

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

***NORTHROP GRUMMAN***

DEFINING THE FUTURE

**Northrop Grumman  
Corporation  
Q4 & 2008**

February 3, 2009

# 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. Northrop Grumman does not undertake to update any forward-looking statements in today’s presentation to reflect events, circumstances or changes in expectations after the date of this presentation.

# CEO Highlights

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- Records for sales, cash from operations and free cash flow<sup>1</sup> – all exceed guidance
- Adjusted diluted EPS from continuing operations<sup>1</sup> exceeds guidance
- Record \$78 billion backlog
- \$48.3 billion new business awards in 2008
- Strong balance sheet and credit ratings
- Higher pension-adjusted diluted EPS from continuing operations<sup>1</sup> and strong cash generation in 2009
- Positioning company for changing environment

<sup>1</sup>Non-GAAP Measure - see reconciliations and definitions on pages 11 - 15

# COO Highlights

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

# CFO Highlights

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- Strong underlying operational performance
- Goodwill impairment charge due to adverse equity market conditions
- Pension performance update
- 2009 guidance

# 2009 FAS / CAS Pension

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- Plan assets marked-to-market at 12/31/08
- Negative ~16% return on plan assets in 2008
- 2009 assumptions:
  - 8.5% long-term return
  - 6.25% discount rate
- 2009 pre-tax net pension adjustment<sup>1</sup> of ~\$335 million or ~\$0.65 per share
- Impact of negative 2008 returns absorbed in 2009 net pension adjustment<sup>1</sup>
- 2009 required cash funding of ~\$130 million
- Funded status at 12/31/07 - 104%
- Funded status at 12/31/08 - 84%
- \$2.8 billion equity adjustment to reflect lower plan asset values

<sup>1</sup>Non-GAAP Measure - see definitions on pages 14 - 15

# 2009 Guidance

	2008	2009
<i>(\$ in billions, except per share amounts)</i>	Actuals	Guidance
<b>Adjusted diluted EPS from continuing operations<sup>1</sup></b>	\$5.21	\$4.50 - \$4.75
<b>Pension-adjusted diluted EPS from continuing operations<sup>1</sup></b>	\$4.71	\$5.15 - \$5.40
<b>Adjusted segment OM %<sup>1</sup></b>	8.6%	low to mid 9%
<b>Adjusted OM %<sup>1</sup></b>	8.7%	Mid 7%
<b>Pension-adjusted OM %<sup>1</sup></b>	7.9%	Mid 8%
<b>Sales</b>	\$33.9B	~\$34.5B
<b>Cash from operations</b>	\$3.2B	\$2.7B - \$3.2B
<b>Free cash flow<sup>1</sup></b>	\$2.4B	\$1.9B - \$2.4B*

**Pension-adjusted EPS growth of 9% to 15%**

<sup>1</sup>Non-GAAP Measure - see reconciliations and definitions on pages 11 - 15

