

Northrop Grumman Fourth Quarter 2021 Conference Call

January 27, 2022

Kathy Warden
Chairman, Chief Executive Officer and
President

Dave Keffer
Corporate Vice President and
Chief Financial Officer



Forward-Looking Statements

This presentation and the information we are incorporating by reference, and statements to be made on the earnings conference call, contain or may contain statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “will,” “expect,” “anticipate,” “intend,” “may,” “could,” “should,” “plan,” “project,” “forecast,” “believe,” “estimate,” “guidance,” “outlook,” “trends,” “goals” and similar expressions generally identify these forward-looking statements.

Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and/or cash flows. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, those identified and discussed more fully in the section entitled “Risk Factors” in the Form 10-K for the year ended December 31, 2021 and from time to time in our other filings with the Securities and Exchange Commission (SEC). These risks and uncertainties are amplified by the global COVID-19 pandemic and the related effects on the broader economic environment, which have caused and will continue to cause significant challenges, instability and uncertainty. They include:

Industry and Economic Risks

- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations for our programs, and U.S. government funding and program support more broadly
- the use of estimates when accounting for our contracts and the effect of contract cost growth and/or changes in estimated contract revenues and costs
- increased competition within our markets and bid protests

Legal and Regulatory Risks

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

Business and Operational Risks

- impacts of the COVID-19 pandemic (or future health epidemics, pandemics or similar outbreaks), including potential new variants, case surges or prolonged recovery periods, their effects on the broader environment, and varying related government requirements, on: our business, our ability to maintain a qualified and productive workforce, work slowdowns or stoppages, labor shortages, supply chain and logistics challenges, costs we cannot recover and liabilities for which we are not compensated, performance challenges (including cost and schedule), government funding, changes in government acquisition priorities and processes, government payment rules and practices, insurance challenges, and potential impacts on access to capital, the markets and the fair value of our assets

- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners
- the ability to maintain a qualified workforce with the required security clearances and requisite skills
- the performance and financial viability of our subcontractors and suppliers and the availability and pricing of raw materials and components
- climate change, its impacts on our company, our operations and our stakeholders (employees, suppliers, customers, shareholders and regulators), and changes in laws, regulations and priorities related to greenhouse gas emissions and other climate change related concerns
- our exposure to additional risks as a result of our international business, including risks related to geopolitical and economic factors, suppliers, laws and regulations
- our ability to meet performance obligations under our contracts, including obligations that require innovative design capabilities, are technologically complex, require certain manufacturing expertise or are dependent on factors not wholly within our control
- natural disasters
- products and services we provide related to hazardous and high risk operations, including the production and use of such products, which subject us to various environmental, regulatory, financial, reputational and other risks
- our ability appropriately to exploit and/or protect intellectual property rights
- our ability to develop new products and technologies and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers

General and Other Risk Factors

- the adequacy and availability of our insurance coverage, customer indemnifications or other liability protections
- the future investment performance of plan assets, changes in actuarial assumptions associated with our pension and other postretirement benefit plans and legislative or other regulatory actions impacting our pension and postretirement benefit obligations
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets

You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of forward-looking statements. These forward-looking statements speak only as of the date this presentation is first issued or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

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

2021 Highlights

Strong Financial Results

- 2021 Sales of \$35.7B, Organic Sales⁽¹⁾ Growth of ~3%
- Expanded 2021 Segment Margin Rate⁽¹⁾ by 40 bps to 11.8%
- EPS of \$43.54; Transaction-adjusted EPS⁽¹⁾ increased 8% to \$25.63
- 2021 Cash from Operations of \$3.6B, Transaction-adjusted FCF⁽¹⁾ of \$3.1B

Balanced Capital Deployment

- Returned record \$4.7B to shareholders via dividends and share repurchases
- Increased our dividend by 8%; 18th consecutive annual increase
- Retired over \$2.2B of debt; credit ratings upgraded
- Invested \$1.4B into the business via Capex

