NORTHROP GRUMMAN

**News Release**

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# Northrop Grumman Reports Third Quarter 2011 Financial Results

- EPS from Continuing Operations Increase 23 Percent to $1.86
- 2011 Guidance for EPS from Continuing Operations Raised to $6.95 to $7.05 from $6.75 to $6.90
- Cash from Operations Increases to $948 Million; Free Cash Flow Increases to $839 Million
- Sales Total $6.6 Billion; New Business Awards Total $7.8 Billion
- 12.7 Million Shares Repurchased in the Third Quarter; 28.4 Million Year-to-date

FALLS CHURCH, Va. – Oct. 26, 2011 – Northrop Grumman Corporation (NYSE: NOC) reported that third quarter 2011 earnings from continuing operations increased 16 percent to $520 million, or $1.86 per diluted share, from $448 million, or $1.51 per diluted share, in the third quarter of 2010. For the nine months ended Sept. 30, 2011, the company repurchased 28.4 million shares of its common stock for $1.6 billion, and $2.4 billion remained under its current share repurchase authorization.

"Superior operating performance in our businesses drove higher operating income, earnings, cash and a strong book-to-bill ratio for the quarter. Based on year-to-date operating results and effective cash deployment, we are again raising our 2011 EPS guidance. The combination of performance and share repurchases continues to produce strong earnings per share growth despite top line pressures," said Wes Bush, chairman, chief executive officer and president.

## Table 1 - Financial Highlights

| ($ in millions, except per share amounts) | Third Quarter 2011 | Third Quarter 2010 | Nine Months 2011 | Nine Months 2010 |
|---|---|---|---|---|
| Sales | $ 6,612 | $ 7,071 | $ 19,906 | $ 21,240 |
| Operating income | 825 | 723 | 2,477 | 2,152 |
| as % of sales | 12.5% | 10.2% | 12.4% | 10.1% |
| Earnings from continuing operations | $ 520 | $ 448 | $ 1,536 | $ 1,598 |
| Diluted EPS from continuing operations | 1.86 | 1.51 | 5.34 | 5.28 |
| Net earnings | 520 | 497 | 1,570 | 1,677 |
| Diluted EPS | 1.86 | 1.67 | 5.45 | 5.54 |
| Cash provided by continuing operations | 948 | 816 | 1,026 | 916 |
| Free cash flow from continuing operations[1] | 839 | 692 | 700 | 610 |
| **Pension-adjusted Operating Highlights** | | | | |
| Operating income | $ 825 | $ 723 | $ 2,477 | $ 2,152 |
| Net pension adjustment[1] | (100) | 1 | (302) | (2) |
| Pension-adjusted operating income[1] | $ 725 | $ 724 | $ 2,175 | $ 2,150 |
| as % of sales[1] | 11.0% | 10.2% | 10.9% | 10.1% |
| **Adjusted Per Share Data** | | | | |
| Diluted EPS from continuing operations | $ 1.86 | $ 1.51 | $ 5.34 | $ 5.28 |
| Tax benefit | | | | (0.99) |
| After-tax net pension adjustment per share[1] | (0.23) | | (0.68) | |
| Adjusted diluted EPS from continuing operations[1] | $ 1.63 | $ 1.51 | $ 4.66 | $ 4.29 |
| Weighted average shares outstanding - Basic | 274.9 | 293.5 | 283.1 | 298.6 |
| Dilutive effect of stock options and stock awards | 4.4 | 4.1 | 4.8 | 3.9 |
| Weighted average shares outstanding - Diluted | 279.3 | 297.6 | 287.9 | 302.5 |

[1] Non-GAAP metric - see definitions at the end of this press release.

Third quarter 2011 operating income increased $102 million or 14 percent, and as a percent of sales increased 230 basis points to 12.5 percent. The improvement over the prior year reflects improved segment operating income and a $101 million increase in net pension income, which more than offset higher unallocated corporate expenses during the period. Despite lower sales, third quarter 2011 segment operating income increased 2 percent to $777 million and as a percent of sales improved 110 basis points to 11.8 percent.

