 2009 from Northrop Grumman Corporation to Wesley G. Bush regarding compensation effective January 1, 2010 (incorporated by reference to Exhibit 10.2 to Form 8-K filed December 21, 2009)
- +10(gg) Northrop Grumman Corporation 1995 Stock Plan for Non-Employee Directors, as Amended as of May 16, 2007 (incorporated by reference to Exhibit A to the Company's Proxy Statement on Schedule 14A for the 2007 Meeting of Shareholders filed April 12, 2007)
- *12(a) Computation of Ratio of Earnings to Fixed Charges
- *21 Subsidiaries
- *23 Consent of Independent Registered Public Accounting Firm
- *24 Power of Attorney
- *31.1 Rule 13a-15(e)/15d-15(e) Certification of Wesley G. Bush (Section 302 of the Sarbanes-Oxley Act of 2002)
- *31.2 Rule 13a-15(e)/15d-15(e) Certification of James F. Palmer (Section 302 of the Sarbanes-Oxley Act of 2002)
- **32.1 Certification of Wesley G. Bush pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- **32.2 Certification of James F. Palmer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *101 Northrop Grumman Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language); (i) the Consolidated Statements of Earnings and Comprehensive (Loss) Income, (ii) Consolidated Statements of Financial Position, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Changes in Shareholders' Equity, and (v) Notes to Consolidated Financial Statements
- + Management contract or compensatory plan or arrangement
- * Filed with this Report
- ** Furnished with this Report

**NORTHROP GRUMMAN 2011 LONG-TERM INCENTIVE STOCK PLAN
(As Amended Through December 4, 2014)**

1. Purpose

The purpose of the Northrop Grumman 2011 Long-Term Incentive Stock Plan (the “Plan”) is to promote the long-term success of Northrop Grumman Corporation (the “Company”) and to increase shareholder value by providing its directors, officers and selected employees with incentives to create excellent performance and to continue service with the Company, its subsidiaries and affiliates. Both by encouraging such directors, officers and employees to become owners of the common stock of the Company and by providing actual ownership through Plan awards, it is intended that Plan participants will view the Company from an ownership perspective.

2. Term

The Plan was approved by the Company’s Board of Directors (the “Board”) on March 15, 2011. The Plan shall become effective upon its approval by the shareholders of the Company (the “Effective Time”). Unless previously terminated by the Board, the Plan shall terminate at the close of business on March 14, 2021. After termination of the Plan, no future awards may be granted but previously granted awards (and the Committee’s (as such term is defined in Section 3) authority with respect thereto) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of the Plan.

3. Plan Administration

(a) The Plan shall be administered by the Compensation Committee (or its successor) of the Board; provided that the Plan shall be administered by the Board as to any award granted or to be granted, as the case may be, to a member of the Board who (at the time of grant of the award) is not employed by the Company or one of its subsidiaries. Subject to the following provisions of this Section 3(a), the Compensation Committee (or its successor) may delegate different levels of authority to make grants under the Plan to different committees, provided that each such committee consists of one or more members of the Board. With respect to awards intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), the Plan shall be administered by a committee consisting of two or more outside directors (as this requirement is applied under Section 162(m) of the Code). Transactions in or involving awards intended to be exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “1934 Act”), must be duly and timely authorized by the Board or a committee of non-employee directors (as this term is used in or under Rule 16b-3). (The appropriate acting body, be it the Board, the Compensation Committee or another duly authorized committee of directors, is referred to as “Committee”.)

(b) The Committee shall have full and exclusive power to interpret the Plan and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which power shall be executed in the best interests of the Company and in keeping with the objectives of the Plan. This power includes, but is not limited to, selecting

award recipients, establishing all award terms and conditions and adopting modifications, amendments and procedures, including subplans and the like as may be necessary to comply with provisions of the laws and applicable regulatory rulings of countries in which the Company (or its subsidiaries or affiliates, as applicable) operates in order to assure the viability of awards granted under the Plan and to enable participants employed in such countries to receive advantages and benefits under the Plan and such laws and rulings. Notwithstanding the foregoing and except for an adjustment pursuant to Section 6 or a repricing approved by shareholders, in no case may the Committee (1) amend an outstanding stock option or stock appreciation right (“SAR”) to reduce the exercise price or base price of the award, (2) cancel, exchange or surrender an outstanding stock option or SAR in exchange for cash or other awards for the purpose of repricing the award, or (3) cancel, exchange, or surrender an outstanding stock option or SAR in exchange for an option or SAR with an exercise or base price that is less than the exercise or base price of the original award.

(c) In making any determination or in taking or not taking any action under the Plan, the Committee may obtain and may rely on the advice of experts, including employees of and professional advisors to the Company. Any action taken by, or inaction of, the Committee relating to or pursuant to the Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding on all persons.

4. Eligibility

The Committee may grant one or more awards under the Plan to any individual or individuals who, at the time of grant of the particular award, are employed by the Company or a member of the Board. For this purpose, individuals eligible to receive awards include any former employees of the Company and former members of the Board eligible to receive an assumed or replacement award as contemplated in Sections 5 and 6. For purposes of this Section 4, “Company” includes any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.

5. Shares of Common Stock Subject to the Plan and Grant Limits

(a) Subject to Section 6 of the Plan, the aggregate number of additional shares of common stock of the Company (“Common Stock”) which may be issued or transferred pursuant to awards under the Plan shall not exceed the sum of:

(i) 39,075,942 shares; plus

(ii) the number of shares of Common Stock which were available for additional award grant purposes under the Company’s 2001 Long-Term Incentive Stock Plan (the “2001 Plan”) immediately prior to the expiration of the authority to grant new awards under the 2001 Plan; plus

(iii) the number of any shares of Common Stock which are subject to stock options granted under the 2001 Plan and are outstanding at the Effective Time which expire, or for

any reason are cancelled or terminated, after the Effective Time without being exercised; plus

(iv) the number of any shares of Common Stock which are subject to restricted stock, restricted stock right, restricted performance stock right or other awards (other than stock options) granted under the 2001 Plan and are outstanding and unvested at the Effective Time that are subsequently forfeited, terminated, cancelled or otherwise reacquired by the Company without having become vested or paid (including, for purposes of clarity, any shares initially reserved but, at the conclusion of any applicable performance period ending after the Effective Time, not otherwise deliverable with respect to restricted performance stock right awards because actual performance for the performance period did not result in the maximum potential payout of the awards) (such awards, the “Outstanding Restricted Stock Awards”).

(b) Shares issued in respect of any award granted under the Plan other than a stock option or SAR shall be counted against the foregoing share limit as 4.5 shares for every one share issued in connection with such award; provided, however, that if shares subject to Outstanding Restricted Stock Awards become available for new award grants under the Plan by operation of clause (iv) of Section 5(a), such shares shall count against the foregoing share limit on a 1:1 basis. (For example, if a stock bonus of 100 shares of Common Stock is granted under the Plan and the shares used to settle such award are not shares that became available by virtue of the forfeiture, termination or cancellation of Outstanding Restricted Stock Awards, 450 shares shall be charged against the share limit in connection with that award.) The maximum number of shares of Common Stock that may be delivered pursuant to stock options qualified as incentive stock options under Section 422 of the Code (“ISOs”) is 45,600,000 shares.

(c) Except as provided in the next sentence, shares of Common Stock which are subject to awards granted under the Plan which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the Plan (including, for purposes of clarity, any shares initially reserved but, at the conclusion of the applicable performance period, not otherwise deliverable with respect to restricted performance stock right awards because actual performance for the performance period did not result in the maximum potential payout of the awards) shall again be available for subsequent awards granted under the Plan. Shares of Common Stock that are exchanged by a participant or withheld by the Company as full or partial payment in connection with any award under the Plan or the 2001 Plan, as well as any shares exchanged by a participant or withheld by the Company to satisfy the tax withholding obligations relating to such an award, shall not be available for subsequent awards under the Plan. Except as provided in the preceding sentence, in instances where a SAR or other award is settled in cash or a form other than shares under the Plan or the 2001 Plan, the shares that would have been issued had there been no cash or other settlement shall not be counted against the shares available for issuance under the Plan and such shares shall be available for subsequent awards granted under the Plan. The payment of cash dividends in conjunction with outstanding awards shall not be counted against the shares available for issuance under the Plan. In the event that shares are delivered in respect of a dividend equivalent right granted under the Plan, the number of shares delivered with respect to the award shall be

counted against the shares available for issuance under the Plan. (For purposes of clarity, if 1,000 dividend equivalent rights are granted and outstanding when the Company pays a dividend, and 100 shares are delivered in payment of those rights with respect to that dividend, 450 shares (after giving effect to the premium counting rules of Section 5(b), assuming that the shares delivered with respect such rights did not become available by operation of clause (iv) of Section 5(a)) shall be counted against the shares available for issuance under the Plan.) To the extent that shares are delivered pursuant to the exercise of a SAR or stock option granted under the Plan, the number of underlying shares as to which the exercise related shall be counted against the shares available for issuance under the Plan as opposed to only counting the shares issued. (For purposes of clarity, if a SAR relates to 1,000 shares and is exercised at a time when the payment due to the participant is 500 shares, 1,000 shares shall be counted against the shares available for issuance under the Plan. Any shares that are issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Company (or a subsidiary or affiliate) in connection with a business or asset acquisition or similar transaction) shall not be counted against the shares available for issuance under the Plan.

(d) Any shares issued under the Plan may consist in whole or in part of authorized and unissued shares or of treasury shares, which may include fractional shares. Cash may be paid in lieu of any fractional shares in settlements of awards under the Plan.

(e) In no event shall the total number of shares of Common Stock that may be awarded to any eligible participant during any three consecutive calendar years period pursuant to stock option grants and SAR grants hereunder exceed 3,000,000 shares. In no event shall "Section 162(m) Awards" under Section 8(c)(ii) (other than stock options or SARs, and without giving effect to any related dividend equivalents) that are granted to any eligible participant during any three consecutive calendar years relate to or provide for payment of more than 1,000,000 shares of Common Stock.

(f) Adjustments to the Plan's aggregate share limit pursuant to Section 5(a), as well as the provisions of Section 5(c), are subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended as performance-based compensation thereunder. Except as otherwise expressly provided in Section 5(b), the limits set forth in Sections 5(b) and 5(e) shall apply with respect to all Plan awards regardless of whether the underlying shares are attributable to the fixed number of shares made available for Plan award purposes or shares that become available under the Plan pursuant to Section 5(a) with respect to shares originally available for grant or covered by awards granted under the 2001 Plan.

6. Adjustments and Reorganizations

(a) Upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any

exchange of shares of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Committee shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding awards, (3) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any outstanding awards, and/or (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding awards.

Unless otherwise expressly provided in the applicable award agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Company as an entirety, the Committee shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based awards to the extent necessary to preserve (but not increase) the level of incentives intended by the Plan and the then-outstanding performance-based awards.

It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable legal, tax (including, without limitation and as applicable in the circumstances, Section 424 of the Code, Section 409A of the Code and Section 162(m) of the Code) and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements.

(b) Notwithstanding anything to the contrary in Section 6(a), the provisions of this Section 6(b) shall apply to an outstanding Plan award if a Change in Control (as defined in Section 6(e)) occurs. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control: (i) if the award is a stock option, it shall vest fully and completely, any and all restrictions on exercisability or otherwise shall lapse, and it shall be fully exercisable; (ii) if the award is a SAR, it shall vest fully and completely, any and all restrictions on such SAR shall lapse, and it shall be fully exercisable; and (iii) if such award is an award or grant under Section 8(c) of the Plan, it shall immediately vest fully and completely, and all restrictions shall lapse, provided, however, that if the award is performance-based, the earnout or payout of the award, as applicable, shall be computed based on the performance terms of the award and based on actual performance achieved to the date of the Change in Control. No acceleration of vesting, exercisability and/or payment of an outstanding Plan award shall occur in connection with a Change in Control if either (i) the Company is the surviving entity, or (ii) the successor to the Company (if any) (or a parent thereof) agrees in writing prior to the Change in Control to assume the award; provided, however, that individual awards may provide for acceleration under these circumstances as contemplated by Section 6(c) below. If a stock option or other award is fully vested or becomes fully vested as provided in this paragraph

but is not exercised or paid prior to a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then the Committee may provide for the settlement in cash of the award (such settlement to be calculated as though the award was paid or exercised simultaneously with the Change in Control and based upon the then Fair Market Value of a share of Common Stock and subject, in the case of a performance-based award, to the Change in Control payment provisions set forth above). An option or other award so settled by the Committee shall automatically terminate. If, in such circumstances, the Committee does not provide for the cash settlement of an option or other award, then upon the Change in Control such option or award shall terminate, subject to any provision that has been made by the Committee through a plan of reorganization or otherwise for the survival, substitution or exchange of such option or right and further subject to any Change in Control settlement or payment provisions included in the applicable award agreement; provided that the option or award holder shall be given reasonable notice of such intended termination and an opportunity to exercise the option or award (to the extent an award other than an option must be exercised in order for the participant to realize the intended benefits) prior to or upon the Change in Control.

(c) Notwithstanding the provisions of Section 6(b), awards issued under the Plan may contain specific provisions regarding the consequences of a Change in Control and, if contained in an award, those provisions shall be controlling in the event of any inconsistency. (For example, and without limitation, an award may provide that (i) acceleration of vesting will occur automatically upon a Change in Control, or (ii) acceleration will occur in connection with a Change in Control if the participant is terminated by the Company without cause or the participant terminates employment for good reason.) Furthermore, and notwithstanding the provisions of Section 6(b), a Change in Control shall not accelerate the payment of any award that is subject to Section 409A of the Code to the extent such acceleration would result in any tax, penalty or interest under Section 409A of the Code; provided that the Committee retains the authority contemplated by this Section 6 to the extent any modification of an award may be made in a manner which complies with (and does not result in any tax under) Section 409A of the Code or is otherwise exempt from Section 409A of the Code. The occurrence of a particular Change in Control under the Plan shall have no effect on any award granted under the Plan after the date of that Change in Control.