Distinguished ESG Record

- Reduced greenhouse gas emissions by 44% compared to 2010
- Scored in 96th percentile on S&P Global Corporate Sustainability Assessment
- Included in DJSI World Index for first time
- MSCI ESG Rating of AA
- Expanded climate goals and TCFD report planned for 2022

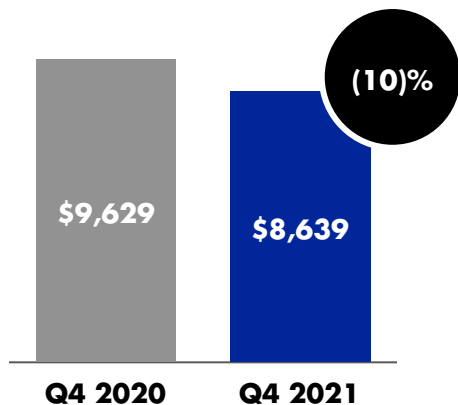
1. Non-GAAP financial measure. See Appendix.

Q4 Sales (\$M)



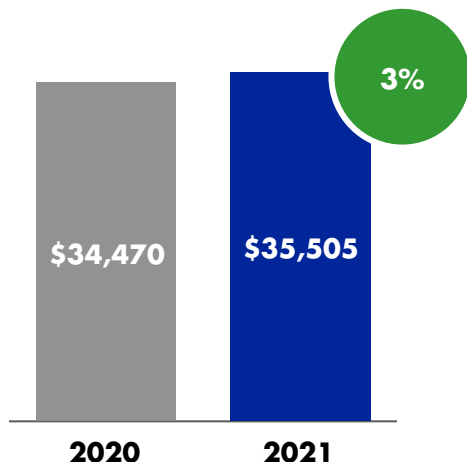
Sales

Organic Sales⁽¹⁾⁽²⁾



(\$M)	Three Months Ended December 31			
	Q4 2020	Q4 2021	▲%	Organic Sales ⁽¹⁾ ▲%
Aeronautics Systems	\$3,487	\$2,631	(25)%	(25)%
Defense Systems	1,917	1,378	(28)%	(9)%
Mission Systems	2,736	2,521	(8)%	(3)%
Space Systems	2,550	2,658	4%	6%
Intersegment eliminations	(478)	(549)		
Total Sales	\$10,212	\$8,639	(15)%	(10)%

Organic Sales⁽¹⁾⁽³⁾



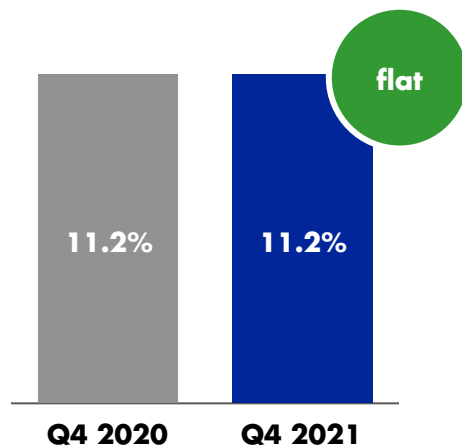
(\$M)	Year Ended December 31			
	2020	2021	▲%	Organic Sales ⁽¹⁾ ▲%
Aeronautics Systems	\$12,169	\$11,259	(7)%	(7)%
Defense Systems	7,543	5,776	(23)%	(4)%
Mission Systems	10,080	10,134	1%	6%
Space Systems	8,744	10,608	21%	24%
Intersegment eliminations	(1,737)	(2,110)		
Total Sales	\$36,799	\$35,667	(3)%	3%

