



Northrop Grumman Third Quarter 2012 Conference Call

October 24, 2012

Wes Bush

Chairman, Chief Executive Officer and President

Jim Palmer

Corporate Vice President and Chief Financial Officer

Forward Looking Statement



This presentation contains “forward-looking statements” including projections based on our current expectations. Forward-looking statements are based on management’s assumptions and assessments in light of past experience and trends, current economic and industry conditions, expected future developments and other relevant factors. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Actual results may differ materially from those expressed or implied in this presentation due to factors such as: U.S. and global economic conditions; the availability of government funding and budgetary constraints; changes in government and customer priorities and requirements; the acquisition or termination of contracts; access to capital; the future impact of acquisitions, divestitures, joint ventures or spin-off transactions; the ability to comply with extensive government regulation; the impact of competition; the risk that actual pension returns, discount rates or other actuarial assumptions are significantly different than the Company’s assumptions; the outcome of legal proceedings; potential security threats, information technology attacks, natural disasters and other disruptions not under our control and other factors. Our Form 10-K filing for the year ended December 31, 2011, Form 10-Q filing for the quarter ended September 30, 2012, and other filings with the Securities and Exchange Commission contain more information on the types of risks and other factors that could adversely affect these statements. You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. The forward-looking statements speak only as of the date of this presentation. Northrop Grumman undertakes 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 of these financial measures to the nearest GAAP measure is included in this presentation.

CEO Highlights



- Strong operational performance
- \$1.82 EPS from continuing operations
- 6% increase in pension-adjusted EPS from continuing operations⁽¹⁾
- \$20.2 billion new business awards YTD; 108% book-to-bill YTD
- \$1.6B cash from operations YTD; \$1.4B free cash flow YTD⁽¹⁾
- 4.4M shares repurchased
- 2012 EPS and Cash guidance increased

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

2012 Guidance



	Prior	Current
Sales (\$B)	24.7 – 25.4	~25.0
Segment operating margin rate ⁽²⁾	High 11%	~12%
Operating margin rate	Mid 11%	High 11%
EPS from continuing operations	\$7.05 - \$7.25	\$7.35 - \$7.40
Cash provided by operations ⁽¹⁾ (\$B)	2.3 – 2.6	2.5 – 2.8
Free cash flow ⁽¹⁾⁽²⁾ (\$B)	1.8 – 2.1	2.1 – 2.4

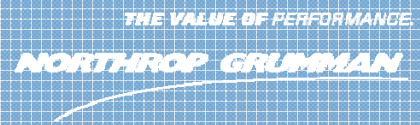
(1) Before Discretionary pension contributions

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

2012 Sector Guidance Summary



Sector	Sales (\$B)		OM Rate %	
	Prior	Current	Prior	Current
Aerospace Systems	9.7 – 10.0	~9.9	Mid 11%	Mid to High 11%
Electronic Systems	6.9 – 7.2	~7.0	Low to Mid 15%	Low to Mid 16%
Information Systems	7.4 – 7.6	~7.3	~10%	~10%
Technical Services	2.8 – 2.9	~3.0	Mid 8%	High 8%



Appendix

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 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 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 from Continuing Operations



<i>\$ in millions, except per share amounts</i>	Third Quarter		Nine Months	
	2012	2011	2012	2011
Pension-adjusted Operating Highlights				
Operating income	\$ 736	\$ 825	\$ 2,306	\$ 2,477
Net pension adjustment	(34)	(100)	(101)	(302)
Pension-adjusted operating income	\$ 702	\$ 725	\$ 2,205	\$ 2,175
<i>Pension-adjusted operating margin rate</i>	11.2%	11.0%	11.8%	10.9%
Pension-adjusted Per Share Data				
Diluted EPS from continuing operations	\$ 1.82	\$ 1.86	\$ 5.67	\$ 5.34
After-tax net pension adjustment per share	(0.09)	(0.23)	(0.26)	(0.68)
Pension-adjusted diluted EPS from continuing operations	\$ 1.73	\$ 1.63	\$ 5.41	\$ 4.66
Weighted average shares outstanding — Basic	247.2	274.9	250.4	283.1
Dilutive effect of stock options and stock awards	4.9	4.4	4.6	4.8
Weighted average shares outstanding — Diluted	252.1	279.3	255.0	287.9

Non-GAAP Reconciliations – Free Cash Flow



	Third Quarter		Nine Months	
<i>\$ millions</i>	2012	2011	2012	2011
Cash provided by continuing operations	\$ 812	\$ 948	\$ 1,583	\$ 1,026
Less: capital expenditures	(64)	(109)	(196)	(326)
Free cash flow provided by continuing operations	\$ 748	\$ 839	\$ 1,387	\$ 700

Non-GAAP Reconciliations – Segment Operating Income



<i>\$ millions</i>	Third Quarter		Nine Months	
	2012	2011	2012	2011
Sales	\$ 6,270	\$ 6,612	\$ 18,742	\$ 19,906
Segment operating income	730	777	2,301	2,282
<i>Segment operating margin rate</i>	11.6%	11.8%	12.3%	12.4%
Reconciliation to operating income				
Unallocated corporate expenses	\$ (27)	\$ (48)	\$ (89)	\$ (96)
Net pension adjustment	34	100	101	302
Reversal of royalty income included above	(1)	(4)	(7)	(11)
Operating income	\$ 736	\$ 825	\$ 2,306	\$ 2,477
<i>Operating margin rate</i>	11.7%	12.5%	12.3%	12.4%

THE VALUE OF PERFORMANCE.

NORTHROP GRUMMAN