Third quarter 2011 net earnings totaled $520 million, or $1.86 per diluted share, compared with $497 million, or $1.67 per diluted share, in the third quarter of 2010.

Third quarter 2011 diluted earnings per share are based on 279.3 million weighted average shares outstanding compared with 297.6 million shares in the third quarter of 2010. Results for both periods reflect the spin-off of Huntington Ingalls Industries, Inc. (HII), the company's former Shipbuilding business, effective March 31, 2011; Shipbuilding financial results are reported as discontinued operations.

## Table 2 - Cash Flow Highlights

| ($ millions) | Third Quarter 2011 | Third Quarter 2010 | Third Quarter Change | Nine Months 2011 | Nine Months 2010 | Nine Months Change |
|---|---|---|---|---|---|---|
| Cash provided by continuing operations before discretionary pension contributions [1] | $ 903 | $ 829 | $ 74 | $ 1,393 | $ 1,235 | $ 158 |
| After-tax discretionary pension pre-funding impact | 45 | (13) | 58 | (367) | (319) | (48) |
| Cash provided by continuing operations | 948 | 816 | 132 | 1,026 | 916 | 110 |
| Less: | | | | | | |
| Capital expenditures | (108) | (123) | 15 | (324) | (301) | (23) |
| Outsourcing contract & related software costs | (1) | (1) | | (2) | (5) | 3 |
| Free cash flow from continuing operations[1] | $ 839 | $ 692 | $ 147 | $ 700 | $ 610 | $ 90 |
| After-tax discretionary pension pre-funding impact | (45) | 13 | (58) | 367 | 319 | 48 |
| Pension-adjusted free cash flow from continuing operations[1] | $ 794 | $ 705 | $ 89 | $ 1,067 | $ 929 | $ 138 |

[1] Non-GAAP metric - see definitions at the end of this press release

Cash provided by continuing operations before discretionary pension contributions through Sept. 30, 2011, increased to $1.4 billion from $1.2 billion in the prior year, and free cash flow from continuing operations before discretionary pension contributions through Sept. 30, 2011, increased to $1.1 billion from $929 million in the prior year.

## 2011 Guidance Updated

Based on year-to-date results, the company now expects 2011 earnings per share from continuing operations of $6.95 to $7.05 per diluted share. The increase in expected 2011 earnings per share reflects higher expected segment operating margin rate and total operating margin rate, and lower weighted average shares outstanding.

## Table 3 - Cash Measurements, Debt and Capital Deployment

| ($ millions) | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Cash & cash equivalents | $ 2,946 | $ 3,701 |
| Total debt | 3,975 | 4,724 |
| Net debt[1] | 1,029 | 1,023 |
| Net debt to total capital ratio[2] | 6.5% | 5.6% |

[1] Total debt less cash and cash equivalents.
[2] Net debt divided by the sum of shareholders' equity and total debt.

Changes in cash and cash equivalents include the following items for cash from operations, investing and financing through Sept. 30, 2011:

Operations

- $500 million discretionary pension contributions
- $1.026 billion provided by continuing operations after discretionary pension contributions noted above

- $612 million for federal taxes paid

Investing

- $1.429 billion contribution from spin-off of Shipbuilding
- $324 million for capital expenditures

Financing

- $1.598 billion for repurchases of common stock
- $97 million provided by proceeds from exercises of stock options and issuance of common stock
- $750 million of principal payments of long term debt
- $414 million for dividends

## Table 4 - Business Results

Consolidated Sales & Segment Operating Income[1]

