Northrop Grumman Fourth Quarter 2013 Conference Call

THE VALUE OF PERFORMANCE.

NORTHROP GRUMMAN

January 30, 2014

Wes Bush
Chairman, Chief Executive Officer and President

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Corporate Vice President and Chief Financial Officer

Forward Looking Statements

This presentation contains statements, other than statements of historical fact, that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements in this presentation include, among other things, statements relating to our future financial condition and operating results. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change overtime. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, risks related to: the assumptions on which our guidance is based; our dependence on U.S. Government contracts; the effect of economic conditions in the United States and globally; changes in government and customer priorities and requirements; government budgetary constraints; shifts or reductions in defense spending resulting from budget pressures and/or changes in priorities, sequestration under the Budget Control Act of 2011, a continuing resolution with limited new starts; the lack of annual appropriations legislation or otherwise; debt-ceiling limits and disruption to or shutdown of government operations; timing of payments; changes in import and export policies; changes in customer short-range and long-range plans; major program terminations; the acquisition, deferral, reduction or termination of contracts or programs; our non-U.S. business, including legal, regulatory, financial, security and governmental risks related to doing business internationally; the outcome of litigation, claims, audits, appeals, bid protests and investigations; our ability to recover certain costs under U.S. Government contracts; market conditions; our ability to access capital; performance and financial viability of key suppliers and subcontractors; interest and discount rates or other changes that may impact pension plan assumptions and actual returns on pension plan assets; the adequacy of our insurance coverage and recoveries; the costs of environmental remediation; our ability to attract and retain qualified personnel; changes in healthcare costs and requirements, changes in organizational structure and reporting segments; acquisitions, dispositions, spin-off transactions, joint ventures, strategic alliances and other business arrangements; possible impairments of goodwill or other intangible assets; the effects of legislation, regulations, and other changes in accounting, tax, defense procurement or other rules or practices; technical, operational or quality setbacks in contract performance; availability of materials and supplies; controlling costs of fixed-price development programs; domestic and international competition; potential security threats, information technology attacks, natural disasters and other disruptions not under our control; and other risk factors and other important factors disclosed in our Form 10-K for the year ended December 31, 2013 and other filings with the Securities and Exchange Commission. You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on forward-looking statements. These forward-looking statements speak only as of the date of this presentation, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

This presentation also contains non-GAAP financial measures. A reconciliation to the nearest GAAP measure and a discussion of the company’s use of these measures are included in this presentation.

CEO Highlights

- Strong 2013 performance
- Met or exceeded guidance for every metric
- 7% EPS increase
- 5% increase in pension-adjusted EPS(1)
- 12.5% segment operating margin rate(1)
- $2.8 billion cash from operations before discretionary pension contribution(1)
- $2.4 billion free cash flow before discretionary pension contribution(1)
- ~$3 billion cash returned to shareholders through share repurchases and dividends

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

2014 Guidance(1)

Sales ($B)	23.5 – 23.8
Segment operating margin rate(2)	High 11%
Operating margin rate	High 12%
EPS from continuing operations	$8.70 - $9.00
Cash provided by operations ($B)	2.3 – 2.6
Free cash flow ($B)(2)	1.7 – 2.0

(1) Assumes spending levels provided for in the Bipartisan Budget Act of 2013 and the Consolidated Appropriations Act of 2014, no disruption or cancellation of any of our significant programs, and no disruption or shutdown of government operations resulting from a federal government debt ceiling breach. Guidance also assumes adequate appropriations for our programs in the first quarter of the U.S. government's fiscal year 2015.