1. Non-GAAP financial measure. See Appendix.

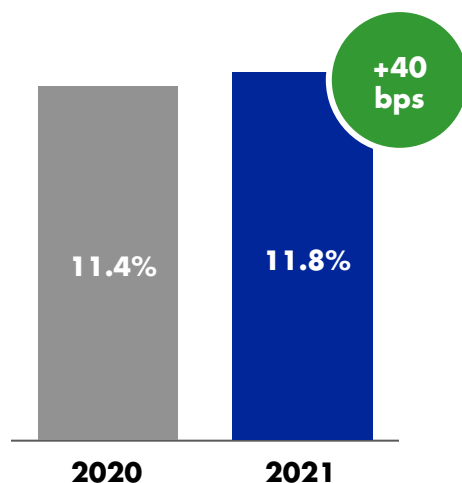
2. Q4 2020 reflects 4 additional working days and equipment sale totaling ~\$1B in sales

3. 2020 reflects equipment sale of \$444M

Segment Operating Income⁽¹⁾ and Margin Rate⁽¹⁾



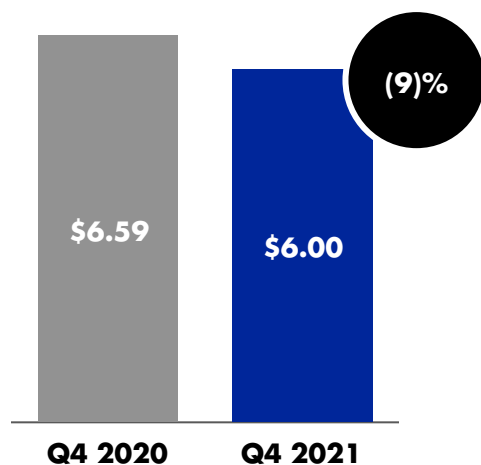
(\$M)	Three Months Ended December 31					
	Segment Operating Income ⁽¹⁾			Segment Margin Rate ⁽¹⁾		
	Q4 2020	Q4 2021	▲%	Q4 2020	Q4 2021	▲
Aeronautics Systems	\$339	\$220	(35)%	9.7%	8.4%	(130) bps
Defense Systems	214	167	(22)%	11.2%	12.1%	90 bps
Mission Systems	389	402	3%	14.2%	15.9%	170 bps
Space Systems	258	256	(1)%	10.1%	9.6%	(50) bps
Intersegment Eliminations	(59)	(75)				
Total	\$1,141	\$970	(15)%	11.2%	11.2%	– bps



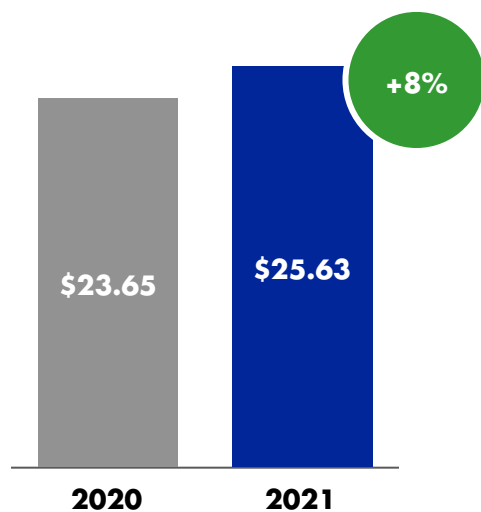
(\$M)	Year Ended December 31					
	Segment Operating Income ⁽¹⁾			Segment Margin Rate ⁽¹⁾		
	2020	2021	▲%	2020	2021	▲
Aeronautics Systems	\$1,206	\$1,093	(9)%	9.9%	9.7%	(20) bps
Defense Systems	846	696	(18)%	11.2%	12.0%	80 bps
Mission Systems	1,459	1,579	8%	14.5%	15.6%	110 bps
Space Systems	893	1,121	26%	10.2%	10.6%	40 bps
Intersegment Eliminations	(216)	(272)				
Total	\$4,188	\$4,217	1%	11.4%	11.8%	40 bps

1. Non-GAAP financial measure. See Appendix.

Transaction-adjusted EPS⁽¹⁾ Bridges



Q4 2020	\$6.59
Segment Performance	(0.08)
F-35 EAC Adjustment	(0.46)
Marketable Securities	(0.21)
Tax, Interest and Other	0.16
Q4 2021	\$6.00