| ($ millions) | Third Quarter 2011 | Third Quarter 2010 | Change | Nine Months 2011 | Nine Months 2010 | Change |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| Aerospace Systems | $ 2,572 | $ 2,706 | (5%) | $ 7,900 | $ 8,244 | (4%) |
| Electronic Systems | 1,905 | 1,874 | 2% | 5,504 | 5,740 | (4%) |
| Information Systems | 1,955 | 2,123 | (8%) | 6,011 | 6,310 | (5%) |
| Technical Services | 680 | 871 | (22%) | 2,024 | 2,435 | (17%) |
| Intersegment eliminations | (500) | (503) | | (1,533) | (1,489) | |
| | $ 6,612 | $ 7,071 | (6%) | $ 19,906 | $ 21,240 | (6%) |
| Segment operating income[1] | | | | | | |
| Aerospace Systems | $ 304 | $ 303 | | $ 936 | $ 934 | |
| Electronic Systems | 293 | 261 | 12% | 814 | 751 | 8% |
| Information Systems | 187 | 190 | (2%) | 570 | 578 | (1%) |
| Technical Services | 55 | 56 | (2%) | 160 | 157 | 2% |
| Intersegment eliminations | (62) | (50) | | (198) | (163) | |
| Segment operating income[1] | $ 777 | $ 760 | 2% | $ 2,282 | $ 2,257 | 1% |
| as a % of sales[1] | 11.8% | 10.7% | 110 bps | 11.5% | 10.6% | 90 bps |
| Reconciliation to operating income | | | | | | |
| Unallocated corporate expenses | $ (48) | $ (34) | (41%) | $ (96) | $ (99) | 3% |
| Net pension adjustment[1] | 100 | (1) | NM | 302 | 2 | NM |
| Reversal of royalty income included above | (4) | (2) | (100%) | (11) | (8) | (38%) |
| Operating income | 825 | 723 | 14% | 2,477 | 2,152 | 15% |
| as a % of sales | 12.5% | 10.2% | 230 bps | 12.4% | 10.1% | 230 bps |
| Net interest expense | (57) | (64) | 11% | (168) | (206) | 18% |
| Other, net | (13) | 13 | 200% | (8) | 10 | 180% |
| Earnings from continuing operations before income taxes | 755 | 672 | 12% | 2,301 | 1,956 | 18% |
| Federal and foreign income tax expense | (235) | (224) | 5% | (765) | (358) | (114%) |
| Earnings from continuing operations | 520 | 448 | 16% | 1,536 | 1,598 | (4%) |
| Earnings from discontinued operations | | 49 | (100%) | 34 | 79 | (57%) |
| Net earnings | $ 520 | $ 497 | 5% | $ 1,570 | $ 1,677 | (6%) |

[1] Non-GAAP metric - see definitions and reconciliations at the end of this press release.

Other, net for the 2011 third quarter was an expense of $13 million compared with income of $13 million in the prior year period, due to the write-down of an equity investment and higher non-qualified employee benefit costs.

Federal and foreign income tax expense totaled $235 million in the third quarter of 2011 compared with $224 million in the prior year period. The effective tax rate for the 2011 third quarter was 31.1 percent compared with 33.3 percent for the third quarter of 2010. In the 2011 third quarter the company recognized net tax benefits of $14 million related to the filing of its 2010 tax return.

**Aerospace Systems** ($ millions)

| | Third Quarter | | | Nine Months | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | % Change | 2011 | 2010 | % Change |
| Sales | $ 2,572 | $ 2,706 | (5.0%) | $ 7,900 | $ 8,244 | (4.2%) |
| Operating income | 304 | 303 | 0.3% | 936 | 934 | 0.2% |
| as a % of sales | 11.8% | 11.2% | | 11.8% | 11.3% | |

Aerospace Systems third quarter 2011 sales declined 5 percent due to lower volume for space systems and manned aircraft programs. Lower volume for space systems is primarily due to reduced funding for weather satellite programs and the James Webb Space Telescope program, as well as lower volume for several other space programs. Lower manned aircraft sales include lower volume for the F-35 program. Lower F-35 volume reflects the transition to use of units-of-delivery revenue recognition method beginning with low rate initial production lot 5.

Aerospace Systems third quarter 2011 operating income was comparable to the prior year period and as a percent of sales increased to 11.8 percent from 11.2 percent due to improved program performance and lower amortization of purchased intangibles, which were partially offset by lower volume and an unfavorable performance adjustment for a space program.