(d) The Committee may make adjustments pursuant to Section 6(a) and/or deem an acceleration of vesting of awards pursuant to Section 6(b) to occur sufficiently prior to an event if necessary or deemed appropriate to permit the participant to realize the benefits intended to be conveyed with respect to the shares underlying the award; provided, however, that, the Committee will, in such circumstances, reinstate the original terms of an award if the related event does not actually occur.

(e) A “Change in Control” of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

(i) Any Person (other than those Persons in control of the Company as of the Effective Time, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate of the Company or a successor) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of either (1) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this clause (i): (A) “Person” or “group” shall not include underwriters acquiring newly-issued voting securities (or securities convertible into voting securities) directly from the Company with a view towards distribution, (B) creditors of the Company who become shareholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not, by virtue of such bankruptcy, be deemed a “group” or a single Person for the purposes of this clause (i) (provided that any one of such creditors may trigger a Change in Control pursuant to this clause (i) if such creditor’s ownership of Company securities equals or exceeds the foregoing threshold), and (C) an acquisition shall not constitute a Change in Control if made by an entity pursuant to a transaction that is covered by and does not otherwise constitute a Change in Control under clause (iii) below;

(ii) On any day after the Effective Time (the “Measurement Date”) Continuing Directors cease for any reason to constitute either: (1) if the Company does not have a Parent, a majority of the Board; or (2) if the Company has a Parent, a majority of the Board of Directors of the Controlling Parent. A director is a “Continuing Director” if he or she either:

- (1) was a member of the Board on the applicable Initial Date (an “Initial Director”); or
- (2) was elected to the Board (or the Board of Directors of the Controlling Parent, as applicable), or was nominated for election by the Company’s or the Controlling Parent’s shareholders, by a vote of at least two-thirds (2/3) of the Initial Directors then in office.

A member of the Board (or Board of Directors of the Controlling Parent, as applicable) who was not a director on the applicable Initial Date shall be deemed to be an Initial Director for purposes of clause (2) above if his or her election, or nomination for election by the Company’s or the Controlling Parent’s shareholders, was approved by a vote of at least two-thirds (2/3) of the Initial Directors (including directors elected after the applicable Initial Date who are deemed to be Initial Directors by application of this provision) then in office. “Initial Date” means the later of (1) the Effective Time or (2) the date that is two (2) years before the Measurement Date.

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than sixty percent (60%) of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, is a Parent of the Company or the successor of the Company) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent of the Company or any successor of the Company or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or a Parent of the Company or the successor entity) Beneficially Owns, directly or indirectly, twenty-five percent (25%) or more of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of twenty-five percent (25%) existed prior to the Business Combination, and (3) a Change in Control is not triggered pursuant to clause (ii) above with respect to the Company (including any successor entity) or any Parent of the Company (or the successor entity).

(iv) A complete liquidation or dissolution of the Company other than in the context of a transaction that does not constitute a Change in Control of the Company under clause (iii) above.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the Effective Time constitute a Change in Control. Notwithstanding anything in clause (iii) above to the contrary, a change in ownership of the Company resulting from creditors of the Company becoming shareholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not trigger a Change in Control pursuant to clause (iii) above.

“Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the 1934 Act. “Controlling Parent” means the Company’s Parent so long as a majority of the voting stock or voting power of that Parent is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. In the event that the Company has more than one “Parent,” then “Controlling Parent” means the Parent of the Company the majority of the voting stock or voting power of which is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. “Parent” means an entity that Beneficially Owns a majority of the voting stock or voting power of the Company, or

all or substantially all of the Company's assets, directly or indirectly through one or more subsidiaries. "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the 1934 Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.

7. Fair Market Value

"Fair Market Value" for all purposes under the Plan shall mean the closing price of a share of Common Stock as reported by the New York Stock Exchange (the "Exchange") for the date in question. If no sales of Common Stock were made on the Exchange on that date, the closing price of a share of Common Stock as reported by the Exchange for the next preceding day on which sales of Common Stock were made on the Exchange shall be substituted.

8. Awards

The Committee shall determine the type or types of award(s) to be made to each participant. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Company, including the plan of any acquired entity. The types of awards that may be granted under the Plan are (subject, in each case, to the no repricing provisions of Section 3(b)):

(a) **Stock Options**—A grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Committee. The purchase price per share for each option shall be not less than 100% of Fair Market Value on the date of grant. A stock option may be in the form of an ISO which, in addition to being subject to applicable terms, conditions and limitations established by the Committee, complies with Section 422 of the Code. If an ISO is granted, the aggregate Fair Market Value (determined on the date the option is granted) of Common Stock subject to an ISO granted to a participant by the Committee which first becomes exercisable in any calendar year shall not exceed \$100,000.00 (otherwise, the intended ISO, to the extent of such excess, shall be rendered a nonqualified stock option). ISOs may only be granted to employees of the Company or a Subsidiary. ("Subsidiary" means a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code.) The maximum term of each option (ISO or nonqualified) shall be ten (10) years. The price at which shares of Common Stock may be purchased under a stock option shall be paid in full at the time of the exercise in cash or such other method permitted by the Committee, including (i) tendering (either actually or by attestation) Common Stock; (ii) surrendering a stock award valued at Fair Market Value on the date of surrender; (iii) authorizing a third party to sell the shares (or a sufficient portion thereof) acquired upon exercise of a stock option and assigning the delivery to the Company of a sufficient amount of the sale proceeds to pay for all the shares acquired through such exercise; (iv) the Company withholding a number of shares of Common Stock otherwise deliverable pursuant to the award with a value sufficient to cover such exercise price; or (v) any combination of the above.

(b) **SARs**—A right to receive a payment, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the "base price" of the award, which base price shall be set forth in the

applicable award agreement and shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date of grant of the SAR. The maximum term of a SAR shall be ten (10) years.

(c) Other Awards—Other awards, granted or denominated in Common Stock or units of Common Stock, may be granted under the Plan. Awards not granted or denominated in Common Stock or units of Common Stock (cash awards) also may be granted consistent with clause (ii) below.

(i) All or part of any stock award may be subject to conditions and restrictions established by the Committee, and set forth in the award agreement, which may include, but are not limited to, continuous service with the Company (or a subsidiary or affiliate), achievement of specific business objectives, and other measurements of individual, business unit or Company performance. Awards may be granted under this Section 8(c) to any individual eligible pursuant to Section 4; provided, however, that unless the Committee otherwise provides, awards under this Section 8(c) to employees of the Company or a Subsidiary that are either granted or become vested, exercisable or payable based on attainment of one or more of the performance goals related to the business criteria identified below, shall be deemed to be intended as Section 162(m) Awards under Section 8(c)(ii).

(ii) Without limiting the generality of the foregoing, and in addition to stock options and SAR grants, other performance-based awards within the meaning of Section 162(m) of the Code (“Section 162(m) Awards”) may be granted under the Plan, whether in the form of restricted stock, performance stock, phantom stock or other rights, the vesting of which depends on the performance of the Company relative to pre-established goals on a consolidated, segment, sector, subsidiary, division, or plant basis with reference to:

- New business awards or backlog
- Revenues
- Operating margin (dollars or rate)
- Net earnings (on a total or continuing basis and either before or after (i) taxes, (ii) interest and taxes, or (iii) interest, taxes, depreciation, and amortization)
- Earnings per share (on a total or continuing basis and either before or after (i) taxes, (ii) interest and taxes, or (iii) interest, taxes, depreciation, and amortization)
- Cash flow or free cash flow (either as dollars or as a percentage of net earnings)
- Returns on equity, investment, assets or net assets
- Cash flow return on equity, investment, assets or net assets
- Stock price or stock price appreciation
- Total shareholder returns

- EVA - defined as operating profit after tax (which means net earnings after tax but before tax adjusted interest income and expense and goodwill amortization), less a charge for the use of capital (which is based on average total capital and the weighted average cost of capital)
- Overhead or expense containment or reduction
- Working capital level or working capital turnover
- Asset levels or asset turnover

The financial metrics identified above can be measured on an as reported or pension adjusted basis, on an annual or cumulatively over a defined period of time basis, and can be measured on an absolute, relative or growth basis. The applicable business criteria and the specific performance goals for Section 162(m) Awards must be approved by the Committee in advance of applicable deadlines under the Code and while the performance relating to such goals remains substantially uncertain. The applicable performance period may range from three months to ten years. Performance targets shall, to the extent determined by the Committee to be equitable and appropriate and unless otherwise expressly provided in the applicable award agreement, be adjusted to mitigate the impact of material, unusual or nonrecurring gains and losses, changes in law, regulations or in generally accepted accounting principles, accounting charges or other extraordinary events not foreseen at the time the targets were set. In no event shall share-based Section 162(m) Awards granted to any eligible person under this Plan exceed the limit set forth in Section 5(e). In no event shall grants to any eligible person under this Plan of Section 162(m) Awards payable only in cash in any calendar year and not related to shares provide for payment of more than \$10,000,000. Except as otherwise permitted under Section 162(m) of the Code, before any Performance-Based Award is paid, the Committee must approve (by resolution or other valid action of the Committee) that the performance goal and any other material terms of the Performance-Based Award were in fact satisfied. The Committee shall have discretion to determine the conditions, restrictions or other limitations, in accordance with the terms of the Plan and Section 162(m) of the Code, on the payment of individual Section 162(m) Awards. The Committee reserves the right to reduce the amount payable with respect to any Performance-Based Award in accordance with any standards the Committee may impose or on any other basis (including the Committee's discretion) as the Committee may determine appropriate. Section 162(m) Awards may be granted only to employees of the Company or a Subsidiary. The Plan, and this Section 8(c)(ii) in particular, does not limit the Company's authority to grant awards intended as performance-based compensation within the meaning of Section 162(m) of the Code under any other compensation plan that may be maintained by the Company or any of its Subsidiaries from time to time.

9. Dividends and Dividend Equivalents

The Committee may provide that any awards under the Plan earn dividends or dividend equivalents; provided, however, that dividend equivalent rights may not be granted in connection with any option or SAR granted hereunder. Such dividends or dividend equivalents may be paid currently or may be credited to a participant's account, provided that as to any dividend equivalent

rights granted in connection with an award granted under the Plan that is subject to performance-based vesting requirements, no payment shall be made with respect to such dividend equivalent right (or, in the case of a restricted stock or similar award where the dividend must be paid as a matter of law, the dividend payment shall be subject to forfeiture or repayment, as the case may be) unless the related performance-based vesting conditions of such award are satisfied. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares or share equivalents.

10. Deferrals and Settlements

Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Committee shall determine, and with such restrictions as it may impose. The Committee may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under the Plan. It may also provide that deferred settlements include the payment or crediting of interest on the deferral amounts, or the payment or crediting of dividend equivalents where the deferral amounts are denominated in shares.

11. Transferability and Exercisability

Unless otherwise expressly provided in (or pursuant to) this Section 11, by applicable law or by the award agreement, (i) all awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (ii) awards shall be exercised only by the holder; and (iii) amounts payable or shares issuable pursuant to an award shall be delivered only to (or for the account of) the holder. The foregoing exercise and transfer restrictions shall not apply to: (a) transfers to the Company; (b) the designation of a beneficiary to receive benefits in the event of the participant's death or, if the participant has died, transfers to or exercise by the participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution; (c) transfers pursuant to a qualified domestic relations order (as defined in the Code) (in the case of ISOs, to the extent such transfers are permitted by the Code); (d) if the participant has suffered a disability, permitted transfers to or exercises on behalf of the holder by his or her legal representative; or (e) the authorization by the Committee of "cashless exercise" procedures. The Committee by express provision in the award or an amendment thereto may permit an award (other than an ISO) to be transferred to, exercised by and paid to certain persons or entities related to the participant, including but not limited to members of the participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the participant's termination of employment or service with the Company (or a subsidiary or affiliate) to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

12. Award Agreements

Awards under the Plan shall be evidenced by agreements that set forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind any award; provided, however, that such authority shall be subject to the no repricing provisions of Section 3(b) hereof. The Committee need not require the execution of any such agreement, in which case acceptance of the award by the respective participant shall constitute agreement to the terms of the award.

13. Plan Amendment

The Plan may only be amended by a majority of the Board of Directors as it deems necessary or appropriate to better achieve the purpose of the Plan, except that no such amendment shall be made without the approval of the Company's shareholders if the amendment would increase the number of shares available for issuance under the Plan (except for increases or adjustments expressly contemplated by Sections 5 and 6) or shareholder approval is otherwise required under applicable law or applicable New York Stock Exchange listing requirements.

14. Tax Withholding

The Company shall have the right to deduct from any settlement of an award made under the Plan, including the delivery or vesting of shares, or deduct from any other compensation otherwise payable to the award holder a sufficient amount to cover withholding of any Federal, state or local taxes required by law with respect to such award settlement or to take such other action as may be necessary to satisfy any such withholding obligations. The Committee may permit shares to be used to satisfy required tax withholding and such shares shall be valued at the Fair Market Value as of the settlement date of the applicable award.

15. Other Company Benefit and Compensation Programs

Unless otherwise specifically determined by the Committee, settlements of awards received by participants under the Plan shall not be deemed a part of a participant's regular, recurring compensation for purposes of calculating payments or benefits from any benefit plan or severance program of the Company (or a subsidiary or affiliate), or any severance pay law of any country. Further, the Company may adopt other compensation programs, plans or arrangements as it deems appropriate or necessary.

16. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such rights (unless otherwise determined by the Committee) shall be no greater than the rights of an unsecured general creditor of the Company.