2020	\$23.65
Segment Performance	0.96
Corporate Unallocated	1.04
Marketable Securities	(0.12)
Tax, Interest, and Other	0.10
2021	\$25.63

1. Non-GAAP financial measure. See Appendix.

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

Pension Estimates⁽¹⁾ as of 1/27/2022

(\$M)	2021 Actual	2022E	2023E	2024E
Actual / Expected Return on Plan Assets	10.9%	← 7.5% →		
Discount Rate	2.98%	← 2.98% →		
Required Funding	~105	~100	~100	~100
Mark-to-Market Pension and OPB Benefit	2,355			

(\$M)	2021 Actual	2022E	2023E	2024E
CAS Pension Expense	544	~170	~125	~95
FAS Pension Service Expense	(414)	~(370)	~(350)	~(330)
FAS / CAS Operating Adjustment	130	~(200)	~(225)	~(235)
Non-Operating FAS Pension Benefit	1,469	~1,510	~1,550	~1,605
Total Net FAS / CAS Pension Adjustment	1,599	~1,310	~1,325	~1,370

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

2022 Sector Guidance⁽¹⁾

	2021 Actual		2022 Guidance ⁽¹⁾ as of 1/27/2022	
	Sales (\$B)	OM Rate %	Sales (\$B)	OM Rate %
Aeronautics Systems	\$11.3	9.7%	Mid to High \$10	~10%
Defense Systems	\$5.8	12.0%	High \$5	High 11%
Mission Systems	\$10.1	15.6%	Mid \$10	Low 15%
Space Systems	\$10.6	10.6%	Mid \$11	Low 10%
Eliminations	\$(2.1)	12.9%	~\$(2.1)	Mid to High 12%