**Electronic Systems** ($ millions)

| | Third Quarter | | | Nine Months | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | % Change | 2011 | 2010 | % Change |
| Sales | $ 1,905 | $ 1,874 | 1.7% | $ 5,504 | $ 5,740 | (4.1%) |
| Operating income | 293 | 261 | 12.3% | 814 | 751 | 8.4% |
| as a % of sales | 15.4% | 13.9% | | 14.8% | 13.1% | |

Electronic Systems third quarter 2011 sales increased 2 percent principally due to higher volume for intelligence, surveillance and reconnaissance systems, targeting systems, and naval marine systems programs. Higher volume for these programs was partially offset by lower volume for land and self protection systems programs, including lower deliveries of Vehicular Intercommunication Systems (VIS).

Electronic Systems third quarter 2011 operating income increased 12 percent, and as a percent of sales increased to 15.4 percent from 13.9 percent. Higher operating income and margin rate reflect higher volume as well as positive performance adjustments for a space program and an international radar program. Positive adjustments for these programs were partially offset by a provision for a dispute on the Flats Sequencing System domestic postal automation program.

**Information Systems** ($ millions)

| | Third Quarter | | | Nine Months | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | % Change | 2011 | 2010 | % Change |
| Sales | $ 1,955 | $ 2,123 | (7.9%) | $ 6,011 | $ 6,310 | (4.7%) |
| Operating income | 187 | 190 | (1.6%) | 570 | 578 | (1.4%) |
| as a % of sales | 9.6% | 8.9% | | 9.5% | 9.2% | |

Information Systems third quarter 2011 sales declined 8 percent due to lower volume for defense systems and civil systems programs, partially offset by higher volume for intelligence systems programs. For defense systems, reduced funding on existing programs and program completions reduced third quarter 2011 sales. Civil systems volume was reduced by the sale of the County of San Diego outsourcing contract, which contributed sales of $32 million in the third quarter of 2010.

Information Systems third quarter 2011 operating income declined 2 percent and as a percent of sales increased to 9.6 percent compared with 8.9 percent in the prior year period. The decline in operating income principally reflects lower volume and a reserve for overhead rates resulting from the decline in sales. The improvement in margin rate principally reflects better performance for civil systems programs, including the effect of the sale of the County of San Diego outsourcing contract.

**Technical Services** ($ millions)

| | Third Quarter | | | Nine Months | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | % Change | 2011 | 2010 | % Change |
| Sales | $ 680 | $ 871 | (21.9%) | $ 2,024 | $ 2,435 | (16.9%) |
| Operating income | 55 | 56 | (1.8%) | 160 | 157 | 1.9% |
| as a % of Sales | 8.1% | 6.4% | | 7.9% | 6.4% | |

Technical Services third quarter 2011 sales declined 22 percent primarily due to the change in the NSTec joint venture. As previously announced, effective Jan. 1, 2011, the company reduced its participation in the NSTec joint venture, and as a result did not record any sales for the joint venture in the 2011 third quarter. NSTec sales totaled $163 million in the third quarter of 2010.

Technical Services third quarter 2011 operating income was comparable to the prior year, and as a percent of sales increased to 8.1 percent from 6.4 percent, principally due to the change in revenue consolidation for the NSTec joint venture.

## About Northrop Grumman

Northrop Grumman will webcast its earnings conference call at 11:30 a.m. ET on Oct. 26, 2011. A live audio broadcast of the conference call along with a supplemental presentation will be available on the investor relations page of the company's Web site at www.northropgrumman.com.

Northrop Grumman is a leading global security company providing innovative systems, products and solutions in aerospace, electronics, information systems, and technical services to government and commercial customers worldwide. Please visit www.northropgrumman.com for more information.

