

A space-themed background featuring a view of Earth from space on the left, with a bright sun or star in the upper center creating a lens flare effect. The sky is a deep blue with scattered white stars.

NORTHROP GRUMMAN

DEFINING THE FUTURE

**Northrop Grumman
Corporation
Q3 2008**

October 22, 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

- Sales +6%
- EPS from continuing operations +6%
- Strong cash from operations and free cash flow
- 10.8 million shares repurchased in the quarter, 21.2 million year-to-date
- \$11.5 billion new business awards, \$31.1 billion year-to-date
- Record \$70.1 billion backlog
- Substantial opportunity set
- Ample liquidity in current environment
- Raising guidance for EPS to \$5.10 to \$5.20





COO Highlights

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

CFO Highlights

- Overall strong quarter
- Underlying fundamentals continue to be strong
- Strong liquidity and access to capital
- Risk mitigation and program execution highest priority
- More conservative approach to program risk
- Negotiating better contracts for NOC and our customers

Sales

| | | Q3 2008 | Q3 2007 |
|---|--------------|----------|----------|
|  | I & S | \$3,109M | \$2,929M |
|  | Aerospace | \$2,424M | \$2,256M |
|  | Electronics | \$1,814M | \$1,577M |
|  | Shipbuilding | \$1,451M | \$1,469M |
| | Total | \$8,381M | \$7,871M |

Cash Highlights

| | Q3 2008 | Q3 2007 | YTD | |
|--|------------|-------------|----------|--|
| Net Earnings | \$ 512 | \$ 489 | \$ 1,271 | 2008E Cash from Operations \$2.6 to \$2.9 billion |
| Non-cash items ¹ | 219 | 235 | 758 | |
| Retiree benefit expense in excess of funding | (11) | (2) | 35 | 2008E Free Cash Flow \$1.8 to \$2.1 billion |
| Change in trade working capital | 409 | 260 | (1) | |
| Change in income taxes payable | 214 | 79 | 130 | |
| Other | 31 | (31) | (22) | |
| Cash used in discontinued operations | <u>(1)</u> | <u>(15)</u> | <u>3</u> | |
| Cash from operations | \$ 1,373 | \$ 1,015 | \$ 2,174 | |

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

2008 Outlook

| | Prior 2008E | Current 2008E |
|-----------------------------------|----------------------------------|------------------|
| Sales | ~\$33B | ~\$33.4B |
| Segment OM % ¹ | Mid-high 8% range | Mid 8% |
| Operating Margin | High 8% range | Mid 8% |
| EPS | \$4.90 to \$5.15 | \$5.10 to \$5.20 |
| Cash from Operations ² | \$2.6B to \$2.9B | \$2.6B to \$2.9B |
| Free Cash Flow ^{1,2} | \$1.7B to \$2.1B | \$1.8B to \$2.1B |

¹ Non-GAAP measure – see definitions and reconciliations on slides 10 through 12

² After required pension contributions of \$120 million forecast for 2008 and before any additional discretionary pension pre-funding contributions in 2008.

2009 FAS / CAS Pension*

- Fair market value method - mark-to-market plan assets at 12/31/08
- 2008 long-term return assumption 8.5%, discount rate 6.25%
- Negative 12% return on plan assets through 9/30/08 (S&P 500 negative 21%)
- Modeled a negative 10% return and 7% discount rate = net FAS/CAS adjustment of (\$415M) from 2008
 - FAS expense increases \$465M over 2008
 - 100 basis points variance from return \pm \$40M FAS expense
 - 25 basis points variance from discount rate \pm \$50M FAS expense
 - Every \$100M of pension pre-funding reduces FAS expense by \$8.5M
 - CAS expense smoothed over 5 years, amortized over 15 years in determining plan funded status, estimated \$50M impact to '09 CAS expense
- Cumulative pension gains & losses are aggregated and absorbed into a corridor equal to the greater of 10% of plan assets or projected benefit obligation, with any excess gain or loss amortized into expense

*2009 pension expense will be based on actual investment returns for 2008 and discount rate as of 12/31/08. The sensitivities provided apply only to NOC pension plans and only to the modeled conditions.

Appendix

Non-GAAP Measure Reconciliation

| (\$ millions) | Third Quarter | Nine Months |
|--|------------------|----------------|
| Sales | 8,381 | 24,733 |
| Segment operating margin rate ¹ | 9.2% | 8.1% |
| Operating margin rate | 9.2% | 8.3% |
| Segment operating income | 768 | 2,010 |
| Unallocated expenses | (20) | (95) |
| Net pension adjustment | 64 | 192 |
| Royalty income adjustment | (41) | (66) |
| Operating income | 771 | 2,041 |

¹Non-GAAP Measure - see definition on page 12

Non-GAAP Measure Reconciliation

| (\$ millions) | Third Quarter | Nine Months |
|--|------------------|----------------|
| Cash from operations | 1,373 | 2,174 |
| Less: | | |
| Capital expenditures | 167 | 444 |
| Outsourcing contract & related software costs | 23 | 100 |
| Free cash flow ¹ | 1,183 | 1,630 |

¹Non-GAAP Measure - see definition on page 12

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 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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