



NORTHROP GRUMMAN

DEFINING THE FUTURE

**Northrop Grumman
Corporation
Q1 2008**

April 24, 2008

Safe Harbor Statement

Certain statements and assumptions in these materials contain or are based on “forward-looking” information. Such “forward-looking” information includes, and is subject to, numerous assumptions, risks and uncertainties, many of which are outside Northrop Grumman’s control. The Safe Harbor Note to today’s press release and Northrop Grumman’s filings from time to time with the Securities and Exchange Commission including, without limitation, reports on Form 10-K and Form 10-Q, describe such economic, political and technological risk factors and other uncertainties.

CEO Highlights

- Shipbuilding charge reduces earnings by \$0.61
- Dividend increased to \$0.40 per share
 - 5th consecutive annual increase
 - Doubling of dividend since 2003
- 7.6 million shares purchased in Q1 2008 for \$600 million
- New business awards total more than \$12 billion
- Record \$68 billion backlog
- BAMS award
- Substantial opportunity set
- Confidence in 2012 financial targets

Updated 2008 Outlook





	Prior 2008E	Current 2008E
Sales	~\$33B	~\$33B
EPS	\$5.50 to \$5.75	\$4.90 to \$5.15
Cash from Operations	\$2.8B to \$3.1B	\$2.6B to \$2.9B
Free Cash Flow ¹	\$1.9B to \$2.3B	\$1.7B to \$2.1B

¹ Non-GAAP measure – see definitions and reconciliations on slides 12 through 14





COO Highlights

- Program update
- LHD-8 milestones
 - Q2 2008 – Aft main engine light off
 - Q3 2008 – Electrical cabling installation complete
 - Q4 2008 – Pier-side integrated propulsion test
 - Q1 2009 – Builder's Trials
 - Q2 2009 – Delivery

Sales

	Q1 2008	Q1 2007	2008E
 I & S	\$3,135M	\$2,953M	\$13 – \$13.5B
 Aerospace	\$2,115M	\$2,035M	\$8.3 – \$8.5B
 Electronics	\$1,555M	\$1,528M	\$7.0 – \$7.2B
 Shipbuilding	\$1,264M	\$1,156M	\$5.7 – \$5.9B
Total	\$7,724M	\$7,314M	~\$33B

Margin Rates

		Q1 2008	Q1 2007
	I & S	8.3%	7.8%
	Aerospace	11.1%	10.8%
	Electronics	13.4%	12.6%
	Shipbuilding	NM	6.8%
	Segment OM ¹	5.9%	9.5%


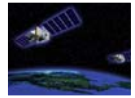


¹Non-GAAP measure – see definitions and reconciliations on slides 12 through 14

Cash Highlights

\$ Millions	Q1 2008	Q1 2007
Net Earnings	264	387
Non Cash items*	222	148
Retiree Benefit Expense in Excess of Funding	31	47
Change in Trade Working Capital	(450)	(399)
Other	130	231
Cash Used in Discontinued Operations	(3)	(14)
Cash from Operations	194	400

* Includes depreciation & amortization, stock-based compensation expense and deferred income taxes.

Business Margin Rates

		Q1 2008	Prior 2008E	Current 2008E
	I & S	8.3%	Low 8%	Low 8%
	Aerospace	11.1%	Mid 9%	~10%
	Electronics	13.4%	~12%	Mid 12%
	Shipbuilding	NM	Low 9%	~3%
	Segment OM ¹	5.9%	Mid to high 9%	Mid to high 8%

¹Non-GAAP measure – see definitions and reconciliations on slides 12 through 14

2008 Outlook

	Prior 2008E	Current 2008E
Sales	~\$33B	~\$33B
Segment OM % ¹	Mid-high 9% range	Mid-high 8% range
Operating Margin	High 9% range	High 8% range
EPS	\$5.50 to \$5.75	\$4.90 to \$5.15
Cash from Operations	\$2.8B to \$3.1B	\$2.6B to \$2.9B
Free Cash Flow ¹	\$1.9B to \$2.3B	\$1.7B to \$2.1B

¹ Non-GAAP measure – see definitions and reconciliations on slides 12 through 14

2012 Financial Targets

	2012 Targets
Sales	\$42B
Operating Margin	10%
EPS	\$8.00
Free Cash Flow ¹	100% net income conversion
RONA ¹	100 bps average annual improvement

¹ Non-GAAP measure – see definitions and reconciliations on slides 12 through 14

Non-GAAP Measure Reconciliation

<u>\$ Millions</u>	<u>Q1 2008</u>
Segment Operating Income¹	458
Unallocated expenses	(32)
Net pension adjustment	59
Reversal of royalty income	<u>(21)</u>
Operating income	464

¹Non-GAAP Measure - see definition on page 14

Non-GAAP Measure Reconciliation

(\$ millions)	Q1 2008
Cash from operations	194
Less:	
Capital Expenditures	143
Outsourcing contract & related software costs	<u>35</u>
Free cash flow¹	16

¹Non-GAAP Measure - see definition on page 14

Non-GAAP Measures Definitions

Non-GAAP Financial Measures Disclosure

- **Today's presentation and the accompanying web charts contain non-GAAP (Generally Accepted Accounting Principles) financial measures, as defined by SEC Regulation G and indicated by a footnote.**
- **While we believe that these non-GAAP financial measures may be useful in evaluating Northrop Grumman, this information should be considered as supplemental in nature and not as a substitute for financial information prepared in accordance with GAAP.**
- **Definitions are provided for the non-GAAP measures used in our presentation. Other companies may define the measures differently.**

Segment Operating Margin

- **Segment operating margin is the total earnings from each of our seven segments including allocated pension expense recognized under government Cost Accounting Standards (CAS).**
- **Reconciling items to total company operating margin are:**
 - Unallocated expenses, which include unallocated corporate, legal, environmental, state income tax, and other retiree benefits expenses.
 - Net pension expense, which includes GAAP pension expense less the CAS pension expense included in Segment Operating Margin.
- **Management uses segment operating margin as an internal measure of financial performance of our individual business segments. This measure also may be helpful to investors in understanding period-over-period operating results separate from items that may be influenced by external market fluctuations.**

Free Cash Flow

- **Free cash flow (FCF) is the cash from operations less capital expenditures and outsourcing contract & related software costs.**

Return on Net Assets

- **Return on Net Assets (RONA) is income from continuing operations plus after-tax net interest expense divided by the average of beginning and year-end net assets. Net Assets are equal to total assets less cash & cash equivalents less total liabilities excluding debt.**

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