This release and the attachments contain statements, other than statements of historical fact, that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expect," "intend," "may," "could," "plan," "project," "forecast," "believe," "estimate," "outlook," "anticipate," "trends," "guidance," and similar expressions generally identify these forward-looking statements. Forward-looking statements in this release and the attachments include, among other things, financial guidance regarding future sales, segment operating income, pension expense, employer contributions under pension plans and medical and life benefits plans, cash flow and earnings. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Actual results may differ materially from those expressed or implied in these forward-looking statements due to factors such as: the effect of economic conditions in the United States and globally; changes in government and customer priorities and requirements (including, government budgetary constraints, shifts in defense spending, changes in import and export policies, and changes in customer short-range and long-range plans); access to capital; future sales and cash flows; the timing of cash receipts; effective tax rates and timing and amounts of tax payments; returns on pension plan assets, interest and discount rates and other changes that may impact pension plan assumptions; retiree medical expense; the outcome of litigation, claims, audits, appeals, bid protests and investigations; the adequacy of our insurance coverage and recoveries (including earthquake-related coverage); the costs of environmental remediation; our ability to attract and retain qualified personnel; the costs of capital investments; changes in organizational structure and reporting segments; risks associated with acquisitions, dispositions, spin-off transactions, joint ventures, strategic alliances and other business arrangements; possible impairments of goodwill or other intangible assets; the effects of legislation, rulemaking, and changes in accounting, tax or defense procurement rules or regulations; the acquisition or termination of contracts; technical, operational or quality setbacks in contract performance; our ability to protect intellectual property rights; risks associated with our nuclear operations; issues with, and financial viability of, key suppliers and subcontractors; availability of materials and supplies; controlling costs of fixed-price development programs; contractual performance relief and the application of cost sharing terms; allowability and allocability of costs under U.S. Government contracts; progress and acceptance of new products and technology; domestic and international competition; legal, financial and governmental risks related to international transactions; potential security threats, information technology attacks, natural disasters and other disruptions not under our control; and other risk factors disclosed in our filings with the Securities and Exchange Commission.

You should not put undue reliance on any forward-looking statements in this release. These forward-looking statements speak only as of the date of this release, and we undertake no obligation to update or revise any forward-looking statements after we distribute this release.

This release and the attachments also contain non-GAAP financial measures. A reconciliation to the nearest GAAP measure and a discussion of the company's use of these measures are included in this release or the attachments.

**NORTHROP GRUMMAN CORPORATION** **SCHEDULE 1**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *$ in millions, except per share amounts* | **2011** | 2010 | **2011** | 2010 |
| Sales and Service Revenues | | | | |
| Product sales | **$ 3,780** | $ 3,968 | **$ 11,352** | $ 12,159 |
| Service revenues | **2,832** | 3,103 | **8,554** | 9,081 |
| Total sales and service revenues | **6,612** | 7,071 | **19,906** | 21,240 |
| Cost of Sales and Service Revenues | | | | |
| Cost of product sales | **2,700** | 2,918 | **8,204** | 8,986 |
| Cost of service revenues | **2,498** | 2,856 | **7,512** | 8,283 |
| General and administrative expenses | **589** | 574 | **1,713** | 1,819 |
| Operating income | **825** | 723 | **2,477** | 2,152 |
| Other (expense) income | | | | |
| Interest expense | **(57)** | (64) | **(168)** | (206) |
| Other, net | **(13)** | 13 | **(8)** | 10 |
| Earnings from continuing operations before income taxes | **755** | 672 | **2,301** | 1,956 |
| Federal and foreign income tax expense | **235** | 224 | **765** | 358 |
| Earnings from continuing operations | **520** | 448 | **1,536** | 1,598 |
| Earnings from discontinued operations, net of tax | | 49 | **34** | 79 |
| Net earnings | **$ 520** | $ 497 | **$ 1,570** | $ 1,677 |
| Basic Earnings Per Share | | | | |
| Continuing operations | **$ 1.89** | $ 1.53 | **$ 5.43** | $ 5.35 |
| Discontinued operations | | .16 | **.12** | .27 |
| Basic earnings per share | **$ 1.89** | $ 1.69 | **$ 5.55** | $ 5.62 |
| Weighted-average common shares outstanding, in millions | **274.9** | 293.5 | **283.1** | 298.6 |
| Diluted Earnings Per Share | | | | |
| Continuing operations | **$ 1.86** | $ 1.51 | **$ 5.34** | $ 5.28 |
| Discontinued operations | | .16 | **.11** | .26 |
| Diluted earnings per share | **$ 1.86** | $ 1.67 | **$ 5.45** | $ 5.54 |
| Weighted-average diluted shares outstanding, in millions | **279.3** | 297.6 | **287.9** | 302.5 |
| Net earnings (from above) | **$ 520** | $ 497 | **$ 1,570** | $ 1,677 |
| Other comprehensive (loss) income | | | | |
| Change in cumulative translation adjustment | **(25)** | 18 | **2** | (34) |
| Change in unrealized gain on marketable securities and cash flow hedges, net of tax | | | **(2)** | |
| Change in unamortized benefit plan costs, net of tax | **22** | 39 | **57** | 118 |
| Other comprehensive (loss) income, net of tax | **(3)** | 57 | **57** | 84 |
| Comprehensive income | **$ 517** | $ 554 | **$ 1,627** | $ 1,761 |