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

2022 Guidance⁽¹⁾

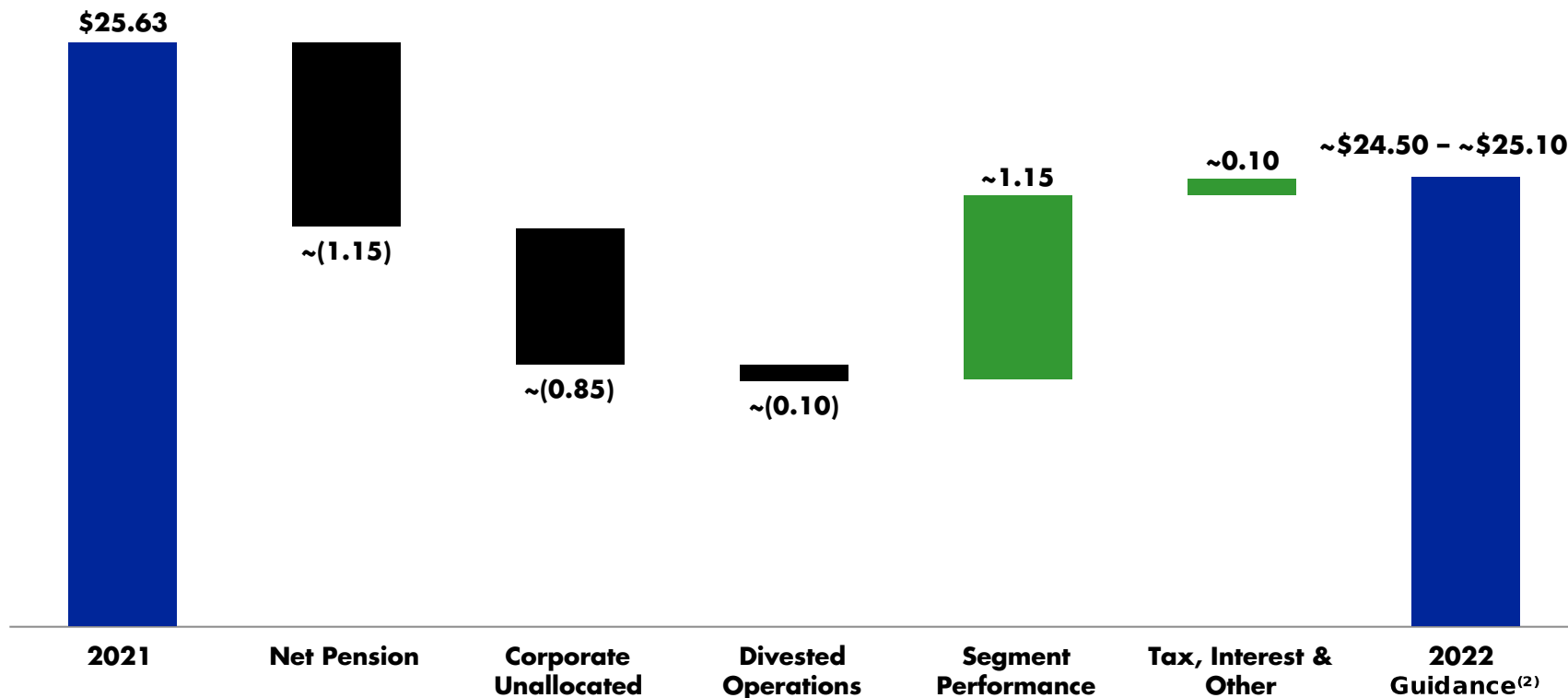
\$ in millions, except per share amounts	As of 1/27/2022
Sales	\$36,200 – \$36,600
Segment operating margin % ⁽²⁾	11.7% – 11.9%
Total Net FAS/CAS pension adjustment ⁽³⁾	~1,310
Unallocated corporate expense:	
Intangible asset amortization and PP&E step-up depreciation	~240
Other items	~270
Operating margin %	9.8% – 10.0%
Interest expense	~540
Effective tax rate %	~17.0%
Weighted average diluted shares outstanding	~155
Transaction-adjusted EPS ⁽²⁾	~\$24.50 – ~\$25.10
Transaction-adjusted free cash flow ⁽²⁾ assuming Section 174 Tax deferral	~\$2,500 – ~\$2,800
<i>Transaction-adjusted free cash flow⁽²⁾ based on current law</i>	<i>~\$1,500 – ~\$1,800</i>

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

2. Non-GAAP financial measure. See Appendix.

3. Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes \$170 million of expected CAS pension expense and \$370 million of FAS pension service expense, both of which are reflected in operating income. Non-operating FAS pension benefit of \$1,510 million is reflected below operating income, and the total net FAS/CAS pension adjustment is \$1,310 million.

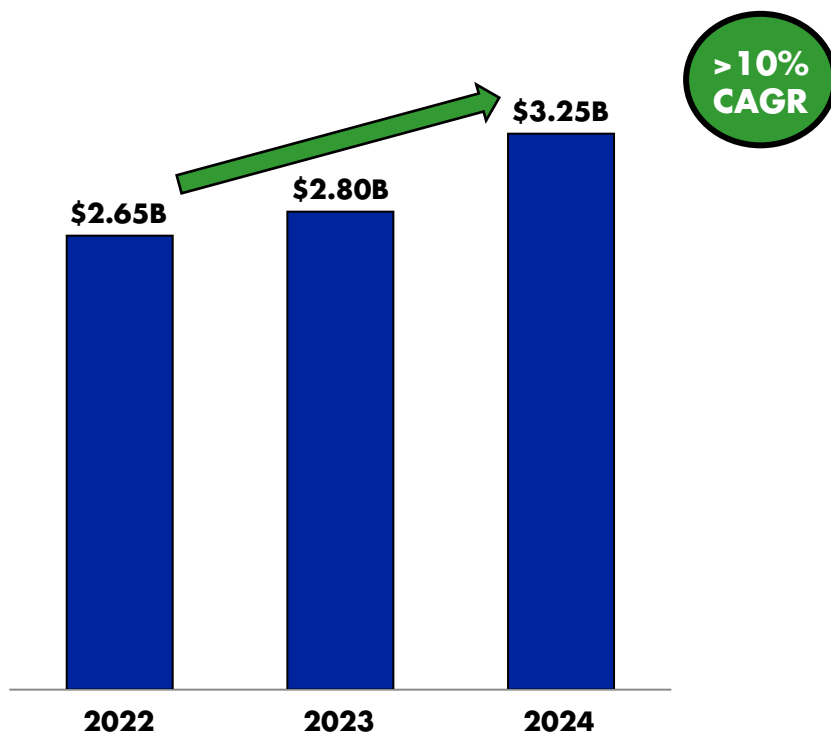
2021 to 2022 Transaction-adjusted EPS⁽¹⁾⁽²⁾ Bridge



