

The background of the slide is a deep blue space scene. On the left, a large portion of the Earth is visible, showing the Americas and parts of Europe and Africa. In the upper center, a bright sun is partially obscured by a red ring, creating a lens flare effect. The rest of the background is filled with a field of stars.

***NORTHROP GRUMMAN***

DEFINING THE FUTURE

**Northrop Grumman  
Corporation  
Q2 2008**

July 29, 2008

# Safe Harbor Statement

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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

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- Nearly 10 percent sales growth
- Fully diluted EPS +10%, EPS from continuing operations +4%
- 2,750,800 shares purchased for \$205M, ~10.3M year-to-date
- \$67B backlog
- New business awards total \$7.5B, nearly \$20B year-to-date
- Substantial opportunity set
- DDG 1000 update
- Solid quarter - on track to meet 2008 guidance

# COO Highlights

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- Program updates
- 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

	Q2 2008	Q2 2007	2008E
 I & S	\$3,175M	\$2,982M	\$12 – 12.5B <sup>1</sup>
 Aerospace	\$2,476M	\$2,292M	\$9.3 – \$9.5B <sup>1</sup>
 Electronics	\$1,675M	\$1,628M	\$7.0 – \$7.2B
 Shipbuilding	\$1,688M	\$1,359M	\$5.7 – \$5.9B
<b>Total</b>	<b>\$8,628M</b>	<b>\$7,878M</b>	<b>~\$33B</b>

<sup>1</sup>Reflects the transfer of certain missile systems programs from Information & Services to Aerospace

# Operating Margin Rates

		Q2 2008	Q2 2007
	I & S	7.9%	8.9%
	Aerospace	9.5%	10.4%
	Electronics	12.1%	11.6%
	Shipbuilding	7.5%	9.9%
	Segment OM <sup>1</sup>	9.1%	10.1%





<sup>1</sup>Non-GAAP measure – see definitions and reconciliations on slides 11 through 13

# Cash Highlights

	Q2 2008	Q2 2007
<b>Net Earnings</b>	\$ 495	\$ 460
<b>Non-cash Items<sup>1</sup></b>	318	218
<b>Retiree benefit expense in excess of funding</b>	15	51
<b>Change in trade working capital</b>	40	221
<b>Change in income taxes payable</b>	(196)	(197)
<b>Other</b>	(72)	(8)
<b>Cash used in discontinued operations</b>	<u>7</u>	<u>(4)</u>
<b>Cash from operations</b>	\$ 607	\$ 741


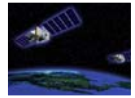


<sup>1</sup> Includes depreciation & amortization, stock-based compensation expense and deferred income taxes.

# Sales

		YTD 2008	2008E
	I & S	\$6,063M	\$12 – 12.5B <sup>1</sup>
	Aerospace	\$4,838M	\$9.3 – \$9.5B <sup>1</sup>
	Electronics	\$3,230M	\$7.0 – \$7.2B
	Shipbuilding	\$2,952M	\$5.7 – \$5.9B
	Total	\$16,352M	~\$33B

<sup>1</sup>Reflects the transfer of certain missile systems programs from Information & Services to Aerospace

# Business Operating Margin Rates

		YTD 2008	2008E
	I & S	8.2%	Low 8%
	Aerospace	10.1%	~10%
	Electronics	12.7%	Mid 12%
	Shipbuilding	NM	~3%
	Segment OM <sup>1</sup>	7.6%	Mid to high 8%

<sup>1</sup>Non-GAAP measure – see definitions and reconciliations on slides 11 through 13

# 2008 Outlook

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	<b>2008E</b>
Sales	~\$33B
Segment OM % <sup>1</sup>	Mid-high 8% range
Operating Margin	High 8% range
EPS	\$4.90 to \$5.15
Cash from Operations <sup>2</sup>	\$2.6B to \$2.9B
Free Cash Flow <sup>1</sup>	\$1.7B to \$2.1B

<sup>1</sup> Non-GAAP measure – see definitions and reconciliations on slides 11 through 13

<sup>2</sup> After required pension contributions of \$120 million forecast for 2008.

# Non-GAAP Measure Reconciliation

(\$ millions)	Second Quarter	Six Months
Sales	8,628	16,352
Segment operating margin rate <sup>1</sup>	9.1%	7.6%
Operating margin rate <sup>1</sup>	9.3%	7.8%
Segment operating income	784	1,242
Unallocated expenses	(43)	(75)
Net pension adjustment	69	128
Royalty income adjustment	(4)	(25)
Operating income	806	1,270

<sup>1</sup>Non-GAAP Measure - see definition on page 13

# Non-GAAP Measure Reconciliation

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(\$ millions)	Second Quarter	Six Months
Cash from operations	607	801
Less:		
Capital expenditures	134	277
Outsourcing contract & related software costs	42	77
Free cash flow <sup>1</sup>	431	447

<sup>1</sup>Non-GAAP Measure - see definition on page 13

# Non-GAAP Measures Definitions

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## 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 Income

- **Segment operating income 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 income 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 Income.
- **Management uses segment operating income 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.**

## Operating Margin Rate

- **Operating margin rate (OM) represents operating income as a percentage of sales for the relevant business component (segment, business, total company).**

## Free Cash Flow

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

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