**NORTHROP GRUMMAN CORPORATION** **SCHEDULE 2**

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**(Unaudited)**

| *$ in millions* | **September 30, 2011** | December 31, 2010 |
|---|---|---|
| ***Assets*** | | |
| Cash and cash equivalents | **$ 2,946** | $ 3,701 |
| Accounts receivable, net of progress payments | **3,328** | 3,329 |
| Inventoried costs, net of progress payments | **884** | 896 |
| Current deferred tax assets | **393** | 419 |
| Prepaid expenses and other current assets | **135** | 244 |
| Assets of discontinued operations | | 5,212 |
| Total current assets | **7,686** | 13,801 |
| Property, plant, and equipment, net of accumulated depreciation of $3,897 in 2011 and $3,712 in 2010 | **3,010** | 3,045 |
| Goodwill | **12,376** | 12,376 |
| Other purchased intangibles, net of accumulated amortization of $1,641 in 2011 and $1,613 in 2010 | **164** | 192 |
| Pension and post-retirement plan assets | **355** | 320 |
| Non-current deferred tax assets | **487** | 721 |
| Miscellaneous other assets | **1,022** | 1,076 |
| **Total assets** | **$ 25,100** | $ 31,531 |
| ***Liabilities*** | | |
| Notes payable to banks | **$ 16** | $ 10 |
| Current portion of long-term debt | **23** | 774 |
| Trade accounts payable | **1,338** | 1,573 |
| Accrued employees' compensation | **1,076** | 1,146 |
| Advance payments and billings in excess of costs incurred | **1,744** | 1,969 |
| Other current liabilities | **1,524** | 1,763 |
| Liabilities of discontinued operations | | 2,792 |
| Total current liabilities | **5,721** | 10,027 |
| Long-term debt, net of current portion | **3,936** | 3,940 |
| Pension and post-retirement plan liabilities | **2,591** | 3,089 |
| Other long-term liabilities | **901** | 918 |
| Total liabilities | **13,149** | 17,974 |
| ***Shareholders' Equity*** | | |
| Common stock, $1 par value; 800,000,000 shares authorized; issued and outstanding: 2011 — 265,540,830; 2010 — 290,956,752 | **266** | 291 |
| Paid-in capital | **4,460** | 7,778 |
| Retained earnings | **9,401** | 8,245 |
| Accumulated other comprehensive loss | **(2,176)** | (2,757) |
| Total shareholders' equity | **11,951** | 13,557 |
| **Total liabilities and shareholders' equity** | **$ 25,100** | $ 31,531 |