17. Future Rights

No person shall have any claim or rights to be granted an award under the Plan, and no participant shall have any rights under the Plan to be retained in the employ or service of the Company (or any subsidiary or affiliate).

18. Governing Law; Severability; Legal Compliance

The validity, construction and effect of the Plan, any award agreements or other documents setting forth the terms of an award, and any actions taken or relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable Federal law. If any provision of the Plan, any award agreement, or any other document setting forth the terms of an award shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of the Plan or such other document shall continue in effect.

The Plan, the granting and vesting of awards under the Plan and the issuance and delivery of Common Stock and/or the payment of money under the Plan or under awards granted hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities and banking laws) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements.

The Plan and the awards granted under the Plan are intended to comply with (or be exempt from, as the case may be) Section 409A of the Code so as to avoid any tax, penalty or interest under Section 409A of the Code. The Plan shall be construed, operated and administered consistent with this intent.

19. Successors and Assigns

The Plan shall be binding on all successors and assigns of a participant, including, without limitation, the estate of such participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the participant's creditors.

20. Rights as a Shareholder

Except as otherwise provided in the award agreement, a participant shall have no rights as a shareholder until he or she becomes the holder of record of shares of Common Stock.

21. Recoupment of Awards

Awards under the Plan are subject to recoupment pursuant to the Company's Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time, and participants shall promptly make any reimbursement requested by the Board or Committee pursuant to such policy with respect to any award.

**NORTHROP GRUMMAN CORPORATION
EQUITY GRANT PROGRAM FOR NON-EMPLOYEE DIRECTORS
UNDER THE
NORTHROP GRUMMAN 2011 LONG-TERM INCENTIVE STOCK PLAN
Amended and Restated Effective January 1, 2015**

1. Purpose

(a) The purpose of the Northrop Grumman Corporation Equity Grant Program for Non-Employee Directors (the “Program”) is to promote the long-term growth and financial success of Northrop Grumman Corporation (the “Company”) by attracting and retaining non-employee directors of outstanding ability and assisting the Company in promoting a greater identity of interest between the Company’s non-employee directors and its stockholders.

(b) The Program is adopted and maintained under the Company’s 2011 Long-Term Incentive Stock Plan and any successor equity compensation plan of the Company (as each such plan may be amended from time to time, the “Equity Plan”). The Program sets forth terms and conditions previously approved by the Company’s Board of Directors (the “Board”) with respect to the compensation of Eligible Directors (as defined below) for 2012 and will continue in effect for 2012 and subsequent years unless and until otherwise provided by the Company’s Board of Directors (the “Board”). The term “Stock Units” as used in the Program and any provisions of the Program applicable to such Stock Units refers only to Stock Units that are credited under the Program on or after January 1, 2012 (the “Effective Date”). The Program constitutes the award agreement evidencing the terms and conditions of the awards of Stock Units contemplated hereby. This Program does not affect any stock units or other awards granted prior to the Effective Date. Unless otherwise provided by the Board, no awards will be granted to Eligible Directors under the Equity Plan on or after the Effective Date other than as provided under this Program.

(c) Effective January 1, 2015 the Program provides for alternative investment options pursuant to Section 10 for compensation earned on or after January 1, 2015, to the extent such compensation is not already required to be received in the form of Automatic Stock Units.

2. Term

The Program shall operate and shall remain in effect until terminated by action of the Board.

3. Program Operation

The Program and transactions hereunder in respect of Company equity securities are intended to be exempt from Section 16(b) of the Securities Exchange Act of 1934 (the

“1934 Act”) to the maximum extent possible under Rule 16b-3 promulgated thereunder. Except as specifically provided for herein, the Program requires no discretionary action by any administrative body with regard to any transaction under the Program. To the extent, if any, that any administrative or interpretive actions are required under the Program, such actions shall be undertaken by the Board or by the Compensation Committee of the Board (the “Compensation Committee”).

4. Eligibility

Only directors of the Company who are not employees of the Company or any subsidiary of the Company (“Eligible Directors”) shall participate in the Program.

5. Shares of Common Stock Subject to the Program

Shares of common stock of the Company (“Common Stock”) that are paid in settlement of Stock Units awarded under the Program shall be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Equity Plan then in effect and giving effect to any applicable fungible or premium share-counting rules of such plan.

6. Adjustments and Reorganizations

(a) Upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of shares of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Board or Compensation Committee shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of Stock Units, (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding Stock Units, and/or (3) the securities, cash or other property deliverable upon payment of any outstanding Stock Units, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Program and the then-outstanding Stock Units. The Board or Compensation Committee may also prospectively make such similar appropriate adjustment in the calculation of Fair Market Value (as defined in Section 7) as it deems necessary to preserve (but not increase) Eligible Directors’ rights under the Program.

(b) It is intended that, if possible, any adjustments contemplated by the preceding Section 6(a) be made in a manner that satisfies applicable legal, tax (including, without limitation and as applicable in the circumstances, Section 409A of the Internal Revenue Code of 1986, as amended (“Section 409A”)) and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements. Any good faith determination by the Board or Compensation Committee as to whether an

adjustment is required in the circumstances pursuant to Section 6(a), and the extent and nature of any such adjustment, shall be conclusive and binding on all persons.

7. Fair Market Value

Fair Market Value for all purposes under the Program shall mean the NYSE closing price of a share of Common Stock on the last trading day of the applicable quarter.

8. Grants of Stock Units

(a) The annual retainer payable to each Eligible Director for services as a director (the “Annual Retainer”) and, for any Eligible Director who so elects pursuant to Section 8(b), any fees payable for service on Board committees, for service as lead independent director or for extraordinary services (the “Other Annual Retainers”) shall be payable in the form of a credit of Stock Units under the Program pursuant to and to the extent provided below. As used herein, a “Stock Unit” is a non-voting unit of measurement which is credited to a bookkeeping account and deemed for purposes of the Program to be equivalent in value to one outstanding share of Common Stock. The Stock Units shall be used solely as a device for the determination of any payment to eventually be made to the Eligible Director pursuant to Section 9. Prior to the beginning of each calendar year, the Board (or applicable committee thereof) shall establish what amount of the Annual Retainer payable for a particular quarter during that calendar year will be credited as Automatic Stock Units as provided in (b) below (the “Automatic Deferral Amount”). If the Board modifies the Annual Retainer, such modification will not change the Automatic Deferral Amount for the calendar year in which the modification is made. In such event, the Automatic Deferral Amount for the calendar year in which the modification is made will remain the same, and any modification in the Annual Retainer amount for that year will increase or reduce, as the case may be, the Annual Deferral that would be paid in cash for that year (before giving effect to Eligible Directors’ voluntary deferral elections pursuant to Section 8(b) below).

(b) As of the last day of each calendar quarter during the term of the Program (each, a “Crediting Date”), each Eligible Director’s account under the Program will be automatically credited with a number of Stock Units equal to the Automatic Deferral Amount for that particular quarter divided by the Fair Market Value of a share of Common Stock on that Crediting Date (the “Automatic Stock Units”). Any remaining amount of the Annual Retainer and one hundred percent (100%) of the amount of any Other Annual Retainers for such calendar quarter will be paid to the Eligible Director in cash; provided, however, that the Eligible Director may elect in advance to have all or any portion of the remaining Annual Retainer and all or any portion of such Other Annual Retainers for such calendar quarter credited as Stock Units to his or her account under the Program in lieu of such cash payment (the “Elective Stock Units”). Any such election to receive Elective Stock Units in lieu of a cash payment under the foregoing proviso must be made, on a form and in a manner prescribed by Company management, prior to the beginning of the calendar year to which such Annual Retainer or any Other Annual

Retainers relate. The number of Elective Stock Units to be credited pursuant to such election on a Crediting Date shall be determined by dividing the portion of the Annual Retainer and Other Annual Retainer that would have otherwise been paid in cash to the Eligible Director for the corresponding calendar quarter but for such an election by the Eligible Director, divided by the Fair Market Value of a share of Common Stock on that Crediting Date.

9. Payment of Stock Units

(a) All Stock Units shall be paid in an equivalent number of shares of Common Stock. All Stock Units shall be paid on or within 30 days after the Eligible Director's Separation from Service; provided, however, that the Eligible Director may elect in advance to have all or any portion of any Automatic Stock Units credited for calendar years following the calendar year in which the Eligible Director has received at least five (5) years worth of Automatic Stock Units and all or any portion of any Elective Stock Units paid upon the earlier of (i) the Eligible Director's Separation from Service or (ii) a calendar year specified by the Eligible Director in his or her election (which year may be no earlier than the year after the calendar year to which the deferred Annual Retainer or Other Annual Retainers, as the case may be, relate). Any such election to receive payment of an Annual Retainer or Other Annual Retainer upon the earlier of a Separation from Service or a specified calendar year under the foregoing proviso must be made, on a form and in a manner prescribed by Company management, prior to the beginning of the calendar year to which such Annual Retainer or any Other Annual Retainers relate. If the Eligible Director makes such an election to receive payment upon the earlier of a Separation from Service or a specified calendar year and payment is triggered (1) by the occurrence of the specified calendar year, the applicable Stock Units will generally be paid in January of such calendar year, and shall in all cases be paid prior to the end of such calendar year, or (2) by the Separation from Service, the applicable Stock Units shall be paid on or within 30 days of the Separation from Service.

(b) Notwithstanding the foregoing Section 9(a), if an Eligible Director is a Key Employee as of his Separation from Service, any payment triggered by the Eligible Director's Separation from Service shall be made on the first day of the seventh month following the date of his or her Separation from Service (or, if earlier, the date of his or her death). Such payment shall be subject to adjustment as provided in Section 6 and shall be in complete satisfaction of such Stock Units. For the avoidance of doubt, an Eligible Director shall continue to be eligible to receive additional credits of Stock Units as dividend equivalents pursuant to Section 12 during any period of time payment of the Eligible Director's Stock Units is delayed pursuant to this Section 9(b).

(c) For purposes of this Program, the following terms shall have the meanings indicated below:

Affiliated Company. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include

Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.

Key Employee. A director or an employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or an Affiliated Company (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the Company’s or an Affiliated Company’s stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Section 409A. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

Separation from Service. A “separation from service” within the meaning of Section 409A.

(d) Section 6 of the 2011 Long-Term Incentive Stock Plan (addressing certain change in control events) shall apply to the Stock Units; provided that no modification to the timing of payment of the Stock Units shall be made unless the requirements of Treas. Reg. Section 1.409A-3(j)(4)(ix) (“plan terminations and liquidations”), or any successor provision thereto, are satisfied and such modification would not result in any tax, penalty or interest under Section 409A.

10. Elective Deferrals

(a) Eligible Directors shall be provided with the opportunity to elect to defer all or a portion of their Eligible Compensation, at the time and in the form and manner set forth below. To be effective, any deferral election must be filed by the deadline established by Company management, which shall be no later than December 31st of the calendar year before the calendar year in which the services giving rise to the Eligible Compensation to be deferred will be performed. An individual who becomes an Eligible Director on or after January 1 of a calendar year shall not be eligible to defer any portion of Eligible Compensation during that calendar year. Deferral election forms shall be in such form, and shall be filed and revoked in such manner as Company management shall from time to time determine. In addition, the Board may establish such minimum deferral amounts, specified percentages of Eligible Compensation that may be deferred, and similar requirements and limitations, as it may determine to be appropriate for convenience of administration of the Program.

(b) The Board shall cause Company management to establish and maintain an Elective Deferral Account for each Eligible Director who elects to defer Eligible Compensation earned on or after January 1, 2015, pursuant to Section 10(a) above. On the last day of each calendar quarter, the Elective Deferral Account of each person who is an Eligible Director as of such date shall be credited with his or her Elective Deferral Amount (if any) for such calendar quarter.

(c) Company management shall from time to time establish one or more bookkeeping investment funds (each, an "Investment Fund") based upon such criteria as it may from time to time determine. Company management shall establish procedures to permit Eligible Directors to make Investment Elections from time to time indicating in which of the available Investment Funds their Elective Deferral Accounts shall be deemed invested. Company management shall cause Eligible Director's Elective Deferral Account to be adjusted upwards or downwards, at such intervals as it may from time to time determine, to reflect the net investment return (whether positive or negative) of the particular Investment Fund(s) elected; *provided*, that no Elective Deferral Account may at any time have a balance less than zero.

(d) For purposes of this Program, the following terms shall have the meanings indicated below:

Elective Deferral Account. A bookkeeping account for an Eligible Director representing the Eligible Compensation that the Eligible Director has elected to defer under Section 10(a) of the Program, as adjusted to reflect earnings, losses, contributions and distributions in accordance with Section 10(c) and Section 11 of the Program.

Elective Deferral Amount. An amount of Eligible Compensation that an Eligible Director elects to defer under and in accordance with Section 10(a) of the Program.

Eligible Compensation. With respect to any calendar quarter, the portion of an Eligible Director's Annual Retainer and Other Annual Retainers payable for such quarter, less: (i) the Eligible Director's Automatic Deferral Amount for such quarter, and (ii) any amount for such quarter which the Eligible Director elects to receive in the form of Elective Stock Units in accordance with Section 8(b).

Investment Election. An election by an Eligible Director to have Elective Deferral Amounts invested in an Investment Fund. Investment Elections shall be made on a form and in the manner prescribed by Company management.

11. Payment of Elective Deferrals

(a) The balance of an Eligible Director's Elective Deferral Account shall be paid in a single distribution within 30 days following such Eligible Director's Separation from Service, unless: (i) the Eligible Director has elected an alternative time of payment under Section 11(b) or (ii) a later date is required by Section 11(e).

(b) In lieu of the default time of payment set forth in Section 11(a), an Eligible Director may elect to receive a distribution of all or a portion of his Elective Deferral Account at the earlier of Separation from Service or a calendar year specified by the Eligible Director. Any such election must be made in accordance with the procedures set forth in Section 11(d). A distribution scheduled to be made due to the Eligible Director's

Separation from Service shall be made within 30 days of such Separation from Service. A distribution scheduled to be made in a specified calendar year shall be made no later than December 31st of such calendar year.

