



FORM 10-K

NORTHROP GRUMMAN CORP /DE/ - NOC

Filed: February 20, 2008 (period: December 31, 2007)

Annual report which provides a comprehensive overview of the company for the past year

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

Commission file number 1-16411

NORTHROP GRUMMAN CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-4840775
(I.R.S. Employer
Identification Number)

1840 Century Park East, Los Angeles, California 90067 (310) 553-6262

www.northropgrumman.com

(Address and telephone number of principal executive offices and internet site)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$1 par value	New York Stock Exchange
Series B Convertible Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒

No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes ☐

No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒

No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐

No ☒

As of June 30, 2007, the aggregate market value of the common stock (based upon the closing price of the stock on the New York Stock Exchange) of the registrant held by non-affiliates was approximately \$26,763 million.

As of February 19, 2008, 337,919,384 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Northrop Grumman Corporation's Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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NORTHROP GRUMMAN CORPORATION

PART I

Item 1. Business

HISTORY AND ORGANIZATION

History

Northrop Grumman Corporation (“Northrop Grumman” or the “company”) is an integrated enterprise consisting of many formerly separate businesses that cover the entire defense spectrum, from undersea to outer space and into cyberspace. The companies that have become part of today’s Northrop Grumman achieved historic accomplishments, from transporting Charles Lindbergh across the Atlantic to carrying astronauts to the moon’s surface and back.

The company was originally formed in California in 1939 and was reincorporated in Delaware in 1985. From 1994 through 2002, the company entered a period of significant expansion through acquisitions of other businesses, most notably:

- In 1994, Northrop Corporation acquired Grumman Corporation (Grumman) and was renamed Northrop Grumman. Grumman was a premier military aircraft systems integrator and builder of the Lunar Module that first delivered men to the surface of the moon.
- In 1996, the company acquired the defense and electronics businesses of Westinghouse Electric Corporation, a world leader in the development and production of sophisticated radar and other electronic systems for the nation’s defense, civil aviation, and other international and domestic applications.
- In 1997, the company acquired Logicon, a provider of military and commercial information systems and services that met the needs of its national defense, civil and industrial customers.
- In 1999, the company acquired Teledyne Ryan (Ryan), a business unit of Allegheny-Teledyne, a world leader in the design, development and manufacture of unmanned airborne reconnaissance, surveillance, deception and target systems. In 1927, Ryan produced the *Spirit of St. Louis*, which Charles Lindbergh flew across the Atlantic. Ryan was also a pioneer in the development of Unmanned Aerial Vehicles (UAVs).
- In 2001, the company acquired Litton Industries (Litton), a global electronics and information technology enterprise, and one of the nation’s leading full-service design, engineering, construction, and life cycle supporters of major surface ships for the United States (U.S.) Navy, U.S. Coast Guard, and international navies.
- Also in 2001, Newport News Shipbuilding (Newport News) was added to the company. Newport News is the nation’s sole designer, builder and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines.
- In 2002, Northrop Grumman acquired the space and mission systems businesses of TRW, a leading developer of military and civil space systems and satellite payloads, as well as a leading global integrator of complex, mission-enabling systems and services.

The acquisition of these and other businesses have shaped the company into its present position as a premier provider of technologically advanced, innovative products, services and solutions in information and services, aerospace, electronics and shipbuilding. As prime contractor, principal subcontractor, partner, or preferred supplier, Northrop Grumman participates in many high-priority defense and commercial technology programs in the U.S. and abroad. The company conducts most of its business with the U.S. Government, principally the Department of Defense (DoD). The company also conducts business with local, state, and foreign governments and domestic and international commercial customers. For a description of the company’s foreign operations, see Risk Factors in Part I, Item 1A.

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Organization

The company is aligned into seven reportable segments categorized into four primary businesses. The Mission Systems, Information Technology, and Technical Services segments are presented as Information & Services. The Integrated Systems and Space Technology segments are presented as Aerospace. The Electronics and Ships segments are each presented as separate businesses. Newport News and Ship Systems are aggregated and reported as the Ships business in accordance with the provisions of Statement of Financial Accounting Standards No. 131 – *Disclosures about Segments of an Enterprise and Related Information*.

The company, from time to time, acquires or disposes of businesses, and realigns contracts, programs or business areas among and within its operating segments that possess similar customers, expertise, and capabilities. These realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services. For a description of material business dispositions that occurred during 2007, see Note 5 to the consolidated financial statements in Part II, Item 8. In January 2007, certain programs and business areas were transferred among Information Technology, Mission Systems, Space Technology, and Technical Services. The business descriptions below and operating results for all periods presented have been revised to reflect these changes made through December 31, 2007.

Subsequent Realignments – In January 2008, the Newport News and Ship Systems sectors were realigned into a single segment called Northrop Grumman Shipbuilding to enable the company to more effectively utilize its shipbuilding assets and deploy its talented shipbuilders, processes, technologies, production facilities and planned capital investment to meet customer needs. This realignment had no impact on the company's consolidated financial position, results of operations, cash flows, or segment reporting.

Also in January 2008, the company announced the transfer of certain programs and assets from the Mission Systems segment to the Space Technology segment, effective July 1, 2008. This transfer will allow Mission Systems to focus on the rapidly growing command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) business, and the missiles business will be an integrated element of the company's Aerospace business growth strategy. In addition, certain Electronics businesses were transferred to Mission Systems effective January 2008. The transfer of these businesses is not expected to have a material effect on the company's consolidated financial position, results of operations, or cash flows.

These subsequent realignments have not been reflected in any of the accompanying financial information.

INFORMATION & SERVICES

Mission Systems

The Mission Systems segment, headquartered in Reston, Virginia, is a leading global systems integrator of complex, mission-enabling systems for government, military, and commercial customers. The segment consists of three areas of business: Command, Control and Communications (C3); Intelligence, Surveillance, and Reconnaissance (ISR); and Missile Systems.

Command, Control and Communications – C3 supports the DoD, aerospace prime contractors, and other customers. Offerings include operational and tactical command and control systems; communications solutions and network management; tactical data link communications products and integration; network services; software defined radios; decision support and management information systems; system engineering and integration; land forces and global combat support; intelligence support to operations, mission planning and management applications; critical infrastructure security and force protection; logistics automation; robotic systems; homeland security solutions; naval systems engineering support and integration; and command centers integration.

Intelligence, Surveillance and Reconnaissance – ISR supports the Intelligence Community, the DoD, and other federal agencies. Offerings include large systems integration; net-centric signals intelligence; airborne reconnaissance; payload control; tasking and collection; satellite ground stations; data collection and storage; information analysis and knowledge integration; computer network operations; information operations and information assurance; analysis and visualization tools; environmental and weather systems; special intelligence; and sustainment services.

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Missile Systems – Missile Systems supports the Air Force Intercontinental Ballistic Missile (ICBM) Program, the U.S. Ballistic Missile Defense System, the Missile Defense Integration Operations Center, and the Kinetic Energy Interceptors (KEI) program in support of the U.S. Air Force, the U.S. Army, the Missile Defense Agency, and other aerospace prime contractors. Offerings include battle management, command, control, communications (BMC3) and fire control systems; air and missile system engineering and integration; modeling and simulation; program management; system test and integration; development and deployment; missile system sustainment and modernization services; warfighter operations; and development and test activities for boost phase and midcourse intercept for the global layered missile defense system.

Information Technology

The Information Technology segment, headquartered in McLean, Virginia, consists of four areas of business: Intelligence; Civilian Agencies; Commercial, State & Local; and Defense.

Intelligence – Intelligence provides information technology (IT) systems, services and solutions primarily to the U.S. Intelligence Community, which includes customers in national agencies, defense, homeland security, and other agencies at the federal, state and local level. This business area also collaborates with other Information Technology business areas by providing specialized technology solutions in areas such as information security, secure wireless communications, secure cross agency information-sharing and geospatial information systems. Services and solutions span the entire mission life cycle from requirements and technology development through processing and data analysis to information delivery.

Civilian Agencies – Civilian Agencies provides IT systems, services and solutions primarily for federal civilian agencies, as well as government and commercial healthcare customers. Civilian Agencies customers include the departments of Homeland Security, Treasury, Justice, Transportation, State, Interior, and the U.S. Postal Service. Homeland Security offerings include secure networking, criminal justice systems, and identity management. Healthcare customers include the Department of Health and Human Services, DoD Health Affairs, the Centers for Disease Control and Prevention, the Food and Drug Administration, the Department of Veterans Affairs, and a number of pharmaceutical manufacturers. Healthcare offerings include enterprise architecture, systems integration, infrastructure management, document management, human capital management, case management, and specialized health IT solutions in electronic medical records pertaining to public health, life sciences, disease surveillance, benefits, and clinical trials research.

Commercial, State & Local – Commercial, State & Local provides IT systems, services and solutions primarily for state and local agencies and commercial customers. The commercial business centers on managed IT services both as a prime contractor and partner in addition to specialized solutions that address specific business needs. The state and local focus includes public safety, secure wireless solutions, human services, and managed IT services. This business area provides IT outsourcing services on a “service level agreement” basis, where contractual terms are based on infrastructure volume and service levels. Services include management of data centers, networks, desktops, storage, security, help desk, and applications. Specialized state and local offerings include systems for police/fire/medical emergency dispatch, public safety command centers, biometric identification, and human services.

Defense – Defense provides IT systems, services and solutions to all elements of the DoD including the Air Force, Navy, Army, Marines, the Office of the Secretary of Defense, and the Unified Combatant Commands. Offerings include business applications and systems integration related to human capital and business management, logistics, transportation, supply chain, and combat systems support. Other offerings consist of information technology and network infrastructures, including modernization, architecture, design and capacity modeling. Defense also provides solutions and services for defense technology laboratories and research and development centers, system program offices, operational commands, education and training commands, test centers, and other defense agencies.

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Technical Services

The Technical Services segment, headquartered in Herndon, Virginia, provides infrastructure management and maintenance, training and preparedness, and logistics and life cycle management in a wide array of operating environments. The segment consists of three areas of business: Systems Support; Training and Simulation; and Life Cycle Optimization and Engineering.

Systems Support – Systems Support provides infrastructure and base operations management, including base support and civil engineering work, military aerial and ground range operations, support functions which include space launch services, construction, combat vehicle maintenance, protective and emergency services, and range-sensor-instrumentation operations. Primary customers include the Department of Energy, the DoD, the National Aeronautics and Space Administration (NASA), the Department of Homeland Security, and the U.S. Intelligence community, in both domestic and international locations.

Training and Simulation – Training and Simulation provides realistic and comprehensive training to senior military leaders and peacekeeping forces, designs and develops future conflict training scenarios, and provides U.S. warfighters and international allies with live, virtual, and constructive training programs. This business area also offers diverse training applications ranging from battle command to professional military education. Primary customers include the DoD, Department of State and Department of Homeland Security.

Life Cycle Optimization and Engineering – Life Cycle Optimization and Engineering provides complete life cycle product support and weapons system sustainment. This business area is focused on providing Performance Based Logistical support to the warfighter including supply chain management services, warehousing and inventory transportation, field services and mobilization, sustaining engineering, maintenance, repair and overhaul supplies, and on-going weapon maintenance and technical assistance. The group specializes in rebuilding essential parts and assemblies. Primary customers include the DoD as well as international military and commercial customers.

AEROSPACE

Integrated Systems

The Integrated Systems segment, headquartered in El Segundo, California, designs, develops, produces, and supports fully missionized integrated systems and subsystems in the areas of battlespace awareness, command and control systems, integrated combat systems, and airborne ground surveillance. The segment is organized into the following areas of business: Integrated Systems Western Region (ISWR) and Integrated Systems Eastern Region (ISER).

Integrated Systems Western Region – The principal manned vehicle programs in ISWR are subcontractor work on the F/A-18 and F-35 programs and prime contract work on the B-2 program and the Multi-Platform Radar Technology Insertion Program (MP-RTIP). For the F/A-18, ISWR is responsible for the full integration of the center and aft fuselage and vertical tail sections and associated subsystems. For the F-35, ISWR is responsible for the detailed design and integration and production of the center fuselage and weapons bay, systems engineering, mission system software, autonomic logistics and global sustainment, ground and flight test support, signature/low observables development, and support of modeling and simulation activities. ISWR is the prime systems integration contractor for the MP-RTIP, which will provide advanced radar capabilities for the Global Hawk UAV and potential future Wide Area Surveillance (WAS) platform. ISWR is working on a radar and avionics upgrade program for the B-2 bomber and is a prime integrator for all logistics support activities including program depot maintenance.

The principal unmanned vehicle programs at ISWR are the Global Hawk, the Naval Unmanned Combat Air System (N-UCAS), Aerial Targets, and the Fire Scout. ISWR is the prime contractor for these product lines with the exception of the Army version of Fire Scout for Future Combat Systems (FCS). The Global Hawk is a high altitude long endurance unmanned aerial reconnaissance system. N-UCAS is a development/demonstration program that will design, build and test two demonstration vehicles that will conduct a carrier demonstration. The technology demonstrations are to show carrier control area operations, catapult launch, and an arrested

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landing of a low observable unmanned aerial combat vehicle. Aerial Targets has two primary models, the BQM-74 and the BQM-34 and is the prime contractor on multiple domestic and international contracts. Fire Scout is a vertical takeoff and landing tactical UAV system in development and consists of two versions – the Vertical Takeoff and Landing Unmanned Air Vehicle (VTUAV) for the U.S. Navy and the FCS Class IV UAV for the U.S. Army.

Integrated Systems Eastern Region

Airborne Early Warning and Battle Management Command & Control-Navy (AEW & BMC2) – AEW & BMC2's principal products include the E-2C Hawkeye and E-2D Advanced Hawkeye aircraft (currently in the system development and demonstration (SDD) phase of development and Pilot Production). The Hawkeye is the U.S. Navy's airborne battle management command and control mission system platform providing airborne early warning detection, identification, tracking, targeting, and communication capabilities. The company is currently performing on a follow-on multi-year contract for eight E-2C aircraft to be delivered to the U.S. Navy through 2009 (two aircraft delivered in 2006 and two aircraft delivered in 2007). The company is developing the next generation capability including radar, mission computer, vehicle, and other system enhancements called the E-2D Advanced Hawkeye under an SDD contract with the U.S. Navy. Pilot Production of three aircraft was authorized in 2007 and long lead funding for the first lot of Low Rate Initial Production (three aircraft) was received in December 2007.

Intelligence, Surveillance, Reconnaissance & Battle Management Command & Control – Air Force (ISR & BMC2-AF) – ISR & BMC2-AF is the prime contractor on the Joint Surveillance Target Attack Radar System (Joint STARS) program. Joint STARS detects, locates, classifies, tracks, and targets potentially hostile ground movement in all weather conditions. It is designed to operate around the clock in constant communication through secure data links with U.S. Air Force command posts, U.S. Army mobile ground stations, or centers for military analysis far from the point of conflict. The Joint STARS program is currently developing performance upgrades and retrofits under an ongoing Systems Improvement Program. Fleet sustainment is performed through the Total Systems Support contract currently in its eighth fiscal year. In February 2007, an initial non-recurring contract was awarded to re-engine the fleet of nineteen aircraft with modern, more reliable, powerful and fuel efficient engines. Follow-on nonrecurring efforts and recurring contract awards are expected in 2008. Following the customer's decision in 2007 not to fund the E-10A Technology Demonstration Development Program, a one-year Mission Execution Program study contract was awarded that will leverage the E-10A analysis and design concepts for the Joint STARS platform.

Electronic Support & Attack Solutions (ES & AS) – ES & AS' principal products include the EA-6B (Prowler) and the electronic attack system for the EA-18G aircraft. The Prowler is currently the armed services' only offensive tactical radar jamming aircraft. ES & AS has developed the next generation mission system for this aircraft under the Increased Capacity (ICAP) III contract and has completed the final test and evaluation phase. The company completed the low-rate initial production for ICAP III Kits during 2006, and was awarded a follow-on contract for ICAP III Kits & Spares, with deliveries commencing in 2007. In addition, the company is performing on a contract to incorporate the ICAP III mission system into an F/A-18 platform, designated the EA-18G. Integrated Systems is the principal subcontractor to Boeing for this program, which is currently in the SDD phase. Northrop Grumman has been authorized to begin production of Low Rate Initial Production units.

Maritime & Tactical Systems – The principal programs include the Littoral Combat Ship Mission Package Integration contract and Mine Counter Measures contracts with multiple customers that focus on detecting and neutralizing in-land, coastal and water surface/subsurface mines.

Space Technology

The Space Technology segment, headquartered in Redondo Beach, California, develops a broad range of systems at the leading edge of space, defense, and electronics technology. The segment provides products primarily to the U.S. Government that are critical to the nation's security and leadership in science and technology. In October 2007, Space Technology realigned its organizational structure to better position itself with its customer base for

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future growth. Products and services are grouped into the following business areas: Civil Systems; Military Systems; National Systems; and Technology & Emerging Systems.

Civil Systems – The Civil Systems business area produces and integrates space-based systems, instruments, and services primarily for NASA, the National Oceanic and Atmospheric Administration, and other governmental agencies. These systems are primarily used for space science, earth observation and environmental monitoring, and exploration missions. A variety of systems and services are provided, including mission and system engineering services, satellite and instrument systems, mission operations, and propulsion systems. Major programs include National Polar-orbiting Operational Environmental Satellite System (NPOESS), the James Webb Space Telescope (JWST), and the legacy Chandra space telescope and Earth Observing System programs.

Military Systems – Military Systems produces and integrates spiral development programs and operational programs associated with the U.S. Air Force, Missile Defense Agency, and other military customers. Responsibilities include study design, build integration, launch, and operations of major U.S. military space systems. Programs include the Advanced Extremely High Frequency (AEHF) payload, Transformational Satellite (TSAT) communications system, Space Tracking and Surveillance System (STSS), and the communication payload for the legacy Milstar program, currently in operation. The Defense Support Program (DSP) is also part of this business area, and has been monitoring ballistic missile launches for the U.S. Air Force for decades.

National Systems – The National Systems business area gives the nation's monitoring systems a global reach and enhanced national security. Addressing requirements in space-based intelligence, surveillance, and reconnaissance systems, National Systems provides mission and system engineering, satellite systems, and mission operations. Customers are predominantly restricted, as are the major programs.

Technology & Emerging Systems – Technology & Emerging Systems consists of government funded research and development contracts in support of the three business areas above. In addition, it includes the Airborne Laser (ABL), other directed energy programs and advanced concepts programs.

ELECTRONICS

The Electronics segment, headquartered in Linthicum, Maryland, designs, develops, produces, integrates, and supports high performance sensors, intelligence processing, and navigation systems operating in all environments from undersea to outer space and cyberspace. It also develops, produces, integrates, and supports power, power control, and ship control systems for commercial and naval ships in domestic and international markets. In select markets it performs as a prime contractor, integrating multiple subsystems to provide complete systems to meet customers' solution requirements. The segment is composed of five areas of business: Aerospace Systems; Defensive Systems; Government Systems; Naval & Marine Systems; and Navigation Systems.

Aerospace Systems – Aerospace Systems provides sensors, sensor processing, integrated sensor suites, and radar countermeasure systems for military surveillance and precision-strike; missile tracking and warning; space satellite applications; and radio frequency electronic warfare. Fire control radars include systems for the F-16, F-22, F-35 and B-1B. Navigation radars include commercial and military systems for transport and cargo aircraft. Surveillance products include the Airborne Warning and Control System (AWACS) radar, the 737 Multi-Role Electronically Scanned Array (MESA) radar, the Multi-Platform Radar Technology Insertion Program (MP-RTIP), the ship-board Cobra Judy Replacement (CJR) radar, and multiple payloads on the P-8A. Space satellite products include the Space-Based Infrared Surveillance (SBIRS) program, payloads for restricted programs, the Defense Meteorological Satellite Program (DMSP), NPOESS, and the DSP. Radio frequency electronic warfare products include radar warning receivers, self-protection jammers, and integrated electronic warfare systems for aircraft such as the EA-6B, EA-18, F-16 and F-15.

Defensive Systems – Defensive Systems provides systems that support combat aviation by protecting aircraft and helicopters from attack, by providing capabilities for precise targeting and tactical surveillance, by improving mission availability through automated test systems and by improving mission skills through advanced simulation systems. It also provides systems that support land forces. Aircraft and helicopter protection systems include

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infrared detection and countermeasures systems to defeat shoulder-launched and infrared-guided missiles. Targeting systems include lasers for target designation and image processing and sensor applications, and the LITENING pod system to detect and designate targets for engagement by precision weapons in aircraft such as the F-16 and F/A-18. Test systems include systems to test electronic components of combat aircraft on the flight line and in repair facilities. Land force systems include precision guided munitions for artillery and UAV delivery, night vision goggles, laser designators, weapon sights, tactical radars for warning of missile and artillery attack, and fire control radars for helicopters. Defensive Systems also provides standard simulators for use on test ranges and training facilities to emulate threats of potential adversaries.

Government Systems – Government Systems provides products and services to meet the needs of governments for improvements in the effectiveness of their civil and military infrastructure and of their combat and counter-terrorism operations. This includes systems and systems integration of products and services for postal automation, for the detection and alert of Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) material, for homeland defense, communications, and air traffic management, and for multi-sensor processing and analysis for combat units and national agencies of data from ISR systems. Key programs include: Advanced Flat Sorting Machines; International Sorting Centers; U.S. Postal Service bio-detection systems; national level communications, information processing and air defense systems for international customers; unattended ground sensors; the ISR Distributed Common Ground System for the U.S. military services and national agencies; and deployed ISR and persistent surveillance processing systems.

Naval & Marine Systems – Naval and Marine Systems provides major subsystems and subsystem integration for sensors, sensor processing, missile launching, ship controls and power generation. It provides systems to military surface and subsurface platforms, and bridge and machinery control systems for commercial maritime applications. Principal programs include: radars for navigation; radars for gun fire control and cruise missile defense; bridge management and control systems; power generation systems for aircraft carriers; power and propulsion systems for the Virginia Class submarine; launch systems for Trident submarines and the KEI program; the Advanced SEAL Delivery System mini-submarine; and unmanned semi-autonomous naval systems.

Navigation Systems – Navigation Systems provides advanced navigation, identification of friend or foe and avionics systems for military and commercial applications. Its products are used in commercial space and aircraft; in military air, land, sea, and space systems; and in both U.S. and international markets. Its subsidiaries, LITEF Germany and Northrop Grumman Italia, are leading European inertial sensors and systems suppliers. Key programs and applications include: integrated avionics for the U.S. Marine Corps attack and utility helicopters and U.S. Navy E-2 aircraft; military navigation and positioning systems for the F-16 fighter, F-22A fighter/attack aircraft, Eurofighter, and U.S. Navy MH-60 helicopter; navigation systems for commercial aircraft; navigation systems for military and civil space satellites and deep space exploration; identification of friend-or-foe transponders and interrogators; and systems for the C-17 aircraft, Eurofighter and MH-60 helicopter. Navigation Systems also develops and produces fiber-optic acoustic systems for underwater surveillance for Virginia Class submarines and the AN/TYQ-23 multi-service mobile tactical command centers for the U.S. Marine Corps and U.S. Air Force.

SHIPS

The Ships segment includes the following areas of business: Aircraft Carriers; Expeditionary Warfare; Surface Combatants; Submarines; Coast Guard & Coastal Defense; Fleet Support; and Services, Commercial & Other.

Aircraft Carriers – Ships is the nation's sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers. The U.S. Navy's newest carrier, the *USS Ronald Reagan*, was delivered to the fleet in May 2004. Construction on the last carrier in the Nimitz class, the *George H. W. Bush*, continues. The *Bush* christening occurred in the fall of 2006 and delivery to the U.S. Navy is expected in late 2008. Advanced design and preparation continues for the new generation carrier, Ford class, which will incorporate transformational technologies that will result in manning reductions, improved war fighting capability, and a new nuclear propulsion plant design. The construction award for the first ship of the Ford class, the *Gerald R. Ford*, is

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expected in mid 2008. The company also provides ongoing maintenance for the U.S. Navy aircraft carrier fleet through overhaul, refueling, and repair work. Ships is currently performing the refueling and complex overhaul of the *USS Carl Vinson* with redelivery to the U.S. Navy anticipated in early 2009. Planning for the *USS Theodore Roosevelt* refueling and complex overhaul began in the fall of 2006 and the ship is expected to arrive at Newport News, Virginia in the fall of 2009.

