

NORTHROP GRUMMAN

DEFINING THE FUTURE

Northrop Grumman Corporation Q2 2007

July 24, 2007

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

- **Quarter highlights**
- **New contract awards**
- **Opportunities**
- **Guidance**

COO Highlights

- **Ships update**
 - LHD 8
 - Katrina recovery

Q2 & YTD 2007 Highlights

(\$ millions except per share data)	Second Quarter			Six Months		
	2007	2006	Change	2007	2006	Change
Sales	7,929	7,601	4%	15,273	14,694	4%
Operating margin %	744	682	9%	1,425	1,286	11%
as a % of sales	9.4%	9.0%	40 bps	9.3%	8.8%	50 bps
Income from continuing operations	460	442	4%	847	804	5%
Diluted EPS from continuing operations	1.31	1.26	4%	2.41	2.29	5%
Net income	460	430	7%	847	787	8%
Diluted EPS	1.31	1.23	7%	2.41	2.24	8%
Cash from operations	741	638	16%	1,141	523	118%
Free cash flow ¹	551	487	13%	763	199	283%

¹ Non-GAAP Measure – see reconciliation and definition on pages 12 and 13

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Sales

(\$ millions)	Second Quarter			Six Months		
	2007	2006	Change	2007	2006	Change
Information & Services	3,236	2,814	15%	6,156	5,466	13%
Aerospace	1,994	2,121	(6%)	4,029	4,270	(6%)
Electronics	1,723	1,610	7%	3,314	3,114	6%
Ships	1,359	1,437	(5%)	2,515	2,570	(2%)
Intersegment eliminations	<u>(383)</u>	<u>(381)</u>	1%	<u>(741)</u>	<u>(726)</u>	2%
Sales	<u>7,929</u>	<u>7,601</u>	4%	<u>15,273</u>	<u>14,694</u>	4%

Operating Margin Rate

(\$ millions)	Second Quarter			Six Months		
	2007	2006	Change	2007	2006	Change
Segment Operating Margin²						
Information & Services	282	266	6%	515	495	4%
Aerospace	218	201	8%	437	407	7%
Electronics	173	172	1%	354	348	2%
Ships	134	129	4%	213	197	8%
Intersegment eliminations	(28)	(26)	8%	(57)	(52)	10%
Segment Operating Margin²	779	742	5%	1,462	1,395	5%
as a % of sales	9.8%	9.8%	-	9.6%	9.5%	10 bps
Reconciliation to Operating Margin:						
Unallocated & other expenses	(63)	(48)	(31%)	(98)	(87)	(13%)
Net pension adjustment ³	28	(12)	333%	61	(22)	377%
Operating Margin	744	682	9%	1,425	1,286	11%
as a % of sales	9.4%	9.0%	40 bps	9.3%	8.8%	50 bps

² Non-GAAP measure; ³ Net pension adjustment includes pension expense determined in accordance with GAAP less pension expense allocated to the business segments under U.S. Government Cost Accounting Standards.

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Unusual Items

Unusual Items included in Q2 2007 Operating Margin (\$ millions)		
Aerospace	Prior years overhead cost settlement	27
Electronics	F-16 Block 60 contract earnings adjustment	(27)
	Facility shutdown and closure costs	(11)
		<u>(38)</u>
Ships	Insurance recovery for lost profits	62
	LHD 8 contract earnings adjustment	(55)
		<u>7</u>
Net effect to segment operating margin²		(4)
Unallocated	Legal and investigative provisions	(50)
Net effect to operating margin		(54)

² Non-GAAP Measure – see reconciliation and definition on pages 11 and 13

Key Cash Components

(\$ millions)	Second Quarter			Six Months		
	2007	2006	Change	2007	2006	Change
Net income	460	430	30	847	787	60
Depreciation & amortization	176	174	2	345	351	(6)
Non-cash pension/OPEB	51	(5)	56	98	114	(16)
Change in working capital	143	143	0	(241)	(631)	390
Deferred & payable income taxes	(183)	(166)	(17)	(10)	(65)	55
All other	94	81	13	102	68	34
Cash used in discontinued operations	0	(19)	19	0	(101)	101
Cash from operations	741	638	103	1,141	523	618
Free cash flow ¹	551	487	64	763	199	564

¹ Non-GAAP Measure – see reconciliation and definition on pages 12 and 13

2007E Outlook

(\$ billions except per share amounts)	Prior	Current
Sales	31 - 32	~31.5 ± 250 Million
Segment OM % ²	Low 9%	Mid 9%
OM %	Low 9%	Low 9%
Diluted EPS from Continuing Operations	4.80 - 5.05	4.90 - 5.05
Cash from Operations	2.5 - 2.8	Upper end of Range
Free Cash Flow ¹	1.6 - 2.0	Upper end of Range

¹ Non-GAAP Measure – see definition on page 13

Non-GAAP Measure Reconciliation

<u>\$ millions</u>	<u>Q2 2007</u>	<u>Six Months</u>
Sales	\$7,929	\$15,273
Segment Operating Margin Rate*	9.8%	9.6%
Operating Margin Rate	9.4%	9.3%
Reconciliation:		
Segment Operating Margin*	\$779	\$1,462
Unallocated Expenses	(63)	(98)
Net Pension Adjustment	28	61
Operating Margin as Reported	\$744	\$1,425

*Non-GAAP Measure - see definition on page 13

Non-GAAP Measure Reconciliation

(\$ millions)	Q2 2007	Six Months
Cash from operations	741	1,141
Less:		
Capital expenditures	140	298
Outsourcing contract & related software costs	50	80
Free cash flow*	551	763

*Non-GAAP Measure - see definition on page 13

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 an asterisk *.
- 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 royalty income and 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.
 - Royalty Income reversed under the caption "Reversal of royalty income included above" and reported under the caption "Other, net."
- 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.