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

2014 Sector Guidance Summary

Sector	Sales ($B)	OM Rate %
Aerospace Systems	9.7 – 9.9	Mid to high 11%
Electronic Systems	6.8 – 7.0	Low to mid 15%
Information Systems	6.1 – 6.2	Mid 9%
Technical Services	~2.7	High 8%

EPS Bridge

2013 Actual	$8.35
Sales volume	(0.40) – (0.30)
Segment margin rate	(0.55) – (0.40)
Pension Income	~0.80
Share count	0.70 – 0.75
Interest	~(0.10)
Other	~(0.10)
2014 Guidance	$8.70 – 9.00

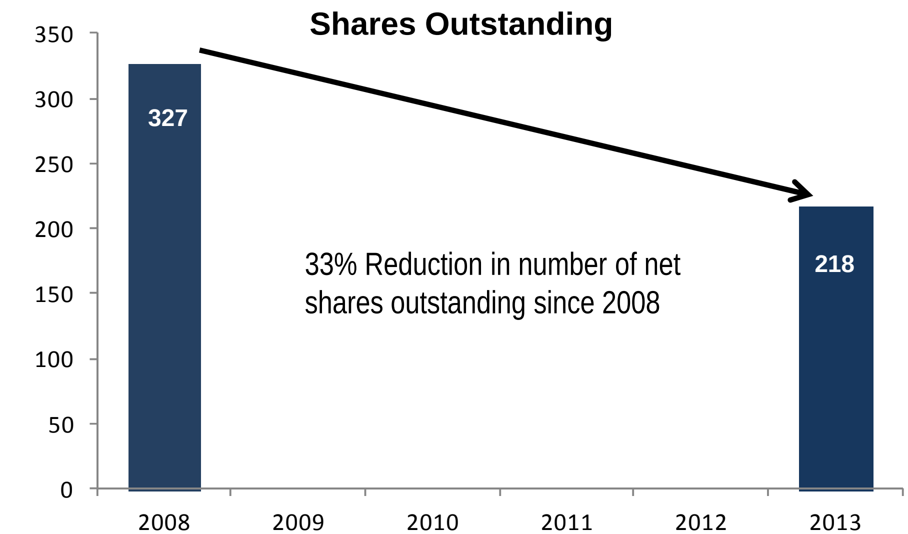
Cash from Operations Bridge

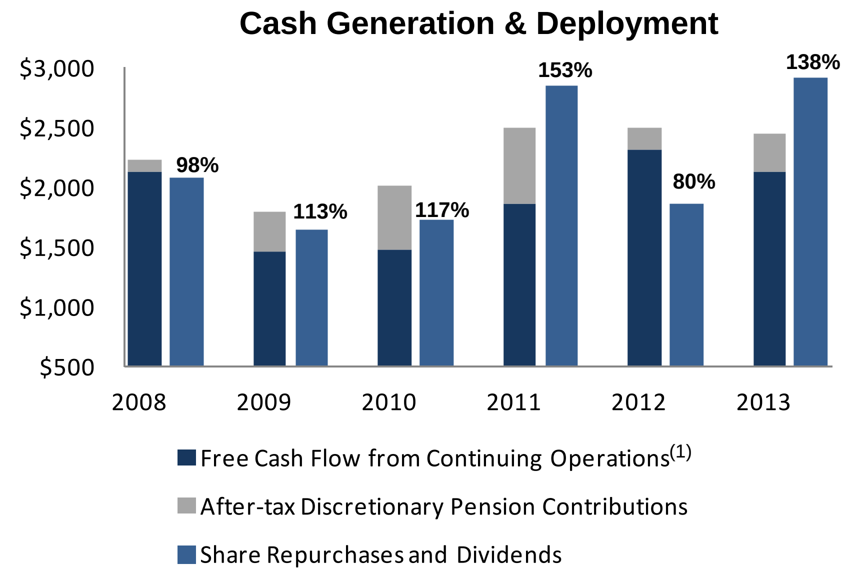
2013 Actual ($M)	$2,483
Tax-affected pension pre-funding	~300
Segment operating margin	~(300)
Interest expense/Stock compensation	~(100)
Working Capital	(100) - 100
Other	0 - 100
2014 Guidance	$2,300 – 2,600