1. Non-GAAP financial measure. See Appendix.

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

Transaction-adjusted FCF⁽¹⁾ Outlook⁽²⁾ as of 1/27/22



**> 10%
CAGR**

(\$M)	2022	2023	2024	22-24 CAGR
Transaction-adjusted FCF ⁽¹⁾⁽³⁾	~2,500 – ~2,800	~2,600 – ~3,000	~3,050 – ~3,450	~11%

2022 headwinds:

- ~\$375M lower CAS recoveries

2023 & 2024 growth driven by:

- Operational Performance
- Lower Capex
- Absence of Payroll Tax headwind

Expect to return majority of Transaction-adjusted Free Cash Flow⁽¹⁾ to Shareholders via Dividends & Share Repurchases

Expect at least \$1.5B of Share Repurchases in 2022

Double Digit Transaction-adjusted FCF⁽¹⁾ CAGR from 2022 to 2024

1. Non-GAAP financial measure. See Appendix.

2. See Page 15 – “Financial Guidance” regarding the company’s underlying assumptions, judgments and select factors that can affect the company’s ability to achieve guidance or meet expectations. In addition, note that values provided for 2022-2024 reflect the mid-point of our current outlook, which also reflects the company’s judgment based on our current environment and information available to the company at the time of this presentation.

3. Assumes Section 174 Tax Deferral

Summary

Strong franchise programs well aligned to budget priorities

Guidance⁽¹⁾ for 2022 shows continued growth and strong performance

Top priority for capital deployment remains shareholder returns

- Maintain a healthy and sustainable dividend with competitive increases
- Increased share repurchase authorization by \$2B
- Expect at least \$1.5B of share repurchases in 2022



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



Appendix

Financial Guidance

Financial guidance, as well as outlook, trends, expectations and other forward looking statements provided by the company for 2022 and beyond, reflect the company's judgment based on the information available to the company at the time of this release. The company's 2022 financial guidance and outlook beyond 2022 reflect what the company currently anticipates will be the impacts on the company from the global COVID-19 pandemic (including related effects on the broader economic environment), based on what the company understands today and what the company has experienced to date. However, the company cannot predict how the pandemic will evolve or what impact it will continue to have, including the potential impact of another variant of COVID-19, another surge of cases, or a prolonged recovery period, and there can be no assurance that the company's underlying assumptions are correct. As discussed more fully in the company's Form 10-K, and among other factors, disruptions to the company's operations or those of its customers, supply chain and logistics challenges, effects on the labor market and our workforce, vaccine mandates and other evolving government requirements, additional liabilities, disruptions in the financial markets and inflation, impacts on programs or payments, and changes in our customers' priorities, resources and requirements, relating to the global COVID-19 pandemic, today and as it may evolve, can be expected to affect the company's ability to achieve guidance or meet expectations. In addition, the government budget, appropriations and procurement priorities and processes can impact our customers, programs and financial results. These priorities and processes, including the timing of appropriations and the occurrence of an extended continuing resolution and/or prolonged government shutdown, as well as a breach of the debt ceiling, extraordinary measures taken in connection with a breach, changes in support for our programs, or changes in federal corporate tax or securities laws and regulations, can impact the company's ability to achieve guidance or meet expectations.

