Northrop Grumman Fourth Quarter 2017 Conference Call

THE VALUE OF PERFORMANCE.

NORTHROP GRUMMAN

January 25, 2018

Wes Bush
Chairman and Chief Executive Officer

Kathy Warden
President and Chief Operating Officer

Ken Bedingfield
Corporate Vice President and Chief Financial Officer

Forward-Looking Statements

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This presentation and the information we are incorporating by reference 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 “will,” “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 Securities and Exchange Commission (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, enforcement actions and/or litigation
- 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
- our exposure to additional risks as a result of our international business, including risks related to geopolitical and economic factors, laws and regulations
- 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
- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners
- the performance and financial viability of our subcontractors and suppliers and the availability and pricing of raw materials and components
- changes in procurement and other laws, regulations and practices applicable to our industry, findings by the U.S. Government as to our compliance with such laws and regulations, and changes in our customers’ business practices globally
- increased competition within our markets and bid protests
- the ability to maintain a qualified workforce
- our ability to meet performance obligations under our contracts, including obligations that are technologically complex, require certain manufacturing expertise or are dependent on factors not wholly within our control
- 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
- the satisfaction of conditions (including regulatory approvals) to and successful consummation of the pending acquisition of Orbital ATK; our ability successfully to integrate the Orbital ATK business and realize fully the anticipated benefits of the acquisition, without adverse consequences
- our ability to exploit or protect intellectual property rights
- our ability to develop new products and technologies and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets
- 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 of this presentation or, in the case of any document incorporated by reference, the date of that document. 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 also contains 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 the appendix of this presentation.

2017 Highlights

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- 5% sales increase
- 12.8% operating margin rate
- 11.5% segment operating margin rate[1]
- $11.47 EPS; $13.28 EPS excluding tax reform and related discretionary pension contribution impacts[1]
- $500 million pre-tax discretionary pension contribution
- $2.6 billion cash provided by operations; $2.9 billion cash provided by operations before after-tax discretionary pension contribution[1]
- $2.0 billion free cash flow before after-tax discretionary pension contribution[1]
- 33.9% total shareholder return

(1) Non-GAAP metric see Appendix

2018 Guidance[1]

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Sales ($B)	~27.0
Segment operating margin rate[2]	Low to Mid 11%
Net FAS/CAS pension adjustment ($M)[2],[3]	~940
Unallocated corporate expenses ($M)	~250
Operating margin rate	~12%
Net interest expense ($M)[4]	~390
Effective Tax Rate	~19.5%
Diluted EPS	$15.00 – $15.25
Capital expenditures ($B)	~1.0
Free cash flow ($B)[2]	2.0 – 2.3

(1) 2018 financial guidance reflects the company's judgment based on the best information available at the time of this presentation. The status of the government budget and appropriations process can have a significant impact on our customers, programs and financial results. Extended continuing resolutions, a government shut down and/or breach of the debt ceiling can have an impact on the company's ability to achieve 2018 guidance.

(2) Non-GAAP metric see Appendix

(3) Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes expected 2018 CAS pension cost of $855 million and FAS pension income of $85 million. In accordance with ASU No. 2017-07, $400 million of FAS (service-related) pension cost is reflected in operating income and $485 million of FAS (non-service) pension income is reflected below operating income. CAS pension cost continues to be recorded in operating income. See Schedule 6 of the Fourth Quarter and Full-Year 2017 earnings release for further information.

(4) Net Interest Expense (interest expense net of interest income) includes six months of net interest expense for $8.25 billion debt issued in October 2017 to finance the pending Orbital ATK acquisition, as well as a full year of estimated net interest expense for the company's remaining debt. Interest expense is presented as a single line item on the income statement and interest income is included in Other, net on the income statement.

2018 Sector Guidance Summary

Sector	Sales ($B)	OM Rate
Aerospace Systems	High 12	Low to mid 10%
Mission Systems	Mid to high 11	~13%
Technology Services	Mid 4	~ 10%

Operating Income – Bridge Chart

Reflecting Impact of Accounting Standards Updates (ASUs) on 2016 and 2017 Operating Income and 2018 Operating Income Guidance

	2016	2017	2018 Guidance*
Operating Income - Pre ASU Impact	**3,193**	**3,299**	**3,725**
Pre-ASU OM Rate	***13.0%***	***12.8%***	***13.8%***
Impact of revenue ASU 606	(68)	(53)	-
Impact of pension ASU 715	144	30	(485)
Net impact of ASUs	**76**	**(23)**	**(485)**
Operating Income - Post ASU Impact	**3,269**	**3,276**	**3,240**
Post-ASU OM Rate	***13.2%***	***12.6%***	***12.0%***

* For illustration purposes, based on $27.0B Revenue and 12.0% Post-ASU OM Rate.

