

The logo features a large, blue, slanted parallelogram on the left side of the slide. Inside this shape, the text "THE VALUE OF PERFORMANCE." is written in a small, white, sans-serif font. Below this, the words "NORTHROP GRUMMAN" are written in a larger, white, bold, sans-serif font. A thin white curved line is positioned below the company name.

*THE VALUE OF PERFORMANCE.*  
**NORTHROP GRUMMAN**

# Northrop Grumman Fourth Quarter 2016 Conference Call

January 26, 2017

Wes Bush  
Chairman, Chief Executive Officer and President

Ken Bedingfield  
Corporate Vice President and Chief Financial Officer

# Forward-Looking Statements

This presentation contains 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,” “guidance,” “outlook,” “anticipate,” “trends,” “goals” and similar expressions generally identify these forward-looking statements. Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and/or cash flows. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, those identified and discussed more fully in the section entitled “Risk Factors” in our Annual Report on Form 10-K and other filings with the SEC. They include:

- our dependence on the U.S. Government for a substantial portion of our business
- significant delays or reductions in appropriations for our programs and U.S. Government funding more broadly
- investigations, claims, disputes and/or litigation
- our exposure to additional risks as a result of our international business
- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate and the impact on our reputation, our ability to do business, and our financial position, results of operations and/or cash flows
- the use of estimates when accounting for our contracts and the effect of contract cost growth and/or changes in estimated contract revenues and costs
- the performance and financial viability of our subcontractors and suppliers and the availability and pricing of raw materials and components
- cyber and other security threats or disruptions faced by us, our customers or our partners
- changes in procurement and other laws, regulations and practices applicable to our industry, findings by the U.S. Government, and changes in our customers' business practices globally
- increased competition within our markets and bid protests
- the ability to maintain a qualified workforce
- inability to meet performance obligations under our contracts
- environmental matters, including unforeseen environmental costs and government and third party claims
- natural and/or environmental disasters
- the adequacy and availability of our insurance coverage, customer indemnifications or other liability protections
- products and services we provide related to hazardous and high risk operations, which subject us to various environmental, regulatory, financial, reputational and other risks
- the future investment performance of plan assets, changes in actuarial assumptions associated with our pension and other post-retirement benefit plans and legislative or other regulatory actions impacting our pension, post-retirement and health and welfare plans
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets
- our ability to exploit or protect our intellectual property rights
- inability to develop new products and technologies and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers
- unanticipated changes in our tax provisions or exposure to additional tax liabilities

Additional information regarding these risks and other important factors can be found in the section entitled “Risk Factors” in our Annual Report on Form 10-K and as disclosed from time to time in our other filings with the SEC.

You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of forward-looking statements. These forward-looking statements speak only as of the date this presentation. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

This presentation contains non-GAAP financial measures. Definitions and reconciliations to the nearest GAAP measure and a discussion of the company's use of these 2 measures are included in the Appendix to this presentation.

# 2016 Highlights



- 4% sales increase
- 12% segment operating margin rate<sup>(1)</sup>
- 13% operating margin rate
- 17% EPS increase to \$12.19
- \$2.8 billion cash provided by operations
- \$1.9 billion free cash flow<sup>(1)</sup>
- \$2.2 billion cash returned to shareholders through share repurchases and dividends
- 25.2% total shareholder return

*(1) Non-GAAP metric see Appendix*

# 2017 Guidance<sup>(1)</sup>



Sales (\$B)	~25.0
Segment operating margin rate <sup>(2)</sup>	Mid 11%
Net FAS/CAS pension adjustment (\$M) <sup>(2)</sup>	~475
Operating margin rate	Mid 12%
Effective Tax Rate	~29.5%
Diluted EPS	\$11.30 – \$11.60
Capital expenditures (\$M)	~900
Free cash flow (\$B) <sup>(2)</sup>	1.8 – 2.0

(1) The company's 2017 financial guidance assumes no disruption or cancellation of any of our significant programs and no disruption or shutdown of government operations. Guidance for 2017 also assumes adequate appropriations and funding for the company's programs for the remainder of the year.

(2) Non-GAAP metric see Appendix

# 2017 Sector Guidance Summary



Sector	Sales (\$B)	OM Rate
Aerospace Systems	Low to Mid 11	~11%
Mission Systems	Low 11	Mid to high 12%
Technology Services	Mid 4	~ 10%

# 2017 Pension



	2016A	2017E
Discount rate (%)	4.53	4.19
Asset return (%)	7.7	8.0
Net FAS / CAS adjustment (\$M) <sup>(1)</sup>	316	475
CAS (\$M)	847	960
FAS (\$M)	(531)	(485)

(1) Non-GAAP metric see Appendix

## 2017 – 2019 Pension Estimates<sup>(2)</sup>



(\$M)	2017E	2018E	2019E
Net FAS/CAS adjustment <sup>(1)</sup>	475	~600	~650
CAS	960	~1,000	~1,000
FAS	485	~400	~350
Required Funding	<100	<100	~400

(1) Non-GAAP metric see Appendix

(2) Assumes a 4.19% discount rate and an 8% long-term rate of return for all years presented.



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# Appendix

# Non-GAAP Definitions



**Non-GAAP Financial Measures Disclosure:** This presentation 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. While we believe investors and other users of our financial statements may find these non-GAAP financial measures useful in evaluating our financial performance and operational trends, they should be considered as supplemental in nature, and therefore, should not be considered in isolation or as a substitute for financial information prepared in accordance with GAAP. Definitions for the non-GAAP measures and reconciliations are provided below. Other companies may define these measures differently or may utilize different non-GAAP measures.

**Pension-adjusted metrics:** For financial statement purposes, we account for our employee pension plans in accordance with GAAP (FAS). However, the cost of these plans is charged to our contracts in accordance with the Federal Acquisition Regulation (FAR) and the related U.S. Government Cost Accounting Standards (CAS) that govern such plans. We use pension-adjusted metrics as internal measures of financial performance and for performance-based compensation decisions. The following pension-adjusted measure may be useful to investors and other users of our financial statements in evaluating our performance based upon the pension costs charged to our contracts.

**Net FAS/CAS pension adjustment:** The difference between pension expense charged to contracts and included as cost in segment operating income in accordance with CAS and pension expense determined in accordance with FAS.

**Segment operating income:** Total earnings from our three segments including allocated pension expense recognized under CAS, and excluding unallocated corporate items and FAS pension expense. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the financial performance and operational trends of our sectors.

**Segment operating margin rate:** Segment operating income as defined above, divided by sales. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the financial performance and operational trends of our sectors.

**Free cash flow:** Net cash provided by operating activities less capital expenditures. We use free cash flow as a key factor in our planning for, and consideration of, acquisitions, stock repurchases and the payment of dividends. This measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but 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.

# Non-GAAP Reconciliations – Segment Operating Income



<i>\$ millions</i>	2016	2015
Sales	\$ 24,508	\$ 23,526
Segment operating income	2,935	2,920
<i>Segment operating margin rate</i>	12.0%	12.4%
<b>Reconciliation to operating income</b>		
Net FAS/CAS pension adjustment	\$ 316	\$ 348
Unallocated corporate expenses	(53)	(190)
Other	(5)	(2)
Operating income	\$ 3,193	\$ 3,076
<i>Operating margin rate</i>	13.0%	13.1%

# Non-GAAP Reconciliations – Free Cash Flow



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<i>\$ millions</i>	2016	2015
Cash provided by operating activities	\$2,813	\$2,162
Less: capital expenditures	<u>(920)</u>	<u>(471)</u>
Free cash flow	\$1,893	\$1,691

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