(c) All distributions from an Eligible Director's Elective Deferral Account shall be made in cash.

(d) Company management shall establish rules and procedures for an Eligible Director to file a distribution election form on which such Eligible Director may make a distribution election, subject to the following requirements and restrictions:

(1) A distribution election form must be filed by the deadline established by Company management, which shall be no later than December 31st of the calendar year before the calendar year in which the Eligible Director will perform the services giving rise to the Annual Retainer (or Other Annual Retainer, if applicable) to be deferred;

(2) A distribution election applies only with respect to deferrals for the calendar year for which the distribution election form is filed. If an Eligible Director wishes to make a distribution election for amounts deferred in subsequent calendar years, a new distribution election form must be filed for each calendar year by the deadline described in Section 11(d)(1), above; and

(3) A distribution election is irrevocable once the distribution election form is filed.

In addition, Company management may establish rules for designating a beneficiary, and such other rules, limitations and conditions as Company management determines to be appropriate, subject to the requirements and restrictions set forth above.

(e) If an Eligible Director is a "specified employee" (as determined by the Company in accordance with Section 409A(a)(2)(B) of the Code and Treas. Reg. § 1.409A-1(i)), any amount that becomes payable under this Section 11 as a result of the Eligible Director's Separation from Service shall be paid on the later of (a) the payment date prescribed by this Section 11, and (b) the first day of the seventh month that begins after the Eligible Director's Separation from Service.

(f) If an Eligible Director dies before the balance of his Elective Deferral Account is fully distributed, the remaining balance of the Eligible Director's Elective Deferral Account shall be distributed (in the form such balance would have been paid to such Eligible Director) to his beneficiary within 90 days after the Eligible Director's death.

(g) Section 6 of the Equity Plan (addressing certain change in control events) shall apply to Elective Deferral Accounts; provided that no modification to the timing of payment shall be made unless the requirements of Treas. Reg. Section 1.409A-3(j)(4)(ix)

(“plan terminations and liquidations”), or any successor provision thereto, are satisfied and such modification would not result in any tax, penalty or interest under Section 409A.

12. Dividend Equivalents

No later than sixty (60) days following each date that the Company pays an ordinary cash dividend on its outstanding Common Stock (if any ordinary cash dividends are paid), for which the related record date occurs on or after the Effective Date and prior to all of the Eligible Director’s Stock Units being paid pursuant to Section 9, the Eligible Director’s Stock Unit account shall be credited with additional Stock Units equal to (i) the number of outstanding and unpaid Stock Units credited to such account as of such record date, multiplied by (ii) the amount of the ordinary cash dividend paid by the Company on a share of Common Stock, divided by (iii) the Fair Market Value of a share of the Common Stock as of such record date. Any Stock Units credited pursuant to the foregoing provisions of this Section 12 shall be subject to the same payment and other terms and conditions as the original Stock Units to which they relate.

13. Restrictions on Transfer

Stock Units shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by an Eligible Director other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. An Eligible Director may designate a beneficiary or beneficiaries to receive any distributions under the Program, including distributions of Elective Deferral Accounts, upon the death of the Eligible Director.

14. Issuance of Certificates

(a) On each payment date described in Section 9, the Company shall deliver to the Eligible Director a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Company in its discretion) equivalent to the number of Stock Units which are payable under the Program with respect to such payment date.

(b) Whenever under the terms of the Program a fractional share would be required to be issued, the fractional share shall be rounded up to the next full share.

(c) All shares of Common Stock delivered under the Program shall be subject to such stop-transfer orders and other restrictions as the Company may deem advisable or legally necessary under any laws, statutes, rules, regulations and other legal requirements, including those of any stock exchange upon which the Common Stock is then listed and any applicable Federal, state or foreign securities law.

(d) Anything to the contrary herein notwithstanding, the Company shall not be required to issue any shares of Common Stock under the Program if, in the opinion of

legal counsel, the issuance and delivery of such shares would constitute a violation by the Eligible Director or the Company of any applicable law or regulation of any governmental authority, including, without limitation, Federal and state securities laws, or the regulations of any stock exchange on which the Company's securities may then be listed.

15. Program Amendment

The Board may suspend or terminate the Program or any portion of the Program. The Board may also amend the Program if deemed to be in the best interests of the Company and its stockholders; provided, however, that (a) no such amendment may impair any Eligible Director's right regarding any outstanding grants or Stock Units, Elective Deferral Accounts, or other right to receive shares or cash payments under the Program without his or her consent, and (b) no such amendment may cause the Program not to comply with Rule 16b-3, or any successor rule, under the 1934 Act.

16. Unfunded Program

The Program shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Program shall not establish any fiduciary relationship between the Company and any Eligible Director or other person. To the extent any person holds any rights by virtue of an award granted under the Program, such rights (unless otherwise determined by the Board) shall be no greater than the rights of an unsecured general creditor of the Company.

17. Future Rights

Neither the Program, nor the granting of Common Stock nor any other action taken pursuant to the Program, shall constitute or be evidence of any agreement or understanding, express or implied, that the Company will retain an Eligible Director for any period of time, or at any particular rate of compensation. Nothing in this Program shall in any way limit or affect the right of the Board or the stockholders of the Company to remove any Eligible Director or otherwise terminate his or her service as a director of the Company.

18. Governing Law

The Program and all rights and obligations under the Program shall be governed by, and construed in accordance with, the laws of the State of Delaware and applicable Federal law.

19. Successors and Assigns

The Program shall be binding on all successors and assigns of an Eligible Director, including, without limitation, the estate of such Eligible Director and the

executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Eligible Director's creditors.

20. Rights as a Stockholder

The Eligible Director in whose name any shares of Common Stock have been issued pursuant to this Program shall have all of the rights of a stockholder with respect to such shares, including the right to vote the Common Stock and receive dividends and other distributions made on the Common Stock. Shares of Common Stock issued in respect of Stock Units credited under the Program shall be fully paid and non-assessable.

21. Construction

The Program shall be construed and interpreted to comply with, and avoid any tax or penalty or interest under, Section 409A. Notwithstanding Section 15 above, the Company reserves the right to amend the Program and any outstanding grants or deferrals under the Program to the extent it reasonably determines is consistent with and necessary in order to preserve the intended tax consequences of the Stock Units and amounts deferred in Elective Deferral Accounts, in light of Section 409A and any regulations or other guidance promulgated thereunder.

Board of Director Compensation
(effective as of January 1, 2015)

Retainer: Retainer fees are paid quarterly, at the end of each quarter. Fees are as follows:

Annual cash retainer:	\$120,000
Additional retainer for Lead Independent Director:	\$25,000
Additional retainer for Audit Committee:	\$10,000
Additional retainer for Audit Committee chair:	\$20,000
Additional retainer for Comp Committee chair:	\$15,000
Additional retainer for Gov Committee chair:	\$15,000
Additional retainer for Policy Committee chair:	\$7,500

Equity Grant: Directors are awarded an annual equity grant of \$135,000 in deferred stock units, awarded quarterly. The deferred stock units will be paid at the conclusion of board service, or earlier, as specified by the director, if he has five or more years of service.

Directors may elect to defer payment of all or a portion of their cash retainer fees and any other annual committee retainer fees into the deferred stock unit account.

Elective Deferral Program: Directors may elect to defer to a later year all or a portion of their remaining annual cash retainer and any other fees payable for their Board service into alternative investment options similar to the options generally available under Northrop Grumman's Savings Excess Plan.

NORTHROP GRUMMAN

SAVINGS EXCESS PLAN

(Amended and Restated Effective as of January 1, 2015)

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INTRODUCTION

The Northrop Grumman Savings Excess Plan (the "Plan") was last amended and restated effective as of October 1, 2013. This restatement amends that version of the Plan, and is effective January 1, 2015, and does not affect amounts earned and vested under the Plan prior to 2005.

Northrop Grumman Corporation (the "Company") established this Plan for participants in the Northrop Grumman Savings Plan who exceed the limits under sections 401(a)(17) or 415(c) of the Internal Revenue Code. This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the "Code") and official guidance issued thereunder (except with respect to amounts covered by Appendix B), and (2) to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

ARTICLE I **DEFINITIONS**

1.1 Definitions

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

(a) "Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.

(b) "Administrative Committee" means the committee in charge of Plan administration, as described in Article VII.

(c) "Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).

(d) "Base Salary" shall mean a Participant's annual base salary, excluding bonuses, commissions, incentive and all other remuneration for services rendered to the Affiliated Companies and prior to reduction for any salary contributions to a plan established pursuant to section 125 of the Code or qualified pursuant to section 401(k) of the Code.

(e) "Basic Contributions" shall have the same meaning as that term is defined in the NGSP.

(f) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.

(1) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.

(2) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.

No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company. Effective January 1, 2007, a Participant will automatically revoke a designation of a spouse as primary beneficiary upon the dissolution of their marriage.

(3) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company.

(4) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

(g) "Board" shall mean the Board of Directors of the Company.

(h) "Bonuses" shall mean the bonuses earned under the Company's formal incentive plans as defined by the Administrative Committee.

- (i) "Code" shall mean the Internal Revenue Code of 1986, as amended.
- (j) "Committees" shall mean the Committees appointed as provided in Article VII.
- (k) "Company" shall mean Northrop Grumman Corporation and any successor.
- (l) "Company Contributions" shall mean contributions by the Company to a Participant's Account.
- (m) "Compensation" shall be Compensation as defined by Section 5.01 of the NGSP.

(n) "Disability" or "Disabled" shall mean the Participant's inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

(o) "Eligible Compensation" shall mean (1) Compensation prior to January 1, 2009, and (2) after 2008, Base Salary and Bonuses, reduced by the amount of any deferrals made from such amounts under the Northrop Grumman Deferred Compensation Plan.

(p) "Eligible Employee" shall mean any Employee who meets the following conditions:

- (1) he or she is eligible to participate in the NGSP;
- (2) he or she is classified by the Affiliated Companies as an Employee and not as an independent contractor;
- (3) he or she meets any additional eligibility criteria set by the Administrative Committee.

and

Additional eligibility criteria established by the Administrative Committee may include specifying classifications of Employees who are eligible to participate and the date as of which various groups of Employees will be eligible to participate. This includes, for example, Administrative Committee authority to delay eligibility for employees of newly acquired companies who become Employees.

(q) "Employee" shall mean any common law employee of the Affiliated Companies who is classified as an employee by the Affiliated Companies.

(r) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

(s) "Investment Committee" means the committee in charge of investment aspects of the Plan, as described in Article VII.

(t) "Key Employee" means an employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

(u) "NGSP" means the Northrop Grumman Savings Plan.

(v) "Open Enrollment Period" means the period designated by the Administrative Committee for electing deferrals for the following Plan Year.

(w) "Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II or any Employee who is a RAC Participant.

(x) "Payment Date" shall mean:

(1) for distributions upon early termination under Section B.1(a), a date after the end of the month in which termination of employment occurs; and

(2) for distributions after Retirement, Disability or death under Section B.1(b), a date after the end of the month in which occurs Retirement, the determination of Disability by the Administrative Committee, or the notification of the Administrative Committee of the Participant's death (or later qualification of the Beneficiary or Beneficiaries), as applicable.

The exact date in each case will be determined by the Administrative Committee to allow time for administrative processing.

(y) "Plan" shall be the Northrop Grumman Savings Excess Plan.

(z) "Plan Year" shall be the calendar year.

(aa) "RAC Contributions" shall mean the Company contributions under Section 3.2(b)(2) and Section 3.2(b)(4).

(bb) "RAC Participant" shall mean an Employee who is eligible to participate in the NGSP, receives Retirement Account Contributions under the NGSP, and is classified by the Affiliated Companies as an Employee and not as an independent contractor. Notwithstanding the foregoing, an Employee who becomes eligible to participate in the Officers Supplemental

Executive Retirement Program II ("OSERP II") under the Northrop Grumman Supplemental Plan 2 shall immediately cease to be eligible for RAC Contributions.

(cc) "RAC Subaccount" shall mean the portion of a Participant's Account made up of RAC Contributions and earnings thereon.

(dd) "Retirement" shall mean termination of employment with the Affiliated Companies after reaching age 55.

(ee) "Separation from Service" or "Separates from Service" or "Separating from Service" means a "separation from service" within the meaning of Code section 409A.

ARTICLE II **PARTICIPATION**

2.1 In General

(a) An Eligible Employee may become a Participant by complying with the procedures established by the Administrative Committee for enrolling in the Plan. Anyone who becomes an Eligible Employee will be entitled to become a Participant during an Open Enrollment Period.

(b) A RAC Participant will become a Participant when RAC Contributions are first made to his or her RAC Subaccount.

(c) An individual will cease to be a Participant when he or she no longer has a positive balance to his or her Account under the Plan.

2.2 Disputes as to Employment Status

(a) Because there may be disputes about an individual's proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.

(b) The Affiliated Companies will make the initial determination of an individual's employment status.

(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an "Eligible Employee" and he or she will not be entitled to participate in the Plan.

(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary of the plan and enrollment forms or other actions are taken indicating that he or she may participate.

(c) Disputes may arise as to an individual's employment status. As part of the resolution of the dispute, an individual's status may be changed by the Affiliated Companies

from non-Employee to Employee. Such Employees are not Eligible Employees and will not be entitled to participate in the Plan.

ARTICLE III
DEFERRAL ELECTIONS

3.1 Elections to Defer Eligible Compensation

(a) Timing. An Eligible Employee who meets the requirements of Section 2.1(a) may elect to defer Eligible Compensation earned in a Plan Year by filing an election in the Open Enrollment Period for the Plan Year. An election to participate for a Plan Year is irrevocable.