\* Before discretionary pre-funding of pension plans

# Appendix

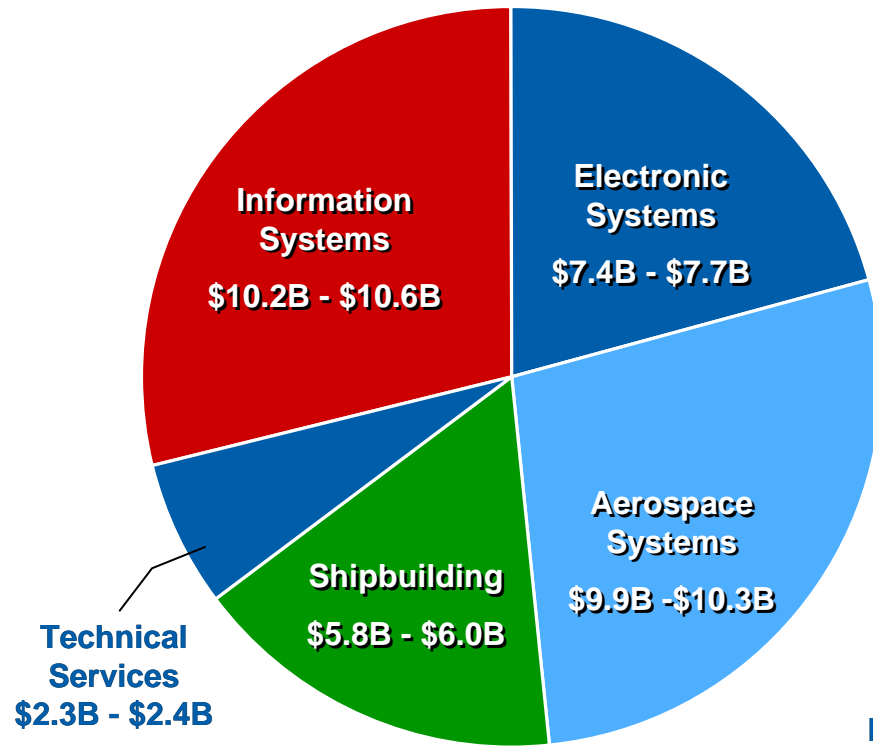
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# Cash Highlights

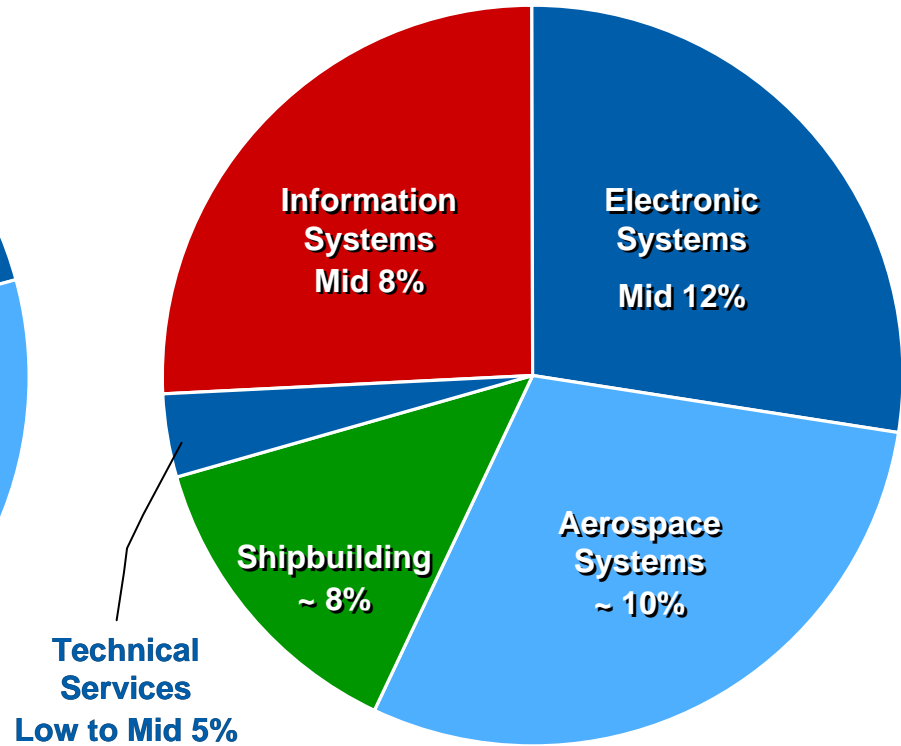
(\$ in millions)	Q4 2008	Q4 2007	2008	2007
<b>Net (loss) earnings</b>	\$ (2,533)	\$ 454	\$ (1,262)	\$ 1,790
<b>Non-cash items<sup>1</sup></b>	247	434	1,005	1,035
<b>Goodwill impairment</b>	3,060		3,060	
<b>Retiree benefit funding in excess of expense</b>	(202)	(146)	(167)	(50)
<b>Change in trade working capital</b>	309	74	308	156
<b>Change in income taxes payable</b>	111	(118)	241	(59)
<b>Other</b>	45	28	23	43
<b>Cash used in discontinued operations</b>	<u>          </u>	<u>      8</u>	<u>      3</u>	<u>    (25)</u>
<b>Cash from operations</b>	\$ 1,037	\$ 734	\$ 3,211	\$ 2,890