**NORTHROP GRUMMAN CORPORATION** **SCHEDULE 3**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Nine Months Ended September 30 | |
|---|---|---|
| *$ in millions* | **2011** | 2010 |
| **Operating Activities** | | |
| Sources of Cash — Continuing Operations | | |
| Cash received from customers | | |
| Progress payments | **$ 3,119** | $ 3,149 |
| Collections on billings | **16,527** | 17,610 |
| Other cash receipts | **103** | 18 |
| Total sources of cash — continuing operations | **19,749** | 20,777 |
| Uses of Cash — Continuing Operations | | |
| Cash paid to suppliers and employees | **(17,131)** | (18,219) |
| Pension contributions | **(572)** | (415) |
| Interest paid, net of interest received | **(205)** | (248) |
| Income taxes paid, net of refunds received | **(791)** | (933) |
| Excess tax benefits from stock-based compensation | **(24)** | (12) |
| Other cash payments | | (34) |
| Total uses of cash — continuing operations | **(18,723)** | (19,861) |
| Cash provided by continuing operations | **1,026** | 916 |
| Cash (used in) provided by discontinued operations | **(232)** | 150 |
| Net cash provided by operating activities | **794** | 1,066 |
| **Investing Activities** | | |
| Continuing Operations | | |
| Contribution received from the spin-off of Shipbuilding business | **1,429** | |
| Additions to property, plant, and equipment | **(324)** | (301) |
| Decrease in restricted cash | **34** | 5 |
| Other investing activities, net | **13** | 8 |
| Cash provided by (used in) investing activities by continuing operations | **1,152** | (288) |
| Cash used in investing activities by discontinued operations | **(63)** | (93) |
| Net cash provided by (used in) investing activities | **1,089** | (381) |
| **Financing Activities** | | |
| Common stock repurchases | **(1,598)** | (1,060) |
| Payments of long-term debt | **(750)** | (91) |
| Dividends paid | **(414)** | (408) |
| Proceeds from exercises of stock options and issuances of common stock | **97** | 112 |
| Excess tax benefits from stock-based compensation | **24** | 12 |
| Other financing activities, net | **3** | 3 |
| Net cash used in financing activities | **(2,638)** | (1,432) |
| Decrease in cash and cash equivalents | **(755)** | (747) |
| Cash and cash equivalents, beginning of period | **3,701** | 3,275 |
| Cash and cash equivalents, end of period | **$ 2,946** | $ 2,528 |

**NORTHROP GRUMMAN CORPORATION** **SCHEDULE 4**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Nine Months Ended September 30 | |
|---|---|---|
| *$ in millions* | **2011** | 2010 |
| **Reconciliation of Net Earnings to Net Cash Provided by Operating Activities** | | |
| Net earnings | **$ 1,570** | $ 1,677 |
| Net earnings from discontinued operations | **(34)** | (79) |
| Adjustments to reconcile to net cash provided by operating activities | | |
| Depreciation | **334** | 312 |
| Amortization of assets | **53** | 83 |
| Stock-based compensation | **97** | 103 |
| Excess tax benefits from stock-based compensation | **(24)** | (12) |
| (Increase) decrease in | | |
| Accounts receivable, net | **(20)** | (558) |
| Inventoried costs, net | **22** | (46) |
| Prepaid expenses and other current assets | **11** | (2) |
| Increase (decrease) in | | |
| Accounts payable and accruals | **(848)** | (417) |
| Deferred income taxes | **205** | 85 |
| Income taxes payable | **4** | (121) |
| Retiree benefits | **(416)** | (61) |
| Other, net | **72** | (48) |
| Cash provided by continuing operations | **1,026** | 916 |
| Cash (used in) provided by discontinued operations | **(232)** | 150 |
| Net cash provided by operating activities | **$ 794** | $ 1,066 |
| **Non-Cash Investing and Financing Activities** | | |
| Share repurchases accrued in accounts payable | **$ 63** | $ 6 |
| Capital expenditures accrued in accounts payable | **31** | 26 |
| Capital expenditures accrued in liabilities from discontinued operations | | 29 |

**NORTHROP GRUMMAN CORPORATION** **SCHEDULE 5**

**TOTAL BACKLOG AND CONTRACT AWARDS**

**(Unaudited)**

| *$ in millions* | **September 30, 2011** | | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|---|
| | **FUNDED [1]** | **UNFUNDED[2]** | **TOTAL BACKLOG** | | FUNDED [1] | UNFUNDED[2] | TOTAL BACKLOG |
| Aerospace Systems | **$ 9,093** | **$ 9,004** | **$ 18,097** | [3] | $ 9,185 | $ 11,683 | $ 20,868 |
| Electronic Systems | **7,844** | **2,043** | **9,887** | | 8,093 | 2,054 | 10,147 |
| Information Systems | **5,142** | **5,346** | **10,488** | | 4,711 | 5,879 | 10,590 |
| Technical Services | **2,831** | **650** | **3,481** | [4] | 2,763 | 2,474 | 5,237 |
| **Total** | **$ 24,910** | **$ 17,043** | **$ 41,953** | | $ 24,752 | $ 22,090 | $ 46,842 |

[1] Funded backlog represents firm orders for which funding is contractually obligated by the customer.