(b) Election Rules. An Eligible Employee's election may be made in writing, electronically, or as otherwise specified by the Administrative Committee. Such election shall specify the Eligible Employee's rate of deferral for contributions to the Plan, which shall be between 1% and 75%, and shall address distribution of the deferred amounts as described in Section 6.1. Notwithstanding the foregoing, the rate of deferral elected for contributions to the Plan by individuals who are Corporate Policy Council members at the time of making such election shall be limited to 50%. All elections must be made in accordance with the rules, procedures and forms provided by the Administrative Committee. The Administrative Committee may change the rules, procedures and forms from time to time and without prior notice to Participants.

(c) Cancellation of Election. If a Participant becomes disabled (as defined under Code section 409A) during a Plan Year, his deferral election for such Plan Year shall be cancelled.

3.2 Contribution Amounts

(a) Participant Contributions. An Eligible Employee's contributions under the Plan for a Plan Year will begin once his or her Compensation for the Plan Year exceeds the Code section 401(a)(17) limit for the Plan Year. The Participant's elected deferral percentage will be applied to his or her Eligible Compensation for the balance of the Plan Year.

(b) Company Contributions. The Company will make Company Contributions to a Participant's Account as provided in (1), (2) and (3) below.

(1) Matching Contributions. The Company will make a Company Contribution equal to the matching contribution rate for which the Participant is eligible under the NGSP for the Plan Year multiplied by the amount of the Participant's contributions under subsection (a).

(2) RAC Contributions. Effective July 1, 2008, the Company will make RAC Contributions equal to a percentage of a RAC Participant's Compensation for a Plan Year in excess of the Code section 401(a)(17) limit. The percentage used to calculate a RAC

Participant's contribution for a Plan Year shall be based on the RAC Participant's age on the last day of the Plan Year as follows:

- (i) Three percent if not yet age 35.
- (ii) Four percent if 35 or older, but not yet 50.
- (iii) Five percent if age 50 or older.

(3) Make-Up Matching Contributions for Contribution Limitation. If an Eligible Employee's Basic Contributions under the NGSP for a Plan Year are limited by the Code section 415(c) contribution limit before the Eligible Employee's Basic Contributions under the NGSP are limited by the Code section 401(a)(17) compensation limit, the Company will make a Company Contribution equal to the amount of matching contributions for which the Eligible Employee would have been eligible under the NGSP were Code section 415(c) not applied, reduced by the actual amount of matching contributions made for the Plan Year under the NGSP.

(4) Make-Up RAC Contributions for Contribution Limitation. If an Eligible Employee is a RAC Participant and his Retirement Account Contributions under the NGSP for a Plan Year are limited by the Code section 415(c) contribution limit before the RAC Participant's Retirement Account Contributions under the NGSP are limited by the Code section 401(a)(17) compensation limit, the Company will make a Company Contribution equal to the amount of Retirement Account Contributions for which the RAC Participant would have been eligible under the NGSP were Code section 415(c) not applied, reduced by the actual amount of Retirement Account Contributions made for the Plan Year under the NGSP.

3.3 Crediting of Deferrals

Amounts deferred by a Participant under the Plan shall be credited to the Participant's Account as soon as practicable after the amounts would have otherwise been paid to the Participant. Company contributions other than those under Section 3.2(b)(3) and Section 3.2(b)(4) will be credited to Accounts as soon as practicable after each payroll cycle in which they accrue. Company contributions under Section 3.2(b)(3) and Section 3.2(b)(4) will be credited to Accounts as soon as practicable after each Plan Year.

3.4 Investment Elections

(a) The Investment Committee will establish a number of different investment funds or other investment options for the Plan. The Investment Committee may change the funds or other investment options from time to time, without prior notice to Participants.

(b) Participants may elect how their future contributions and existing Account balances will be deemed invested in the various investment funds and may change their elections from time to time. If a Participant does not elect how future contributions will be deemed

invested, contributions will be deemed invested in the qualified default investment alternative ("QDIA") that applies to the Participant under the NGSP.

(c) The deemed investments for a RAC Participant's RAC Subaccount must be the same as the deemed investments for the RAC Participant's Company contributions under Section 3.2(b)(1).

(d) Selections of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may prescribe rules that may include, among other matters, limitations on the amounts that may be transferred and procedures for electing transfers.

(2) The Administrative Committee may prescribe valuation rules for purposes of investment elections and transfers. Such rules may, in the Administrative Committee's discretion, use averaging methods to determine values and accrue estimated expenses. The Administrative Committee may change the methods it uses for valuation from time to time.

(3) The Administrative Committee may prescribe the periods and frequency with which Participants may change deemed investment elections and make transfers.

(4) The Administrative Committee may change its rules and procedures from time to time and without prior notice to Participants.

(e) Effective January 13, 2011, Participant investment elections involving a Company stock investment fund (e.g., transfers into or out of the fund) may be restricted, including in accordance with Company policies generally applicable to employee transactions in Company stock.

3.5 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of their contributions due to poor investment performance.

ARTICLE IV **ACCOUNTS**

4.1 Accounts

The Administrative Committee shall establish and maintain a recordkeeping Account for each Participant under the Plan.

4.2 Valuation of Accounts

The valuation of Participants' recordkeeping Accounts will reflect earnings, losses, expenses and distributions, and will be made in accordance with the rules and procedures of the Administrative Committee.

(a) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(b) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(c) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

4.3 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies that it may use in meeting its obligations under the Plan. Any trust set up will be a rabbi trust and any assets placed in the trust shall continue for all purposes to be part of the general assets of the Company and shall be available to its general creditors in the event of the Company's bankruptcy or insolvency.

ARTICLE V VESTING AND FORFEITURES

5.1 In General

A Participant's interest in his or her Account will be nonforfeitable, subject to the exceptions in Section 5.2.

5.2 Exceptions

The following exceptions apply to the vesting rule in Section 5.1 above:

(a) A RAC Participant shall become fully vested in his or her RAC Subaccount and earnings thereon upon the earliest of the following dates, provided he or she is an Employee at such time: (i) the date he or she completes three years of service, (ii) the date of his or her 65th birthday, (iii) the date of his or her death, (iv) the date he or she becomes Disabled, or (v) the date Company Contributions are completely discontinued or the Plan is terminated. Notwithstanding anything to the contrary, if a Participant terminates employment with the Affiliated Companies prior to vesting as set forth in this Section 5.2(a), his or her unvested RAC Subaccount and earnings thereon shall be immediately forfeited upon such termination. For this purpose, years of service shall be calculated in the same manner as for purposes of determining vesting in Retirement Account Contributions under the NGSP (including the treatment of a break in service).

(b) A Participant whose original date of hire with the Affiliated Companies is after April 30, 2012 shall become fully vested in his or her Company matching contributions under Sections 3.2(b)(1) and (3) and earnings thereon upon the earliest of the following dates, provided he or she is an Employee at such time: (i) the date he or she completes three years of service, (ii) the date of his or her 65th birthday, (iii) the date of his or her death, or (iv) the date he

or she becomes Disabled, or (v) the date Company Contributions are completely discontinued or the Plan is terminated. Notwithstanding anything to the contrary, if a Participant terminates employment with the Affiliated Companies prior to vesting as set for in this Section 5.2(b), his or her unvested Company matching contributions under Sections 3.2(b)(1) and (3) and earnings thereon shall be immediately forfeited upon such termination. For this purpose, years of service shall be calculated in the same manner as for purposes of determining vesting in Retirement Account Contributions under the NGSP (including the treatment of a break in service).

- (c) Forfeitures on account of a lost payee. See Section 6.6.
- (d) Forfeitures under an escheat law.
- (e) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (f) Expenses charged to a Participant's Account.
- (g) Investment losses.

ARTICLE VI DISTRIBUTIONS

6.1 Distribution Rules for Non-RAC Amounts

The rules in this Section 6.1 apply to distribution of a Participant's Account other than the RAC Subaccount.

Notwithstanding the foregoing, Appendix B governs the distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Code section 409A. Thus, this Section 6.1 does not apply to these pre-2005 deferrals, but does apply to all other amounts deferred under the Plan.

(a) Separate Distribution Election. A Participant must make a separate distribution election for each year's contributions. A Participant generally makes a distribution election at the same time the Participant makes the deferral election, i.e., during the Open Enrollment Period.

(b) Distribution Upon Separation. A Participant may elect on a deferral form to have the vested portion of his Account related to amounts deferred under the deferral form and Company contributions for the same year (and earnings thereon) distributed in a lump sum or in quarterly or annual installments over a period of 1 to 15 years. Lump sum payments under the Plan will be made in the month following the Participant's Separation from Service. Installment payments shall commence in the March, June, September or December next following the month of Separation from Service. If a Participant does not make a distribution election and his vested Account balance exceeds \$50,000 and the Participant is age 55 or older at the time the Participant Separates from Service, the Participant will receive quarterly installments over a 10-year period. Otherwise, a Participant not making an election will receive a lump sum payment.

Notwithstanding the foregoing, if the Participant's vested Account balance is \$50,000 or less or the Participant is under age 55 at the time the Participant Separates from Service, the full vested Account balance shall be distributed in a lump sum payment in the month following the Participant's Separation from Service.

Notwithstanding the timing rules in the foregoing paragraph, distributions may not be made to a Key Employee upon a Separation from Service before the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee). Any payments that would otherwise be made during this period of delay shall be accumulated and paid six months after the date payments would have commenced absent the six month delay.

(c) Changes in Form of Distribution. A Participant may make up to two subsequent elections to change the form of a distribution for any year's deferrals and Company contributions. Such an election, however, shall be effective only if the following conditions are satisfied:

(1) The election may not take effect until at least twelve (12) months after the date on which the election is made; and

(2) The distribution will be made exactly five (5) years from the date the distribution would have otherwise been made.

6.2 Distribution Rules for RAC Subaccount

The full vested balance in a RAC Subaccount shall be distributed in a lump sum upon a RAC Participant's Separation from Service. Notwithstanding the foregoing, distribution will not be made to a Key Employee upon a Separation from Service until the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee).

6.3 Effect of Taxation

If a Participant's benefits under the Plan are includible in income pursuant to Code section 409A, the Company shall have the discretion to accelerate the distribution of all or a portion of such includible benefits to the Participant, provided that the Participant shall not be given a direct or indirect election as to whether such discretion is exercised.

6.4 Permitted Delays

Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Committee's reasonable anticipation of one or more of the following events:

(a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or

- (b) The making of the payment would violate Federal securities laws or other applicable law;
- (c) provided, that any payment delayed pursuant to this Section 6.4 shall be paid in accordance with Code section

409A.

6.5 Payments Not Received At Death

In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check that has been issued by the Plan. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

6.6 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required payment date, the amount allocated to the Participant's Account shall be forfeited. If, after such forfeiture and prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period.

6.7 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

ARTICLE VII ADMINISTRATION

7.1 Committees

(a) Effective April 27, 2006, the Administrative Committee shall be comprised of the individuals (in their corporate capacity) who are members of the Administrative Committee for Northrop Grumman Deferred Compensation Plan. If no such Administrative Committee exists, the members of the Administrative Committee for the Plan shall be individuals holding the following positions within the Company (as such titles may be modified from time to time), or their successors in office: the Corporate Vice President and Chief Human Resources and Administration Officer; the Corporate Vice President, Controller and Chief Accounting Officer; the Vice President, Taxation; the Vice President, Compensation, Benefits and HRIS; and the Corporate Director, Benefits Administration and Services. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Corporate Vice President and Chief Human Resources and Administration Officer.

(b) Prior to April 27, 2006, the Administrative Committee shall be comprised of the individuals appointed by the Compensation Committee of the Board (the "Compensation Committee").

(c) An Investment Committee (referred to together with the Administrative Committee as, the "Committees"), comprised of one or more persons, shall be appointed by and serve at the pleasure of the Board (or its delegate). The number of members comprising the Investment Committee shall be determined by the Board, which may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

7.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any determination of action of a Committee may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members of the Committee then in office. A member of a Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of each Committee designated by the Chairman may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

The Compensation Committee shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The Administrative Committee shall conduct its business according to the provisions of this Article and the rules contained in the current edition of Robert's Rules of Order or such other rules of order the Administrative Committee may deem appropriate. The Administrative Committee shall hold meetings from time to time in any convenient location.

7.3 Powers and Duties of the Administrative Committee

The Administrative Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan and make all factual determinations;
- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;
- (c) To maintain all records that may be necessary for the administration of the Plan;
- (d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;

(e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;

(f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);

(g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and

(h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

7.4 Powers and Duties of the Investment Committee

The Investment Committee shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

(a) To select types of investment and the actual investments against which earnings and losses will be measured;

(b) To oversee any rabbi trust; and

(c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

7.5 Construction and Interpretation

The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, to make factual determinations and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or Beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

7.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the compensation of all Participants, their death or other events that cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

7.7 Committee Compensation, Expenses and Indemnity

(a) The members of the Committees shall serve without compensation for their services hereunder.

(b) The Committees are authorized to employ such accounting, consultants or legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

7.8 Disputes

The Company's standardized "Northrop Grumman Nonqualified Retirement Plans Claims and Appeals Procedures" shall apply in handling claims and appeals under this Plan.

ARTICLE VIII

MISCELLANEOUS

8.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

8.2 Restriction Against Assignment

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to

execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 5.2 will not be treated as violations of this Section.

(c) Notwithstanding the foregoing, all or a portion of a Participant's vested Account balance may be paid to another person as specified in a domestic relations order that the Administrative Committee determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

- (1) issued pursuant to a State's domestic relations law;
- (2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;
- (3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and
- (4) meets such other requirements established by the Administrative Committee.