Expeditionary Warfare – Expeditionary Warfare programs include the design and construction of amphibious assault ships for the U.S. Navy, including the Wasp LHD 1 class and the San Antonio LPD 17 class. Ships is the sole provider for the LHD class of large-deck, 40,500-ton multipurpose amphibious assault ships, which serve as the centerpiece of an Amphibious Ready Group. Currently, the LHD 8 is under construction and is a significant upgrade from the preceding seven ships of its class. The design and production of the LHD 8 is a \$1.9 billion program with delivery scheduled for late 2008. In 2007, the construction contract for LHA 6, the first in a new class of enhanced amphibious assault ships, was awarded. The ship is scheduled for delivery in 2012. Ships is also the sole provider of the LPD 17 class of ships, which function as amphibious transports. The initial three ships were delivered in 2005, 2006, and 2007, and five LPD 17 ships are currently under construction. In December 2007, the construction award for the ninth ship was received.

Surface Combatants – Surface Combatants includes the design and construction of the Arleigh Burke DDG 51 class Aegis guided missile destroyers, and the design of DDG 1000 (previously DD(X)), the Navy's future transformational surface combatant class. Ships is one of two prime contractors designing and building DDG 51 class destroyers, which provide primary anti-aircraft and anti-missile ship protection for the U.S. Navy fleet. Four Arleigh Burke class destroyers are currently under construction. In 2006, Ships was awarded Phase IV detail design & long lead construction funding for the initial DDG 1000. The contract calls for an equal split of ship detail design efforts between the company and Bath Iron Works, a wholly owned subsidiary of General Dynamics Corporation. The construction award for the initial ship is anticipated in the first half of 2008. The advanced technologies developed on DD(X) Phase III are being incorporated into DDG 1000 and are anticipated to be incorporated into the next generation guided missile cruiser CG(X).

Submarines – Northrop Grumman is one of only two U.S. companies capable of designing and building nuclear-powered submarines. In February 1997, the company and Electric Boat, a wholly owned subsidiary of General Dynamics Corporation, reached an agreement to cooperatively build *Virginia* Class nuclear attack submarines. The lead ship, *USS Virginia*, was delivered by Electric Boat to the U.S. Navy and commissioned into the fleet in October 2004. The *USS Texas* was delivered by Ships in the spring of 2006. The *USS Hawaii* was delivered by Electric Boat in December 2006, and *North Carolina*, the final block one ship, is expected to be delivered by Ships in early 2008. Electric Boat and Ships were awarded a construction contract in August 2003, which was subsequently modified in January 2004, for the second block of six *Virginia* Class submarines. Planning and long lead material procurement is underway on all six boats of the second block; construction has begun on the first four. The construction award for the third block is expected in late 2008.

Coast Guard & Coastal Defense – Ships is a joint venture partner along with Lockheed Martin for the Coast Guard's Deepwater Modernization Program. Ships has design and production responsibility for surface ships. In 2006, the Ships/Lockheed Martin joint venture was awarded a 43 month contract extension for the Deepwater program. Currently, the first three National Security Cutters (NSC) are in construction. The initial NSC will be delivered in early 2008.

Fleet Support – Ships provides after-market services, including on-going maintenance and repair work, for a wide array of naval and commercial vessels. The company has ship repair facilities in the U.S. Navy's largest homeports of Norfolk, Virginia, and San Diego, California.

Services, Commercial & Other – Under the Polar Tanker program, Ships was under contract to produce five double-hulled tankers. These tankers each transport one million barrels of crude oil from Alaska to west coast refineries and are fully compliant with the Oil Pollution Act of 1990. The last ship under this program was delivered in mid-2006.

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Corporate

The company's principal executive offices are located at 1840 Century Park East, Los Angeles, California 90067. The company's telephone number is (310) 553-6262. The company's home page on the Internet is www.northropgrumman.com. The company makes web site content available for informational purposes, and such content is not incorporated by reference into this Form 10-K, unless so specified herein.

SUMMARY SEGMENT FINANCIAL DATA

For a more complete understanding of the company's segment financial information, see Segment Operating Results in Part II, Item 7, and Note 6 to the consolidated financial statements in Part II, Item 8.

CUSTOMERS AND REVENUE CONCENTRATION

The company's primary customer is the U.S. Government. Revenue from the U.S. Government accounted for approximately 90 percent of total revenues in 2007, 2006, and 2005. No other customer accounted for more than 10 percent of total revenue during any period presented. No single product or service accounted for more than 10 percent of total revenue during any period presented. See Risk Factors in Part I, Item 1A.

PATENTS

The following table summarizes the number of patents the company owns or has pending as of December 31, 2007:

	Owned	Pending	Total
U.S. patents	3,572	708	4,280
Foreign patents	2,464	1,767	4,231
Total	6,036	2,475	8,511

Patents developed while under contract with the U.S. Government may be subject to use by the U.S. Government. In addition the company licenses intellectual property to, and from, third parties. Management believes the company's ability to conduct its operations would not be materially affected by the loss of any particular intellectual property right.

SEASONALITY

No material portion of the company's business is considered to be seasonal. The timing of revenue recognition is based on several factors including the timing of contract awards, the incurrence of contract costs, cost estimation, and unit deliveries. See Revenue Recognition in Part II, Item 7.

RAW MATERIALS

The most significant raw material required by the company is steel, used primarily for shipbuilding. The company has mitigated supply risk by negotiating long-term agreements with a number of steel suppliers. In addition, the company has mitigated price risk related to its steel purchases through certain contractual arrangements with the U.S. Government. While the company has generally been able to obtain key raw materials required in its production processes in a timely manner, a significant delay in receipt of these supplies by the company could have a material effect on the company's consolidated results of operations. See Risk Factors in Part I, Item 1A.

GOVERNMENT REGULATION

The company's business is affected by numerous laws and regulations relating to the award, administration and performance of U.S. Government contracts. See Risk Factors in Part I, Item 1A.

Certain programs with the U.S. Government that are prohibited by the customer from being publicly discussed in detail are referred to as "restricted" in this Form 10-K. The consolidated financial statements and financial

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information contained within this Form 10-K reflect the operating results of restricted programs under accounting principles generally accepted in the United States of America (GAAP). See Risk Factors in Part I, Item 1A.

RESEARCH AND DEVELOPMENT

Company-sponsored research and development activities primarily include independent research and development (IR&D) efforts related to government programs. IR&D expenses are included in general and administrative expenses and are allocated to U.S. Government contracts. Company-sponsored research and development expenses totaled \$537 million, \$572 million, and \$536 million in 2007, 2006, and 2005, respectively. Expenses for research and development sponsored by the customer are charged directly to the related contracts.

EMPLOYEE RELATIONS

The company believes that it maintains good relations with its 122,600 employees, of which approximately 17 percent are covered by 32 collective bargaining agreements. The company expects to re-negotiate nine of its collective bargaining agreements in 2008. It is not expected that the results of these negotiations will, either individually or in the aggregate, have a material adverse effect on the company's results of operations. See Risk Factors in Part I, Item 1A.

ENVIRONMENTAL MATTERS

Federal, state, and local laws relating to the protection of the environment affect the company's manufacturing operations. The company has provided for the estimated cost to complete environmental remediation where the company has determined it is probable that the company will incur such costs in the future to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency or similarly designated by other environmental agencies. These estimates may change given the inherent difficulty in estimating environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup, determination of legally responsible parties, and the status of laws, regulations, and their interpretations.

In order to assess the potential impact on the company's financial statements, management estimates the possible remediation costs that reasonably could be incurred by the company on a site-by-site basis. Such estimates take into consideration the professional judgment of the company's environmental engineers and, when necessary, consultation with outside environmental specialists. In most instances, only a range of reasonably possible costs can be estimated. However, in the determination of accruals, the most probable amount is used when determinable, and the minimum is used when no single amount is more probable. The company records accruals for environmental cleanup costs in the accounting period in which the company's responsibility is established and the costs can be reasonably estimated. The company does not anticipate and record insurance recoveries before it has determined that collection is probable.

Management estimates that at December 31, 2007, the range of reasonably possible future costs for environmental remediation sites is \$186 million to \$285 million, of which \$223 million is accrued in other current liabilities in the consolidated statements of financial position. Environmental accruals are recorded on an undiscounted basis. At sites involving multiple parties, the company provides environmental accruals based upon its expected share of liability, taking into account the financial viability of other jointly liable parties. Environmental expenditures are expensed or capitalized as appropriate. Capitalized expenditures relate to long-lived improvements in currently operating facilities. In addition, should other PRPs not pay their allocable share of remediation costs, the company may have to incur costs in addition to those already estimated and accrued, which could have a material effect on the company's consolidated financial position, results of operations, or cash flows. The company has made the investments it believes necessary in order to comply with environmental laws.

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COMPETITIVE CONDITIONS

Northrop Grumman, along with Lockheed Martin Corporation, The Boeing Company, Raytheon Company, and General Dynamics Corporation are among the largest companies in the U.S. defense industry at this time. Northrop Grumman competes against these and other companies for a number of programs, both large and small. Intense competition and long operating cycles are both key characteristics of Northrop Grumman's business and the defense industry. It is common in this industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract to another party, turn out to be a subcontractor for the ultimate prime contracting party. It is not uncommon to compete for a contract award with a peer company and, simultaneously, perform as a supplier to or a customer of such competitor on other contracts. The nature of major defense programs, conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity not common in many industries.

The company's success in the competitive defense industry depends upon its ability to develop and market its products and services, as well as its ability to provide the people, technologies, facilities, equipment, and financial capacity needed to deliver those products and services with maximum efficiency. It is necessary to maintain, as the company has, sources for raw materials, fabricated parts, electronic components, and major subassemblies. In this manufacturing and systems integration environment, effective oversight of subcontractors and suppliers is as vital to success as managing internal operations.

Similarly, there is intense competition among many companies in the information and services markets which is generally more labor intensive with competitive margin rates over contract periods of shorter duration. Competitors in the information and services markets include the defense industry participants mentioned above as well as many other large and small entities with expertise in various specialized areas. The company's ability to successfully compete in the information and services markets depends on a number of factors; most important is the capability to deploy skilled professionals, many requiring security clearances, at competitive prices across the diverse spectrum of these markets. Accordingly, various workforce initiatives are in place to ensure the company is successful in attracting, developing and retaining sufficient resources to maintain or improve its competitive position within these markets. See Risk Factors in Part I, Item 1A.

EXECUTIVE OFFICERS

See Part III, Item 10, for information about executive officers of the company.

AVAILABLE INFORMATION

Throughout this Form 10-K, the company incorporates by reference information from parts of other documents filed with the Securities and Exchange Commission (SEC). The SEC allows the company to disclose important information by referring to it in this manner, and you should review this information in addition to the information contained herein.

The company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statement for the annual shareholders' meeting, as well as any amendments to those reports, are available free of charge through the company's web site as soon as reasonably practicable after electronic filing of such material with the SEC. You can learn more about the company by reviewing the company's SEC filings on the company's web site. The company's SEC reports can be accessed through the investor relations page of the company's web site at www.northropgrumman.com.

The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including Northrop Grumman. The public may read and copy any materials filed by the company with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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Item 1A. Risk Factors

The company's consolidated financial position, results of operations and cash flows are subject to various risks, many of which are not exclusively within the company's control, that may cause actual performance to differ materially from historical or projected future performance. Information contained within this Form 10-K should be carefully considered by investors in light of the risk factors described below.

■ ***The Company Depends Heavily on a Single Customer, the U.S. Government, for a Substantial Portion of the Company's Business, Including Programs Subject to Security Classification Restrictions on Information. Changes Affecting this Customer's Capacity to Do Business with the Company or the Effects of Competition in the Defense Industry Could Have a Material Adverse Effect On the Company or Its Prospects.***

Approximately 90 percent of the company's revenues during 2007 were derived from products and services ultimately sold to the U.S. Government and are therefore affected by, among other things, the federal budget process. The company is a supplier, either directly or as a subcontractor or team member, to the U.S. Government and its agencies as well as foreign governments and agencies. These contracts are subject to the respective customers' political and budgetary constraints and processes, changes in customers' short-range and long-range strategic plans, the timing of contract awards, and in the case of contracts with the U.S. Government, the congressional budget authorization and appropriation processes, the U.S. Government's ability to terminate contracts for convenience or for default, as well as other risks such as contractor suspension or debarment in the event of certain violations of legal and regulatory requirements. The termination or failure to fund one or more significant contracts by the U.S. Government could have a material adverse effect on the company's results of operations or prospects.

In the event of termination for the government's convenience, contractors are normally protected by provisions covering reimbursement for costs incurred. The company is involved as a plaintiff in a lawsuit concerning a contract terminated for convenience. See Other Matters in Part I, Item 3. Termination resulting from the company's default could expose the company to liability and have a material adverse effect on its ability to compete for contracts.

In addition, a material amount of the company's revenues and profits is derived from programs that are subject to security classification restrictions (restricted business), which could limit the company's ability to discuss details about these programs, their risks or any disputes or claims relating to such programs. As a result, investors might have less insight into the company's restricted business than other businesses of the company or could experience less ability to evaluate fully the risks, disputes or claims associated with restricted business.

The company's success in the competitive defense industry depends upon its ability to develop and market its products and services, as well as its ability to provide the people, technologies, facilities, equipment, and financial capacity needed to deliver those products and services with maximum efficiency. A loss of business to the company's competitors could have a material adverse effect on the company's ability to generate favorable financial results and maintain market share.

■ ***Many of the Company's Contracts Contain Performance Obligations That Require Innovative Design Capabilities, Are Technologically Complex, Require State-Of-The-Art Manufacturing Expertise or Are Dependent Upon Factors Not Wholly Within the Company's Control. Failure to Meet These Obligations Could Adversely Affect the Company's Profitability and Future Prospects.***

The company designs, develops and manufactures technologically advanced and innovative products and services applied by its customers in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions, or materials and components could prevent the company from achieving contractual requirements.

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In addition, the company's products cannot be tested and proven in all situations and are otherwise subject to unforeseen problems. Examples of unforeseen problems which could negatively affect revenue and profitability include loss on launch of spacecraft, premature failure, problems with quality, country of origin, delivery of subcontractor components or services, and unplanned degradation of product performance. These failures could result, either directly or indirectly, in loss of life or property. Among the factors that may affect revenue and profits could be unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work, and, in the case of certain contracts, repayment to the government customer of contract cost and fee payments previously received by the company.

Certain contracts, primarily involving space satellite systems, contain provisions that entitle the customer to recover fees in the event of partial or complete failure of the system upon launch or subsequent deployment for less than a specified period of time. Under such terms, the company could be required to forfeit fees previously recognized and/or collected. The company has not experienced any material losses in the last decade in connection with such contract performance incentive provisions. However, if the company were to experience launch failures or complete satellite system failures in the future, such events could have a material adverse impact on the company's consolidated financial position or results of operations.

■ ***Contract Cost Growth on Fixed-Price and Other Contracts That Cannot Be Justified as an Increase In Contract Value Due From Customers Exposes The Company to Reduced Profitability and the Potential Loss of Future Business.***

Operating margin is adversely affected when contract costs that cannot be billed to customers are incurred. This cost growth can occur if estimates to complete increase due to technical challenges or if initial estimates used for calculating the contract price were incorrect. The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters, and the inability to recover any claims included in the estimates to complete. A significant change in cost estimates on one or more programs could have a material effect on the company's consolidated financial position or results of operations.

Due to their nature, fixed-price contracts inherently have more risk than flexibly priced contracts and therefore generally carry higher profit margins. Approximately 30 percent of the company's annual revenues are derived from fixed-price contracts – see Contracts in Part II, Item 7. Flexibly priced contracts may carry risk to the extent of their specific contract terms and conditions relating to performance award fees, including cost sharing agreements, and negative performance incentives. The company typically enters into fixed-price contracts where costs can be reasonably estimated based on experience. In addition, certain contracts other than fixed-price contracts have provisions relating to cost controls and audit rights. Should the terms specified in those contracts not be met, then profitability may be reduced. Fixed-price development work comprises a small portion of the company's fixed-price contracts and inherently has more uncertainty as to future events than production contracts and therefore more variability in estimates of the costs to complete the development stage. As work progresses through the development stage into production, the risks associated with estimating the total costs of the contract are generally reduced. In addition, successful performance of fixed-price development contracts which include production units is subject to the company's ability to control cost growth in meeting production specifications and delivery rates. While management uses its best judgment to estimate costs associated with fixed-price development contracts, future events could result in either upward or downward adjustments to those estimates. Examples of the company's significant fixed-price development contracts include the F-16 Block 60 combat avionics program and the MESA radar system program for the Wedgetail and Peace Eagle contracts, both of which are performed by the Electronics segment. It is also not unusual in the Ships business for the company to negotiate fixed-price

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production follow-on contracts before the development effort has been completed and learning curves fully realized on existing flexibly priced development contracts.

■ ***The Company Uses Estimates When Accounting for Contracts. Changes In Estimates Could Affect The Company's Profitability and Its Overall Financial Position.***

Contract accounting requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of the company's contracts, the estimation of total revenues and costs at completion is complicated and subject to many variables. For example, assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. Similarly, assumptions have to be made regarding the future impact of efficiency initiatives and cost reduction efforts. Incentives, awards, or penalties related to performance on contracts are considered in estimating revenue and profit rates, and are recorded when there is sufficient information to assess anticipated performance.

Because of the significance of the judgments and estimation processes described above, it is possible that materially different amounts could be obtained if different assumptions were used or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may have a material adverse effect upon future period financial reporting and performance. See Critical Accounting Policies, Estimates, and Judgments in Part II, Item 7.

■ ***The Company's Operations Are Subject to Numerous Domestic and International Laws, Regulations and Restrictions, and Noncompliance With These Laws, Regulations and Restrictions Could Expose the Company to Fines, Penalties, Suspension or Debarment, Which Could Have a Material Adverse Effect on the Company's Profitability and Its Overall Financial Position.***

The company has thousands of contracts and operations in many parts of the world subject to U.S. and foreign laws and regulations. Prime contracts with various agencies of the U.S. Government and subcontracts with other prime contractors are subject to numerous procurement regulations, including the False Claims Act and the International Traffic in Arms Regulation promulgated under the Arms Export Control Act, with noncompliance found by any one agency possibly resulting in fines, penalties, debarment, or suspension from receiving additional contracts with all U.S. Government agencies. Given the company's dependence on U.S. Government business, suspension or debarment could have a material adverse effect on the company.

In addition, international business subjects the company to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act, and the anti-boycott provisions of the U.S. Export Administration Act. Failure by the company or its sales representatives or consultants to comply with these laws and regulations could result in administrative, civil, or criminal liabilities and could, in the extreme case, result in suspension or debarment from government contracts or suspension of the company's export privileges, which could have a material adverse effect on the company. Changes in regulation or political environment may affect the company's ability to conduct business in foreign markets including investment, procurement, and repatriation of earnings.

The company operates in a highly regulated environment and is routinely audited by the U.S. Government and others. On a regular basis, the company monitors its policies and procedures with respect to its contracts to ensure consistent application under similar terms and conditions and to assess compliance with all applicable government regulations. Negative audit findings could result in termination of a contract, forfeiture of profits, or suspension of payments. From time to time the company is subject to U.S. Government investigations relating to its operations. Government contractors that are found to have violated the law such as the False Claims Act or the Arms Export Control Act, or are indicted or convicted for violations of other federal laws, or are found not to have acted responsibly as defined by the law, may be subject to significant fines. Such convictions could also result in suspension or debarment from government

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contracting for some period of time. Given the company's dependence on government contracting, suspension or debarment could have a material adverse effect on the company.

■ ***The Company's Business Is Subject to Disruption Caused By Issues With Its Suppliers, Subcontractors, Workforce, Natural Disasters and Other Factors That Could Adversely Affect the Company's Profitability and Its Overall Financial Position.***

The company may be affected by delivery or performance issues with key suppliers and subcontractors, as well as other factors that may cause operating results to be adversely affected. Changes in inventory requirements or other production cost increases may also have a negative effect on the company's consolidated financial position or results of operations.

Performance failures by a subcontractor of the company or difficulty in maintaining complete alignment of the subcontractor's obligations with the company's prime contract obligations may adversely affect the company's ability to perform its obligations on the prime contract, which could reduce the company's profitability due to damages or other costs that may not be fully recoverable from the subcontractor or from the customer and could result in a termination of the prime contract and have an adverse effect on the company's ability to compete for future contracts.

Operating results are heavily dependent upon the company's ability to attract and retain sufficient personnel with requisite skill sets and/or security clearances. The successful negotiation of collective bargaining agreements and avoidance of organized work stoppages are also critical to the ongoing operations of the company.

The company has significant operations located in regions of the U.S. that may be exposed to damaging storms and other natural disasters. While preventative measures typically help to minimize harm to the company, the damage and disruption resulting from certain storms or other natural disasters may be significant. Although no assurances can be made, the company believes it can recover costs associated with natural disasters through insurance or its contracts.

Natural disasters such as storms and earthquakes can disrupt electrical and other power distribution networks and cause adverse effects on profitability and performance, including computer and internet operation and accessibility. Computer viruses and similar harmful software programs, as well as network outages, disruptions and attacks also may have a material adverse effect on the company's profitability and performance unless quarantined or otherwise prevented.

■ ***Changes In Future Business Conditions Could Cause Business Investments and/or Recorded Goodwill to Become Impaired, Resulting In Substantial Losses and Write-Downs That Would Reduce the Company's Operating Income.***

As part of its overall strategy, the company will, from time to time, acquire a minority or majority interest in a business. These investments are made upon careful target analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining acquisition price. After acquisition, unforeseen issues could arise which adversely affect the anticipated returns or which are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. Goodwill accounts for approximately half of the company's recorded total assets. The company evaluates goodwill amounts for impairment annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment. Principally, a significant decrease in expected reporting unit cash flows or changes in market conditions may indicate potential impairment of recorded goodwill. See Critical Accounting Policies, Estimates, and Judgments in Part II, Item 7.

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■ ***The Company Is Subject to Various Claims and Litigation That Could Ultimately Be Resolved Against The Company Requiring Material Future Cash Payments and/or Future Material Charges Against the Company's Operating Income and Materially Impairing the Company's Financial Position.***

The size and complexity of the company's business make it highly susceptible to claims and litigation. The company is subject to environmental claims, income tax matters and other litigation, which, if not resolved within established accruals, could have a material adverse effect on the company's consolidated financial position, results of operations, or cash flows. See Legal Proceedings in Part I, Item 3, and Critical Accounting Policies, Estimates, and Judgments in Part II, Item 7.

■ ***Pension and Medical Expense Associated with the Company's Retirement Benefit Plans May Fluctuate Significantly Depending Upon Changes in Actuarial Assumptions and Future Market Performance of Plan Assets.***

A substantial portion of the company's current and retired employee population is covered by pension and post-retirement benefit plans, the costs of which are dependent upon the company's various assumptions, including estimates of rates of return on benefit related assets, discount rates for future payment obligations, rates of future cost growth and trends for future costs. Variances from these estimates could have a material adverse effect on the company's consolidated financial position, results of operations, and cash flows.

■ ***The Company's Insurance Coverage May Be Inadequate to Cover All of Its Significant Risks or Its Insurers May Deny Coverage of Material Losses Incurred By the Company, Which Could Adversely Affect The Company's Profitability and Overall Financial Position.***

The company endeavors to identify and obtain in established markets insurance agreements to cover significant risks and liabilities (including, among others, natural disasters, product liability and business interruption). Not every risk or liability can be protected against by insurance, and, for insurable risks, the limits of coverage reasonably obtainable in the market may not be sufficient to cover all actual losses or liabilities incurred. In some, but not all, circumstances the company may receive indemnification from the U.S. Government. Because of the limitations in overall available coverage referred to above, the company may have to bear substantial costs for uninsured losses that could have an adverse effect upon its consolidated results of operations and its overall consolidated financial position. Additionally, disputes with insurance carriers over coverage may affect the timing of cash flows and, where litigation with the carrier becomes necessary, an outcome unfavorable to the company may have a material adverse effect on the company's consolidated results of operations. See Note 15 to the consolidated financial statements in Part II, Item 8.