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

# 2009 Segment Guidance



**2009E Sales**



**2009E Operating Margin %<sup>1</sup>**

<sup>1</sup>Non-GAAP Measure - see definitions on pages 14 - 15

# Non-GAAP Measure Reconciliation

(\$ in millions)	Fourth Quarter	2008
<b>Sales</b>	\$ 9,154	\$ 33,887
<b>Adjusted segment operating margin rate<sup>1</sup></b>	9.9%	8.6%
<b>Adjusted operating margin rate<sup>1</sup></b>	9.9%	8.7%
<b>Segment operating loss<sup>1</sup></b>	\$ (2,155)	\$ (145)
<b>Goodwill impairment charge</b>	3,060	3,060
<b>Adjusted segment operating income<sup>1</sup></b>	\$ 905	\$ 2,915
<b>Unallocated expenses</b>	(64)	(159)
<b>Net pension adjustment<sup>1</sup></b>	71	263
<b>Royalty income adjustment</b>	(4)	(70)
<b>Operating loss</b>	\$ (2,152)	\$ (111)
<b>Goodwill impairment charge</b>	3,060	3,060
<b>Adjusted operating income<sup>1</sup></b>	\$ 908	\$ 2,949

<sup>1</sup>Non-GAAP Measure - see definition on pages 14 - 15

# Non-GAAP Measure Reconciliation

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<b>(\$ in millions)</b>	<b>Fourth Quarter</b>	<b>2008</b>
<b>Cash from operations</b>	<b>\$1,037</b>	<b>\$3,211</b>
<b>Less:</b>		
<b>Capital expenditures</b>	<b>237</b>	<b>681</b>
<b>Outsourcing contract &amp; related software costs</b>	<b>10</b>	<b>110</b>
<b>Free cash flow<sup>1</sup></b>	<b>\$ 790</b>	<b>\$2,420</b>

<sup>1</sup>Non-GAAP Measure - see definitions on pages 14 - 15

# Non-GAAP Measure Reconciliation: Adjusted earnings from continuing operations

<i>\$ in millions, except per share amounts</i>	December 31			
	2008		2007	
	FOURTH QUARTER	YTD	FOURTH QUARTER	YTD
<b>Earnings Reconciliation</b>				
(Loss) earnings from continuing operations	\$ (2,536)	\$ (1,281)	\$ 457	\$ 1,811
Add back: Goodwill impairment charge	3,060	3,060	-	-
Add back: Dividends on mandatorily redeemable convertible preferred stock	-	-	6	24
Adjusted earnings from continuing operations <sup>(1)</sup>	<u>\$ 524</u>	<u>\$ 1,779</u>	<u>\$ 463</u>	<u>\$ 1,835</u>
<b>Per Share Amounts</b>				
Weighted average common shares outstanding	326.9	334.5	338.2	341.7
Dilutive effect of stock options, stock awards, and mandatorily redeemable convertible preferred stock	6.7	7.1	12.9	12.6
Adjusted diluted average common shares outstanding <sup>(2)</sup>	<u>333.6</u>	<u>341.6</u>	<u>351.1</u>	<u>354.3</u>
<b>Earnings Per Share (EPS) Calculations</b>				
Adjusted earnings from continuing operations from above <sup>(1)</sup>	\$ 524	\$ 1,779	\$ 463	\$ 1,835
Adjusted diluted average common shares outstanding from above <sup>(2)</sup>	333.6	341.6	351.1	354.3
Adjusted diluted EPS from continuing operations <sup>(1)</sup>	\$ 1.57	\$ 5.21	\$ 1.32	\$ 5.18
Loss from continuing operations from above	\$ (2,536)	\$ (1,281)		
Weighted average common shares outstanding <sup>(2)</sup>	326.9	334.5		
Loss per share from continuing operations	\$ (7.76)	\$ (3.83)		
Goodwill impairment charge	\$ (3,060)	\$ (3,060)		
Weighted average common shares outstanding <sup>(2)</sup>	326.9	334.5		
Impairment charge per share	\$ (9.36)	\$ (9.15)		