The Administrative Committee shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Administrative Committee may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

8.3 Restriction Against Double Payment

If a court orders an assignment of benefits despite Section 8.2, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

8.4 Withholding

There shall be deducted from each payment made under the Plan or any other compensation payable to the Participant (or Beneficiary) all taxes, which are required to be withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated

Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

8.5 Amendment, Modification, Suspension or Termination

The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's Account balance as of the date of such amendment or termination. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and at the time described in Article VI, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

Notwithstanding the foregoing, no amendment of the Plan shall apply to amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to amounts that are "grandfathered" and exempt from the requirements of Code section 409A.

8.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

8.7 Receipt and Release

Any payment to a payee in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan, the Committees and the Affiliated Companies. The Administrative Committee may require such payee, as a condition precedent to such payment, to execute a receipt and release to such effect.

8.8 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

8.9 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan, any trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving

to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

8.10 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

8.11 Liabilities Transferred to HII

Northrop Grumman Corporation distributed its interest in Huntington Ingalls Industries, Inc. ("HII") to its shareholders on March 31, 2011 (the "HII Distribution Date"). Pursuant to an agreement between Northrop Grumman Corporation and HII, on the HII Distribution Date certain employees and former employees of HII ceased to participate in the Plan and the liabilities for these participants' benefits under the Plan were transferred to HII. On and after the HII Distribution Date, the Company and the Plan, and any successors thereto, shall have no further obligation or liability to any such participant with respect to any benefit, amount, or right due under the Plan.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 3rd day of December, 2014.

NORTHROP GRUMMAN CORPORATION

By: /s/ Denise M. Peppard
Denise M. Peppard
Corporate Vice President and
Chief Human Resources Officer

APPENDIX A – 2005 TRANSITION RELIEF

The following provisions apply only during 2005, pursuant to transition relief granted in IRS Notice 2005-1:

A.1 Cash-Out

Participants Separating from Service during 2005 for any reason before age 55 will receive an immediate lump sum distribution of their Account balances. Other Participants Separating from Service in 2005 will receive payments in accordance with their prior elections.

A.2 Elections

During the Plan's open enrollment period in June 2005 Participants may fully or partially cancel 2005 deferral elections and receive in 2005 a refund of amounts previously deferred in 2005.

In addition, individuals working in Company facilities impacted by Hurricane Katrina may stop or reduce 2005 elective contributions to the Plan at any time during 2005. All payments under this Section A.2 will be made before the end of calendar year 2005.

A.3 Key Employees

Key Employees Separating from Service on or after July 1, 2005, with distributions subject to Code section 409A and scheduled for payment in 2006 within six months of Separation from Service, may choose I or II below, subject to III:

- I. Delay the distributions described above for six months from the date of Separation from Service. The delayed payments will be paid as a single sum with interest at the end of the six month period, with the remaining payments resuming as scheduled.
- II. Accelerate the distributions described above into a payment in 2005 without interest adjustments.
- III. Key Employees must elect I or II during 2005.

APPENDIX B – DISTRIBUTION RULES FOR PRE-2005 AMOUNTS

Distribution of amounts earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan or a Merged Plan prior to 2005 (and earnings thereon) are exempt from the requirements of Code section 409A and shall be made in accordance with the Plan or the applicable Merged Plan terms as in effect on December 31, 2004 and as summarized in the following provisions, except as otherwise provided in Appendix C.

B.1 Distribution of Contributions

(a) Distributions Upon Early Termination.

(1) Voluntary Termination. If a Participant voluntarily terminates employment with the Affiliated Companies before age 55 or Disability, distribution of his or her Account will be made in a lump sum on the Participant's Payment Date.

(2) Involuntary Termination. If a Participant involuntarily terminates employment with the Affiliated Companies before age 55, distribution of his or her Account will generally be made in quarterly or annual installments over a fixed number of whole years not to exceed 15 years, commencing on the Participant's Payment Date, in accordance with the Participant's original election on his or her deferral election form. Payment will be made in a lump sum if the Participant had originally elected a lump sum, if the Account balance is \$50,000 or less, or if the Administrative Committee so specifies.

(b) Distribution After Retirement, Disability or Death. In the case of a Participant who separates from service with the Affiliated Companies on account of Retirement, Disability or death and has an Account balance of more than \$50,000, the Account shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 10 years commencing on the Participant's Payment Date unless an optional form of benefit has been specified pursuant to Section B.1(b) (1).

(1) An optional form of benefit may be elected by the Participant, on the form provided by Administrative Committee, during his or her initial election period from among those listed below:

(i) A lump sum distribution on the Participant's Payment Date.

(ii) Quarterly installments over a period of at least 1 and no more than 15 years beginning on the Participant's Payment Date.

(iii) Annual installments over a period of at least 2 and no more than 15 years beginning on the Participant's Payment Date.

(2) A Participant from time to time may modify the form of benefit that he or she has previously elected. Upon his or her separation from service, the most recently

elected form of distribution submitted at least 12 months prior to separation will govern. If no such election exists, distributions will be paid under the 10-year installment method.

(3) In the case of a Participant who terminates employment with the Affiliated Companies on account of Retirement, Disability or death with an Account balance of \$50,000 or less, the Account shall be paid to the Participant in a lump sum distribution on the Participant's Payment Date.

(4) In general, upon the Participant's death, payment of any remaining Account balance will be made to the Beneficiary in a lump sum on the Payment Date. But the Beneficiary will receive any remaining installments (starting on the Payment Date) if the Participant was receiving installments, or if the Participant died on or after age 55 with an Account balance over \$50,000 and with an effective installment payout election in place. In such cases, the Beneficiary may still elect a lump sum payment of the remaining Account balance, but only with the Administrative Committee's consent.

(5) In the event that this Plan is terminated, the amounts allocated to a Participant's Account shall be distributed to the Participant or, in the event of his or her death, to his or her Beneficiary in a lump sum.

APPENDIX C – MERGED PLANS

C.1 Plan Mergers

(a) Merged Plans. As of their respective effective dates, the plans listed in (c) (the "Merged Plans") are merged into this Plan. All amounts from those plans that were merged into this Plan are held in their corresponding Accounts.

(b) Accounts. Effective as of the dates below, Accounts are established for individuals who, before the merger, had account balances under the merged plans. These individuals will not accrue benefits under this Plan unless they become Participants by virtue of being hired into a covered position with an Affiliated Company, but they will be considered Participants for purposes of the merged accounts. The balance credited to the Participant's merged plan account will, effective as of the date provided in the table below, be invested in accordance with the terms of this Plan. Except as provided in section C.2 below, amounts merged into this Plan from the merged plans are governed by the terms of this Plan.

(c) Table.

Name of Merged Plans	Merger Effective Dates	Merged Account Names
Northrop Grumman Benefits Equalization Plan	December 10, 2004	NG BEP Account
Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan	December 10, 2004	S & MS Deferred Compensation Account
BDM International, Inc. 1997 Executive Deferred Compensation Plan ("BDM Plan")	April 29, 2005	BDM Account
PRC Inc. Executive Deferred Compensation Plan ("PRC Plan")	November 9, 2012	PRC EDCP Account (or Sub-Account, as applicable)

C.2 Merged Plans – General Rule

(a) NG BEP Account and S & MS Deferred Compensation Account. Distributions from Participants' NG BEP and S & MS Deferred Compensation Accounts are made under the provisions of Appendix B, except as provided in this Section.

(1) Amounts in the Participant's NG BEP Account and the S & MS Deferred Compensation Account shall be paid out in accordance with elections made under the Merged Plans.

(2) The Participant's "Payment Date" for amounts in the NG BEP Account and the S & MS Deferred Compensation Account shall be deemed to be the end of January following the Participant's termination of employment.

(3) The reference to \$50,000 in the provisions of Appendix B shall be deemed to be \$5,000 with respect to amounts in the NG BEP Account and the S & MS Deferred Compensation Account.

(4) The Administrative Committee shall assume the rights and responsibilities of the Directors/Committee with respect to determining whether a Participant's NG BEP Account may be paid out in a form other than the automatic form of payment.

(5) The Administrative Committee shall assume the rights and responsibilities of the Committee or Special Committee with respect to determining whether a Participant's S & MS Deferred Compensation Account may be paid out in a form other than the automatic form of payment.

(6) For purposes of determining the time of payment of a Participant's NG BEP Account, a Participant's employment will not be deemed to have terminated following the Participant's layoff until the earlier of the end of the twelve-month period following layoff (without a return to employment with the Affiliated Companies) or the date on which the Participant retires under any pension plan maintained by the Affiliated Companies.

(7) A Participant's S & MS Deferred Compensation Account shall be paid to the Participant no later than the January 5 next preceding the Participant's 80th birthday.

(8) In no event will payments of amounts in the Participant's NG BEP Account and the S & MS Deferred Compensation Account be accelerated or deferred beyond the payment schedule provided under the Merged Plans. However, any election to change the time or form of payment for such an amount may be made based on the terms of the relevant Merged Plan as in effect on October 3, 2004.

(b) BDM Account. Distributions of a Participant's vested BDM Account balance shall be made in accordance with this Section C.2(b), and Article VI shall not apply to such distributions. A Participant shall be vested in his BDM Account balance in accordance with the vesting provisions of the BDM Plan.

(1) Timing of Payment: A Participant's vested BDM Account balance shall be distributed in accordance with elections made under the BDM Plan. For those Participants who have not commenced distributions as of April 29, 2005, payments from the BDM Account will commence at the time designated on his or her BDM enrollment and election form, unless extended prior to such date. However, if such a Participant did not elect a fixed date (or elect the earlier of a fixed date or termination of employment), his or her vested BDM Account balance will be paid as soon as administratively practicable following termination of employment in the form designated under Section C.2(b)(2) below.

(2) Form of Payment: A Participant's vested BDM Account balance shall be paid in cash. The vested BDM Account balance will be paid in (i) a lump sum, (ii) five (5) or ten (10) substantially equal annual installments (adjusted for gains and losses), or (iii) a combination thereof, as selected by the Participant (or Beneficiary) prior to the date on which amounts are first payable to the Participant (or Beneficiary) under Section C.2(b)(1) above. If the Participant fails to designate properly the manner of payment, such payment will be made in a lump sum.

(3) Death Benefits: If a Participant dies before commencement of payment of his BDM Account balance, the entire Account balance will be paid at the times provided in Section C.2(b)(2) above to his or her Beneficiary. If a Participant dies after commencement but before he or she has received all payments from his vested BDM Account balance, the remaining installments shall be paid annually to the Beneficiary. For purposes of this Section C.2(b), a Participant's Beneficiary, unless subsequently changed, will be the designated beneficiary(ies) under the BDM Plan or if none, the Participant's spouse, if then living, but otherwise the Participant's then living descendants, if any, per stirpes, but, if none, the Participant's estate.

(4) Lost Participant: In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within three years following the payment date under Section C.2(b)(1) above, the amount allocated to the Participant's BDM Account shall be forfeited. If, after such forfeiture and prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period. In lieu of such a forfeiture, the Administrative Committee has the discretion to direct distribution of the vested BDM Account balance to any one or more or all of the Participant's next of kin, and in the proportions as the Administrative Committee determines.

(5) Committee Rules: All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

(6) Payment Schedule: In no event will payments of amounts in the Participant's BDM Account be accelerated or deferred beyond the payment schedule provided under the BDM Plan.

(7) Application to Trustee: BDM International, Inc. set aside amounts in a grantor trust to assist it in meeting its obligations under the BDM Plan. Notwithstanding Section C.2(b)(5) above and the claims procedures provided in Section 7.8, a Participant may make application for payment of benefits under this Section C.2(b) directly to the trustee of such trust.

(c) PRC EDCP Account. Notwithstanding anything to the contrary, the following provisions in this Section C.2(c) summarize the distribution rules in effect under the PRC Plan with respect to the PRC EDCP Account balances, and those PRC Plan distribution terms shall continue to govern the distributions of the PRC EDCP Account balances. Article VI

and Appendix B shall not apply to the PRC EDCP Account balances. Nothing in this Section C.2(c) shall change or alter the distribution terms of the PRC Plan in effect as of any date. All capitalized terms in this Section C.2(c) not otherwise defined in the Plan shall be defined in accordance with the terms of the PRC Plan as in effect immediately prior to the PRC Plan's merger with the Plan on November 9, 2012.

(1) Vesting. All Participants are vested in their PRC EDCP Account balances in accordance with the vesting provisions of the PRC Plan.

(2) Fixed Payment Dates; Termination of Employment. A Participant's vested PRC EDCP Account balance shall be distributed in accordance with his elections made under the PRC Plan. However, if such a Participant did not elect a fixed date or termination of employment with all Employers (or elect the earlier of a fixed date or termination of employment) for any particular portion of his or her vested PRC EDCP Account, such portion of his or her PRC EDCP Account balance will be valued and payable at or commence at such Participant's termination of employment according to the provisions of Sections C.2(c)(4) and (5).

(3) Hardship Distributions. In the event of financial hardship of the Participant, as hereinafter defined, the Participant may apply to the Administrative Committee for the distribution of all or any part of his or her vested PRC EDCP Account. The Administrative Committee shall consider the circumstances of each such case, and the best interests of the Participant and his or her family, and shall have the right, in its sole and absolute discretion, if applicable, to allow such distribution, or, if applicable, to direct a distribution of part of the amount requested, or to refuse to allow any distribution. Upon a finding of financial hardship, the Administrative Committee shall make or cause the appropriate distribution to be made to the Participant from amounts held by the Company or the Trustee in respect of the Participant's vested PRC EDCP Account. In no event shall the aggregate amount of the distribution exceed either the full value of the Participant's vested PRC EDCP Account or the amount determined by the Administrative Committee, in its sole and absolute discretion, to be necessary to alleviate the Participant's financial hardship (which financial hardship may be considered to include any taxes due because of the distribution occurring because of this Section), and which is not reasonably available from other resources of the Participant. For purposes of this Section, the value of the Participant's vested PRC EDCP Account shall be determined as of the date of the distribution. "Financial hardship" means (i) a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Code section 152(a)) of the Participant, (ii) loss of the Participant's property due to casualty, or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, each as determined to exist by the Administrative Committee. A distribution may be made under this Section only with the consent of the Administrative Committee.