■ ***Current Trends in U.S. Government Procurement May Adversely Affect Cash Flows or Program Profitability.***

The company, like others in the defense industry, is aware of a potential problem presented by strict compliance with the Defense Federal Acquisition Regulation Supplement preference for enumerated specialty metals sourced domestically or from certain foreign countries. Subcontractors and lower-tier suppliers have made disclosures indicating inability to comply with the rule as written. Subject to limitations, inability to certify that all enumerated specialty metals in a product comply with sourcing requirements can lead to U.S. Government customers withholding a portion of a payment on delivery or may prevent delivery altogether of materiel and products critical to national defense.

Item 1B. Unresolved Staff Comments

Not applicable.

NORTHROP GRUMMAN CORPORATION

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

Statements in this Form 10-K that are in the future tense, and all statements accompanied by terms such as “believe,” “project,” “expect,” “estimate,” “forecast,” “assume,” “intend,” “plan,” “anticipate,” “outlook,” and variations thereof and similar terms are intended to be “forward-looking statements” as defined by federal securities law. Forward-looking statements are based upon assumptions, expectations, plans and projections that are believed valid when made, but that are subject to the risks and uncertainties identified under Risk Factors in Part I, Item 1A, that may cause actual results to differ materially from those expressed or implied in the forward-looking statements.

The company intends that all forward-looking statements made will be subject to safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements are based upon, among other things, the company’s assumptions with respect to:

- future revenues;
- expected program performance and cash flows;
- returns on pension plan assets and variability of pension actuarial and related assumptions;
- the outcome of litigation, claims, appeals and investigations;
- hurricane-related insurance recoveries;
- environmental remediation;
- acquisitions and divestitures of businesses;
- joint ventures and other business arrangements;
- access to capital;
- performance issues with key suppliers and subcontractors;
- product performance and the successful execution of internal plans;
- successful negotiation of contracts with labor unions;
- allowability and allocability of costs under U.S. Government contracts;
- effective tax rates and timing and amounts of tax payments;
- the results of any audit or appeal process with the Internal Revenue Service; and
- anticipated costs of capital investments.

You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. As noted above, these forward-looking statements speak only as of the date when they are made. The company does not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements. Moreover, in the future, the company, through senior management, may make forward-looking statements that involve the risk factors and other matters described in this Form 10-K as well as other risk factors subsequently identified, including, among others, those identified in the company’s filings with the SEC on Form 10-Q and Form 8-K.

Item 2. Properties

At December 31, 2007, the company had approximately 57 million square feet of floor space at approximately 515 separate locations, primarily in the U.S., for manufacturing, warehousing, research and testing, administration and various other uses. At December 31, 2007, the company leased to third parties approximately 948,000 square feet of its owned and leased facilities, and had vacant floor space of approximately 965,000 square feet.

At December 31, 2007, the Company's business operating segments had major operations at the following locations:

Mission Systems – Huntsville, AL; Carson, Huntington Beach, McClellan, Oxnard, Rancho Carmel, Redondo Beach, San Bernardino, San Diego, San Jose, San Pedro, Van Nuys and Sacramento, CA; Aurora and Colorado Springs, CO; East Hartford, CT; Washington, DC; Orlando, FL; Cambridge, MA; Annapolis, Annapolis Junction, Columbia, Elkridge and Lanham, MD; Bellevue, NE; Fairborn and Kettering, OH; Middletown, RI;

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Clearfield, UT; and Arlington, Chantilly, Chester, Dahlgren, Fairfax, Falls Church, Herndon, Newport News, Reston, Stafford, Vienna and Virginia Beach, VA.

Information Technology – El Segundo, Hawthorne, and San Diego, CA; Colorado Springs and Lafayette, CO; Washington, DC; Atlanta, GA; Andover, MA; Annapolis Junction and Rockville, MD; Bethpage, Bohemia, and Queens, NY; Fairborn, OH; Irving, TX; and Chantilly, Fairfax, Falls Church, Herndon, Lorton, McLean, Reston, and Richmond, VA.

Technical Services – Sierra Vista, AZ; Warner Robins, GA; Lake Charles, LA; Albuquerque, NM; Oklahoma City, OK; and Herndon, VA.

Integrated Systems – Camarillo, Carson, El Segundo, Fort Tejon, Goleta, Hawthorne, Mojave, Palmdale, and San Diego, CA; Jacksonville, Melbourne and St. Augustine, FL; Hollywood, MD; Moss Point, MS; New Town, ND; Bethpage, NY; and Lexington, SC.

Space Technology – El Segundo, Manhattan Beach, and Redondo Beach, CA; Devens, MA; St. Charles, MO; and Charlotte, NC.

Electronics – Huntsville, AL; Tempe, AZ; Azusa, Sunnyvale and Woodland Hills, CA; Boulder, CO; Norwalk, CT; Apopka, FL; Rolling Meadows, IL; Annapolis, Annapolis Junction, Baltimore, Belcamp, Elkridge, Gaithersburg, Hagerstown, Linthicum and Sykesville, MD; Springfield, MO; Ocean Springs, MS; Melville and Williamsville, NY; Cincinnati, OH; Garland, TX; Salt Lake City, UT; and Charlottesville, VA. Locations outside the U.S. include France, Germany, Italy, and the United Kingdom.

Ships – National City and San Diego, CA; Avondale, Harahan, Harvey, Tallulah and Waggaman, LA; Gautier, Gulfport, Moss Point and Pascagoula, MS; Chesapeake, Hampton, Newport News, Suffolk, and Virginia Beach, VA; and Bremerton, WA.

Corporate and other locations – Brea and Los Angeles, CA; Des Plaines, IL; Olathe, KS; Hanover Township, NJ; York, PA; Irving and Marshall, TX; and Arlington, VA. Locations outside the U.S. include Canada and the United Kingdom.

The following is a summary of the company's floor space at December 31, 2007:

<i>Square feet (in thousands)</i>	Owned	Leased	U.S. Government Owned/Leased	Total
Information & Services				
Mission Systems	652	5,768		6,420
Information Technology	33	4,239		4,272
Technical Services	156	1,365	62	1,583
Aerospace				
Integrated Systems	3,974	3,021	2,023	9,018
Space Technology	2,912	2,108		5,020
Electronics	8,472	3,557		12,029
Ships	13,177	3,907	80	17,164
Corporate	809	622		1,431
Total	30,185	24,587	2,165	56,937

The company believes its properties are well maintained and in good operating condition and that the productive capacity of the company's properties is adequate to meet current contractual requirements and those for the foreseeable future.

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Item 3. Legal Proceedings

U.S. Government Investigations and Claims – Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts.

As previously disclosed, in October 2005, the U.S. Department of Justice and a restricted U.S. Government customer apprised the company of potential substantial claims relating to certain microelectronic parts produced by the Space and Electronics Sector of former TRW Inc., now a component of the company. The relationship, if any, between the potential claims and a civil False Claims Act case that remains under seal in the U.S. District Court for the Central District of California remains unclear to the company. In the third quarter of 2006, the parties commenced settlement discussions. While the company continues to believe that it did not breach the contracts in question and that it acted appropriately in this matter, the company proposed to settle the claims and any associated matters and recognized a pre-tax charge of \$112.5 million in the third quarter of 2006 to cover the cost of the settlement proposal and associated investigative costs. The company extended the offer in an effort to avoid litigation and in recognition of the value of the relationship with this customer. The U.S. Government has not accepted the settlement offer and has advised the company that if settlement is not reached it will pursue its claims through litigation. Because of the highly technical nature of the issues involved and their restricted status and because of the significant disagreement between the company and the U.S. Government as to the U.S. Government's theories of liability and damages (including a material difference between the U.S. Government's damage theories and the company's offer), final resolution of this matter could take a considerable amount of time, particularly if litigation should ensue. If the U.S. Government were to pursue litigation and were to be ultimately successful on its theories of liability and damages, which could be trebled under the Federal False Claims Act, the effect upon the company's consolidated financial position, results of operations, and cash flows would materially exceed the amount provided by the company. Based upon the information available to the company to date, the company believes that it has substantive defenses but can give no assurance that its views will prevail. Accordingly, the ultimate disposition of this matter cannot presently be determined.

As previously disclosed, on May 17, 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Program for eight converted 123-foot patrol boats (the vessels) based on alleged "hull buckling and shaft alignment problems". By letter dated June 5, 2007, the Coast Guard stated that the revocation of acceptance also was based on alleged "nonconforming topside equipment" on the vessels. On August 13, 2007, the company submitted a response to the Coast Guard, maintaining that the revocation of acceptance was improper. In late December 2007, the Coast Guard responded to the company's August submittal and advised Integrated Coast Guard Systems (the contractors' joint venture for performing the Deepwater Program) that the Coast Guard is seeking \$96.1 million from the Joint Venture as a result of the revocation of acceptance of the eight vessels delivered under the 123-foot conversion program. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels which were converted under contracts with the company and with a subcontractor to the company. The letter is not a contracting officer's final decision and the company and its joint venture partner and subcontractor are preparing a response. Based upon the information available to the company to date, the company believes that it has substantive defenses but can give no assurance that its views will prevail.

Based upon the available information regarding matters that are subject to U.S. Government investigations, other than as set out above, the company believes, but can give no assurance, that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

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Litigation – Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. Based upon the information available, the company believes that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

As previously disclosed, the company was a defendant in litigation brought by Cogent Systems, Inc. (Cogent) in Los Angeles Superior Court in California on April 20, 2005, for unspecified damages for alleged unauthorized use of Cogent technology relating to fingerprint recognition. On September 10, 2007, the company and Cogent announced that they had reached an agreement to settle the litigation and the settlement documents were executed in the fourth quarter of 2007. Under the terms of the agreement, the company agreed to pay Cogent \$25 million to settle the litigation and \$15 million for a non-exclusive license to use specified Cogent state-of-the-art automated fingerprint identification software in certain existing programs. Substantially all these amounts were charged to expense in 2007. The company and Cogent also agreed to enter into a five-year research and development, service and products agreement, under which the company must purchase from Cogent \$20 million in new products and services over the term of the agreement.

As previously disclosed, the U.S. District Court for the Central District of California consolidated two separately filed Employee Retirement Income Security Act (ERISA) lawsuits, which the plaintiffs seek to have certified as class actions, into the In Re Northrop Grumman Corporation ERISA Litigation. On August 7, 2007, the Court denied plaintiffs' motion for class certification, and the plaintiffs appealed the Court's decision on class certification to the U.S. Court of Appeals for the Ninth Circuit. On October 11, 2007, the Ninth Circuit granted appellate review, which delayed the commencement of trial previously scheduled to begin January 22, 2008. The company believes, but can give no assurance, that the outcome of these matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Other Matters

In the event of contract termination for the government's convenience, contractors are normally protected by provisions covering reimbursement for costs incurred under the contract. As previously disclosed, the company received a termination for convenience notice on the Tri-Service Standoff Attack Missile (TSSAM) program in 1995. In December 1996, the company filed a lawsuit against the U.S. Government in the U.S. Court of Federal Claims seeking the recovery of approximately \$750 million for uncompensated performance costs, investments and a reasonable profit on the program. Prior to 1996, the company had charged to operations in excess of \$600 million related to this program. The company is unable to predict whether it will realize some or all of its claims, none of which are recorded on its consolidated statement of financial position, from the U.S. Government related to the TSSAM program.

As previously disclosed, the company is pursuing legal action against an insurance provider arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see Notes 15 and 17 to the consolidated financial statements in Part II, Item 8). The company commenced the action against Factory Mutual Insurance Company (FM Global) on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the district court issued an order finding that the excess insurance policy provided coverage for the company's Katrina-related loss. In November 2007, FM Global filed a notice of appeal of the district court's order. Based on the current status of the assessment and claim process, no assurances can be made as to the ultimate outcome of this matter.

Item 4. Submission of Matters to a Vote of Security Holders

No items were submitted to a vote of security holders during the fourth quarter of 2007.

NORTHROP GRUMMAN CORPORATION**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****(a) Market Information.**

The company's common stock is listed on the New York Stock Exchange.

The following table sets forth, for the periods indicated, the high and low closing sale prices of the company's common stock as reported in the consolidated reporting system for the New York Stock Exchange Composite Transactions:

	2007		2006	
January to March	\$ 75.72	to \$ 66.95	\$ 69.83	to \$ 59.63
April to June	\$ 77.87	to \$ 72.68	\$ 71.23	to \$ 62.17
July to September	\$ 79.86	to \$ 74.67	\$ 68.88	to \$ 63.05
October to December	\$ 84.48	to \$ 77.09	\$ 69.71	to \$ 64.59

(b) Holders.

The approximate number of common shareholders was 40,223 as of February 19, 2008.

(c) Dividends.

Quarterly dividends per common share for the most recent two years are as follows:

	2007	2006
January to March	\$ 0.37	\$ 0.26
April to June	0.37	0.30
July to September	0.37	0.30
October to December	0.37	0.30
	\$ 1.48	\$ 1.16

The quarterly dividend for the mandatorily redeemable preferred shares was \$1.75 per share for each quarter in 2007 and 2006.

Common Stock

The company has 800,000,000 shares authorized at a \$1 par value per share, of which 337,834,561 and 345,921,809 shares were outstanding as of December 31, 2007 and 2006, respectively.

Preferred Stock

The company has 10,000,000 shares authorized with a liquidation value of \$100 per share, of which 3,500,000 shares were designated as Series B and were issued and outstanding as of December 31, 2007 and 2006.

Subsequent Event – On February 20, 2008, the company's Board of Directors approved the redemption of the Series B convertible preferred stock on April 4, 2008.

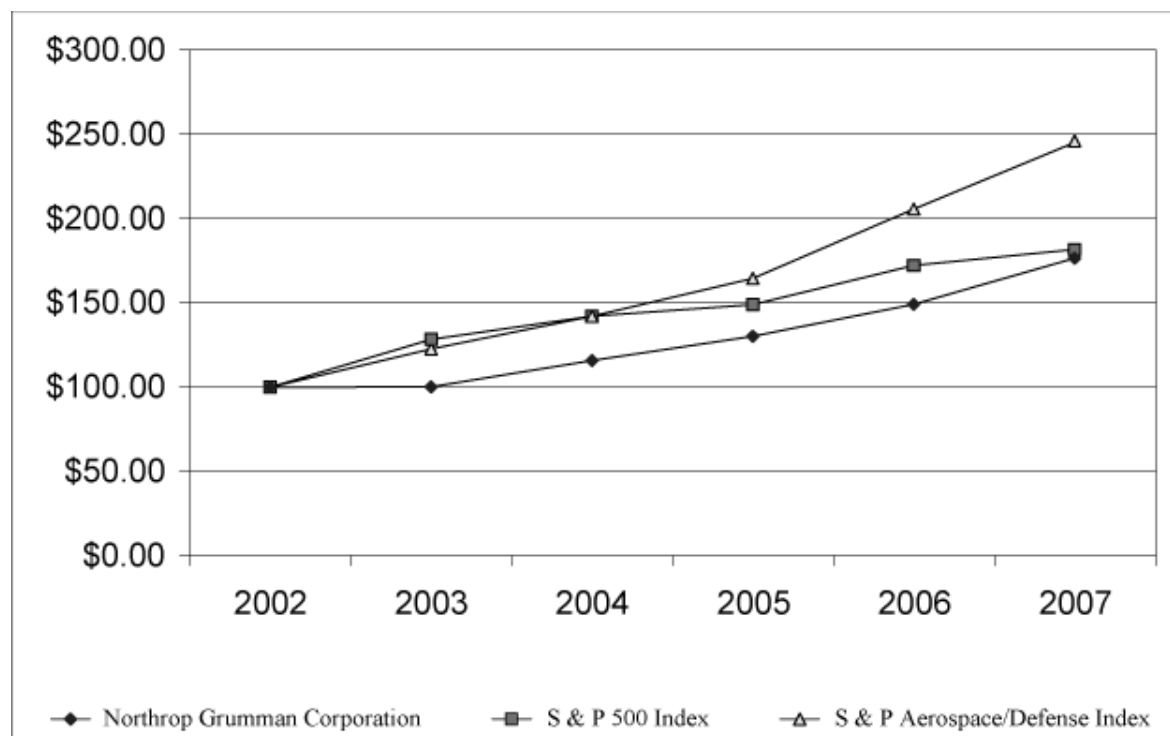
(d) Annual Meeting of Stockholders.

The Annual Meeting of Stockholders of Northrop Grumman Corporation will be held on May 21, 2008, at the Space Technology Presentation Center, One Space Park, Redondo Beach, California 90278.

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(e) *Stock Performance Graph.*

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
AMONG NORTHROP GRUMMAN CORPORATION, S & P 500 INDEX
AND S & P AEROSPACE/DEFENSE INDEX**



- (1) Assumes \$100 invested at the close of business on December 31, 2002, in Northrop Grumman Corporation common stock, Standard & Poor's (S&P) 500 Index, and the S&P Aerospace/Defense Index.
- (2) The cumulative total return assumes reinvestment of dividends.
- (3) The S&P Aerospace/Defense Index is comprised of The Boeing Company, General Dynamics Corporation, Goodrich Corporation, Honeywell International Inc., L-3 Communications, Lockheed Martin Corporation, Northrop Grumman Corporation, Precision Castparts Corp., Raytheon Company, Rockwell Collins, Inc., and United Technologies Corporation.
- (4) The total return is weighted according to market capitalization of each company at the beginning of each year.
- (5) The "Stock Performance Graph" is not incorporated by reference and shall not be deemed to be "filed."

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(f) *Purchases of Equity Securities by the Issuer and Affiliated Purchasers.*

The table below summarizes the company's repurchases of common stock during the three months ended December 31, 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Numbers of Shares Purchased as of Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31, 2007				\$ 82 million
November 1 through November 30, 2007	1,022,600	\$ 79.11	1,022,600	\$ —
December 1 through December 31, 2007				\$ 2.5 billion(1)
Total	1,022,600	\$ 79.11	1,022,600	\$ 2.5 billion

- (1) On December 19, 2007, the company's Board of Directors authorized a share repurchase program of up to \$2.5 billion of its outstanding common stock. As of December 31, 2007, the company has \$2.5 billion authorized for share repurchases.

Share repurchases take place at management's discretion or under pre-established non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

(g) *Securities Authorized for Issuance Under Equity Compensation Plans.*

For a description of securities authorized under the company's equity compensation plans, see Note 19 of the consolidated financial statements in Part II, Item 8.

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Item 6. Selected Financial Data

The data presented in the following table are derived from the audited financial statements and other company information adjusted to reflect the current application of discontinued operations as well as the two-for one stock split of the company's common stock in 2004. See also Business Acquisitions and Business Dispositions in Part II, Item 7.

Selected Financial Data

<i>\$ in millions except per share</i>	Year Ended December 31				
	2007	2006	2005	2004	2003
Sales and Service Revenues					
United States Government	\$ 28,700	\$ 27,019	\$ 27,021	\$ 25,491	\$ 22,063
Other customers	3,318	3,094	2,957	3,386	3,398
Total revenues	\$ 32,018	\$ 30,113	\$ 29,978	\$ 28,877	\$ 25,461
Operating margin	\$ 3,006	\$ 2,464	\$ 2,200	\$ 1,985	\$ 1,474
Income from continuing operations	1,803	1,573	1,396	1,079	771
Basic earnings per share, from continuing operations	\$ 5.28	\$ 4.55	\$ 3.92	\$ 3.00	\$ 2.11
Diluted earnings per share, from continuing operations	5.16	4.46	3.84	2.96	2.09
Cash dividends declared per common share	1.48	1.16	1.01	.89	.80
Year-End Financial Position					
Total assets	\$ 33,373	\$ 32,009	\$ 34,214	\$ 33,303	\$ 33,022
Notes payable to banks and long-term debt	4,055	4,162	5,145	5,158	5,891
Total long-term obligations and preferred stock	9,254	8,641	9,412	10,438	10,876
Financial Metrics					
Free cash flow from operations	\$ 2,068	\$ 942	\$ 1,804	\$ 1,264	\$ 161
Net working capital (deficit)	\$ 340	\$ (28)	\$ (418)	\$ 692	\$ (595)
Current ratio	1.05 to 1	1.00 to 1	.95 to 1	1.11 to 1	.91 to 1
Notes payable to banks and long-term debt as a percentage of shareholders' equity	22.9%	25.0%	30.6%	30.9%	37.3%
Other Information					
Company-sponsored research and development expenses	\$ 537	\$ 572	\$ 536	\$ 502	\$ 429
Maintenance and repairs	337	360	430	396	242
Payroll and employee benefits	12,947	12,510	12,191	12,445	10,936
Number of employees at year-end	122,600	122,200	123,600	125,400	123,400

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Business

Northrop Grumman provides technologically advanced, innovative products, services, and integrated solutions in information and services, aerospace, electronics, and shipbuilding to its global customers. As a prime contractor, principal subcontractor, partner, or preferred supplier, Northrop Grumman participates in many high-priority defense and commercial technology programs in the U.S. and abroad. Northrop Grumman conducts most of its business with the U.S. Government, principally the DoD. The company also conducts business with local, state, and foreign governments and has domestic and international commercial sales.

Notable Events

Certain notable events or activity affecting the company's 2007 consolidated financial results included the following:

- Sales increases 6 percent to record \$32 billion.
- Operating margin increase of 22 percent over 2006.
- Cash from operations increases to record \$2.9 billion after \$200 million pension pre-funding.
- Diluted earnings per share from continuing operations of \$5.16 per share.
- Total backlog of \$64.1 billion.
- Share repurchases totaling \$1.2 billion.
- Business acquisitions totaling approximately \$690 million.
- Partial insurance settlement with all but one of the primary insurers and recognition of \$62 million in business interruption recovery related to Hurricane Katrina. See Notes 15 and 17 to the consolidated financial statements in Part II, Item 8.
- Contract earnings rate charge on LHD 8 of approximately \$55 million following the strike at the Pascagoula shipyard.
- Adoption of a new tax accounting standard on accounting for uncertain tax positions – see Note 12 to the consolidated financial statements in Part II, Item 8.

Outlook

U.S. defense contractors have benefited from the upward trend in overall defense spending over recent years. Certain programs in which the company participates may be subject to potential reductions due to a slower rate of growth in the U.S. Defense Budget forecasts and funds being utilized to support the on-going Global War on Terrorism. Despite the trend of slower growth rates in the U.S. defense budget, the company believes that its portfolio of technologically advanced, innovative products, services, and integrated solutions will generate revenue growth in 2008 and beyond. Based on total backlog (funded and unfunded) of approximately \$64 billion as of December 31, 2007, the company expects sales in 2008 of approximately \$33 billion and forecasts improvement in net income over 2007. The major industry and economic factors that may affect the company's future performance are described in the following paragraphs.

Industry Factors

Northrop Grumman is subject to the unique characteristics of the U.S. defense industry as a monopsony, and by certain elements peculiar to its own business mix. Northrop Grumman, along with Lockheed Martin Corporation, The Boeing Company, Raytheon Company, and General Dynamics Corporation are among the largest companies in the U.S. defense industry at this time. Northrop Grumman competes against these and other companies for a number of programs, both large and small. Intense competition and long operating cycles are both key characteristics of Northrop Grumman's business and the defense industry. It is common in this industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract to another party, turn out to be a subcontractor for the ultimate prime contracting party. It is not uncommon to compete for a contract award with a peer company and simultaneously perform as a supplier to or a customer of such competitor on other contracts. The nature of

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major defense programs, conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity not common in many industries.

The company's success in the competitive defense industry depends upon its ability to develop and market its products and services, as well as its ability to provide the people, technologies, facilities, equipment, and financial capacity needed to deliver those products and services with maximum efficiency. It is necessary to maintain, as the company has, sources for raw materials, fabricated parts, electronic components, and major subassemblies. In this manufacturing and systems integration environment, effective oversight of subcontractors and suppliers is as vital to success as managing internal operations.