Pension Update

	2017 Actual	2018 Assumptions
Discount rate (%)	4.19	3.68
Net asset return (%)	16.4	8.0
	2017 Actual	**2018 Estimates**
Total Net FAS/CAS adjustment ($M)[(1)]	594	~940
CAS ($M)	1,026	~855
Total Net FAS (expense)/income ($M)	(432)	~85

(1) Non-GAAP metric see Appendix

2018 – 2020 Pension Estimates ($M)[2]

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	2018E	2019E	2020E
Total Net FAS/CAS adjustment[1]	~940	~900	~750
CAS	~855	~750	~500
FAS service expense	~(400)	~(380)	~(360)
FAS non-service income	~485	~530	~610
Required Funding	~87	~100	~200

(1) Non-GAAP metric see Appendix
(2) Assumes a 3.68% discount rate and an 8% long-term rate of return for all years presented.

2019 Pension Sensitivities

Change*	Metric	Impact ($M)
Discount rate +/- 25 bps	Non-Service FAS	~55
	Service FAS	~15
	Net Pension Liability	~950
Pension asset returns +/- 100 bps	Non-Service FAS	~50
	Net Pension Liability	~265

*From 2018 discount rate of 3.68% and assumed net pension asset returns of 8.0%.

Appendix

Non-GAAP Definitions

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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 in the text of the release. 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.

Net earnings excluding tax reform and related discretionary pension contribution impacts: Net earnings excluding the impacts of tax reform and related discretionary pension contribution. This measure may be useful to investors and other users of our financial statements in understanding the impact of these items to our financial results, but should not be considered in isolation or as an alternative to net earnings presented in accordance with GAAP. Net earnings excluding tax reform and related discretionary pension contribution impacts is reconciled below.

Earnings per share excluding tax reform and related discretionary pension contribution impacts: Net earnings excluding the impacts of tax reform and related discretionary pension contributions divided by weighted average shares outstanding. This measure may be useful to investors and other users of our financial statements in understanding the impact of these items to our financial results, but should not be considered in isolation or as an alternative to earnings per share presented in accordance with GAAP. Earnings per share excluding tax reform and related discretionary pension contribution impacts is reconciled below.

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. This measure should not be considered in isolation or as an alternative to operating results presented in accordance with GAAP. Segment operating income is reconciled below.

Segment operating margin rate: Segment operating income as defined above, and reconciled below, 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. This measure should not be considered in isolation or as an alternative to operating results presented in accordance with GAAP.

Non-GAAP Definitions

Cash provided by operating activities before after-tax discretionary pension contribution: Cash provided by operating activities before the after-tax impact of discretionary pension contribution. Cash provided by operating activities before after-tax discretionary pension contribution has been provided for consistency and comparability of financial performance and is reconciled below.

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 cash flows presented in accordance with GAAP. Free cash flow is reconciled below.

Free cash flow before after-tax discretionary pension contribution: Free cash flow before the after-tax impact of discretionary pension contribution. We use free cash flow before after-tax discretionary pension contribution 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 cash flows presented in accordance with GAAP. Free cash flow before after-tax discretionary pension contributions is reconciled below.

Non-GAAP Reconciliations – Segment Operating Income

$ millions	2017	2016
Sales	$ 25,803	$ 24,508
Segment operating income	2,959	2,935
Segment operating margin rate	11.5%	12.0%
Reconciliation to operating income		
Net FAS/CAS pension adjustment	$ 594	$ 316
Unallocated corporate expenses and other	(254)	(58)
Operating income	$ 3,299	$ 3,193
Operating margin rate	12.8%	13.0%

Non-GAAP Reconciliations – Cash Flow Highlights

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$ millions	2017	2016
Cash provided by operating activities before after-tax discretionary pension contributions	$ 2,938	$ 2,813
After-tax discretionary pension contribution impact	(325)	-
Net cash provided by operating activities	$ 2,613	$ 2,813
Less: capital expenditures	(928)	(920)
Free cash flow	$ 1,685	$ 1,893
After-tax discretionary pension contribution impact	325	-
Free cash flow before after-tax discretionary pension contribution	$ 2,010	$ 1,893

Non-GAAP Reconciliations – Net earnings and earnings per share excluding tax reform and related discretionary pension contribution impacts

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$ millions, except per share amounts	2017
Net earnings	$ 2,015
Tax expense related to 2017 Tax Act	300
Tax expense related to discretionary pension contribution[1]	8
Operating income reduction related to discretionary pension contribution, net of tax[2]	9
Impact on net earnings of tax reform and related discretionary pension contribution	317
Net earnings excluding tax reform and related discretionary pension contribution impacts	$ 2,332
Earnings per share	$ 11.47
Tax expense related to 2017 Tax Act	1.71
Tax expense related to discretionary pension contribution[1]	0.05
Operating income reduction related to discretionary pension contribution, net of tax[2]	0.05
Impact on earnings per share of tax reform and related discretionary pension contribution	1.81
Earnings per share excluding the impact of tax reform and related discretionary pension contribution impacts	$ 13.28

[1] Reflects $8 million of additional income tax recorded due to lower manufacturing deductions available as a result of the $500 million voluntary pre-tax pension contribution.

[2] Reflects $9 million of lower operating income (net of tax) as follows: $18 million reduction in corporate operating income due to lower state deferred tax assets, partially offset by approximately $4.5 million of higher sector operating income as a result of lower state tax cost, each tax effected at 35 percent.

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