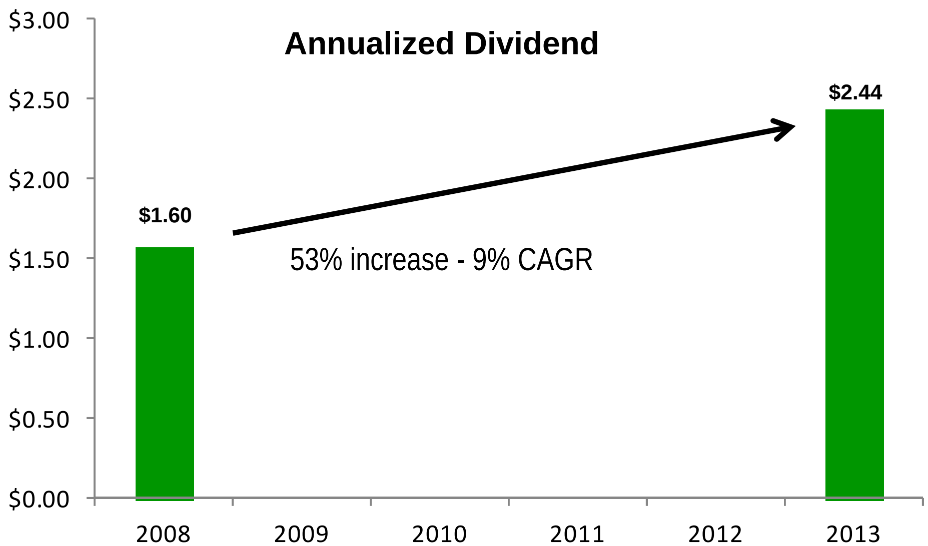
2014 Pension Assumptions

	2014	2013
Discount Rate (%)	4.99	4.12
Asset Returns (%)	8.00	8.00
Discretionary Funding ($M)	0	500
Net FAS / CAS Adjustment ($M)	440	168
CAS ($M)	555	542
FAS ($M)	(115)	(374)

Consistent Return of Cash to Shareholders







- Average of 116% of reported FCF[1] distributed to shareholders
- At least $1.6 billion distributed annually to shareholders, while making substantial discretionary pension contributions
- 11% quarterly dividend increase to $0.61 per share in May 2013
- 27.3 million shares repurchased in 2013
- 8% reduction in 2013 weighted average shares outstanding

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

Appendix

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Non-GAAP Definitions

Non-GAAP Financial Measures Disclosure: Today's presentation contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by Securities and Exchange Commission (SEC) Regulation G and indicated by a footnote in the text of this presentation. While we believe that these non-GAAP financial measures may be useful in evaluating our financial information, they should be considered as supplemental in nature and not as a substitute for financial information prepared in accordance with GAAP. Other companies may define these measures differently or may utilize different non-GAAP measures.

Pension-adjusted diluted EPS from continuing operations: Diluted EPS from continuing operations excluding the after-tax net pension adjustment per share, as defined below. These per share amounts are provided for consistency and comparability of operating results. Management uses pension-adjusted diluted EPS from continuing operations as an internal measure of financial performance.

Net FAS/CAS pension adjustment: Pension expense determined in accordance with GAAP less pension expense allocated to the operating segments under U.S. Government Cost Accounting Standards (CAS).

After-tax net FAS/CAS pension adjustment per share: The per share impact of the net pension adjustment as defined above, after tax at the statutory rate of 35%, provided for consistency and comparability of 2012 and 2011 financial performance.

Segment operating income: Total earnings from our four segments including allocated pension expense recognized under CAS. Reconciling items to operating income are unallocated corporate expenses, including unallowable or unallocable portions of management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses; net pension adjustment; and reversal of royalty income included in segment operating income. Management uses segment operating income, as reconciled in as an internal measure of financial performance of our individual operating segments.