Similarly, there is intense competition among many companies in the information and services markets which is generally more labor intensive with competitive margin rates over contract periods of shorter duration. Competitors in the information and services markets include the defense industry participants mentioned above as well as many other large and small entities with expertise in various specialized areas. The company's ability to successfully compete in the information and services markets depends on a number of factors; most important is the capability to deploy skilled professionals, many requiring security clearances, at competitive prices across the diverse spectrum of these markets. Accordingly, various workforce initiatives are in place to ensure the company is successful in attracting, developing and retaining sufficient resources to maintain or improve its competitive position within these markets.

Economic Opportunities, Challenges, and Risks

The defense of the U.S. and its allies requires the ability to respond to one or more regional conflicts, terrorist acts, or threats to homeland security and is increasingly dependent upon early threat identification. National responses to those threats may require unilateral or cooperative initiatives ranging from dissuasion, deterrence, active defense, security and stability operations, or peacekeeping. The U.S. Government continues to place a high priority on the protection of its engaged forces and citizenry and in minimizing collateral damage when force must be applied in pursuit of national objectives. As a result, the U.S. and its military coalitions increasingly rely on sophisticated systems providing long-range surveillance and intelligence, battle management, and precision strike capabilities combined with the ability to rapidly deploy effective force to any region. Accordingly, defense procurement spending is expected to be weighted toward the development and procurement of military platforms and systems demonstrating the stealth, long-range, survivability, persistence and standoff capabilities that can overcome such obstacles to access. Additionally, advanced electronics and software that enhance the capabilities of individual systems and provide for the real-time integration of individual surveillance, information management, strike, and battle management platforms will also be required.

While the upward trend in overall defense spending may slow, defense requirements are not expected to change significantly in the foreseeable future. Many allied countries are focusing their development and procurement efforts on advanced electronics and information systems capabilities to enhance their interoperability with U.S. forces. The size of future U.S. and international defense budgets is expected to remain responsive to the international security environment. The proposed 2009 budget provides \$515.4 billion in discretionary authority for the DoD base budget, representing a \$35.9 billion or 7.5 percent increase over the enacted level for fiscal 2008. This proposed budget includes reductions in certain programs in which the company participates or for which the company expects to compete, however the company believes that spending on recapitalization and modernization of homeland security and defense assets will continue to be a national priority, with particular emphasis on areas involving intelligence, persistent surveillance, cyber space and non-conventional warfare capabilities.

U.S. Government programs in which the company either participates, or strives to participate, must compete with other programs for consideration during the U.S. budget formulation and appropriation processes. Budget decisions made in this environment will have long-term consequences for the size and structure of the company and the entire defense industry.

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Substantial new competitive opportunities for the company include a new aerial refueling tanker, the next-generation long-range bomber, space radar, unmanned vehicles, satellite communications systems, restricted programs, technical services and information technology contracts, and several international and homeland security programs. In pursuit of these opportunities, Northrop Grumman continues to focus on operational and financial performance for continued growth in 2008 and beyond.

Northrop Grumman has historically concentrated its efforts in high technology areas such as stealth, airborne and space surveillance, battle management, systems integration, defense electronics, and information technology. The company has a significant presence in federal and civil information systems; the manufacture of combatant ships including aircraft carriers and submarines; space technology; command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR); and missile systems. The company believes that its programs are a high priority for national defense. Nevertheless, under budgetary pressures, there remains the possibility that one or more of them may be reduced, extended, or terminated by the company's U.S. Government customers.

The company provides certain product warranties that require repair or replacement of non-conforming items for a specified period of time. Most of the company's product warranties are provided under government contracts, the costs of which are generally incorporated into contract pricing.

Prime contracts with various agencies of the U.S. Government and subcontracts with other prime contractors are subject to numerous procurement regulations, including the False Claims Act and The International Traffic in Arms Regulations promulgated under the Arms Export Control Act, with noncompliance found by any one agency possibly resulting in fines, penalties, debarment, or suspension from receiving additional contracts with all U.S. Government agencies. Given the company's dependence on U.S. Government business, suspension or debarment could have a material adverse effect on the company.

See Risk Factors located in Part I, Item 1A for a more complete description of risks faced by the company and the defense industry.

BUSINESS ACQUISITIONS

2007 – In January 2007, the company acquired Essex Corporation (Essex) for approximately \$590 million in cash, including estimated transaction costs of \$15 million, and the assumption of debt totaling \$23 million. Essex provides signal processing services and products, and advanced optoelectronic imaging for U.S. government intelligence and defense customers. The operating results of Essex are reported in the Mission Systems segment.

In July 2007, the company and Science Applications International Corporation (SAIC) reorganized their joint venture AMSEC, LLC (AMSEC), by dividing AMSEC along customer and product lines. AMSEC is a full-service supplier that provides engineering, logistics and technical support services primarily to Navy ship and aviation programs. Under the reorganization plan, the company retained the ship engineering, logistics and technical service businesses under the AMSEC name (the AMSEC Businesses) and, in exchange, SAIC received the aviation, combat systems and strike force integration services businesses from AMSEC (the Divested Businesses). This reorganization was treated as a step acquisition for the acquisition of SAIC's interests in the AMSEC Businesses, with the company recognizing a pre-tax gain of \$23 million for the effective sale of its interests in the Divested Businesses. The operating results of the AMSEC Businesses and transaction gain have been reported in the Ships segment. Prior to the reorganization, the company accounted for AMSEC, LLC under the equity method. The consolidated financial statements reflect preliminary estimates of the fair value of the assets acquired and liabilities assumed and the related allocation of the purchase price for the entities acquired. Management does not expect adjustments to these estimates, if any, to have a material effect on the company's consolidated financial position or results of operations.

During the third quarter of 2007, the company acquired Xinetics Inc., reported in the Space Technology segment, and the remaining 61 percent of Scaled Composites, LLC, reported in the Integrated Systems segment, for an aggregate amount of approximately \$100 million in cash. The consolidated financial statements reflect

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preliminary estimates of the fair value of the assets acquired and liabilities assumed and the related allocation of the purchase price for the entities acquired. Management does not expect adjustments to these estimates, if any, to have a material effect on the company's consolidated financial position or results of operations.

2006 – There were no significant acquisitions during 2006.

2005 – The company acquired Confluent RF Systems Corporation (Confluent), reported in the Integrated Systems segment, for \$42 million in cash, which included transaction costs of \$2 million, and Integic Corporation (Integic), reported in the Information Technology segment, for \$319 million in cash, which included transaction costs of \$6 million.

BUSINESS DISPOSITIONS

2007 – During the second quarter of 2007, management announced its decision to exit the remaining Interconnect Technologies (ITD) business reported within the Electronics segment. Sales for this business for the years ended December 31, 2007, 2006, and 2005, were \$14 million, \$35 million, and \$89 million, respectively. The shut-down was completed during the third quarter of 2007 and costs associated with the shutdown were not material. The results of this business are reported as discontinued operations in the consolidated statements of income, net of applicable income taxes, for all periods presented.

2006 – The company sold the assembly business unit of ITD during the first quarter of 2006 and Winchester Electronics (Winchester) during the second quarter of 2006 for net cash proceeds of \$26 million and \$17 million, respectively, and recognized after-tax gains of \$4 million and \$2 million, respectively, in discontinued operations. The results of operations of the assembly business unit of ITD are reported as discontinued operations in the consolidated statements of income, net of applicable income taxes. The results of operations of Winchester, reported in the Electronics segment, were not material to any of the periods presented and have therefore not been reclassified as discontinued operations.

During the second quarter of 2006, the Enterprise Information Technology (EIT) business, formerly reported in the Information Technology segment, was shut down and costs associated with the exit activities were not material. The results of operations of this business are reported as discontinued operations in the consolidated statements of income, net of applicable income taxes.

2005 – The company sold Teldix GmbH (Teldix) for \$57 million in cash and recognized an after-tax gain of \$14 million in discontinued operations. The results of operations of Teldix, reported in the Electronics segment, were not material to any of the periods presented and have therefore not been reclassified as discontinued operations.

CONTRACTS

The majority of the company's business is generated from long-term government contracts for development, production, and service activities. Government contracts typically include the following cost elements: direct material, labor and subcontracting costs, and certain indirect costs including allowable general and administrative costs. Unless otherwise specified in a contract, costs billed to contracts with the U.S. Government are determined under the requirements of the Federal Acquisition Regulation (FAR) and Cost Accounting Standards (CAS) regulations as allowable and allocable costs. Examples of costs incurred by the company and not billed to the U.S. Government in accordance with the requirements of the FAR and CAS regulations include, but are not limited to, certain legal costs, lobbying costs, charitable donations, and advertising costs.

The company's long-term contracts typically fall into one of two broad categories:

Flexibly Priced Contracts – Includes both cost-type and fixed-price incentive contracts. Cost-type contracts provide for reimbursement of the contractor's allowable costs incurred plus a fee that represents profit. Cost-type contracts generally require that the contractor use its best efforts to accomplish the scope of the work within some specified time and some stated dollar limitation. Fixed-price incentive contracts also provide for

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reimbursement of the contractor's allowable costs, but are subject to a cost-share limit which affects profitability. Fixed-price incentive contracts effectively become firm fixed-price contracts once the cost-share limit is reached.

Firm Fixed-Price Contracts – A firm fixed-price contract is a contract in which the specified scope of work is agreed to for a price that is a pre-determined, negotiated amount and not generally subject to adjustment regardless of costs incurred by the contractor.

The following table summarizes 2007 revenue recognized by contract type and customer:

<i>(\$ in millions)</i>	U.S. Government	Other Customers	Total	Percent of Total
Flexibly priced	\$ 21,554	\$ 746	\$ 22,300	70%
Firm fixed-price	7,146	2,572	9,718	30%
Total	\$ 28,700	\$ 3,318	\$ 32,018	100%

Contract Fees – Negotiated contract fee structures, for both flexibly priced and fixed-price contracts include, but are not limited to: fixed-fee amounts, cost sharing arrangements to reward or penalize for either under or over cost target performance, positive award fees, and negative penalty arrangements. Profit margins may vary materially depending on the negotiated contract fee arrangements, percentage-of-completion of the contract, the achievement of performance objectives, and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined.

Positive Award Fees – Certain contracts contain provisions consisting of award fees based on performance criteria such as: cost, schedule, quality, and technical performance. Award fees are determined and earned based on an evaluation by the customer of the company's performance against such negotiated criteria. Award fee contracts are widely used throughout the company's operating segments. Examples of significant long-term contracts with substantial negotiated award fee amounts are the KEI, SDD, E-2D SDD, LPD, and DDG-1000 programs.

Compliance and Monitoring – On a regular basis, the company monitors its policies and procedures with respect to its contracts to ensure consistent application under similar terms and conditions as well as compliance with all applicable government regulations. In addition, costs incurred and allocated to contracts with the U.S. Government are routinely audited by the Defense Contract Audit Agency.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

Revenue Recognition

Overview – The majority of the company's business is derived from long-term contracts for the construction of facilities, production of goods, and services provided to the federal government, which are accounted for under the provisions of Accounting Research Bulletin No. 45 – *Accounting for Long-Term Construction-Type Contracts*, American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 81-1 – *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and the AICPA Audit and Accounting Guide, *Audits of Federal Government Contractors*. The company classifies contract revenues as product sales or service revenues depending on the predominant attributes of the relevant underlying contracts. The company also enters into contracts that are not associated with the federal government, such as contracts to provide certain services to non-federal government customers. The company accounts for those contracts in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, *Revenue Recognition*, and other relevant revenue recognition accounting literature.

The company considers the nature of these contracts and the types of products and services provided when it determines the proper accounting method for a particular contract.

Percentage-of-Completion Accounting – The company generally recognizes revenues from its long-term contracts under the cost-to-cost and the units-of-delivery measures of the percentage-of-completion method of accounting. The percentage-of-completion method recognizes income as work on a contract progresses. For

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most contracts, sales are calculated based on the percentage of total costs incurred in relation to total estimated costs at completion of the contract. For certain contracts with large up-front purchases of material, primarily in the Ships segment, sales are generally calculated based on the percentage that direct labor costs incurred bear to total estimated direct labor costs. The units-of-delivery measure is a modification of the percentage-of-completion method, which recognizes revenues as deliveries are made to the customer generally using unit sales values in accordance with the contract terms. The company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes that profit over the life of the contract based on deliveries.

The use of the percentage-of-completion method depends on the ability of the company to make reasonably dependable cost estimates for the design, manufacture, and delivery of its products and services. Such costs are typically incurred over a period of several years, and estimation of these costs requires the use of judgment. Sales under cost-type contracts are recorded as costs are incurred.

Many contracts contain positive and negative profit incentives based upon performance relative to predetermined targets that may occur during or subsequent to delivery of the product. These incentives take the form of potential additional fees to be earned or penalties to be incurred. Incentives and award fees that can be reasonably assured and reasonably estimated are recorded over the performance period of the contract. Incentives and award fees that cannot be reasonably assured and reasonably estimated are recorded when awarded or at such time as a reasonable estimate can be made.

Other changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimates had been the original estimates. A significant change in an estimate on one or more contracts could have a material effect on the company's consolidated financial position or results of operations.

Certain Service Contracts – Revenue under contracts to provide services to non-federal government customers are generally recognized when services are performed. Service contracts include operations and maintenance contracts, and outsourcing-type arrangements, primarily in the Information and Services business. Revenue under such contracts is generally recognized on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs incurred under these service contracts are expensed as incurred, except that direct and incremental set-up costs are capitalized and amortized over the life of the agreement. Operating profit related to such service contracts may fluctuate from period to period, particularly in the earlier phases of the contract.

Service contracts that include more than one type of product or service are accounted for under the provisions of Emerging Issues Task Force Issue No. 00-21 – *Revenue Arrangements with Multiple Deliverables*. Accordingly, for applicable arrangements, revenue recognition includes the proper identification of separate units of accounting and the allocation of revenue across all elements based on relative fair values.

Cost Estimation – The cost estimation process requires significant judgment and is based upon the professional knowledge and experience of the company's engineers, program managers, and financial professionals. Factors that are considered in estimating the work to be completed and ultimate contract recovery include the availability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, and the recoverability of any claims included in the estimates to complete. A significant change in an estimate on one or more programs could have a material effect on the company's consolidated financial position or results of operations. Contract cost estimates are updated at least annually and more frequently as determined by events or circumstances. Cost and revenue estimates for each significant contract are generally reviewed and reassessed quarterly.

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When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded to cost of sales in the period the loss is determined. Loss provisions are first offset against costs that are included in inventoried assets, with any remaining amount reflected in liabilities.

Purchase Accounting and Goodwill

Overview – The purchase price of an acquired business is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective fair market values, with the excess recorded as goodwill. Such fair market value assessments require judgments and estimates that can be affected by contract performance and other factors over time, which may cause final amounts to differ materially from original estimates. Adjustments to fair value assessments are recorded to goodwill over the purchase price allocation period (typically not exceeding twelve months) with the exception of certain adjustments related to income tax uncertainties, the resolution of which may extend beyond the purchase price allocation period.

Acquisition Accruals – The company has established certain accruals in connection with indemnities and other contingencies from its acquisitions and divestitures. These accruals and subsequent adjustments have been recorded during the purchase price allocation period for acquisitions and as events occur for divestitures. The accruals were determined based upon the terms of the purchase or sales agreements and, in most cases, involve a significant degree of judgment. Management has recorded these accruals in accordance with its interpretation of the terms of the purchase or sale agreements, known facts, and an estimation of probable future events based on management's experience.

Goodwill – The company performs impairment tests for goodwill as of November 30th of each year, or when evidence of potential impairment exists. In order to test for potential impairment, the company uses a discounted cash flow analysis, corroborated by comparative market multiples where appropriate.

The principal factors used in the discounted cash flow analysis requiring judgment are the projected results of operations, weighted average cost of capital (WACC), and terminal value assumptions. The WACC takes into account the relative weights of each component of the company's consolidated capital structure (equity and debt) and represents the expected cost of new capital adjusted as appropriate to consider lower risk profiles associated with longer term contracts and barriers to market entry. The terminal value assumptions are applied to the final year of the discounted cash flow model.

Due to the many variables inherent in the estimation of a reporting unit's fair value and the relative size of the company's recorded goodwill, differences in assumptions may have a material effect on the results of the company's impairment analysis.

Litigation, Commitments, and Contingencies

Overview – The company is subject to a range of claims, lawsuits, environmental and income tax matters, and administrative proceedings that arise in the ordinary course of business. Estimating liabilities and costs associated with these matters requires judgment and assessment based upon professional knowledge and experience of management and its internal and external legal counsel. In accordance with SFAS No. 5, *Accounting for Contingencies*, amounts are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any such exposure to the company may vary from earlier estimates as further facts and circumstances become known.

Environmental Accruals – The company is subject to the environmental laws and regulations of the jurisdictions in which it conducts operations. The company records an accrual to provide for the costs of expected environmental obligations when management becomes aware that an expenditure will be incurred and the amount of the liability can be reasonably estimated. Factors which could result in changes to the company's assessment of probability, range of loss, and environmental accruals include: modification of planned remedial actions, increase or decrease in the estimated time required to remediate, discovery of more extensive

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contamination than anticipated, results of efforts to determine legally responsible parties, changes in laws and regulations or contractual obligations affecting remediation requirements, and improvements in remediation technology. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's financial position, results of operation, or cash flows.

Litigation Accruals – Litigation accruals are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any exposure to the company may vary from earlier estimates as further facts and circumstances become known. Based upon the information available, the company believes that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Uncertain Tax Positions – Effective January 1, 2007, the company measures and records uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 – *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. FIN 48 prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Only tax positions meeting the more-likely-than-not recognition threshold may be recognized or continue to be recognized in the financial statements. The timing and amount of accrued interest is determined by the applicable tax law associated with an underpayment of income taxes. If a tax position does not meet the minimum statutory threshold to avoid payment of penalties, the company recognizes an expense for the amount of the penalty in the period the tax position is claimed in the tax return of the company. The company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are recognized as a component of income tax expense. See Note 12 to the consolidated financial statements in Part II, Item 8. Prior to 2007, the company recorded accruals for tax contingencies and related interest when it determined that it was probable that a liability had been incurred and the amount of the contingency could be reasonably estimated based on specific events such as an audit or inquiry by a taxing authority. Under existing GAAP, changes in accruals associated with uncertainties arising from the resolution of pre-acquisition contingencies of acquired businesses are charged or credited to goodwill. Adjustments to other tax accruals are generally recorded in earnings in the period they are determined.

Retirement Benefits

Overview – Assumptions used in determining projected benefit obligations and the fair values of plan assets for the company's pension plans and other postretirement benefits plans are evaluated annually by management in consultation with its outside actuaries. In the event that the company determines that plan amendments or changes in the assumptions are warranted, future pension and postretirement benefit expenses could increase or decrease.

Assumptions – The principal assumptions that have a significant effect on the company's consolidated financial position and results of operations are the discount rate, the expected long-term rate of return on plan assets, and the health care cost trend rates. For certain plan assets where the fair market value is not readily determinable, such as real estate, private equity investments and hedge funds, estimates of fair value are determined using the best information available.

Discount Rate – The discount rate represents the interest rate that should be used to determine the present value of future cash flows currently expected to be required to settle the pension and postretirement benefit obligations. The discount rate is generally based on the yield on high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined based on the results of a hypothetical long-term bond portfolio matching the expected cash inflows with the expected benefit payments

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for each benefit plan. Taking into consideration the factors noted above, the company's weighted-average pension composite discount rate was 6.22 percent at December 31, 2007, and 5.97 percent at December 31, 2006.

Expected Long-Term Rate of Return – The expected long-term rate of return on plan assets represents the average rate of earnings expected on the funds invested to provide for anticipated future benefit payment obligations. For 2007 and 2006, the company assumed an expected long-term rate of return on plan assets of 8.5 percent.

Changes in the discount rate and expected long-term rate of return on plan assets within the range indicated below would have had the following impacts on 2007 pension and other postretirement benefits results:

<i>\$ in millions</i>	.25 Percentage Point Increase	.25 Percentage Point Decrease
(Decrease) Increase Due To Change In Assumptions Used To Determine Net Periodic Benefit Costs For The Year Ended December 31, 2007		
Discount rate	\$ (38)	\$ 40
Expected long-term rate of return on plan assets	(54)	54
(Decrease) Increase Due To Change In Assumptions Used To Determine Benefit Obligations For The Year Ended December 31, 2007		
Discount rate	\$ (741)	\$ 774

Health Care Cost Trend Rates – The health care cost trend rates represent the annual rates of change in the cost of health care benefits based on estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the plan participants. For 2007, the company assumed an expected initial health care cost trend rate of 8 percent and an ultimate health care cost trend rate of 5 percent. In 2006, the company assumed an expected initial health care cost trend rate of 8.75 percent and an ultimate health care cost trend rate of 5 percent.

Differences in the initial through the ultimate health care cost trend rates within the range indicated below would have had the following impact on 2007 postretirement benefit results:

<i>\$ in millions</i>	1-Percentage- Point Increase	1-Percentage- Point Decrease
Increase (Decrease) From Change In Health Care Cost Trend Rates To		
Postretirement benefit expense	\$ 9	\$ (9)
Postretirement benefit liability	85	(91)

CONSOLIDATED OPERATING RESULTS

Selected financial highlights are presented in the table below.

<i>\$ in millions, except per share</i>	Year Ended December 31		
	2007	2006	2005
Sales and service revenues	\$ 32,018	\$ 30,113	\$ 29,978
Cost of sales and service revenues	29,012	27,649	27,778
Operating margin	3,006	2,464	2,200
Interest expense, net	308	303	334
Other, net	(12)	125	199
Federal and foreign income taxes	883	713	669
Diluted earnings per share from continuing operations	5.16	4.46	3.84
Net cash provided by operating activities	2,890	1,756	2,627

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Sales and Service Revenues

Sales and service revenues consist of the following:

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Product sales	\$ 18,730	\$ 18,394	\$ 19,471
Service revenues	13,288	11,719	10,507
Sales and service revenues	\$ 32,018	\$ 30,113	\$ 29,978

2007 – Revenues for principal product businesses in Aerospace, Electronics, and Ships during 2007 grew at a combined rate of approximately 3 percent over 2006, reflecting sales growth in Electronics and Ships, partially offset by reduced sales in Aerospace. The sales growth at Electronics and Ships was due to volume improvements across most business areas, while the sales reduction in Aerospace was anticipated as a number of contracts transitioned from development to production in 2007. Revenue for principal services businesses in Information & Services during 2007 grew approximately 11 percent over 2006 due largely to double digit growth at Information Technology and Technical Services segments, resulting from increased volume on contracts that were newly awarded in 2006 and growth across the board on other contracts.

2006 – Revenues for the principal product segments of Integrated Systems, Space Technology and Electronics were relatively flat in 2006 as compared to 2005, and revenues for the Ships segment declined approximately \$500 million due primarily to the effects of the damage to the Gulf Coast shipyards caused by Hurricane Katrina in August 2005. Service revenues for the principal services businesses grew principally in the Information Technology and Technical Services segments, which each had revenue increases in excess of \$225 million in 2006. Revenues for Mission Systems, the company's other mainly services business, were relatively flat on a year over year basis.

Cost of Sales and General and Administrative Expenses

Cost of sales and general and administrative expenses are comprised of the following:

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Cost of Sales and Service Revenues			
Cost of product sales	\$ 14,474	\$ 14,380	\$ 15,543
% of product sales	77.3%	78.2%	79.8%
Cost of service revenues	11,330	10,242	9,355
% of service revenues	85.3%	87.4%	89.0%
General and administrative expenses	3,208	3,027	2,880
% of total sales and service revenues	10.0%	10.1%	9.6%
Cost of Sales and Service Revenues	\$ 29,012	\$ 27,649	\$ 27,778

Cost of Product Sales and Service Revenues

2007 – Cost of product sales during 2007 increased \$94 million, or 1 percent, over 2006 while decreasing 90 basis points as a percentage of product sales over the same period. Cost of service sales during 2007 increased \$1.1 billion, or 11 percent, over 2006 while decreasing 214 basis points as a percentage of service sales over the same period. Cost of product sales in 2007 increased over 2006 due largely to the sales volume increase described above, partially offset by improved program performance at Integrated Systems, Space Technology and Ships. Cost of service revenues in 2007 increased over 2006 due primarily to higher sales volume at Information & Services. The margin rate improvement was primarily driven by improved margin rate performance on service revenues by segments principally in the product businesses.