(4) Amount and Time of Payment. Subject to Section C.2(c)(3), a Participant (or his or her Beneficiary) shall become entitled to receive a vested PRC EDCP Sub-Account balance commencing on the Payment Date for such sub-account. For this purpose, the

"Payment Date" will be the relevant date or event triggering payment as provided under Section C.2(c)(2). Notwithstanding the foregoing, a Participant may elect to postpone a Payment Date to a later date, provided the election is made at least 12 months prior to the scheduled Payment Date. For example, a Participant could elect (i) to postpone a fixed payment date to a later fixed payment date, or (ii) elect to postpone the payment date for an amount payable upon termination of employment to a date that necessarily occurs after termination of employment (e.g., two years after termination of employment). There is no limit on the number of such elections a Participant may make. Any payment due hereunder from the Trust which is not paid by the Trust for any reason will be paid by the Employer from its general assets.

(5) Method of Payment.

(i) Form of Payment. Unless otherwise elected by the Participant and permitted by the Trustee in its sole and absolute discretion, a Participant's vested PRC EDCP Account balance shall be paid in cash. In the case of distributions to a Participant or his or her Beneficiary by virtue of an entitlement pursuant to Section C.2(c)(2), an aggregate amount equal to the Participant's vested PRC EDCP Sub-Account will be paid by the Trust or the Employer, as provided by Section C.2(c)(4), in a lump sum or in five (5) or ten (10) substantially equal annual installments (adjusted for gains and losses, and reduced by any required withholding or other deductions from such payments), as selected by the Participant on his or her Participant Enrollment and Election Form for such sub-account. If the Participant fails to designate properly the manner of payment, such payment will be made in a lump sum.

If a Participant receiving installment distributions pursuant to Section C.2(c)(7) is re-employed by the Employer, the remaining distributions due to the Participant shall be suspended until such time as the Participant (or his or her Beneficiary) once again becomes eligible for benefit payments, at which time such distribution shall commence, subject to the limitations and conditions contained in the PRC Plan.

(ii) Subsequent Deferral Elections. Such form of payment may be changed by the Participant provided (A) the election is made at least 12 months prior to the payment date for the PRC EDCP Sub-Account provided under Section C.2(c)(4) and (B) the form of payment is not accelerated (i.e., an election of installments may not be changed to a lump sum and an election of 10 annual installments may not be changed to 5 annual installments). There is no limit on the number of such elections a Participant may make.

(6) Death Benefits. If a Participant dies before terminating his or her employment with the Employer and before the commencement of payments to the Participant hereunder, the entire value of the Participant's PRC EDCP Account (which may include credits for insurance contract death benefits deemed to be received by the PRC EDCP Account) shall be paid, as provided in Section C.2(c)(5), to the Beneficiary designated under the Plan, unless the Employer elects a more rapid form or schedule of distribution.

Upon the death of a Participant after payments hereunder have begun but before he or she has received all payments to which he or she is entitled under the Plan, the remaining benefit

payments shall be paid to the Beneficiary designated under the Plan, in the manner in which such benefits were payable to the Participant, unless the Employer elects a more rapid form or schedule of distribution.

(7) Application to Trustee. Notwithstanding Section 6.7 above and the claims procedures provided in Section 7.8, on the date or dates on which a Participant or Beneficiary is entitled to payment under Section C.2(c)(2), the Participant or Beneficiary need not make application for payment to the Administrative Committee, but instead may make application for payment directly to the Trustee who shall, subject to any restrictions or limitations contained in the Trust, pay the Participant or Beneficiary the appropriate amount directly from the Trust without the consent of PRC or the Employer. The Trustee shall report the amount of each such payment, and any withholding thereon, to the Company.

APPENDIX D – COMMITTEES AND APPOINTMENTS

Notwithstanding anything to the contrary in this Plan, effective October 25, 2011, the Chief Executive Officer of Northrop Grumman Corporation shall appoint, and shall have the power to remove, the members of (1) an Administrative Committee that shall have responsibility for administering the Plan (including as such responsibilities are described in Article VII of the Plan) and (2) an Investment Committee that shall have responsibility for overseeing any rabbi trusts or other informal funding for the Plan.

NORTHROP GRUMMAN
OFFICERS RETIREMENT ACCOUNT CONTRIBUTION PLAN

(Amended and Restated Effective as of January 1, 2014)

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INTRODUCTION

The Northrop Grumman Officers Retirement Account Contribution Plan (the "Plan") was adopted effective as of October 1, 2009. The Plan is hereby amended and restated effective as of January 1, 2014, except as otherwise provided. This restatement amends the October 1, 2013 restatement of the Plan.

This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the "Code") and official guidance issued thereunder, and (2) to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

ARTICLE I DEFINITIONS

1.1 Definitions

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

"Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.

"Administrative Committee" means the committee in charge of Plan administration, as described in Article VI.

"Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).

"Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.

(a) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.

(b) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.

No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is

no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company. A Participant will automatically revoke a designation of a spouse as primary beneficiary upon the dissolution of their marriage.

(c) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (1) to that person's living parent(s) to act as custodian, (2) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (3) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company.

(d) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committees" shall mean the Committees appointed as provided in Article VI.

"Company" shall mean Northrop Grumman Corporation and any successor.

"Company Contributions" shall mean credits to a Participant's Account, as described in Section 3.2.

"Compensation" shall be "compensation" as defined by Section 5.01 of the NGSP.

"Compensation Committee" shall mean the Compensation Committee of the Company's Board of Directors.

"Disability" or "Disabled" shall mean the Participant's inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

"Eligible Employee" shall mean any Employee who meets the following conditions:

(a) Prior to January 1, 2015:

(1) he or she is an elected or appointed officer of an Affiliated Company other than Vinnell Corporation, Component Technologies or Premier America Credit Union;

(2) he or she is eligible to participate in the Northrop Grumman Savings Plan;

(3) he or she is not eligible to actively accrue benefits under Appendix F ("CPC SERP"), Appendix G ("OSERP"), or Appendix I ("OSERP II") of the Northrop Grumman Supplemental Plan 2; and

(4) he or she is not otherwise designated as being ineligible to participate in the Plan.

Notwithstanding the foregoing, effective October 14, 2013, a country executive outside the U.S. reporting to the Corporate Global Business Development Officer who is employed by a U.S. entity, on a U.S. payroll and participating in U.S. benefit plans and who will serve as an expatriate on an overseas assignment in this role shall be treated as an Eligible Employee.

(b) On or after January 1, 2015:

(1) he or she is an elected or appointed officer of an Affiliated Company other than Vinnell Corporation, Component Technologies or Premier America Credit Union; and

(2) he or she is eligible to participate in the Northrop Grumman Savings Plan; and

(3) he or she is not otherwise designated as being ineligible to participate in the Plan.

Notwithstanding the foregoing, effective October 14, 2013, a country executive outside the U.S. reporting to the Corporate Global Business Development Officer who is employed by a U.S. entity, on a U.S. payroll and participating in U.S. benefit plans and who will

serve as an expatriate on an overseas assignment in this role shall be treated as an Eligible Employee.

"Employee" shall mean any common law employee of the Affiliated Companies who is classified as an employee by the Affiliated Companies.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

"Investment Committee" means the committee in charge of investment aspects of the Plan, as described in Article VI.

"Key Employee" means an employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

"NGSP" means the Northrop Grumman Savings Plan.

"Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II.

"Plan" shall be the Northrop Grumman Officers Retirement Account Contribution Plan.

"Separation from Service" means a "separation from service" within the meaning of Code section 409A.

ARTICLE II

PARTICIPATION

2.1 In General

(a) An Employee shall automatically become a Participant and eligible for Company Contributions as of the later of October 1, 2009 or the date the Employee becomes an Eligible Employee.

(b) An individual will cease to be a Participant when he or she no longer has a positive balance in his or her Account.

2.2 Disputes as to Employment Status

(a) Because there may be disputes about an individual's proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.

(b) The Affiliated Companies will make the initial determination of an individual's employment status.

(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an "Eligible Employee" and he or she will not be entitled to participate in the Plan.

(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary of the plan or other actions are taken indicating that he or she may participate.

(c) Disputes may arise as to an individual's employment status. As part of the resolution of the dispute, an individual's status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees and will not be entitled to participate in the Plan.

ARTICLE III **CREDITS TO ACCOUNTS**

3.1 Accounts

The Administrative Committee shall establish and maintain a recordkeeping Account for each Participant under the Plan.

3.2 Company Contribution Credits

If a Participant qualifies as an Eligible Employee during a payroll period, the Participant's Account shall be credited with a Company Contribution as soon as practicable after the end of the payroll period. The Company Contribution for a payroll period shall equal 4% of the Participant's Compensation for the payroll period.

3.3 Earnings Credits

A Participant's Account will be periodically credited with earnings, gains and losses as if the Account was invested in accordance with the Participant's investment election that applies to both his Account and to Company contributions under the Northrop Grumman Savings Excess Plan (the "SEP"). If a Participant has not made such an investment election, his Account will be credited with earnings, gains and losses as if the Account was invested in the qualified default investment alternative ("QDIA") that applies to the Participant under the NGSP unless and until the Participant makes such an investment election under the ORAC or the Plan.

3.4 Valuation of Accounts

(a) The valuation of Participants' Accounts will reflect earnings, losses, expenses and distributions, and will be made in accordance with the rules and procedures of the Administrative Committee.

(b) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(c) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(d) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

3.5 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies that it may use in meeting its obligations under the Plan. Any trust set up will be a rabbi trust and any assets placed in the trust shall continue for all purposes to be part of the general assets of the Company and shall be available to its general creditors in the event of the Company's bankruptcy or insolvency.

3.6 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of the Company Contributions credited to their Accounts due to poor investment performance.

ARTICLE IV VESTING AND FORFEITURES

4.1 In General

Except as provided in Section 4.2 below, a Participant shall become fully vested in his or her Account balance upon the earliest of the following dates, provided he or she is an Employee at such time: (i) the date he or she completes three years of service, (ii) the date of his or her 65th birthday, (iii) the date of his or her death, (iv) the date he or she becomes Disabled, or (v) the date Company Contributions are completely discontinued or the Plan is terminated. Notwithstanding the foregoing, any elected or appointed officer of an Affiliated Company as of December 31, 2011 shall be 100% vested in his or her Account balance upon entry to the Plan if the officer becomes a Participant in the Plan on January 1, 2015. Notwithstanding anything to the contrary, if a Participant terminates employment with the Affiliated Companies prior to vesting as set forth in this Section 4.1, his or her unvested Account balance and earnings thereon shall be immediately forfeited upon such termination. For this purpose, years of service shall be

calculated in the same manner as for purposes of determining vesting in Retirement Account Contributions under the NGSP (including the treatment of a break in service).

4.2 Exceptions

The following exceptions apply to the vesting rules in Sections 4.1 above:

- (a) Forfeitures on account of a lost payee. See Section 5.5.
- (b) Forfeitures under an escheat law.
- (c) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (d) Expenses charged to a Participant's Account.
- (e) Investment losses.

ARTICLE V DISTRIBUTIONS

5.1 Normal Distribution Rules

The vested balance in a Participant's Account shall be distributed in a lump sum upon a Participant's Separation from Service. Notwithstanding the foregoing, distribution will not be made to a Key Employee upon a Separation from Service until the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee).

5.2 Effect of Taxation

If a Participant's benefits under the Plan are includible in income pursuant to Code section 409A, the Company shall have the discretion to accelerate the distribution of all or a portion of such includible benefits to the Participant, provided that the Participant shall not be given a direct or indirect election as to whether such discretion is exercised.

5.3 Permitted Delays

Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Administrative Committee's reasonable anticipation of one or more of the following events:

- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (b) The making of the payment would violate Federal securities laws or other applicable law;

(c) provided, that any payment delayed pursuant to this Section 5.3 shall be paid in accordance with Code section 409A.

5.4 Payments Not Received At Death

In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check that has been issued by the Company. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

5.5 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required payment date, the amount allocated to the Participant's Account shall be forfeited.

5.6 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

**ARTICLE VI
ADMINISTRATION**

6.1 Committees

(a) The Administrative Committee shall be appointed by the Company.

(b) An Investment Committee (referred to together with the Administrative Committee as, the "Committees"), comprised of one or more persons, shall be appointed by and serve at the pleasure of the Board (or its delegate). The number of members comprising the Investment Committee shall be determined by the Board, which may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

6.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any determination of action of a Committee may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members of the Committee then in office. A member of a Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of each Committee

designated by the Chairman may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

The Company shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The Administrative Committee shall conduct its business according to the provisions of this Article and the rules contained in the current edition of Robert's Rules of Order or such other rules of order the Administrative Committee may deem appropriate. The Administrative Committee shall hold meetings from time to time in any convenient location.

6.3 Powers and Duties of the Administrative Committee

The Administrative Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan and make all factual determinations;
- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;
- (c) To maintain all records that may be necessary for the administration of the Plan;
- (d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;
- (e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;
- (f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);
- (g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and
- (h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

6.4 Powers and Duties of the Investment Committee

The Investment Committee shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

(a) To oversee any rabbi trust; and

(b) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

6.5 Construction and Interpretation

The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, to make factual determinations and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or Beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

6.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the compensation of all Participants, their death or other events that cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

6.7 Committee Compensation, Expenses and Indemnity

(a) The members of the Committees shall serve without compensation for their services hereunder.