[2] Unfunded backlog represents firm orders for which funding is not currently contractually obligated by the customer.

Unfunded backlog excludes unexercised contract options and unfunded indefinite delivery indefinite quantity (IDIQ) orders.

[3] Total backlog as of September 30, 2011, was reduced by $1.5 billion for the restructuring of the NPOESS program and the termination of certain space programs.

[4] Total backlog as of September 30, 2011, was reduced by $1.7 billion to reflect a change in the company's participation in the NSTec joint venture. Effective January 1, 2011, NSTec joint venture results are no longer consolidated in the company's financial statements.

*New Awards* – The estimated value of contract awards included in backlog during the three months ended September 30, 2011, was $7.8 billion.

**Non-GAAP Financial Measures Disclosure:** Today's press release contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by SEC (Securities and Exchange Commission) Regulation G and indicated by a footnote in the text of the release. While we believe that these non-GAAP financial measures may be useful in evaluating our financial information, they 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 and reconciliations are provided in the body of the release. References to a "Table" in the definitions below relate to tables in the body of this press release. Other companies may define these measures differently or may utilize different non-GAAP measures.

**Adjusted diluted EPS from continuing operations:** Diluted EPS from continuing operations excluding the after-tax net pension adjustment per share, as defined below, and the per share tax benefit recorded in the 2010 second quarter. These per share amounts are provided for consistency and comparability of operating results. Management uses adjusted diluted EPS from continuing operations, as reconciled in Table 1, as an internal measure of financial performance.

**Cash provided by continuing operations before discretionary pension contributions:** Cash provided by operations before the after-tax impact of discretionary pension contributions. Cash provided by continuing operations before discretionary pension contributions has been provided for consistency and comparability of 2011 and 2010 financial performance and is reconciled in Table 2.

**Free cash flow from continuing operations:** Cash provided by continuing operations less capital expenditures and outsourcing contract and related software costs. We use free cash flow from continuing operations as a key factor in our planning for, and consideration of, strategic acquisitions, stock repurchases and the payment of dividends. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP. Free cash flow from continuing operations is reconciled in Table 2.

**Free cash flow from continuing operations before discretionary pension contributions:** Free cash flow from continuing operations before the after-tax impact of discretionary pension contributions. We use free cash flow from continuing operations before discretionary pension contributions as a key factor in our planning for, and consideration of, strategic acquisitions, stock repurchases and the payment of dividends. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP. Free cash flow from continuing operations before discretionary pension contributions, also referred to as pension-adjusted free cash flow from continuing operations, is reconciled in Table 2.

**Net pension adjustment:** Pension expense determined in accordance with GAAP less pension expense allocated to the operating segments under U.S. Government Cost Accounting Standards (CAS). Net pension adjustment is presented in Table 1.

**After-tax net pension adjustment per share:** The per share impact of the net pension adjustment as defined above, after tax at the statutory rate of 35%, provided for consistency and comparability of 2011 and 2010 financial performance as presented in Table 1.

**Pension-adjusted operating income:** Operating income before net pension adjustment as reconciled in Table 1. Management uses pension-adjusted operating income as an internal measure of financial performance.

**Pension-adjusted operating income as a % of sales:** Pension-adjusted operating income as defined above, divided by sales. Management uses pension-adjusted operating income as a % of sales, as reconciled in Table 1, as an internal measure of financial performance.

**Segment operating income:** Total earnings from our four segments including allocated pension expense recognized under CAS. Reconciling items to operating income are unallocated corporate expenses, which include management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses; net pension adjustment; and reversal of royalty income included in segment operating income. Management uses segment operating income, as reconciled in Table 4, as an internal measure of financial performance of our individual operating segments.

**Segment operating margin % / Segment operating income as a % of sales:** Segment operating income as defined above, divided by sales. Management uses segment operating income as a % of sales, as reconciled in Table 4, as an internal measure of financial performance.

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