2006 – Cost of product sales during 2006 decreased \$1.2 billion, or 7 percent, over 2005 while decreasing 160 basis points as a percentage of product sales over the same period. Cost of service sales during 2006 increased

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\$887 million, or 9 percent, over 2005 while decreasing 164 basis points as a percentage of service sales over the same period. Cost of product sales in 2006 declined over 2005 due largely to the sales volume decreases described above, improved program performance across all of the principal product segments and the absence of contract charges from Hurricane Katrina. Cost of product sales in 2005 included charges of \$165 million due to the impacts of Hurricane Katrina on ship construction contracts in process when the hurricane occurred in August 2005. Cost of service revenues increased in 2006 due to higher volume at Information Technology and Technical Services, partially offset by improved cost performance at Mission Systems & Technical Services.

General and Administrative Expenses – In accordance with industry practice and the regulations that govern the cost accounting requirements for government contracts, most general corporate expenses incurred at both the segment and corporate locations are considered allowable and allocable costs on government contracts and such costs, for most components of the company, are allocated to contracts in progress on a systematic basis and contract performance factors include this cost component as an element of cost. General and administrative expenses primarily relate to segment operations. General and administrative expenses remained at a constant rate of approximately 10 percent of sales in 2007 and 2006. General and administrative expenses as a percentage of sales increased from 9.6 percent in 2005 to 10.1 percent in 2006. The increase in 2006 is due primarily to higher property insurance, litigation, and bid and proposal costs, partially offset by lower IR&D.

Operating Margin

The company considers operating margin to be an important measure for evaluating its operating performance and, as is typical in the industry, defines operating margin as revenues less the related cost of producing the revenues and general and administrative expenses. Operating margin for the company is further evaluated for each of the business segments in which the company operates, and “segment operating margin” is one of the key metrics used by management of the company to internally manage its operations.

Operating margin represents segment operating margin (see section entitled Segment Operating Results) adjusted for a number of factors that do not affect the segments as follows:

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Segment operating margin	\$ 3,103	\$ 2,807	\$ 2,421
Unallocated expenses	(224)	(306)	(200)
Net pension adjustment	127	(37)	(21)
Total operating margin	\$ 3,006	\$ 2,464	\$ 2,200

Segment Operating Margin

2007 – Segment operating margin for the year ended December 31, 2007 increased \$296 million, or 11 percent, as compared to the same period in 2006. Total segment operating margin was 9.7 percent and 9.3 percent of total sales and service revenues for the years ended December 31, 2007, and 2006, respectively. See the Segment Operating Results section below for further information.

2006 – Segment operating margin for the year ended December 31, 2006 increased \$386 million, or 16 percent, as compared to the same period in 2005. Total segment operating margin was 9.3 percent and 8.1 percent of total sales and service revenues for the years ended December 31, 2006, and 2005, respectively. See the Segment Operating Results section below for further information.

Unallocated Expenses – Unallocated expenses for the year ended December 31, 2007 decreased \$82 million, or 27 percent, as compared with the same period in 2006. The decrease was primarily due to \$98 million in lower post-retirement benefit costs determined under GAAP as a result of a plan design change in 2006 and \$36 million lower legal and investigative provisions, partially offset by an increase in other costs including \$18 million in higher litigation expenses. During the third quarter 2006, the company recorded a \$112.5 million pre-tax provision for its settlement offer to the U.S. Department of Justice and a restricted customer.

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Net Pension Adjustment – The net pension adjustment reflects the excess pension expense determined in accordance with GAAP over the pension expense allocated to the operating segments under CAS. The net pension adjustment increased income by \$127 million in 2007, as compared with an expense of \$37 million and \$21 million in 2006 and 2005, respectively. The reduction in 2007 GAAP pension cost primarily results from higher returns on plan assets and a voluntary pre-funding in the fourth quarter of 2006.

Interest Expense, net

Interest expense, net for 2007 was comparable to 2006. Interest expense, net for the year ended December 31, 2006, was \$303 million, a decrease of \$31 million, or 9 percent, in 2006 as compared with 2005. The decrease was primarily due to a lower average debt balance in 2006 resulting from debt maturities totaling \$1.2 billion in 2006.

Other, net

2007 – Other, net for the year ended December 31, 2007 was \$12 million expense, a decrease of \$137 million, as compared with 2006. During 2006, the company sold its remaining 9.7 million TRW Automotive (TRW Auto) shares, generating pre-tax gains of \$111 million.

2006 – Other, net for the year ended December 31, 2006 was \$125 million income, a decrease of \$74 million, or 37 percent, from 2005 income of \$199 million. During 2005, the company sold 7.3 million TRW Auto shares and approximately 3.4 million Endwave shares, which generated pre-tax gains of \$70 million and \$95 million, respectively, as compared to the \$111 million pre-tax gain in 2006 resulting from the sale of the remaining TRW Auto stock.

Federal and Foreign Income Taxes

2007 – The company's effective tax rate on income from continuing operations for the year ended December 31, 2007, was 33 percent compared with 31 percent in 2006. During 2007, the company reached a partial settlement agreement with the U.S. Internal Revenue Service (IRS) regarding its audit of the company's tax years ended 2001 – 2003 resulting in a tax benefit of \$22 million.

2006 – The company's effective tax rate on income from continuing operations for 2006 and 2005 was 31 percent and 32 percent, respectively. During 2006, the company received final approval from the U.S. Congress Joint Committee on Taxation for the agreement previously reached with the IRS regarding its audits of the company's B-2 program for the years ended December 31, 1997 through December 31, 2000. As a result of the agreement the company recognized tax benefits of \$48 million, due to the reversal of previously established expense provisions. The company also recognized a net tax benefit of \$18 million in 2006 related to tax credits associated with qualified wages paid to employees affected by Hurricane Katrina.

Diluted Earnings Per Share from Continuing Operations

2007 – Diluted earnings per share from continuing operations for 2007 was \$5.16 per share, an increase of 16 percent from \$4.46 per share in 2006. Earnings per share are based on weighted-average diluted shares outstanding of 354.3 million for 2007 and 358.6 million for 2006. The weighted-average diluted shares outstanding used to calculate earnings per share includes the dilutive impact of the mandatorily redeemable preferred stock.

2006 – Diluted earnings per share from continuing operations for 2006 was \$4.46 per share, an increase of 16 percent from \$3.84 per share in 2005. Earnings per share are based on weighted-average diluted shares outstanding of 358.6 million for 2006 and 363.2 million for 2005. For 2006, weighted-average diluted shares outstanding used to calculate earnings per share includes the dilutive impact of the mandatorily redeemable preferred stock.

Net Cash Provided by Operating Activities

2007 – Net cash provided by operating activities in 2007 increased \$1.1 billion as compared with 2006, and reflects lower pension contributions, higher net income, and continued trade working capital reductions. Pension plan contributions totaled \$342 million in 2007, of which \$200 million was voluntarily pre-funded compared

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with contributions of \$1.2 billion in 2006, of which \$800 million was voluntarily pre-funded. Cash collected from customers increased by \$2 billion, and cash paid to suppliers and employees increased by \$635 million in 2007 as compared with 2006.

Net cash provided by operating activities for 2007 included the receipt of \$125 million of insurance proceeds related to Hurricane Katrina, \$52 million of federal and state income tax refunds, and \$21 million of interest.

2006 – Net cash provided by operating activities in 2006 decreased \$871 million as compared with 2005, primarily due to contributions to the company's pension plans. Cash collected from customers decreased by \$166 million, and cash paid to suppliers and employees increased by \$361 million in 2006 as compared with 2005. Net cash provided by operating activities for 2006 included the receipt of \$100 million of insurance proceeds related to Hurricane Katrina, \$60 million of federal and state income tax refunds, and \$45 million of interest. Net cash provided by operating activities in 2006 includes contributions to the company's pension plans totaling \$1.2 billion, of which \$800 million was voluntarily pre-funded as compared to contributions of \$415 million in 2005, of which \$203 million was voluntarily pre-funded.

SEGMENT OPERATING RESULTS

\$ in millions	Year Ended December 31		
	2007	2006	2005
Sales and Service Revenues			
Information & Services			
Mission Systems	\$ 5,931	\$ 5,494	\$ 5,494
Information Technology	4,486	3,962	3,736
Technical Services	2,177	1,858	1,617
Aerospace			
Integrated Systems	5,067	5,500	5,489
Space Technology	3,133	2,923	2,866
Electronics	6,906	6,543	6,513
Ships	5,788	5,321	5,786
Intersegment eliminations	(1,470)	(1,488)	(1,523)
Sales and service revenues	\$ 32,018	\$ 30,113	\$ 29,978
Operating Margin			
Information & Services			
Mission Systems	\$ 566	\$ 519	\$ 424
Information Technology	329	342	322
Technical Services	120	120	100
Aerospace			
Integrated Systems	591	551	499
Space Technology	261	245	219
Electronics	813	754	709
Ships	538	393	249
Intersegment eliminations	(115)	(117)	(101)
Segment operating margin	\$ 3,103	\$ 2,807	\$ 2,421

Realignments – The company, from time to time, will realign contracts, programs or business areas among or within its operating segments that possess similar customers, expertise, and capabilities. These realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services. In January 2007, certain programs and business areas were transferred among Information Technology, Mission Systems, Space Technology, and Technical Services. The operating results for all periods presented have been revised to reflect these changes. See a description of the segment business areas and specific realignments located in Part I, Item 1.

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Subsequent Realignments – In January 2008, the Newport News and Ship Systems sectors were realigned into a single segment called Northrop Grumman Shipbuilding to enable the company to more effectively utilize its shipbuilding assets and deploy its talented shipbuilders, processes, technologies, production facilities and planned capital investment to meet customer needs. This realignment had no impact on the company's consolidated financial position, results of operations, cash flows, or segment reporting.

Also in January 2008, the company announced the transfer of certain programs and assets from the Mission Systems segment to the Space Technology segment, effective July 1, 2008. This transfer will allow Mission Systems to focus on the rapidly growing command, control, communications, computers, intelligence, surveillance, and reconnaissance business, and the missiles business will be an integrated element of the company's Aerospace business growth strategy. In addition, certain Electronics businesses were transferred to Mission Systems effective January 2008. The transfer of these businesses is not expected to have a material effect on the company's consolidated financial position, results of operations, or cash flows.

These subsequent realignments have not been reflected in any of the accompanying financial information.

KEY SEGMENT FINANCIAL MEASURES

Operating Performance Assessment and Reporting

The company manages and assesses the performance of its businesses based on its performance on individual contracts and programs obtained generally from government organizations using the financial measures referred to below, with consideration given to the Critical Accounting Policies, Estimates and Judgments described on page 29. Based on this approach and the nature of the company's operations, the discussion of consolidated results of operations generally focuses around the company's seven reportable segments versus distinguishing between products and services. Product sales are predominantly generated in the Electronics, Integrated Systems, Space Technology and Ships segments, while the majority of the company's service revenues are generated by the Information Technology, Mission Systems and Technical Services segments.

Funded Contract Acquisitions

Funded contract acquisitions represent amounts funded during the period on customer contractually obligated orders. Funded contract acquisitions tend to fluctuate from period to period and are determined by the size and timing of new and follow-on orders and by obligations of funding on previously awarded unfunded orders. In the period that a business is purchased, its existing funded order backlog as of the date of purchase is reported as funded contract acquisitions. In the period that a business is sold, its existing funded order backlog as of the divestiture date is deducted from funded contract acquisitions.

Sales and Service Revenues

Period-to-period sales generally vary less than funded contract acquisitions and reflect performance under new and ongoing contracts. Changes in sales and service revenues are typically expressed in terms of volume. Unless otherwise described, volume generally refers to increases (or decreases) in revenues incurred due to varying production activity levels, delivery rates, or service levels on individual contracts. Volume changes will typically carry a corresponding margin change based on the margin rate for a particular contract.

Segment Operating Margin

Segment operating margin reflects the performance of segment contracts. Excluded from this measure are certain costs not directly associated with contract performance, including the portion of corporate expenses such as management and administration, legal, environmental, certain compensation and other retiree benefits, and other expenses not considered allowable or allocable under applicable CAS regulations and the FAR, and therefore not allocated to the segments. Changes in segment operating margin are typically expressed in terms of volume, as discussed above, or performance. Performance refers to changes in contract margin rates. These changes typically relate to profit recognition associated with revisions to total estimated costs at completion of the contract (EAC) that reflect improved (or deteriorated) operating performance on a particular contract. Operating margin changes are accounted for on a cumulative to date basis at the time an EAC change is recorded.

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Operating margin may also be affected by, among other things, the effects of workforce stoppages, the effects of natural disasters (such as hurricanes and earthquakes), resolution of disputed items with the customer, recovery of insurance proceeds, and other discrete events. At the completion of a long-term contract, any originally estimated costs not incurred or reserves not fully utilized (such as warranty reserves) could also impact contract earnings. Where such items have occurred, and the effects are material, a separate description is provided.

Program Descriptions

For convenience, a brief description of certain programs discussed in this Form 10-K are included in the “Glossary of Programs” beginning on page 54.

INFORMATION & SERVICES**Mission Systems**

Mission Systems is a leading global system integrator of complex, mission-enabling systems for military, government, and other clients. Products and services are grouped into the following business areas: Command, Control and Communications (C3); Intelligence, Surveillance and Reconnaissance (ISR); and Missile Systems.

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Funded Contract Acquisitions	\$ 6,032	\$ 6,108	\$ 4,877
Sales and Service Revenues	5,931	5,494	5,494
Segment Operating Margin	566	519	424
<i>As a percentage of segment sales</i>	9.5%	9.4%	7.7%

Funded Contract Acquisitions

2007 – Mission Systems funded contract acquisitions decreased \$76 million, or 1 percent, in 2007 as compared with 2006, primarily due to \$626 million lower funded contract acquisitions in Missile Systems, partially offset by \$401 million higher funded contract acquisitions in ISR and \$164 million higher funded contract acquisitions in C3. The decrease in Missile Systems is due to timing of funding on the Intercontinental Ballistic Missile (ICBM) and Kinetic Energy Interceptors (KEI) programs and receipt of delayed funding upon approval of the federal defense budget during the first quarter of 2006. The increase in ISR is related to the acquisition of Essex. The increase in C3 is due to higher funding across various programs. Significant funded contract acquisitions in 2007 included \$603 million for the ICBM program, \$223 million for the Joint National Integration Center Research and Development (JRDC) program, \$188 million for the F-22 program, \$169 million for the KEI program, \$137 million for the Ground-Based Midcourse Fire Control and Communications (GFC/C) program and \$118 million for the Force XXI Battle Brigade and Below (FBCB2) Installation Kits (I-Kits) program.

2006 – Mission Systems funded contract acquisitions increased \$1.2 billion, or 25 percent, in 2006 as compared with 2005, primarily due to the receipt of delayed funding upon approval of the fiscal year 2006 federal defense budget, the timing of funding received in the KEI program and the timing of a production award in the ICBM program. Significant acquisitions in 2006 included \$1 billion for the ICBM program, \$348 million for the KEI program, \$217 million for the JRDC program, \$176 million for the F-22 program, \$164 million for the F-35 program, \$155 million for the Space Based Space Surveillance (SBSS) program, and \$118 million for the Command Post Platform (CPP) program.

Sales and Service Revenues

2007 – Mission Systems revenue increased \$437 million, or 8 percent, as compared with 2006. The increase was due to \$279 million in higher sales in ISR, \$131 million in higher sales in Missile Systems and \$52 million in higher sales in C3. The increase in ISR is principally due to the acquisition of Essex. The increase in Missile Systems is primarily due to increased scope and funding levels in the KEI, JRDC, ICBM and National Team Battle Management Command and Control (BMC2) programs. The increase in C3 is due to higher volume in several programs, including the FBCB2 I-Kits program, partially offset by lower volume in the F-35 development

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program as hardware development in 2006 winds down in 2007 and reduced scope and deliveries accelerated into 2006 in the F-22 program.

2006 – Mission Systems revenue remained unchanged in 2006 when compared with 2005. The higher sales volume across multiple programs including SBSS, CPP, FBCB2 Systems Engineering and Integration (SE&I) and GFC/C were offset by lower sales volume in a restricted program and reduced production volume in the ICBM program.

Segment Operating Margin

2007 – Mission Systems operating margin increased \$47 million, or 9 percent, in 2007 as compared with 2006. The increase includes net performance improvements of \$22 million driven by cost improvements achieved based on increases in customer order quantities in the FBCB2 I-Kits program, final negotiation of award fee earned on the National Team BMC2 program, lower labor costs and favorable pricing of supplier procured materials in the CPP program and elimination of risk associated with hardware obsolescence in the GFC/C program. Net performance improvements were partially offset by \$12 million in higher amortization of purchased intangibles. Volume changes contributed to the 2007 operating margin increase primarily due to the acquisition of Essex.

2006 – Mission Systems operating margin increased \$95 million, or 22 percent, in 2006 as compared with 2005. The increase includes net performance improvements across multiple programs including a successful flight test and favorable award fee scores on the GFC/C program, successful cost and risk management in the fixed price development portion of the Global Combat Support System Army/Tactical program, continued success in fielding Communication, Navigation and Identification (CNI) systems in the F-22 production program and a decrease of \$26 million in amortization of purchased intangibles. The increase in operating margin as a percentage of segment sales over 2005 is due to the net performance improvements mentioned above.

Information Technology

Information Technology is a premier provider of IT systems engineering and systems integration for the DoD, national intelligence, federal, civilian, state, and local agencies, and commercial customers. Products and services are grouped into the following business areas: Intelligence; Civilian Agencies; Commercial, State & Local (CS&L); and Defense.

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Funded Contract Acquisitions	\$ 4,400	\$ 4,613	\$ 3,700
Sales and Service Revenues	4,486	3,962	3,736
Segment Operating Margin	329	342	322
<i>As a percentage of segment sales</i>	7.3%	8.6%	8.6%

Funded Contract Acquisitions

2007 – Information Technology funded contract acquisitions decreased \$213 million, or 5 percent, in 2007 as compared to 2006, primarily reflecting decreases of \$203 million in Intelligence and \$98 million in CS&L, partially offset by an increase of \$109 million in Defense. A significant amount of the Intelligence funded contract acquisitions decrease was related to the early funding of contracts in 2006. Significant non-restricted funded acquisitions in 2007 included \$214 million for the Virginia IT outsourcing program, \$146 million for the Network Centric Solutions program, \$140 million for the Systems and Software Engineering Services program, and \$139 million for the National Geospatial-Intelligence Agency Enterprise Engineering program.

2006 – Information Technology funded contract acquisitions increased \$913 million, or 25 percent, in 2006 as compared to 2005, primarily reflecting increases of \$527 million in Intelligence, \$322 million in CS&L, and \$226 million in Defense, partially offset by a decrease of \$160 million in Civilian Agencies. The increase in Intelligence was primarily related to the early funding of contracts. Significant non-restricted funded contract acquisitions in 2006 included \$319 million for the New York City Wireless program, \$231 million for the

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National Geospatial-Intelligence Agency Enterprise Engineering program, \$130 million for the Systems and Software Engineering Services program, and \$100 million for the Defense Threat Reduction Agency program.

Sales and Service Revenues

2007 – Information Technology revenue increased \$524 million, or 13 percent, in 2007 as compared with 2006. The increase was primarily due to \$275 million in higher sales volume in CS&L, \$222 million in higher sales in Intelligence, and \$133 million in higher sales in Defense, partially offset by \$73 million in lower sales in Civilian Agencies. The increase in CS&L is associated with the effect of a full year of sales from new programs awarded in 2006, including the New York City Wireless, Virginia IT outsourcing, and San Diego County IT outsourcing programs. The increase in Intelligence is due to new restricted program wins and higher volume on existing programs. The increase in Defense is due to increased volume on various existing programs and new business wins. The decrease in Civilian Agencies is primarily due to customer program budget reductions, and program completions.

2006 – Information Technology revenue increased \$226 million, or 6 percent, in 2006 as compared with 2005. The increase was primarily due to \$105 million in higher sales volume in Intelligence, \$101 million in higher sales volume in Defense, and \$57 million in higher sales volume in CS&L, partially offset by \$36 million in lower sales in Civilian Agencies. The increase in Intelligence is due to new restricted program wins and higher volume on various existing programs. The increase in Defense is due to increased volume on various existing programs. The increase in CS&L is due to higher volume associated with new programs awarded in 2006, including the Virginia IT outsourcing, San Diego County IT outsourcing, and New York City Wireless programs. The decrease in Civilian Agencies is primarily due to customer program budget reductions and program completions.

Segment Operating Margin

2007 – Information Technology operating margin decreased \$13 million, or 4 percent, in 2007 as compared to 2006. The decrease in operating margin was driven by \$28 million in increased amortization of deferred and other outsourcing costs on large IT outsourcing programs compared to the prior period, partially offset by margin on new business wins and the effects of increased volume on several Intelligence, CS&L, and Defense programs. The operating margin decrease also reflects \$22 million in discretionary spending for internal information systems infrastructure expected to yield future cost improvements. The decrease in operating margin as a percentage of segment sales is primarily due to the timing of service contract costs and amortization of deferred and other outsourcing costs on large IT outsourcing programs.

2006 – Information Technology operating margin increased \$20 million, or 6 percent, in 2006 as compared to 2005. The increase was driven by higher sales volume in Intelligence, Defense, and CS&L, primarily on the Virginia IT outsourcing program. The increase also reflects \$5 million lower amortization expense for purchased intangibles.

Technical Services

Technical Services is a leading provider of infrastructure, base, range, logistical and sustainment support, and also provides a wide-array of technical services including training and simulation. Services are grouped into the following business areas: Systems Support (SSG); Training and Simulation (TSG); and Life Cycle Optimization and Engineering (LCOE).

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Funded Contract Acquisitions	\$ 2,273	\$ 2,292	\$ 1,714
Sales and Service Revenues	2,177	1,858	1,617
Segment Operating Margin	120	120	100
<i>As a percentage of segment sales</i>	5.5%	6.5%	6.2%

NORTHROP GRUMMAN CORPORATION*Funded Contract Acquisitions*

2007 – Technical Services funded contract acquisitions decreased \$19 million or 1 percent in 2007 as compared with 2006, primarily reflecting a decrease of \$355 million at TSG, partially offset by a \$327 million increase at LCOE. The decrease at TSG is primarily due to accelerated funding received in 2006 for the Saudi Arabian National Guard (SANG) program. The increase in the LCOE group is due to additional tasking across various programs, including the Hunter CLS program. Significant funded contract acquisitions in 2007 included \$417 million for the Nevada Test Site (NTS) program, \$310 million for the Joint Base Operations Support (JBOS) program, \$174 million for the Sierra Vista Hunter program, \$112 million for the Battle Command Training program, \$98 million for the Ft. Irwin program, \$75 million for the TSC program and \$75 million for F-15 repairs at the Warner Robins Regional Repair Service Center (WRRSC).

2006 – Technical Services funded contract acquisitions increased \$578 million, or 34 percent, in 2006 as compared with 2005. Significant funded contract acquisitions in 2006 included \$462 million for the Nevada Test Site (NTS) program, \$354 million in additional funding in the JBOS program, and \$297 million in additional funding in the SANG program.

Sales and Service Revenues

2007 – Technical Services revenue increased \$319 million or 17 percent, in 2007 as compared with 2006, primarily due to increases of \$248 million and \$66 million in SSG and LCOE, respectively. The increase in SSG is primarily driven by \$252 million from the effects of a full year of sales for the NTS program in 2007 as compared to six months of revenue in 2006. The increase in LCOE is due to increased demand for F-15 repairs at WRRSC, increased demand on the Sierra Vista Hunter program and increased work on the B2 programs.

2006 – Technical Services revenue increased \$241 million, or 15 percent, in 2006 as compared with 2005. The increase was primarily due to higher sales volume for the NTS, Combined Tactical Training Range and Ft. Irwin programs, partially offset by lower volume in the JBOS program.