Segment operating margin rate: Segment operating income as defined above, divided by sales. Management uses segment operating margin rate as an internal measure of financial performance.

Free cash flow: Cash provided by continuing operations less capital expenditures (including outsourcing contract & related software costs). We use free cash flow from continuing operations as a key factor in our planning for, and consideration of, strategic acquisitions, stock repurchases and the payment of dividends. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP.

Non-GAAP Definitions

Cash provided by continuing operations before discretionary pension contributions: Cash provided by continuing operations before the after-tax impact of discretionary pension contributions.

Free cash flow provided by continuing operations before discretionary pension contributions: Free cash flow from continuing operations before the after-tax impact of discretionary pension contributions. We use free cash flow from continuing operations before discretionary pension contributions as a key factor in our planning for, and consideration of, strategic acquisitions, stock repurchases and the payment of dividends. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP.

Non-GAAP Reconciliations – Pension-Adjusted EPS

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	Fourth Quarter		Twelve Months	
$ in millions, except per share amounts	2013	2012	2013	2012
Pension-adjusted Operating Highlights				
Operating income	$ 768	$ 824	$ 3,123	$ 3,130
Net FAS/CAS pension adjustment	(43)	(31)	(168)	(132)
Pension-adjusted operating income	$ 725	$ 793	$ 2,955	$ 2,998
Pension-adjusted operating margin rate	*11.8%*	*12.2%*	*12.0%*	*11.9%*
Pension-adjusted Per Share Data				
Diluted EPS from continuing operations	$ 2.12	$ 2.14	$ 8.35	$ 7.81
After-tax net FAS/CAS pension adjustment per share	(0.12)	(0.08)	(0.47)	(0.34)
Pension-adjusted diluted EPS from continuing operations	$ 2.00	$ 2.06	$ 7.88	$ 7.47
Weighted average shares outstanding — Basic	220.5	243.4	229.6	248.6
Dilutive effect of stock options and stock awards	4.7	5.5	4.3	4.8
Weighted average shares outstanding — Diluted	225.2	248.9	233.9	253.4

Non-GAAP Reconciliations – Segment Operating Income

	Fourth Quarter		Twelve Months	
$ millions	2013	2012	2013	2012
Sales	$ 6,157	$ 6,476	$ 24,661	$ 25,218
Segment operating income	772	875	3,080	3,176
Segment operating margin rate	*12.5%*	*13.5%*	*12.5%*	*12.6%*
Reconciliation to operating income				
Net FAS/CAS pension adjustment	$ 43	$ 31	$ 168	$ 132
Unallocated corporate expenses	(46)	(79)	(119)	(168)
Other	(1)	(3)	(6)	(10)
Operating income	$ 768	$ 824	$ 3,123	$ 3,130
Operating margin rate	*12.5%*	*12.7%*	*12.7%*	*12.4%*

Non-GAAP Reconciliations – Cash Metrics

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($ millions)	2013	2012	2011	2010	2009	2008
Cash provided by continuing operations before discretionary pension contributions	$ 2,806	$ 2,833	$ 2,995	$ 2,595	$ 2,328	$ 2,796
After-tax discretionary pension pre-funding impact	(323)	(193)	(648)	(539)	(333)	(91)
Net cash provided by continuing operations	$ 2,483	$ 2,640	$ 2,347	$ 2,056	$ 1,995	$ 2,705
Less:						
Capital expenditures	(364)	(331)	(488)	(579)	(473)	(463)
Outsourcing contract & related software costs	-	-	(4)	(6)	(68)	(110)
Free cash flow from continuing operations	$ 2,119	$ 2,309	$ 1,855	$ 1,471	$ 1,454	$ 2,132
After-tax discretionary pension pre-funding impact	323	193	648	539	333	91
Free cash flow provided by continuing operations before discretionary pension contributions	$ 2,442	$ 2,502	$ 2,503	$ 2,010	$ 1,787	$ 2,223

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