<sup>1</sup>Non-GAAP Measure - see definition on pages 14 – 15

<sup>2</sup>Per share amounts are based on basic weighted average shares outstanding, as use of dilutive securities

(i.e. stock options, stock awards, and mandatorily redeemable convertible preferred stock outstanding) would result in a lesser per share loss.

# Non-GAAP 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 financial information, 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 these measures differently.

**Net pension adjustment:** Pension expense determined in accordance with GAAP less pension expense allocated to the business segments under U.S. Government Cost Accounting Standards (CAS).

**Segment operating income:** Total earnings from each of our seven segments including allocated pension expense recognized under CAS.

Reconciling items to operating income are:

- Unallocated expenses, which include unallocated corporate, legal, environmental, state income tax, and other retiree benefits expenses.
- Net pension adjustment
- Reversal of royalty income 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.

**Segment operating margin rate %:** Operating income before unallocated expenses, net pension adjustment and reversal of royalty income, divided by sales. Management uses segment operating margin % as an internal measure of financial performance.

**Adjusted segment operating income:** Operating income before goodwill impairment charge, unallocated expenses, net pension adjustment and reversal of royalty income. Adjusted segment operating income has been provided for consistency and comparability of the 2008 results with results of operations from prior periods.

**Adjusted segment operating margin rate %:** Operating income before goodwill impairment charge, unallocated expenses, net pension adjustment and reversal of royalty income, divided by sales. Adjusted segment operating income has been provided for consistency and comparability of the 2008 results with results of operations from prior periods.

# Non-GAAP Definitions

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

**Adjusted operating income:** Operating income (loss) before the \$3.060 billion 2008 goodwill impairment charge. Adjusted operating income has been provided for consistency and comparability of the 2008 results with results of operations from prior periods.

**Adjusted operating margin rate %:** Operating income (loss) before the \$3.060 billion 2008 goodwill impairment charge, divided by sales. Adjusted operating margin rate % has been provided for consistency and comparability of the 2008 results with results of operations from prior periods.

**Pension-adjusted operating income:** Operating income before goodwill impairment and net pension adjustment, provided for consistency and comparability of the 2008 results with results of operations from prior periods. Management uses segment operating margin rate % as an internal measure of financial performance.

**Pension-adjusted operating margin rate %:** Operating margin before net pension adjustment, provided for consistency and comparability of the 2008 results with results of operations from prior periods. Management uses pension-adjusted operating margin % as an internal measure of the financial performance of the company.

**Pension-adjusted diluted EPS from continuing operations:** Diluted EPS from continuing operations available to common shareholders excluding net pension adjustment, after-tax, provided for consistency and comparability of the 2008 results with results of operations from prior periods. Management uses pension-adjusted EPS as a performance metric for operating results.

**Adjusted diluted EPS from continuing operations:** Diluted EPS from continuing operations before the 2008 goodwill impairment charge impact. Adjusted diluted EPS from continuing operations has been provided for consistency and comparability of the 2008 results with results of operations from prior periods.

**Adjusted diluted average common shares outstanding:** weighted average common shares outstanding plus the dilutive effect of stock options, stock awards, and mandatorily redeemable convertible preferred stock. This measure has been provided for consistency and comparability of the 2008 results with earnings per share from prior periods.

**Free cash flow:** cash from operations less capital expenditures and outsourcing contract & related software costs. Management uses free cash flow as an internal measure of financial performance.

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