Segment Operating Margin

2007 – Technical Services operating margin remained unchanged in 2007 when compared with 2006. The volume increases associated with the NTS, F-15 repairs, Sierra Vista Hunter and B2 programs were offset by the effects of performance improvements taken in the prior year and favorable 2006 margin adjustments to reflect risk reduction on contracts for spares production on fixed price contracts. A lower margin mix from the NTS program also contributed to offsetting the volume increase.

2006 – Technical Services operating margin increased \$20 million, or 20 percent, in 2006 as compared with 2005. The increase includes net performance improvements from the U.S. Citizenship and Immigration Services, SANG, and APG-66 Japan programs. Volume changes contributed to the 2006 operating margin primarily driven by higher sales volume in the NTS program.

AEROSPACE**Integrated Systems**

Integrated Systems is a leader in the design, development, and production of airborne early warning, electronic warfare and surveillance, and battlefield management systems, as well as manned and unmanned tactical and strike systems. Products and services are grouped into the following business areas: Integrated Systems Western Region (ISWR) and Integrated Systems Eastern Region (ISER).

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Funded Contract Acquisitions	\$ 4,986	\$ 6,108	\$ 4,544
Sales and Service Revenues	5,067	5,500	5,489
Segment Operating Margin	591	551	499
<i>As a percentage of segment sales</i>	11.7%	10.0%	9.1%

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Funded Contract Acquisitions

2007 – Integrated Systems funded contract acquisitions decreased \$1.1 billion, or 18 percent, as compared with 2006, resulting from decreases of \$641 million and \$653 million at ISWR and ISER, respectively, partially offset by an increase of \$160 million on International Programs. The decrease is primarily due to higher 2006 funded contract acquisitions as a result of delayed funding upon approval of the fiscal year 2006 defense budget. Significant funded contract acquisitions included \$825 million for the F/A-18 program, \$816 million for the E-2 program, \$579 million for the B-2 program, and \$560 million for the High Altitude Long Endurance (HALE) Systems (Global Hawk) program.

2006 – Integrated Systems funded contract acquisitions increased \$1.6 billion, or 34 percent, as compared with the same period in 2005, resulting from increases of \$757 million and \$826 million at ISWR and ISER, respectively. The increase is primarily due to higher 2006 funded contract acquisitions as a result of delayed funding upon approval of the fiscal year 2006 defense budget. Significant funded contract acquisitions included \$1.2 billion for the E-2 program, \$978 million for the F-35 program, \$767 million for the F/A-18 program, and \$718 million for the HALE Systems (Global Hawk) program.

Sales and Service Revenues

2007 – Integrated Systems revenue decreased \$433 million, or 8 percent, as compared with 2006, resulting from decreases of \$105 million and \$369 million at ISWR and ISER, respectively. Approximately \$325 million of the decrease was a result of the transition of the E-2D Advanced Hawkeye, F-35 and EA-18G development programs to their early production phases. Also contributing to the reduction in revenue was approximately \$160 million from the effects of significant customer-directed scope reductions associated with the E-10A platform and related MP-RTIP efforts. These reductions were partially offset by higher volume of \$69 million for the F/A-18 Multi-Year Procurement (MYP) and \$77 million for the Global Hawk programs.

2006 – Integrated Systems revenue increased \$11 million as compared with 2005, resulting from an increase of \$239 million in ISWR, partially offset by a decrease of \$209 million in ISER. The increase in ISWR is primarily due to higher sales volume for the F-35, F/A-18, and various restricted programs. The decrease in ISER is primarily due to lower volume in the E-2D Advanced Hawkeye, Joint STARS, and EA-6B programs.

Segment Operating Margin

2007 – Integrated Systems operating margin increased \$40 million, or 7 percent, as compared with the same period in 2006. The increase in operating margin includes net margin improvements of \$86 million primarily due to risk reduction achieved on the Global Hawk and various B-2 programs and favorable settlement of a prior year's overhead costs, partially offset by the margin effects of lower sales volume described above. The increase in operating margin as a percentage of segment sales is primarily due to risk reduction on the E-2 program, improved performance on B-2 support programs, and the favorable settlement of a prior year's overhead costs described above.

2006 – Integrated Systems operating margin increased \$52 million, or 10 percent, as compared with 2005. The increase in operating margin primarily reflects improvements on the F-35, EA-18G, and F/A-18 programs combined with higher sales volume in the F/A-18 and F-35 programs.

Space Technology

Space Technology develops and integrates a broad range of systems at the leading edge of space, defense, and electronics technology. The segment supplies products primarily to the U.S. Government that are critical to maintaining the nation's security and leadership in science and technology. Space Technology's business areas focus on the design, development, manufacture, and integration of spacecraft systems and subsystems, electronic and communications payloads, and high energy laser systems and subsystems. Products and services are grouped into the following business areas: Civil Systems; Military Systems; National Systems; and Technology & Emerging Systems (Technology).

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<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Funded Contract Acquisitions	\$ 2,770	\$ 3,916	\$ 2,121
Sales and Service Revenues	3,133	2,923	2,866
Segment Operating Margin	261	245	219
<i>As a percentage of segment sales</i>	8.3%	8.4%	7.6%

Funded Contract Acquisitions

2007 – Space Technology funded contract acquisitions decreased \$1.1 billion, or 29 percent, in 2007 as compared with 2006, primarily representing a \$693 million decrease for Military Systems, a \$231 million decrease for National Systems, and a \$211 million decrease for Civil Systems. The decrease is primarily due to higher 2006 funded contract acquisitions as a result of delayed funding upon approval of the fiscal year 2006 defense budget. Significant funded contract acquisitions in 2007 included \$1.1 billion for restricted programs, \$540 million for the NPOESS program, \$239 million for the STSS program, and additional funding of \$216 million for the JWST program.

2006 – Space Technology funded contract acquisitions increased \$1.8 billion, or 85 percent, as compared with 2005, due to increased funding in National Systems, Military Systems, and Civil Systems. The increase is primarily due to higher 2006 funded contract acquisitions as a result of delayed funding upon approval of the fiscal year 2006 defense budget. Significant funded contract acquisitions in 2006 included \$1.2 billion for restricted programs, \$770 million for the NPOESS program, and \$611 million for the AEHF program.

Sales and Service Revenues

2007 – Space Technology revenue increased \$210 million, or 7 percent, in 2007 as compared with 2006. The increase was primarily due to \$187 million and \$49 million in higher sales on restricted contracts in National Systems and Technology & Emerging Systems, respectively.

2006 – Space Technology revenues increased \$57 million, or 2 percent, as compared with 2005. The increase was primarily due to higher sales in Military Systems due to higher volume in the AEHF program and higher sales in Technology & Emerging Systems due to the ABL program, partially offset by lower sales in Civil Systems due to lower volume for the NPOESS program.

Segment Operating Margin

2007 – Space Technology operating margin increased \$16 million, or 7 percent, in 2007 as compared with 2006. The increase in operating margin was primarily due to increased sales volume in 2007 across many programs.

2006 – Space Technology operating margin increased \$26 million, or 12 percent, as compared with 2005. The increase in operating margin and operating margin percentage was primarily due to performance improvements in 2006, primarily from the ABL program.

ELECTRONICS

Electronics is a leading designer, developer, manufacturer and integrator of a variety of advanced electronic and maritime systems for national security and select non-defense applications. Electronics provides systems to U.S. and international customers for such applications as airborne surveillance, aircraft fire control, precision targeting, electronic warfare, automatic test equipment, inertial navigation, integrated avionics, space sensing, intelligence processing, air traffic control, air and missile defense, homeland defense, communications, mail processing, biochemical detection, ship bridge control, and shipboard components. Products and services are grouped into the following business areas: Aerospace Systems; Defensive Systems; Government Systems; Naval & Marine Systems; and Navigation Systems.

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<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Funded Contract Acquisitions	\$ 8,776	\$ 7,147	\$ 6,250
Sales and Service Revenues	6,906	6,543	6,513
Segment Operating Margin	813	754	709
<i>As a percentage of segment sales</i>	11.8%	11.5%	10.9%

Funded Contract Acquisitions

2007 – Electronics funded contract acquisitions increased \$1.6 billion, or 23 percent, in 2007 as compared with 2006, primarily representing increases of \$652 million, \$560 million and \$288 million for Government Systems, Defensive Systems, and Aerospace Systems, respectively. Significant funded contract acquisitions in 2007 included \$875 million for the Flats Sequencing System (FSS) program, \$508 million for the Large Aircraft Infrared Countermeasures (LAIRCM) Indefinite Deliver/Indefinite Quantity (IDIQ) program, \$252 million for the Vehicular Intercommunications (VIS) program, \$242 million for the MESA Korea program, and \$76 million for the Ground/Air Task Oriented Radar (G/ATOR) program

2006 – Electronics funded contract acquisitions increased \$897 million, or 14 percent, in 2006 as compared with 2005, primarily representing increases of \$309 million, \$284 million and \$180 million at Defensive Systems, Aerospace Systems, and Government Systems, respectively. Significant funded contract acquisitions in 2006 included \$270 million for the VIS program, \$261 million for the SBIRS program, \$160 million for the F-22 program, \$153 million for the Lightweight Laser Designator Rangefinder program, \$150 million for the Bio-Detection program, \$148 million for the Mark VII program, and \$125 million for the Automated Flats Sorting Machine program.

Sales and Service Revenues

2007 – Electronics revenue increased \$363 million, or 6 percent, in 2007 as compared with 2006, reflecting \$178 million higher sales in Defensive Systems, \$116 million higher sales in the Government Systems, and \$97 million in Naval & Marine Systems (NMS), partially offset by \$100 million lower sales in Aerospace Systems. The increase in Defensive Systems is primarily due to higher deliveries on Land Forces and Electro-Optical & Infrared Countermeasures programs. The increase in Government Systems sales is primarily attributable to increases in Communications and ISR programs. The increase in NMS sales is primarily due to higher volume on a restricted program. The lower Aerospace Systems sales are primarily due to the effect of declining volume on fixed price development programs.

2006 – Electronics revenue increased \$30 million, or less than 1 percent, in 2006 as compared with 2005. The increase was primarily due to higher sales in automated flat sorting machines to the U.S. Postal Service, vehicle intercommunications systems and infrared countermeasures programs, partially offset by lower sales volume in the F-16 Block 60 and Longbow Missile programs as these programs near completion. Sales for 2006 also included adjustments resulting from charges for the MESA Wedgetail and Peace Eagle fixed-price development airborne surveillance programs.

Segment Operating Margin

2007 – Electronics operating margin increased \$59 million, or 8 percent, in 2007 as compared with 2006. The increase in operating margin is largely attributable to higher volume, primarily in Government Systems, Defensive Systems, and Naval & Marine Systems. Operating margin for 2007 included a \$27 million pre-tax charge for the F-16 Block 60 fixed-price development combat avionics program. The 2007 charge reflected a higher estimate of software integration costs to complete the Falcon Edge electronic warfare suite as compared to \$121 million in pre-tax charges in 2006 for several programs mentioned below. The 2007 operating margin also includes \$14 million in consolidation costs related to the closure of several facilities as a result of a continuing focus on effective infrastructure management and \$26 million in provisions for settled and outstanding matters.

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2006 – Electronics operating margin increased \$45 million, or 6 percent, in 2006 as compared with 2005. The increase was primarily due to \$55 million lower amortization expense and includes net performance improvements on various programs. Operating margin for 2006 included a \$51 million pre-tax charge for the Wedgetail contract and a \$42 million pre-tax charge for the Peace Eagle contract (both under the MESA program), and a \$28 million pre-tax charge for the ASPIS II program. These charges primarily reflect the impact of development, test & evaluation schedule extension, required hardware modifications and related retrofits. Operating margin for 2005 included a \$65 million pre-tax charge for the F-16 Block 60 fixed-price development combat avionics program. The charge reflected a higher estimate of costs to complete the Falcon Edge electronic warfare suite, including rework of the mission software.

SHIPS

Ships is the nation's sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines for the U.S. Navy. Ships is also one of the nation's leading full service systems providers for the design, engineering, construction, and life cycle support of major surface ships for the U.S. Navy, U.S. Coast Guard, international navies, and for commercial vessels. Products and services are grouped into the following business areas: Aircraft Carriers; Expeditionary Warfare; Surface Combatants; Submarines; Coast Guard & Coastal Defense; Fleet Support; and Services, Commercial & Other.

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Funded Contract Acquisitions	\$ 5,282	\$ 10,045	\$ 2,749
Sales and Service Revenues	5,788	5,321	5,786
Segment Operating Margin	538	393	249
<i>As a percentage of segment sales</i>	9.3%	7.4%	4.3%

Funded Contract Acquisitions

2007 – Ships funded contract acquisitions for the year ended December 31, 2007 decreased \$4.8 billion, or 47 percent as compared with 2006, primarily representing decreases of \$5.2 billion in Aircraft Carriers and Expeditionary Warfare. The decrease is partially due to higher 2006 funded contract acquisitions as a result of delayed funding approval for the fiscal year 2006 defense budget as well as the funding received on the *George H.W. Bush*, *USS Carl Vinson* and Ford Class programs in 2006, originally expected in 2007. Significant funded contract acquisitions during the year include \$1.4 billion for the LPD program, \$1.1 billion for the LHA program, \$510 million for the *Virginia*-class submarine program, \$624 million for the DDG 1000 program, \$516 million for the Coast Guard's NSC program, \$171 million from AMSEC reorganization, and an additional funding of \$108 million for the DDG program.

2006 – Ships funded contract acquisitions for the year ended December 31, 2006 increased \$7.3 billion as compared with the 2005, primarily representing increases of \$6.5 billion in Aircraft Carriers and Expeditionary Warfare. Significant acquisitions in 2006 included \$3.9 billion for the LPD program, \$1.8 billion for the *USS Carl Vinson* Refueling and Complex Overhaul (RCOH) program, \$1.3 billion for the Ford Class program, \$814 million for the *Virginia* Class Block II program, \$479 million for the *George H. W. Bush* program, \$261 million for the DDG 1000 program (formerly known as the DD(X) program), \$176 million for the WMSL NSC program, \$172 million for the Toledo Depot Modernization Period program, \$168 million for the LHD program, and \$116 million for the LHA program.

Sales and Service Revenues

2007 – Ships revenues for the year ended December 31, 2007 increased \$467 million, or 9 percent as compared with 2006. The increase was primarily due to \$252 million in higher sales in Expeditionary Warfare, \$92 million in higher sales in Fleet Support, \$81 million in higher sales in Coast Guard and Coastal Defense, \$53 million in higher sales in Submarines, \$52 million in higher sales in Aircraft Carriers, partially offset by \$33 million in lower sales in Surface Combatants, and \$25 million in lower sales in Services, Commercial & Other. The increase in

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Expeditionary Warfare was primarily due to higher sales volume in the LPD and LHA programs due to production ramp-ups, partially offset by lower sales volume in the LHD program as a result of a labor strike at the Pascagoula, Mississippi shipyard. The increase in Fleet Support was due to the reorganization of AMSEC. The increase in Coast Guard and Coastal Defense was due to higher sales volume in the WMSL program. The decrease in Surface Combatants was due to lower sales in the DDG 1000 program and the impacts of the labor strike.

2006 – Ships revenues for the year ended December 31, 2006 decreased \$465 million, or 8 percent as compared with 2005. The decrease was primarily due to lower sales volume in the DDG 1000 program driven by the transition from Phase III to Phase IV and changes in the Navy acquisition strategy regarding major sub-contractors, as well as continued recovery from the impact of Hurricane Katrina in the LPD program. The decrease was partially offset by higher sales in the *USS Carl Vinson*, DDG 51, NSC, and LHA programs.

Segment Operating Margin

2007 – Ships operating margin for the year ended December 31, 2007 increased \$145 million, or 37 percent, as compared with 2006, primarily consisting of \$62 million for recovery of lost profits due to having reached an agreement on a portion of the Katrina insurance claim, a \$23 million pre-tax gain resulting from the reorganization of AMSEC, and increased volume across multiple programs, offset by \$55 million resulting from a contract earnings rate adjustment on LHD 8 primarily due to a schedule extension resulting from manpower constraints in critical crafts (electrical and pipefitting) following the strike at the Pascagoula shipyard in 2007.

2006 – Ships operating margin for the year ended December 31, 2006 increased \$144 million, or 58 percent as compared with 2005. The increase was primarily due to a prior year charge of \$150 million to account for Hurricane Katrina-related cost growth, as well as a \$15 million impact from Hurricane Katrina-related work delays (see Note 17 to the consolidated financial statements in Part II, Item 8). The 2006 operating margin includes a pension benefit resulting from the Pension Protection Act of 2006. These increases were partially offset by lower sales volume in the DDG 1000 program.

BACKLOG

Total backlog at December 31, 2007, was approximately \$64 billion. Total backlog includes both funded backlog (unfilled orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded IDIQ orders. For multi-year services contracts with non-federal government customers having no stated contract values, backlog includes only the amounts committed by the customer. Major components in unfunded backlog as of December 31, 2007, included various restricted programs and the KEI program in the Mission Systems segment; the F-35 and F/A-18 programs in the Integrated Systems segment; the NTS program in the Technical Services segment; the NPOESS and restricted programs in the Space Technology segment; Block II of the *Virginia* class submarines program and the LHA program in the Ships segment.

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The following table presents funded and unfunded backlog by segment at December 31, 2007 and 2006:

<i>\$ in millions</i>	2007			2006		
	Funded	Unfunded	Total Backlog	Funded	Unfunded	Total Backlog
Information & Services						
Mission Systems	\$ 3,220	\$ 8,985	\$ 12,205	\$ 3,119	\$ 8,488	\$ 11,607
Information Technology	2,581	2,268	4,849	2,667	1,840	4,507
Technical Services	1,471	3,193	4,664	1,375	3,973	5,348
Aerospace						
Integrated Systems	4,204	4,525	8,729	4,285	4,934	9,219
Space Technology	1,260	8,266	9,526	1,623	7,138	8,761
Electronics	8,446	2,062	10,508	6,576	1,583	8,159
Ships	10,348	3,230	13,578	10,854	2,566	13,420
Total backlog	\$ 31,530	\$ 32,529	\$ 64,059	\$ 30,499	\$ 30,522	\$ 61,021

Backlog is converted into the following years' sales as costs are incurred or deliveries are made. Approximately 66 percent of the 2007 year-end funded backlog is expected to be converted into sales in 2008. Total U.S. Government orders, including those made on behalf of foreign governments, comprised 89 percent, 90 percent, and 83 percent of the funded backlog at the end of 2007, 2006, and 2005, respectively. Total foreign customer orders accounted for 6 percent, 5 percent, and 10 percent of the funded backlog at the end of 2007, 2006, and 2005, respectively. Domestic commercial backlog represented 5 percent, 5 percent, and 7 percent of funded backlog at the end of 2007, 2006, and 2005, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The company endeavors to ensure the most efficient conversion of operating results into cash for deployment in growing its businesses and maximizing shareholder value. The company actively manages its capital resources through working capital improvements, prudent capital expenditures, strategic business acquisitions, investment in independent research and development, debt repayments, required and voluntary pension contributions, and returning cash to its shareholders through increased dividend payments and repurchases of common stock.

Company management uses various financial measures to assist in capital deployment decision making including net cash provided by operations, free cash flow, net debt-to-equity, and net debt-to-capital. Management believes these measures are useful to investors in assessing the company's financial performance.

The table below summarizes key components of cash flow provided by operating activities:

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Net income	\$ 1,790	\$ 1,542	\$ 1,400
Non-cash income and expense(1)	1,034	948	948
Retiree benefit funding in excess of expense	(50)	(772)	(22)
Trade working capital reduction	142	144	49
Other	(12)	(28)	216
Cash used in discontinued operations	(14)	(78)	36
Cash provided by operating activities	\$ 2,890	\$ 1,756	\$ 2,627

(1) Includes depreciation & amortization, stock based compensation expense and deferred taxes.

NORTHROP GRUMMAN CORPORATION**Free Cash Flow**

Free cash flow represents cash generated from operations available for discretionary use after operational cash requirements to improve or maintain levels of production have been met. Free cash flow is a useful measure for investors as it affects the ability of the company to grow by funding strategic business acquisitions and return value to shareholders through repurchasing its shares and paying dividends.

Free cash flow is not a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner. This measure should not be considered in isolation or as an alternative to operating results presented in accordance with GAAP as indicators of performance.

The table below reconciles cash provided by operations to free cash flow:

<i>\$ in millions</i>	Year Ended December 31		
	2007	2006	2005
Cash provided by operating activities	\$ 2,890	\$ 1,756	\$ 2,627
Less:			
Capital expenditures	(685)	(737)	(823)
Outsourcing contract & related software costs	(137)	(77)	
Free cash flow from operations	\$ 2,068	\$ 942	\$ 1,804

Cash Flows

The following is a discussion of the company's major operating, investing and financing activities for each of the three years in the period ended December 31, 2007, as classified on the consolidated statements of cash flows located in Part II, Item 8.

Operating Activities

2007 – Cash provided by operating activities in 2007 increased \$1.1 billion as compared with 2006, and reflects lower pension contributions, higher net income, and continued trade working capital reductions. Pension plan contributions totaled \$342 million in 2007, of which \$200 million was voluntarily pre-funded compared with contributions of \$1.2 billion in 2006, of which \$800 million was voluntarily pre-funded.

Cash collected from customers increased by \$2 billion, and cash paid to suppliers and employees increased by \$635 million in 2007 as compared with 2006. Net cash provided by operating activities for 2007 included the receipt of \$125 million of insurance proceeds related to Hurricane Katrina, \$52 million of federal and state income tax refunds, and \$21 million of interest income.

At December 31, 2007, net working capital (current assets less current liabilities) was \$340 million, as compared to a working capital deficit of \$28 million in 2006, primarily due to a decrease in current income taxes payable as a result of the adoption in 2007 of FIN 48.

2006 – Cash provided by operating activities was \$1.8 billion as compared with \$2.6 billion in 2005. The decrease was primarily due to contributions to the company's pension plans totaling \$1.2 billion, of which \$800 million was voluntarily pre-funded in the fourth quarter, as compared to contributions of \$415 million in 2005, of which \$203 million was voluntarily pre-funded in the fourth quarter.

Cash collected from customers decreased by \$166 million, and cash paid to suppliers and employees increased by \$361 million. Net cash from operating activities for 2006 included the receipt of \$100 million of insurance proceeds related to Hurricane Katrina, \$60 million of federal and state income tax refunds, and \$45 million of interest income.

At December 31, 2006, net working capital deficit (current assets less current liabilities) was \$28 million, primarily reflecting a lower cash balance offset by a lower current portion of long-term debt.

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2005 – Cash provided by operating activities was \$2.6 billion. Net cash from operating activities for 2005 included the receipt of \$89 million of insurance proceeds related to Hurricane Katrina, \$88 million of federal and state income tax refunds, and \$78 million of interest, including interest on a state tax refund for research and development credits for the years 1988 through 1990. These cash inflows were partially offset by a payment of \$99 million for a litigation settlement.

Employer contributions to the company's pension plans were \$415 million in 2005, including voluntary pre-funding payments of \$203 million in 2005.

At December 31, 2005, net working capital deficit (current assets less current liabilities) was \$418 million.

Investing Activities

2007 – Cash used in investing activities was \$1.4 billion in 2007. During 2007, the company acquired three businesses for \$690 million (See Note 4 to the consolidated financial statements in Part II, Item 8), paid \$137 million for outsourcing costs related to newly acquired outsourcing services contracts, and released \$59 million of restricted cash related to the Gulf Opportunity Zone Industrial Development Revenue Bonds (see discussion in "Financing Activities" below) which was partially offset by restrictions related to the Xinetics purchase (see Note 4 to the consolidated financial statements in Part II, Item 8).

Capital expenditures in 2007 were \$685 million, including \$118 million to replace property damaged by Hurricane Katrina and \$47 million of capitalized software costs. Capital expenditure commitments at December 31, 2007 were approximately \$668 million, which are expected to be paid with cash on hand and restricted cash.