Pension Sensitivities

Mark to Market / Net Pension Liability ⁽¹⁾		Inc/(Dec) to Expense (\$M)
Discount rate⁽²⁾	+25 bps	~(1,100)
	-25 bps	~1,300
Plan asset returns	+100 bps	~(350)
	-100 bps	~350

Non - Service FAS ⁽³⁾		Inc/(Dec) to Expense (\$M)
Discount rate⁽²⁾	+25 bps	~60
	-25 bps	~(60)
Plan asset returns	+100 bps	~(25)
	-100 bps	~25

1. From 2022 discount rate of 2.98% and assumed net pension returns of 7.5%.

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

3. FAS service costs not impacted by asset returns.

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

Non-GAAP Definitions

Non-GAAP Financial Measures Disclosure: This presentation contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by SEC Regulation G and indicated by a footnote in the text of the presentation. Definitions for the non-GAAP measures are provided below and reconciliations are provided in this Appendix, except that reconciliations of forward-looking non-GAAP measures are not provided because the company is unable to provide such reconciliations without unreasonable effort due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of certain items, including, but not limited to, the impact of any mark-to-market pension adjustment. Other companies may define these measures differently or may utilize different non-GAAP measures.

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

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

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

Non-GAAP Definitions

Segment operating income and segment operating margin rate:

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

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

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

Non-GAAP Reconciliations – Organic Sales

(\$M)	Three Months Ended December 31						
	Q4 2020			Q4 2021			
	Sales	IT Services Sales	Organic Sales	Sales	IT Services Sales	Organic Sales	Organic sales ▲%
Aeronautics Systems	\$3,487	\$—	\$3,487	\$2,631	\$—	\$2,631	(25)%
Defense Systems	1,917	(407)	1,510	1,378	—	1,378	(9)%
Mission Systems	2,736	(133)	2,603	2,521	—	2,521	(3)%
Space Systems	2,550	(47)	2,503	2,658	—	2,658	6%
Intersegment Eliminations	(478)	4	(474)	(549)	—	(549)	
Total	\$10,212	\$(583)	\$9,629	\$8,639	\$—	\$8,639	(10)%

(\$M)	Year Ended December 31						
	2020			2021			
	Sales	IT Services Sales	Organic Sales	Sales	IT Services Sales	Organic Sales	Organic sales ▲%
Aeronautics Systems	\$12,169	\$—	\$12,169	\$11,259	\$—	\$11,259	(7)%
Defense Systems	7,543	(1,637)	5,906	5,776	(106)	5,670	(4)%
Mission Systems	10,080	(527)	9,553	10,134	(42)	10,092	6%
Space Systems	8,744	(182)	8,562	10,608	(16)	10,592	24%
Intersegment Eliminations	(1,737)	17	(1,720)	(2,110)	2	(2,108)	
Total	\$36,799	\$(2,329)	\$34,470	\$35,667	\$(162)	\$35,505	3%

Non-GAAP Reconciliations – Segment Operating Income

(\$M)	Three Months Ended December 31		Year Ended December 31	
	Q4 2020	Q4 2021	2020	2021
Total sales	\$10,212	\$8,639	\$36,799	\$35,667
Operating income	\$1,152	\$742	\$4,065	\$5,651
Reconciliation to segment operating income:				
FAS/CAS operating adjustment	(102)	(32)	(418)	(130)
Gain on sale of business	—	—	—	(1,980)
IT services divestiture – unallowable state taxes and transaction costs	—	—	—	192
Intangible asset amortization and PP&E step-up depreciation	82	63	322	254
MTM-related deferred state tax (benefit) expense ⁽¹⁾	(54)	124	(54)	124
Other unallocated corporate expense	63	73	273	106
Unallocated corporate expense (income)	91	260	541	(1,304)
Segment operating income	\$1,141	\$970	\$4,188	\$4,217
Segment operating margin rate	11.2%	11.2%	11.4%	11.8%

1. Represents the deferred state tax benefit associated with MTM benefit (expense), which is recorded in Unallocated corporate expense consistent with other changes in deferred state.