(b) The Committees are authorized to employ such accounting, consultants or legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

6.8 Claims

The Company's standardized "Northrop Grumman Nonqualified Retirement Plans Claims and Appeals Procedures" (the "Claims Procedures") shall apply in handling claims and appeals under this Plan.

ARTICLE VII

7.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

7.2 Restriction Against Assignment

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 4.2 will not be treated as violations of this Section.

(c) Notwithstanding the foregoing, all or a portion of a Participant's vested Account balance may be paid to another person as specified in a domestic relations order that the Administrative Committee determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

(1) issued pursuant to a State's domestic relations law;

(2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;

(3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and

(4) meets such other requirements established by the Administrative Committee.

The Administrative Committee shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Administrative Committee may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

7.3 Restriction Against Double Payment

If a court orders an assignment of benefits despite Section 7.2, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

7.4 Withholding

There shall be deducted from each payment made under the Plan or any other compensation payable to the Participant (or Beneficiary) all taxes, which are required to be withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

7.5 Amendment, Modification, Suspension or Termination

The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's Account balance as of the date of such amendment or termination. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and at the time described in Article V, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

7.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

7.7 Receipt and Release

Any payment to a payee in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan, the Committees and the

Affiliated Companies. The Administrative Committee may require such payee, as a condition precedent to such payment, to execute a receipt and release to such effect.

7.8 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

7.9 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan, any trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

7.10 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

7.11 Liabilities Transferred to HII

Northrop Grumman Corporation distributed its interest in Huntington Ingalls Industries, Inc. ("HII") to its shareholders on March 31, 2011 (the "HII Distribution Date"). Pursuant to an agreement between Northrop Grumman Corporation and HII, on the HII Distribution Date certain employees and former employees of HII ceased to participate in the Plan and the liabilities for these participants' benefits under the Plan were transferred to HII. On and after the HII Distribution Date, the Company and the Plan, and any successors thereto, shall have no further obligation or liability to any such participant with respect to any benefit, amount, or right due under the Plan.

ARTICLE VIII
FORFEITURE OF BENEFITS

8.1 In General

Notwithstanding any other provision of this Plan, this Article VIII applies to the portion of a Participant's Account balance accrued after 2011.

8.2 Determination of a Forfeiture Event

The Compensation Committee or its delegate will, in its sole discretion, determine whether a Forfeiture Event (as defined in Section 8.4) has occurred; provided that no Forfeiture Event shall be incurred by a Participant who has a termination of employment due to mandatory retirement pursuant to Company policy. Such a determination may be made by the Compensation Committee or its delegate for up to one year following the date that the Compensation Committee has actual knowledge of the circumstances that could constitute a Forfeiture Event.

8.3 No Forfeiture Event for Certain Terminations after Change in Control

Notwithstanding the foregoing, no Forfeiture Event shall be incurred by a Participant who, within the two year period following a Change in Control (as defined in the Northrop Grumman 2011 Long-Term Incentive Stock Plan or successor plan in effect at the time the relevant event occurs ("LTISP")), is involuntarily terminated for reasons other than Cause or voluntarily terminates for Good Reason. The terms "Cause" and "Good Reason" shall be defined in accordance with the LTISP and its associated grant certificates. This Article VIII may not be amended during the two year period commencing on the date of such a Change in Control.

8.4 Forfeiture Event Defined

A "Forfeiture Event" means that, while employed by any of the Affiliated Companies or at any time in the two year period immediately following the Participant's last day of employment by one of the Affiliated Companies, the Participant, either directly or indirectly through any other person, is employed by, renders services (as a director, consultant or otherwise) to, has any ownership interest in, or otherwise participates in the financing, operation, management or control of, any business that is then in competition with the business of any of the Affiliated Companies. A Participant will not, however, be considered to have incurred a Forfeiture Event solely by reason of owning up to (and not more than) two percent (2%) of any class of capital stock of a corporation that is registered under the Securities Exchange Act of 1934.

8.5 Amount of Forfeiture

(a) If the Compensation Committee or its delegate determines that a Forfeiture Event has occurred, the relevant Participant may forfeit up to 100% of his or her Account balance accrued after 2011. The amount forfeited, if any, will be determined by the Compensation Committee or its delegate in its sole discretion, and may consist of all or a portion of the Account balance accrued after 2011 and not yet paid.

(b) Any forfeiture pursuant to this Article VIII will also apply with respect to survivor benefits or benefits assigned under a Qualified Domestic Relations Order.

8.6 Notice and Claims Procedure

(a) The Company will provide timely notice to any Participant who incurs a forfeiture pursuant to this Article VIII. Any delay by the Company in providing such notice will

not otherwise affect the amount or timing of any forfeiture determined by the Compensation Committee or its delegate.

(b) The procedures set forth in the Claims Procedures will apply to any claims and appeals arising out of or related to any forfeiture under this Article VIII, except as provided below:

(1) The Compensation Committee, or its delegate, will serve in place of the designated decision-makers on any such claims and appeals.

(2) After a claimant has exhausted his remedies under the Claims Procedures, including the appeal stage, the claimant forgoes any right to file a civil action under ERISA section 502(a), but instead may present any claims arising out of or related to any forfeiture under this Article VIII to final and binding arbitration in the manner described below:

(A) A claimant must file a demand for arbitration no later than one year following a final decision on the appeal under the Claims Procedures. After such period, no claim for arbitration may be filed, and the decision becomes final. A claimant must deliver a demand for arbitration to the Company's General Counsel.

(B) Any claims presented shall be settled by arbitration consistent with the Federal Arbitration Act, and consistent with the then-current Arbitration Rules and Procedures for Employment Disputes, or equivalent, established by JAMS, a provider of private dispute resolution services.

(C) The parties will confer to identify a mutually acceptable arbitrator. If the parties are unable to agree on an arbitrator, the parties will request a list of proposed arbitrators from JAMS and:

(i) If there is an arbitrator on the list acceptable to both parties, that person will be selected. If there is more than one arbitrator on the list acceptable to both parties, each party will rank each arbitrator in order of preference, and the arbitrator with the highest combined ranking will be selected.

(ii) If there is no arbitrator acceptable to both parties on the list, the parties will alternately strike names from the list until only one name remains, who will be selected.

(D) The fees and expenses of the arbitrator will be borne equally by the claimant and the Company. Each side will be entitled to use a representative, including an attorney, at the arbitration. Each side will bear its own deposition, witness, expert, attorneys' fees, and other expenses to the same extent as if the matter were being heard in court. If,

however, any party prevails on a claim, which (if brought in court) affords the prevailing party attorneys' fees and/or costs, then the arbitrator may award reasonable fees and/or costs to the prevailing party to the same extent as would apply in court. The arbitrator will resolve any dispute as to who is the prevailing party and as to the reasonableness of any fee or cost.

(E) The arbitrator will take into account all comments, documents, records, other information, arguments, and theories submitted by the claimant relating to the claim, or considered by the Compensation Committee or its delegate relating to the claim, but only to the extent that it was previously provided as part of the initial decision or appeal request on the claim.

The arbitrator may grant a claimant's claim only if the arbitrator determines it is justified based on: (i) the Compensation Committee, or its delegate erred upon an issue of law in the appeal request, or (ii) the Compensation Committee's, or its delegate's, findings of fact during the appeal process were not supported by the evidence.

(F) The arbitrator shall issue a written opinion to the parties stating the essential findings and conclusions upon which the arbitrator's award is based. The decision of the arbitrator will be final and binding upon the claimant and the Company. A reviewing court may only confirm, correct, or vacate an award in accordance with the standards set forth in the Federal Arbitration Act, 9 U.S.C. §§ 1-16.

(G) In the event any court finds any portion of this procedure to be unenforceable, the unenforceable section(s) or provision(s) will be severed from the rest, and the remaining section(s) or provisions(s) will be otherwise enforced as written.

8.7 Application

Should a Forfeiture Event occur, this Article VIII is in addition to, and does not in any way limit, any other right or remedy of the Affiliated Companies, at law or otherwise, in connection with such Forfeiture Event.

* * *

2014. IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer on this 3rd day of December,

NORTHROP GRUMMAN CORPORATION

By: /s/ Denise M. Peppard
Denise M. Peppard
Corporate Vice President and
Chief Human Resources Officer

APPENDIX A – COMMITTEES AND APPOINTMENTS

Notwithstanding anything to the contrary in this Plan, effective as of October 25, 2011, the Chief Executive Officer of the Company shall appoint, and shall have the power to remove, the members of (1) an Administrative Committee that shall have responsibility for administering the Plan (including as such responsibilities are described in Article VI of the Plan) and (2) an Investment Committee that shall have responsibility for overseeing any rabbi trusts or other informal funding for the Plan.

NORTHROP GRUMMAN CORPORATION
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

<i>\$ in millions</i>	Year Ended December 31				
Earnings:	2014	2013	2012	2011	2010
Earnings from continuing operations before income taxes	\$ 2,937	\$ 2,863	\$ 2,965	\$ 3,083	\$ 2,366
Fixed Charges:					
Interest expense, including amortization of debt premium	282	257	212	221	269
Portion of rental expenses on operating leases deemed to be representative of the interest factor	101	99	116	140	149
Earnings from continuing operations before income taxes and fixed charges	\$ 3,320	\$ 3,219	\$ 3,293	\$ 3,444	\$ 2,784
Fixed Charges:	\$ 383	\$ 356	\$ 328	\$ 361	\$ 418
Ratio of earnings to fixed charges	8.7	9.0	10.0	9.5	6.7

NORTHROP GRUMMAN CORPORATION SUBSIDIARIES

**Address for all subsidiaries is:
 c/o NORTHROP GRUMMAN CORPORATION
 Office of the Secretary
 2980 Fairview Park Drive
 Falls Church, Virginia 22042**

Name of Subsidiary	Jurisdiction of Incorporation	Ownership Percentage
Northrop Grumman Systems Corporation	Delaware	100%

The company has additional subsidiaries, which considered in the aggregate or as a single subsidiary, do not constitute a significant subsidiary.

All the above listed subsidiaries have been consolidated in the company's consolidated financial statements.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Northrop Grumman Corporation
2980 Fairview Park Drive
Falls Church, Virginia 22042

We consent to the incorporation by reference in Registration Statement Nos. 033-59815, 033-59853, 333-67266, 333-100179, 333-107734, 333-121104, 333-125120, 333-127317, and 333-175798 on Forms S-8; and Registration Statement Nos. 333-175818 and 333-196238 on Form S-3; of our reports dated February 2, 2015, relating to the financial statements of Northrop Grumman Corporation and the effectiveness of Northrop Grumman Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Northrop Grumman Corporation for the year ended December 31, 2014.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 2, 2015

**POWER OF ATTORNEY IN CONNECTION WITH THE
2014 ANNUAL REPORT ON FORM 10-K**

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned directors and officers of NORTHROP GRUMMAN CORPORATION, a Delaware corporation, does hereby appoint SHEILA C. CHESTON and JENNIFER C. MCGAREY, and each of them as his or her agents and attorneys-in-fact (the "Agents"), in his or her respective name and in the capacity or capacities indicated below, to execute and/or file the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Report") under the Securities Exchange Act of 1934, as amended (the "Act"), and any one or more amendments to any part of the Report that may be required to be filed under the Act (including the financial statements, schedules and all exhibits and other documents filed therewith or constituting a part thereof) and to any part or all of any amendment(s) to the Report, whether executed and filed by the undersigned or by any of the Agents. Further, each of the undersigned does hereby authorize and direct the Agents to take any and all actions and execute and file any and all documents with the Securities and Exchange Commission (the "Commission"), which they deem necessary or advisable to comply with the Act and the rules and regulations or orders of the Commission adopted or issued pursuant thereto, to the end that the Report shall be properly filed under the Act. Finally, each of the undersigned does hereby ratify each and every act and documents which the Agents may take, execute or file pursuant thereto with the same force and effect as though such action had been taken or such document had been executed or filed by the undersigned, respectively.

This Power of Attorney shall remain in full force and effect until revoked or superseded by written notice filed with the Commission.

IN WITNESS WHEREOF, each of the undersigned has caused this Power of Attorney to be executed as of this 2nd day of February 2015.

/s/ Victor H. Fazio	Director
Victor H. Fazio	
/s/ Donald E. Felsing	Director
Donald E. Felsing	
/s/ Bruce S. Gordon	Director
Bruce S. Gordon	
/s/ William H. Hernandez	Director
William H. Hernandez	
/s/ Madeleine A. Kleiner	Director
Madeleine A. Kleiner	
/s/ Karl J. Krapek	Director
Karl J. Krapek	
/s/ Richard B. Myers	Director
Richard B. Myers	
/s/ Gary Roughead	Director
Gary Roughead	
/s/ Thomas M. Schoewe	Director
Thomas M. Schoewe	
/s/ Kevin W. Sharer	Director
Kevin W. Sharer	

/s/ Wesley G. Bush

Wesley G. Bush

Chairman, Chief Executive Officer and President
(Principal Executive Officer)

/s/ James F. Palmer

James F. Palmer

Corporate Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-15(e)/15d-15(e) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wesley G. Bush, certify that:

1. I have reviewed this report on Form 10-K of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: February 2, 2015

/s/ Wesley G. Bush

Wesley G. Bush

Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO
RULE 13a-15(e)/15d-15(e) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James F. Palmer, certify that:

1. I have reviewed this report on Form 10-K of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: February 2, 2015

/s/ **James F. Palmer**

James F. Palmer

Corporate Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Northrop Grumman Corporation (the "company") on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wesley G. Bush, Chairman, Chief Executive Officer and President of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-15(e)/15d-15(e) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: February 2, 2015

/s/ Wesley G. Bush

Wesley G. Bush
Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Northrop Grumman Corporation (the "company") on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James F. Palmer, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-15(e)/15d-15(e) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: February 2, 2015

/s/ James F. Palmer

James F. Palmer
Corporate Vice President and Chief Financial Officer