2006 – Cash used in investing activities was \$601 million in 2006. During 2006, the company received \$209 million from the sale of the remaining 9.7 million of its TRW Auto common shares. Also during 2006, Ships received access to \$200 million from the issuance of Gulf Opportunity Zone Industrial Development Revenue Bonds (see discussion in Financing Activities below) of which \$127 million remained restricted as of December 31, 2006. In addition, the company received \$117 million of insurance proceeds related to Hurricane Katrina, paid \$77 million for outsourcing costs related to newly acquired outsourcing services contracts, and paid \$35 million for the purchase of an investment.

During 2006, the company also received \$43 million from the sales of the Interconnect Technologies assembly business unit and Winchester.

Capital expenditures in 2006 were \$737 million, including \$111 million to replace property damaged by Hurricane Katrina and \$36 million of capitalized software costs.

2005 – Cash used in investing activities was \$855 million in 2005. During 2005, the company paid \$361 million to acquire two businesses. This includes the acquisition of Confluent in September 2005 and Integic in March 2005. The company received \$238 million from the sale of investments, including \$95 million for 3.4 million common shares of Endwave and \$143 million for 7.3 million common shares of TRW Auto. During 2005, the company also received \$57 million from the sale of Teldix.

The company received insurance proceeds of \$38 million in 2005 to replace damaged property at the Ships segment as a result of Hurricane Katrina.

Capital expenditures in 2005 were \$823 million, including \$80 million to replace property damaged by Hurricane Katrina and \$41 million of capitalized software costs.

Financing Activities

2007 – Cash used in financing activities was \$1.5 billion comprised primarily of \$1.2 billion in share repurchases, \$504 million of dividends paid to shareholders, and \$384 million in repayment of borrowings under lines of credit (See Note 13 to the consolidated financial statements in Part II, Item 8), partially offset by \$315 million in borrowings under lines of credit, and \$274 million in proceeds from exercises of stock options.

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2006 – Cash used in financing activities was \$1.7 billion comprised of \$1.2 billion in repayments of long-term debt, \$825 million in share repurchases, and \$402 million of dividends paid to shareholders, partially offset by \$393 million in proceeds from exercises of stock options and \$200 million of debt incurred in relation to the Gulf Opportunity Zone Industrial Development Revenue Bonds.

2005 – Cash used in financing activities was \$1.4 billion comprised primarily of \$1.2 billion in share repurchases and \$359 million in dividends paid to shareholders, partially offset by \$163 million in proceeds from exercises of stock options.

Gulf Opportunity Zone Industrial Development Revenue Bonds – In December 2006, Ships entered into a loan agreement with the Mississippi Business Finance Corporation (MBFC) under which Ships received access to \$200 million from the issuance of Gulf Opportunity Zone Industrial Development Revenue Bonds by the MBFC. The loan accrues interest payable semi-annually at a fixed rate of 4.55 percent per annum. The company's obligation related to these bonds is recorded in long-term debt in the consolidated statements of financial position in Part II, Item 8. The bonds are subject to redemption at the company's discretion on or after December 1, 2016, and will mature on December 1, 2028. The bond issuance proceeds must be used to finance the construction, reconstruction, and renovation of the company's interest in certain ship manufacturing and repair facilities, or portions thereof, located in the state of Mississippi. As of December 31, 2007 and 2006, approximately \$140 million and \$73 million, respectively, was used by Ships and the remaining \$60 million and \$127 million, respectively, was recorded in miscellaneous other assets as restricted cash in the consolidated statements of financial position in Part II, Item 8. Repayment of the bonds is guaranteed by the company.

Share Repurchases – The table below summarizes the company's share repurchases beginning January 1, 2005:

Authorization Date	Amount Authorized (in billions)	Average Price Per Share	Total Shares Retired (in millions)	Date Completed	Shares Repurchased (in millions)		
					2007	2006	2005
October 26, 2004	\$ 1.0	\$ 54.83	18.2	September 2005			12.7
October 24, 2005	1.5	65.08	23.0	February 2007	2.3	11.6	9.1
December 14, 2006	1.0	75.96	13.1	November 2007	13.1		
December 20, 2007	2.5						
					15.4	11.6	21.8

As part of the share repurchase programs the company has entered into four separate accelerated share repurchase agreements since November 2005, with two different banks (the Banks) to repurchase shares of common stock. In each case, shares were immediately borrowed by the Banks that were then sold to and canceled by the company. Subsequently, shares were purchased in the open market by the Banks to settle their share borrowings. The cost of the company's share repurchases was subject to adjustment based on the actual cost of the shares subsequently purchased by the Banks. If an additional amount is owed by the company upon settlement, the price adjustment could have been settled, at the company's option, in cash or in shares of common stock.

The table below summarizes the accelerated share repurchase transactions:

Agreement Date	Shares Repurchased (in millions)	Completion Date	Final Average Purchase Price Per Share	Dollar Amount of Shares Repurchased (in millions)
November 4, 2005	9.1	March 1, 2006	\$ 59.05	\$ 537
March 6, 2006	11.6	May 26, 2006	68.01	788
February 21, 2007	8.0	June 7, 2007	73.86	592
July 30, 2007	6.5	September 17, 2007	77.27	502

Share repurchases take place at management's discretion or under pre-established non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions.

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The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

As of December 31, 2007, the company has authorized \$2.5 billion for share repurchases.

Credit Ratings

The company's credit ratings at December 31, 2007, are summarized below:

	Fitch	Moody's	Standard & Poors
Long-term: Northrop Grumman	BBB+	Baa1	BBB+

In June 2007, Moody's Investors Service upgraded its ratings on debt securities issued by the company. The long term rating was changed to Baa1 from Baa2. In December 2007, Fitch revised its outlook on the company to stable from positive.

Credit Facility

In August of 2005, the company entered into a credit agreement which provides for a five-year revolving credit facility in an aggregate principal amount of \$2 billion. The credit facility permits the company to request additional lending commitments from the lenders under the agreement or other eligible lenders under certain circumstances, and thereby increase the aggregate principal amount of the lending commitments under the agreement by up to an additional \$500 million. The agreement provides for swingline loans and letters of credit as sub-facilities for the credit facilities provided for in the agreement. Borrowings under the credit facility bear interest at various rates, including the London Interbank Offered Rate (LIBOR), adjusted based on the company's credit rating, or an alternate base rate plus an incremental margin. The credit facility also requires a facility fee based on the daily aggregate amount of commitments (whether or not utilized) and the company's credit rating level. The company's credit agreement contains certain financial covenants relating to a maximum debt to capitalization ratio, and certain restrictions on additional asset liens, unless permitted by the agreement. As of December 31, 2007, the company was in compliance with all covenants. In August of 2007, the company entered into an amended and restated credit agreement amending the company's 2005 credit agreement.

Concurrent with the effectiveness of the 2005 credit agreement, the prior revolving credit agreement, for \$2.5 billion, was terminated. No principal or interest was outstanding or accrued and unpaid under the prior agreement on its termination date.

In August of 2007, the company entered into an amended and restated credit agreement amending the company's 2005 credit agreement. The agreement extends the maturity date of the credit facility from August 5, 2010 to August 10, 2012 and provides improved pricing terms, reduced facility fees, and full availability of the facility for letters of credit. At December 31, 2007, and 2006, there was no balance outstanding under this facility. There was a maximum of \$350 million borrowed under this facility during 2007 and no borrowings during 2006.

Mandatorily Redeemable Series B Convertible Preferred Stock

The company issued 3.5 million shares of mandatorily redeemable Series B convertible preferred stock in April 2001. Each share of Series B preferred stock has a liquidation value of \$100 per share. The liquidation value, plus accrued but unpaid dividends, is payable on April 4, 2021, the mandatory redemption date. The company has the option to redeem all, but not less than all, of the shares of Series B preferred stock at any time after seven years from the date of issuance for a number of shares of the company's common stock equal to the liquidation value plus accrued and unpaid dividends divided by the current market price of common stock determined in relation to the date of redemption. Under this option, had the redemption taken place at December 31, 2007, each share would have been converted into 1.261 shares of common stock. Each share of preferred stock is convertible, at any time, at the option of the holder into the right to receive shares of the company's common stock. Initially, each share was convertible into .911 shares of common stock, subject to adjustment in the event of certain dividends and distributions, a stock split, a merger, consolidation or sale of substantially all of the

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company's assets, a liquidation or distribution, and certain other events. Had the conversion taken place at December 31, 2007, each share would have been converted into 1.822 shares of common stock. Holders of preferred stock are entitled to cumulative annual cash dividends of \$7 per share, payable quarterly. Upon liquidation of the company, each share of preferred stock is entitled to a liquidation preference before any distribution may be made on the company's common stock or any series of capital stock that is junior to the Series B preferred stock. In the event of a change in control of the company, holders of Series B preferred stock also have specified exchange rights into common stock of the company or into specified securities or property of another entity participating in the change in control transaction. As of December 31, 2007, 10 million shares of preferred stock are authorized, of which 3.5 million shares designated as Series B preferred are issued and outstanding. No other shares of preferred stock are issued and outstanding.

Subsequent Event – On February 20, 2008, the company's Board of Directors approved the redemption of the Series B convertible preferred stock on April 4, 2008.

Other Sources and Uses of Capital

Additional Capital – To provide for long-term liquidity, the company believes it can obtain additional capital, if necessary, from such sources as the public or private capital markets, the sale of assets, sale and leaseback of operating assets, and leasing rather than purchasing new assets. The company has an effective shelf registration on file with the Securities and Exchange Commission to provide for the issuance of up to \$2 billion in debt and equity securities.

Cash on hand at the beginning of the year plus cash generated from operations and cash available under credit lines are expected to be sufficient in 2008 to service debt, finance capital expansion projects, pay federal, foreign, and state income taxes, and continue paying dividends to shareholders. The company will continue to provide the productive capacity to perform its existing contracts, prepare for future contracts, and conduct research and development in the pursuit of developing opportunities. While these expenditures tend to limit short-term liquidity, they are made with the intention of improving the long-term growth and profitability of the company.

Financial Arrangements – In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company's self-insured workers' compensation plans. At December 31, 2007, there were \$439 million of unused stand-by letters of credit, \$148 million of bank guarantees, and \$538 million of surety bonds outstanding.

In December 2006, the company guaranteed a \$200 million loan made to Ships in connection with the Gulf Opportunity Zone Industrial Revenue Bonds. Under the loan agreement the company guaranteed repayment by Ships of the principal and interest to the Trustee. The company also guaranteed payment of the principal and interest by the Trustee to the underlying bondholders.

Co-Operative Agreements – In 2003, Ships executed agreements with the states of Mississippi and Louisiana whereby Ships leases facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Ships to these states. As of December 31, 2007, Ships has fully met its obligations under the Mississippi agreement and has met all but one requirement under the Louisiana agreement. Failure by Ships to meet the remaining Louisiana commitment would result in reimbursement by Ships to Louisiana in accordance with the agreement. As of December 31, 2007, Ships expects that the remaining commitment under the Louisiana agreement will be met based on its most recent business plan.

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Contractual Obligations

The following table presents the company's contractual obligations as of December 31, 2007, and the estimated timing of future cash payments:

<i>\$ in millions</i>	Total	2008	2009 - 2010	2011 - 2012	2013 and beyond
Long-term debt	\$ 3,989	\$ 111	\$ 564	\$ 776	\$ 2,538
Interest payments on long-term debt	3,793	290	530	406	2,567
Mandatorily redeemable convertible preferred stock	675	24	49	49	553
Operating leases	2,065	445	661	394	565
Purchase obligations(1)	6,405	4,274	1,649	423	59
Other long-term liabilities(2)	1,171	180	389	148	454
Total contractual obligations	\$ 18,098	\$ 5,324	\$ 3,842	\$ 2,196	\$ 6,736

- (1) A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding on the company and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. These amounts are primarily comprised of open purchase order commitments to vendors and subcontractors pertaining to funded contracts.
- (2) Other long-term liabilities primarily consist of accrued workers' compensation, deferred compensation, and other miscellaneous liabilities, but excludes obligations for uncertain tax positions of \$477 million and long-term deferred tax liabilities of \$330 million, as the timing of the payments cannot be reasonably estimated.

The table above also excludes estimated minimum funding requirements for retiree benefit plans as set forth by ERISA in relation to the \$3.4 billion pension and postretirement benefit liability, totaling approximately \$2.3 billion over the next five years: \$322 million in 2008, \$304 million in 2009, \$307 million in 2010, \$499 million in 2011, and \$844 million in 2012. The company also has payments due under plans that are not required to be funded in advance, but are funded on a pay-as-you-go basis. See Note 18 to the consolidated financial statements in Part II, Item 8.

Further details regarding long-term debt and operating leases can be found in Notes 13 and 16, respectively, to the consolidated financial statements in Part II, Item 8.

OTHER MATTERS

New Accounting Pronouncements

New accounting pronouncements have been issued by the FASB which are not effective until after December 31, 2007. For further discussion of new accounting standards, see Note 2 to the consolidated financial statements in Part II, Item 8.

Off-Balance Sheet Arrangements

As of December 31, 2007, the company had no significant off-balance sheet arrangements other than operating leases. For a description of the company's operating leases, see Note 16 to the consolidated financial statements in Part II, Item 8.

GLOSSARY OF PROGRAMS

Listed below are brief descriptions of the programs mentioned in this Form 10-K.

Program Name	Program Description
Airborne Laser (ABL)	Design and develop the system's Chemical Oxygen Iodine Laser (COIL) and the Beacon Illuminator Laser (BILL) for Missile Defense Agency's Airborne Laser, providing a capability to destroy boost-phase missiles at very long range.

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Program Name	Program Description
Advanced Extremely High Frequency (AEHF)	Provide the communication payload for the nation's next generation military strategic and tactical relay systems that will deliver survivable, protected communications to U.S. forces and selected allies worldwide.
Automated Flats Sorting Machine (AFSM) – automated induction (ai) Follow-On	Automated induction hardware deliveries to the U.S. Postal Service. Ai allows for the automated prep of flat mail into automation compatible trays and conveyed to the AFSM-100 in-feed line for sorting.
APG-66	Provide engineering services, technical support, spares and repairs for the AN/APG-66 fire control radar that is utilized for the F-16 and other military aircraft.
Advanced Self Protection Integrated Suite (ASPIS) II	Subcontract to Raytheon to design, develop, fabricate, test, qualify, deliver and support the AN/ALR-93(V) Radar Warning Receiver/Electronic Warfare Suite Controller (RWR/EWSC) Systems.
B-2 Stealth Bomber	Maintain strategic, long-range multi-role bomber with war- fighting capability that combines long range, large payload, all-aspect stealth, and near-precision weapons in one aircraft.
Battle Command Training	Operates the computer-based simulations, models and automated tools used for the collection and analysis of information used by U.S. Army Battle Command Training Program.
Biohazard Detection System (BDS)	BDS flat mail screening to rapidly analyze and detect potential biological threats at postal service mail-sorting facilities.
National Team Battle Management Command and Control (BMC2)	Provide technical talent and corporate reach back to the industry team tasked to develop, field, and sustain a global C2BM system for ballistic missile defense.
U.S. Citizenship and Immigration Services	Operate and maintain the Application Support Center facilities for the U.S. Citizenship and Immigration Services, including biometric capture, background check, application scheduling, and facility leasing and maintenance.
Coast Guard's Deepwater Program	Design, develop, construct and deploy surface assets to recapitalize the Coast Guard.
Command Post Platform (CPP)	Provide a family of vehicles that host multiple battle command and support software suites as well as communications equipment that interface with digitized vehicles.
DDG 51	Build Aegis guided missile destroyer, equipped for conducting anti-air, anti-submarine, anti-surface and strike operations.
DDG 1000 Zumwalt-class Destroyer	Design the first in a class of the U.S. Navy's multi-mission surface combatants tailored for land attack and littoral dominance.
E-2D Advanced Hawkeye	The E-2D builds upon the Hawkeye 2000 configuration with significant radar improvement performance. The E-2D provides over the horizon

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Program Name	Program Description
	airborne early warning (AEW), surveillance, tracking, and command and control capability to the U.S. Naval Battle Groups and Joint Forces.
E-10A	Mission Execution Program (MEP) to continue to mature the technologies of the E-10A Battle Management/Command and Control capabilities.
E/A-18G	Provide the Airborne Electronic Attack suite to Boeing which includes the ALQ-218 (V2) receiving system, the ALQ-227 communications countermeasures system and the Electronic Attack Unit that interfaces with the legacy F/A-18 air vehicle.
Electro Optical & Infrared Countermeasures	Provides protection against the ground launched man portable (MANPAD) infrared missile threat by automatically detecting missile launch and jamming the missile's guidance system with a laser beam, causing a miss. The AAQ-24 is a stand-alone electronic warfare system installed on over 380 USAF and international transport aircraft and helicopters, is fully operational with the USAF and Royal Air Force (RAF), and is the only laser DIRCM system available in the world.
F/A-18	Produce the center and aft fuselage sections, twin vertical stabilizers, and integrate all associated subsystems for the F/A-18 Hornet strike fighters.
F-15 Repairs at Warner Robins	Avionics component repair, modifications, build to print, DMS resolution, ATE builds, engineering services, and personnel augmentation for the F-15.
F-16 Block 60	Direct commercial firm fixed-price program with Lockheed Martin Aeronautics Company to develop and produce 80 Lot systems for aircraft delivery to the United Arab Emirates Air Force as well as test equipment and spares to be used to support in- country repairs of sensors.
F-35 Development (Joint Strike Fighter)	Design, integration, and/or development of the center fuselage and weapons bay, communications, navigations, identification subsystem, systems engineering, and mission systems software as well as provide ground and flight test support, modeling, simulation activities, and training courseware.
F-22	Joint venture with Raytheon to design, develop and produce the F-22 radar system. Northrop Grumman is responsible for the overall design of the AN/APG-77 and AN/APG-77(V) 1 radar systems, including the control and signal processing software and responsibility for the AESA radar systems integration and test activities. In addition, Northrop Grumman is responsible for overall design and integration of the F- 22 Communication, Navigation, and Identification (CNI) system.
Falcon Edge	Provide an integrated Electronic Warfare suite that leverages the latest radio frequency (RF) and digital technologies for air warfare.
Force XXI Battle Brigade and Below (FBCB2)	Install in Army vehicles a system of computer hardware and software that forms a wireless, tactical Internet for near-real- time situational awareness and command and control on the battlefield.
Ford Class	Design and construction for the new class of Aircraft Carriers.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
Flats Sequencing System/Postal Automation	Build systems for the U.S. Postal Service designed to further automate the flats mail stream, which includes large envelopes, catalogs and magazines.
Ft. Irwin Logistics Support Services (LSS)	Operate and manage a large-scale maintenance and repair program involving tracked and wheeled vehicles, basic issue items, communications equipment, and weapons needed for desert training.
Ground/Air Task Oriented Radar (G/ATOR)	A development program to provide the next generation ground based multi-mission radar for the USMC. Provides Short Range Air Defense, Air Defense Surveillance, Ground Weapon Location and Air Traffic Control. Replaces five existing USMC single-mission radars.
<i>George H. W. Bush</i> (CVN 77)	The 10 th and final <i>Nimitz</i> -class aircraft carrier that will incorporate many new design features, with expected delivery to the Navy in late 2008.
Ground-Based Midcourse Defense Fire Control and Communications (GFC/C)	Develop software to coordinate sensor and interceptor operations during missile flight.
Hunter CLS	Operate, maintain, train and sustain the multi-mission Hunter Unmanned Aerial System in addition to deploying Hunter support teams.
Global Hawk High-Altitude, Long-Endurance Systems (HALE)	Provide the Global Hawk HALE unmanned aerial system for use in the global war on terror and has a central role in Intelligence, Reconnaissance, and Surveillance supporting operations in Afghanistan and Iraq.
Intercontinental Ballistic Missile (ICBM)	ICBM weapon systems by ensuring the system's total performance.
Joint National Integration Center Research & Development (JRDC)	Support the development and application of modeling and simulation, wargaming, test and analytic tools for air and missile defense.
Joint Base Operations Support	Provides all infrastructure support needed for launch and base operations at the NASA Spaceport.
Joint Surveillance Target Attack Radar System (Joint STARS)	Joint STARS detects, locates, classifies, tracks and targets hostile ground movements, communicating real-time information through secure data links with U.S. Air Force and Army command posts.
James Webb Space Telescope (JWST)	Design, develop, integrate and test a space-based infrared telescope satellite to observe the formation of the first stars and galaxies in the universe.
Kinetic Energy Interceptor	Develop mobile missile-defense system with the unique capability to destroy a hostile missile during its boost, ascent or midcourse phase of flight.
Large Aircraft Infrared Counter-measures Indefinite Delivery and Indefinite Quantity (LAIRCM IDIQ)	Infrared countermeasures systems for C-17 and C-130 aircraft. The IDIQ contract will further allow for the purchase of LAIRCM hardware for foreign military sales and other government agencies.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
LHA	Detail design and construct amphibious assault ships for use as an integral part of joint, interagency, and multinational maritime forces.
LHD	Build multipurpose amphibious assault ships.
Lightweight Laser Designator Rangefinder (LLDR)	Provide LLDRs to the U.S. Army for use in targeting enemy positions in day/night/obscurant conditions which, in turn, provides information to other members on the battlefield.
Longbow Missile	All-weather fire and forget precision strike weapon that uses a millimeter-wave radar. The Longbow Missile is launched from the Apache AH-64 helicopter. To date over 13,000 missiles have been built for the U.S. Army and several international customers.
LPD	Build amphibious transport dock ships.
Mark VIIE	The next generation electro-optical day/night hand held target location system used by Ground Forces.
MESA Korea	Consists of a 4 lot Multirole Electronically Scanned Array (MESA) radar/Identification Friend or Foe subsystem delivery with limited non-recurring engineering. The program also includes associated spares, support equipment and installation & check out activities, with direct and indirect offset projects. Northrop Grumman's customer is the Boeing Company, with ultimate product delivery to the Republic of Korea Air Force.
Multi-Platform Radar Technology Insertion Program (MP-RTIP)	Design, develop, fabricate and test modular, scalable 2-dimensional active electronically scanned array (2D- AESA) radars for integration on the E-10A and Global Hawk Airborne platforms. Also provides enhanced Wide Area Surveillance system capabilities.
New York City Wireless	Provide New York City's broadband public- safety wireless network.
Navy Unmanned Combat Air System Operational Assessment (N-UCAS)	Navy development/demonstration contract that will design, build and test two demonstration vehicles that will conduct a carrier demonstration.
National Geospatial-Intelligence Agency Enterprise Engineering (NGA EE)	Deliver engineering services necessary to direct the planning, development and implementation of all NGA's activities and systems comprising the National System for Geospatial Intelligence.
Network Centric Solution	Provide Network-Centric Information Technology, Networking, Telephony and Security, Voice, Video and Data Communications Commercial-off-the-Shelf products, system solutions, hardware and software.
National Polar-orbiting Operational Environmental Satellite System (NPOESS)	Design, develop, integrate, test, and operate an integrated system comprised of two satellites with mission sensors and associated ground elements for providing global and regional weather and environmental data.