Non-GAAP Reconciliations – Transaction-adjusted net earnings and Transaction-adjusted EPS

\$ in millions, except per share amounts	Three Months Ended December 31		Year Ended December 31	
	Q4 2020	Q4 2021	2020	2021
Transaction-adjusted net earnings				
Net earnings	\$330	\$2,710	\$3,189	\$7,005
MTM (benefit) expense	1,034	(2,355)	1,034	(2,355)
MTM-related deferred state tax expense (benefit) ⁽¹⁾	(54)	124	(54)	124
Federal tax expense (benefit) of items above ⁽²⁾	(206)	469	(206)	469
MTM adjustment, net of tax	\$774	\$(1,762)	\$774	\$(1,762)
Gain on sale of business	—	—	—	(1,980)
State tax impact ⁽³⁾	—	—	—	160
Transaction costs	—	—	—	32
Make-whole premium	—	—	—	54
Federal tax impact of items above ⁽⁴⁾	—	—	—	614
Transaction adjustment, net of tax	\$—	\$—	\$—	\$(1,120)
Transaction-adjusted net earnings	\$1,104	\$948	\$3,963	\$4,123
Transaction-adjusted per share data				
Diluted EPS	\$1.97	\$17.14	\$19.03	\$43.54
MTM (benefit) expense per share	6.18	(14.90)	6.17	(14.64)
MTM-related deferred state tax expense (benefit) per share ⁽¹⁾	(0.33)	0.78	(0.32)	0.77
Federal tax expense (benefit) of items above per share ⁽²⁾	(1.23)	2.98	(1.23)	2.92
MTM adjustment per share, net of tax	\$4.62	\$(11.14)	\$4.62	\$(10.95)
Gain on sale of business per share	—	—	—	(12.31)
State tax impact per share ⁽³⁾	—	—	—	0.99
Transaction costs per share	—	—	—	0.20
Make-whole premium per share	—	—	—	0.34
Federal tax impact of line items above per share ⁽⁴⁾	—	—	—	3.82
Transaction adjustment per share, net of tax	\$—	\$—	\$—	\$(6.96)
Transaction-adjusted EPS	\$6.59	\$6.00	\$23.65	\$25.63

1. The deferred state tax impact was calculated using the company's blended state tax rate of 5.25 percent and is included in Unallocated corporate expense within operating income.
2. The federal tax impact in each period was calculated by subtracting the deferred state tax impact from MTM benefit (expense) and applying the 21 percent federal statutory rate.
3. The state tax impact includes \$62 million of incremental tax expense related to \$1.2 billion of nondeductible goodwill in the divested business.
4. The federal tax impact was calculated by applying the 21 percent federal statutory rate to the adjustment items and also includes \$250 million of incremental tax expense related to \$1.2 billion of nondeductible goodwill in the divested business.

Non-GAAP Reconciliations – Transaction-adjusted Free Cash Flow

(\$M)	Three Months Ended December 31			Year Ended December 31		
	Q4 2020	Q4 2021	▲%	2020	2021	▲%
Net cash provided by operating activities	\$1,602	\$1,442	(10)%	\$4,305	\$3,567	(17)%
Capital expenditures	(592)	(733)	24%	(1,420)	(1,415)	–%
Proceeds from sale of equipment to a customer	205	–	NM	205	84	(59)%
After-tax discretionary pension contributions	593	–	NM	593	–	NM
Adjusted free cash flow	\$1,808	\$709	(61)%	\$3,683	\$2,236	(39)%
IT services divestiture transaction costs	–	–	NM	–	39	NM
IT services divestiture federal and state taxes	–	197	NM	–	785	NM
Transaction-adjusted free cash flow	\$1,808	\$906	(50)%	\$3,683	\$3,060	(17)%