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Program Name	Program Description
National Security Cutter (NSC)	Detail design and construct the U.S. Coast Guard's National Security Cutters equipped to carry out the core missions of maritime security, maritime safety, protection of natural resources, maritime mobility, and national defense.
Nevada Test Site (NTS)	Manage and operate the Nevada Test Site facility and provide infrastructure support, including management of the nuclear explosives safety team, support of hazardous chemical spill testing, emergency response training and conventional weapons testing.
Peace Eagle	Joint program with Boeing to supply MESA radar antenna for Turkey's Peace Eagle 737 airborne early warning and control aircraft.
San Diego County IT Outsourcing	Provide high-level IT consulting and services to San Diego County including data center, help desk, desktop, network, applications and cross-functional services.
Saudi Arabian National Guard (SANG)	Provides military training, logistics and support services to modernize the Saudi Arabian National Guard's capabilities to unilaterally execute and sustain military operations.
Space Based Infrared System (SBIRS)	Space-based surveillance systems for missile warning, missile defense, battlespace characterization and technical intelligence. SBIRS will meet United States infrared space surveillance needs through the next 2-3 decades.
Space Based Space Surveillance (SBSS)	Develop initial capability for space-based surveillance of resident space objects for missions such as deep space and near earth object detection and tracking, deep space search, space object identification, and monitoring of satellites.
Space Tracking and Surveillance System (STSS)	Develop a critical system for the nation's missile defense architecture employing low-earth orbit satellites with onboard infrared sensors to detect, track and discriminate ballistic missiles. The program includes two flight demonstration satellites with subsequent development and production blocks of satellites.
Treasury Communication System (TCS)	Provide telecommunications infrastructure for collaboration, communication and computing as required by the U.S. Department of Treasury.
<i>USS Carl Vinson</i>	Refueling and complex overhaul of the nuclear-powered aircraft carrier <i>USS Carl Vinson</i> (CVN 70).
<i>USS Toledo</i>	Depot Modernization Period (DMP) being performed at Newport News for this 688-class submarine. A DMP is a midlife availability for extensive modernization to improve war fighting capabilities and maintenance to ensure the ship remains certified for unrestricted operations to design test depth.
UK AWACS	Provide aircraft-maintenance and design-engineering support services.
Virginia IT outsourcing	Provide high-level IT consulting and services to Virginia state and local agencies including data center, help desk, desktop, network, applications and cross-functional services.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
Vehicular Intercommunications Systems (VIS)	Provide clear and noise-free communications between crew members inside combat vehicles and externally over as many as six combat net radios for the U.S. Army. The active noise- reduction features of VIS provide significant improvement in speech intelligibility, hearing protection, and vehicle crew performance.
Virginia-class Submarines	Construct the newest attack submarine in conjunction with Electric Boat.
Warner Robins Fleet Sustainment Engineering	Sustains legacy weapons systems through the application of engineering capabilities, including systems engineering, hardware design, software development and maintenance, logistics, electronic warfare, automated test equipment, and avionics engineering.
Wedgetail	Joint program with Boeing to supply MESA radar antenna for AEW&C aircraft.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates – The company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include fixed-rate long-term debt obligations, variable-rate short-term borrowings under the credit agreement, short-term investments, and long-term notes receivable. At December 31, 2007, substantially all outstanding borrowings were fixed-rate long-term debt obligations of which a significant portion are not callable until maturity. The company has a modest exposure to interest rate risk resulting from two interest rate swap agreements described in Note 1 to the consolidated financial statements in Part II, Item 8. The company's sensitivity to a 1 percent change in interest rates is tied to its \$2 billion credit agreement, which had no balance outstanding at December 31, 2007 or 2006, and the aforementioned interest rate swap agreements. See Note 13 to the consolidated financial statements in Part II, Item 8.

Derivatives – The company does not hold or issue derivative financial instruments for trading purposes. The company may enter into interest rate swap agreements to manage its exposure to interest rate fluctuations. At December 31, 2007, and 2006, two interest rate swap agreements were in effect. See Note 1 to the consolidated financial statements in Part II, Item 8.

Foreign Currency – The company enters into foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies. At December 31, 2007, and 2006, the amount of foreign currency forward contracts outstanding was not material. The company does not consider the market risk exposure relating to foreign currency exchange to be material to the consolidated financial statements. See Note 1 to the consolidated financial statements in Part II, Item 8.

NORTHROP GRUMMAN CORPORATION

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of
Northrop Grumman Corporation
Los Angeles, California

We have audited the accompanying consolidated statements of financial position of Northrop Grumman Corporation and subsidiaries (the “Company”) as of December 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northrop Grumman Corporation and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 12 to the consolidated financial statements, the Company adopted, effective January 1, 2007, a new accounting standard for income taxes. As discussed in Note 18 to the consolidated financial statements, the Company adopted, effective December 31, 2006, a new accounting standard for retirement benefits.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2008 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Los Angeles, California
February 20, 2008

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

<i>\$ in millions, except per share</i>	Year ended December 31		
	2007	2006	2005
Sales and Service Revenues			
Product sales	\$ 18,730	\$ 18,394	\$ 19,471
Service revenues	13,288	11,719	10,507
Total sales and service revenues	32,018	30,113	29,978
Cost of Sales and Service Revenues			
Cost of product sales	14,474	14,380	15,543
Cost of service revenues	11,330	10,242	9,355
General and administrative expenses	3,208	3,027	2,880
Operating margin	3,006	2,464	2,200
Other Income (Expense)			
Interest income	28	44	54
Interest expense	(336)	(347)	(388)
Other, net	(12)	125	199
Income from continuing operations before income taxes	2,686	2,286	2,065
Federal and foreign income taxes	883	713	669
Income from continuing operations	1,803	1,573	1,396
(Loss) gain from discontinued operations, net of tax	(13)	(31)	4
Net income	\$ 1,790	\$ 1,542	\$ 1,400
Basic Earnings (Loss) Per Share			
Continuing operations	\$ 5.28	\$ 4.55	\$ 3.92
Discontinued operations	(.04)	(.09)	.01
Basic earnings per share	\$ 5.24	\$ 4.46	\$ 3.93
Weighted-average common shares outstanding, in millions	341.7	345.7	356.5
Diluted Earnings (Loss) Per Share			
Continuing operations	\$ 5.16	\$ 4.46	\$ 3.84
Discontinued operations	(.04)	(.09)	.01
Diluted earnings per share	\$ 5.12	\$ 4.37	\$ 3.85
Weighted-average diluted shares outstanding, in millions	354.3	358.6	363.2

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>\$ in millions</i>	December 31, 2007	December 31, 2006
Assets:		
Current Assets		
Cash and cash equivalents	\$ 963	\$ 1,015
Accounts receivable, net	3,813	3,562
Inventoried costs, net	1,045	1,176
Deferred income taxes	542	706
Prepaid expenses and other current assets	409	266
Total current assets	6,772	6,725
Property, Plant, and Equipment		
Land and land improvements	605	588
Buildings	2,249	2,079
Machinery and other equipment	4,775	4,415
Leasehold improvements	526	447
	8,155	7,529
Accumulated depreciation	(3,440)	(3,004)
Property, plant, and equipment, net	4,715	4,525
Other Assets		
Goodwill	17,672	17,219
Other purchased intangibles, net of accumulated amortization of \$1,687 in 2007 and \$1,555 in 2006	1,074	1,139
Pension and postretirement benefits asset	2,080	1,349
Miscellaneous other assets	1,060	1,052
Total other assets	21,886	20,759
Total assets	\$ 33,373	\$ 32,009

NORTHROP GRUMMAN CORPORATION

<i>\$ in millions</i>	December 31, 2007	December 31, 2006
Liabilities and Shareholders' Equity:		
Current Liabilities		
Notes payable to banks	\$ 26	\$ 95
Current portion of long-term debt	111	75
Trade accounts payable	1,901	1,682
Accrued employees' compensation	1,180	1,176
Advance payments and billings in excess of costs incurred	1,563	1,571
Income tax payable		535
Other current liabilities	1,651	1,619
Total current liabilities	6,432	6,753
Long-term debt, net of current portion	3,918	3,992
Mandatorily redeemable preferred stock	350	350
Pension and postretirement benefits liability	3,008	3,302
Other long-term liabilities	1,978	997
Total liabilities	15,686	15,394
Commitments and Contingencies (Note 16)		
Shareholders' Equity		
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2007—337,834,561; 2006—345,921,809	338	346
Paid-in capital	10,661	11,346
Retained earnings	7,387	6,183
Accumulated other comprehensive loss	(699)	(1,260)
Total shareholders' equity	17,687	16,615
Total liabilities and shareholders' equity	\$ 33,373	\$ 32,009

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>\$ in millions</i>	Year ended December 31		
	2007	2006	2005
Net income	\$ 1,790	\$ 1,542	\$ 1,400
Other Comprehensive Income (Loss)			
Change in cumulative translation adjustment	12	22	(14)
Change in unrealized gain (loss) on marketable securities, net of tax (expense) benefit of (\$1) in 2007 and \$2 in 2006	1	(5)	(1)
Reclassification adjustment on write-down of marketable securities, net of tax of (\$5)		10	
Reclassification adjustment on sale of marketable securities, net of tax of \$19			(29)
Additional minimum pension liability adjustment, net of tax of (\$32)		40	
Change in unamortized benefit plan costs, net of tax of (\$384)	594		
Other comprehensive income (loss), net of tax	607	67	(44)
Comprehensive income	\$ 2,397	\$ 1,609	\$ 1,356

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>\$ in millions</i>	Year ended December 31		
	2007	2006	2005
Operating Activities			
Sources of Cash—Continuing Operations			
Cash received from customers			
Progress payments	\$ 7,490	\$ 6,797	\$ 6,644
Other collections	24,570	23,303	23,622
Insurance proceeds received	125	100	89
Income tax refunds received	52	60	88
Interest received	21	45	78
Other cash receipts	34	42	51
Total sources of cash—continuing operations	32,292	30,347	30,572
Uses of Cash—Continuing Operations			
Cash paid to suppliers and employees	(28,024)	(27,389)	(27,028)
Interest paid	(355)	(366)	(404)
Income taxes paid	(905)	(678)	(419)
Excess tax benefits from stock-based compensation	(52)	(57)	
Payments for litigation settlements	(33)	(11)	(99)
Other cash payments	(19)	(12)	(31)
Total uses of cash—continuing operations	(29,388)	(28,513)	(27,981)
Cash provided by continuing operations	2,904	1,834	2,591
Cash (used in) provided by discontinued operations	(14)	(78)	36
Net cash provided by operating activities	2,890	1,756	2,627
Investing Activities			
Proceeds from sale of businesses, net of cash divested		43	57
Payments for businesses purchased, net of cash acquired	(690)		(361)
Proceeds from sale of property, plant, and equipment	22	21	11
Additions to property, plant, and equipment	(685)	(737)	(823)
Proceeds from insurance carrier	4	117	38
Proceeds from sale of investments		209	238
Payment for purchase of investment		(35)	
Restriction of cash, net of restrictions released	59	(127)	
Payments for outsourcing contract costs	(137)	(77)	
Other investing activities, net	(3)	(15)	(15)
Net cash used in investing activities	(1,430)	(601)	(855)
Financing Activities			
Borrowings under lines of credit	315	47	62
Repayment of borrowings under lines of credit	(384)	(3)	(21)
Proceeds from issuance of long-term debt		200	
Principal payments of long-term debt	(90)	(1,212)	(32)
Proceeds from exercises of stock options and issuances of common stock	274	393	163
Dividends paid	(504)	(402)	(359)
Excess tax benefits from stock-based compensation	52	57	
Common stock repurchases	(1,175)	(825)	(1,210)
Net cash used in financing activities	(1,512)	(1,745)	(1,397)
(Decrease) increase in cash and cash equivalents	(52)	(590)	375
Cash and cash equivalents, beginning of year	1,015	1,605	1,230
Cash and cash equivalents, end of year	\$ 963	\$ 1,015	\$ 1,605

NORTHROP GRUMMAN CORPORATION

\$ in millions	Year ended December 31		
	2007	2006	2005
Reconciliation of Net Income to Net Cash Provided by Operating Activities			
Net Income	\$ 1,790	\$ 1,542	\$ 1,400
Adjustments to reconcile to net cash provided by operating activities			
Depreciation	578	569	556
Amortization of assets	152	136	216
Stock-based compensation	196	184	172
Excess tax benefits from stock-based compensation	(52)	(57)	
Loss on disposals of property, plant, and equipment	19	6	21
Impairment of property, plant, and equipment damaged by Hurricane Katrina		37	61
Amortization of long-term debt premium	(11)	(14)	(18)
Net gain on investments	(23)	(96)	(165)
Decrease (increase) in			
Accounts receivable	(6,487)	(2,222)	(5,314)
Inventoried costs	8	(76)	(234)
Prepaid expenses and other current assets	9	(10)	(85)
Increase (decrease) in			
Progress payments	6,513	2,261	5,249
Accounts payable and accruals	108	181	348
Deferred income taxes	175	183	105
Income taxes payable	(59)	(68)	295
Retiree benefits	(50)	(772)	(22)
Other non-cash transactions, net	38	50	6
Cash provided by continuing operations	2,904	1,834	2,591
Cash (used in) provided by discontinued operations	(14)	(78)	36
Net cash provided by operating activities	\$ 2,890	\$ 1,756	\$ 2,627
Non-Cash Investing and Financing Activities			
Investment in unconsolidated affiliate	\$ 30		
Sales of businesses			
Liabilities assumed by purchaser			\$ 41
Purchase of businesses			
Fair value of assets acquired, including goodwill	\$ 879		\$ 399
Cash paid for businesses purchased	(690)		(361)
Non-cash consideration given for businesses purchased	(53)		
Liabilities assumed	\$ 136		\$ 38
Capital leases	\$ 35		\$ 9

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>\$ in millions, except per share</i>	Year ended December 31		
	2007	2006	2005
Common Stock			
At beginning of year	\$ 346	\$ 347	\$ 364
Common stock repurchased	(15)	(12)	(22)
Employee stock awards and options	7	11	5
At end of year	338	346	347
Paid-in Capital			
At beginning of year	11,346	11,571	12,426
Common stock repurchased	(1,160)	(813)	(1,165)
Employee stock awards and options	475	588	310
At end of year	10,661	11,346	11,571
Retained Earnings			
At beginning of year	6,183	5,055	4,014
Net income	1,790	1,542	1,400
Adjustment to initially apply FIN 48	(66)		
Dividends	(520)	(414)	(359)
At end of year	7,387	6,183	5,055
Accumulated Other Comprehensive Loss			
At beginning of year	(1,260)	(145)	(101)
Other comprehensive income (loss), net of tax	607	67	(44)
Adjustment to initially apply SFAS No. 158, net of tax of \$838		(1,182)	
Adjustment to deferred tax benefit recorded on adoption of SFAS No. 158	(46)		
At end of year	(699)	(1,260)	(145)
Total shareholders' equity	\$ 17,687	\$ 16,615	\$ 16,828
Cash dividends declared per share	\$ 1.48	\$ 1.16	\$ 1.01

The accompanying notes are an integral part of these consolidated financial statements.

NORTHROP GRUMMAN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Northrop Grumman Corporation and its subsidiaries (Northrop Grumman or the company) provide technologically advanced, innovative products, services, and solutions in information and services, aerospace, electronics, and shipbuilding. As prime contractor, principal subcontractor, partner, or preferred supplier, Northrop Grumman participates in many high-priority defense and non-defense technology programs in the U.S. and abroad. Northrop Grumman conducts most of its business with the U.S. Government, principally the Department of Defense (DoD). The company is therefore affected by, among other things, the federal budget process. The company also conducts business with local, state, and foreign governments and makes domestic and international commercial sales.

Principles of Consolidation – The consolidated financial statements include the accounts of Northrop Grumman and its subsidiaries. All intercompany accounts, transactions, and profits among Northrop Grumman and its subsidiaries are eliminated in consolidation.

Accounting Estimates – The company's financial statements are in conformity with accounting principles generally accepted in the United States of America. The preparation thereof requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

Revenue Recognition – As a defense contractor engaging in long-term contracts, the majority of the company's business is derived from long-term contracts for the construction of facilities, production of goods, and services provided to the federal government. In accounting for these contracts, the company extensively utilizes the cost-to-cost and the units-of-delivery measures of the percentage-of-completion method of accounting. Sales under cost-reimbursement contracts and construction-type contracts that provide for delivery at a low volume per year or a small number of units after a lengthy period of time over which a significant amount of costs have been incurred are accounted for using the cost-to-cost measure of the percentage-of-completion method of accounting. Under this method, sales, including estimated earned fees or profits, are recorded as costs are incurred. For most contracts, sales are calculated based on the percentage that total costs incurred bear to total estimated costs at completion. For certain contracts with large up-front purchases of material, sales are calculated based on the percentage that direct labor costs incurred bear to total estimated direct labor costs. Sales under construction-type contracts that provide for delivery at a high volume per year are accounted for using the units-of-delivery measure of the percentage-of-completion method of accounting. Under this method, sales are recognized as deliveries are made to the customer generally using unit sales values in accordance with the contract terms. The company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes that profit over the life of the contract based on deliveries. The company classifies contract revenues as product sales or service revenues depending upon the predominant attributes of the relevant underlying contracts.

Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined and estimated. Amounts representing contract change orders, claims, requests for equitable adjustment, or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in inventories, with any remaining amount reflected in liabilities. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimates had been the original

NORTHROP GRUMMAN CORPORATION

estimates. A significant change in an estimate on one or more contracts could have a material adverse effect on the company's consolidated financial position or results of operations.

Revenue under contracts to provide services to non-federal government customers are generally recognized when services are performed. Service contracts include operations and maintenance contracts, and outsourcing-type arrangements, primarily in the Information Technology segment. Revenue under such contracts is generally recognized on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs incurred under these service contracts are expensed as incurred, except that direct and incremental set-up costs are capitalized and amortized over the life of the agreement. Operating profit related to such service contracts may fluctuate from period to period, particularly in the earlier phases of the contract.

Service contracts that include more than one type of product or service are accounted for under the provisions of Emerging Issues Task Force (EITF) Issue No. 00-21 – *Revenue Arrangements with Multiple Deliverables*. Accordingly, for applicable arrangements, revenue recognition includes the proper identification of separate units of accounting and the allocation of revenue across all elements based on relative fair values.

Research and Development – Company-sponsored research and development activities primarily include independent research and development (IR&D) efforts related to government programs. IR&D expenses are included in general and administrative expenses and are generally allocated to U.S. Government contracts. Company-sponsored research and development expenses totaled \$537 million, \$572 million, and \$536 million in 2007, 2006, and 2005, respectively. Expenses for research and development sponsored by the customer are charged directly to the related contracts.

Product Warranty Costs – The company provides certain product warranties that require repair or replacement of non-conforming items for a specified period of time. Most of the company's product warranties are provided under government contracts, the costs of which are incorporated into contract pricing. Accrued product warranty costs of \$80 million and \$81 million were included in other current liabilities at December 31, 2007, and 2006, respectively.

Environmental Costs – Environmental liabilities are accrued when the company determines it is responsible for remediation costs and such amounts are reasonably estimable. When only a range of amounts is established and no amount within the range is more probable than another, the minimum amount in the range is recorded. Environmental liabilities are recorded on an undiscounted basis. At sites involving multiple parties, the company accrues environmental liabilities based upon its expected share of liability, taking into account the financial viability of other jointly liable parties. Environmental expenditures are expensed or capitalized as appropriate. Capitalized expenditures relate to long-lived improvements in currently operating facilities. The company does not anticipate and record insurance recoveries before collection is probable. At December 31, 2007, and 2006, the company did not have any accrued receivables related to insurance reimbursements or recoveries for environmental matters.

Derivative Financial Instruments – Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value. Changes in the fair value of derivative financial instruments that qualify and are designated as fair value hedges are required to be recorded in income from continuing operations, while changes in the fair value of derivative financial instruments that qualify and are designated as cash flow hedges are recorded in other comprehensive income. The company may use derivative financial instruments to manage its exposure to interest rate risk and to balance its fixed and variable rate long-term debt portfolio. The company does not use derivative financial instruments for trading purposes, nor does it use leveraged financial instruments. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for its counterparties and periodic settlements.

The company enters into foreign currency forward contracts to manage foreign currency exchange risk related to receipts from customers and payments to suppliers denominated in foreign currencies. Gains and losses from such

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transactions are included as contract costs. At December 31, 2007 and 2006, the amount of foreign currency forward contracts outstanding was not material.

The company enters into interest rate swap agreements to benefit from floating interest rates as an offset to the fixed-rate characteristic of certain of its long-term debt instruments. At December 31, 2007, two interest rate swap agreements were in effect and accounted for as fair value hedges designed to convert fixed rates to floating rates. These interest rate swaps each hedge a \$200 million notional amount of U.S. dollar fixed-rate debt, and mature on October 15, 2009, and February 15, 2011, respectively. Any changes in the fair value of the swaps are offset by an equal and opposite change in the fair value of the hedged item; therefore, there is no net impact to the company's reported consolidated results of operations. At December 31, 2007 and 2006, the aggregate net fair value of the swaps was not material. The company may also enter into interest rate swap agreements to offset the variable-rate characteristics of certain variable-rate term loans which may be outstanding from time to time under the company's credit facility (see Note 13).

Other, net – For 2006, Other, net primarily consisted of a pre-tax gain of \$111 million related to the sale of the company's remaining 9.7 million TRW Automotive (TRW Auto) shares. For 2005, Other, net primarily consisted of the sale of 7.3 million TRW Auto shares and approximately 3.4 million Endwave shares, which generated pre-tax gains of \$70 million and \$95 million, respectively.

Income Taxes – Provisions for federal, foreign, state, and local income taxes are calculated on reported financial statement pre-tax income based on current tax law and include the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. If a tax position does not meet the minimum statutory threshold to avoid payment of penalties, the company recognizes an expense for the amount of the penalty in the period the tax position is claimed in the tax return of the company. The company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are recognized as a component of income tax expense. State and local income and franchise tax provisions are allocable to contracts in process and, accordingly, are included in general and administrative expenses.

In accordance with the recognition standards established by Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 – *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*, the company makes a comprehensive review of its portfolio of uncertain tax positions regularly. In this regard, an uncertain tax position represents the company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return or claim, that has not been reflected in measuring income tax expense for financial reporting purposes. Until these positions are sustained by the taxing authorities, the company has not recognized the tax benefits resulting from such positions and reports the tax effects as a liability for uncertain tax positions in its consolidated statements of financial position.

Cash and Cash Equivalents – Cash and cash equivalents include interest-earning debt instruments that mature in three months or less from the date purchased.

Marketable Securities – At December 31, 2007, and 2006, substantially all of the company's investments in marketable securities were classified as available-for-sale or trading. For available-for-sale securities, any unrealized gains and losses are reported as a separate component of shareholders' equity. Unrealized gains and losses on trading securities are included in Other, net in the consolidated statements of income and were not material to any period presented. The fair values of these marketable securities are determined based on prevailing market prices.

Accounts Receivable – Accounts receivable include amounts billed and currently due from customers, amounts currently due but unbilled (primarily related to contracts accounted for under the cost-to-cost measure of the percentage-of-completion method of accounting), certain estimated contract changes, claims or requests for

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equitable adjustment in negotiation that are probable of recovery, and amounts retained by the customer pending contract completion.

Inventoried Costs – Inventoried costs primarily relate to work in process under fixed-price, units-of-delivery contracts. These costs represent accumulated contract costs less the portion of such costs allocated to delivered items. Accumulated contract costs include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, allowable general and administrative expenses. The ratio of inventoried general and administrative expenses to total inventoried costs is estimated to be the same as the ratio of total general and administrative expenses incurred to total contract costs incurred. According to the provisions of U.S. Government contracts, the customer asserts title to, or a security interest in, inventories related to such contracts as a result of contract advances, performance-based payments, and progress payments. General corporate expenses and IR&D allocable to commercial contracts are expensed as incurred. In accordance with industry practice, inventoried costs are classified as a current asset and include amounts related to contracts having production cycles longer than one year. Product inventory primarily consists of raw materials and is stated at the lower of cost or market, generally using the average cost method.

Outsourcing Contract Costs – Costs on outsourcing contracts, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed over the contract life. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition and transition/set-up. The primary types of costs that may be capitalized include labor and related fringe benefits, subcontractor costs, and travel costs.

Depreciable Properties – Property, plant, and equipment owned by the company are depreciated over the estimated useful lives of individual assets. Costs incurred for computer software developed or obtained for internal use are capitalized and classified in machinery and other equipment. Most of these assets are depreciated using declining-balance methods, with the remainder using the straight-line method, with the following lives:

	Years
Land improvements	2-45
Buildings and improvements	2-45
Machinery and other equipment	2-25
Capitalized software costs	3-5
Leasehold improvements	Length of lease

Restricted Cash – Access to proceeds from the Gulf Opportunity Zone Industrial Development Revenue Bonds (see Note 13) is restricted to certain capital expenditures. As such, the amount of unexpended proceeds available is recorded in miscellaneous other assets as restricted cash in the consolidated statements of financial position.

Leases – The company uses its incremental borrowing rate in the assessment of lease classification as capital or operating and defines the initial lease term to include renewal options determined to be reasonably assured. The company conducts operations primarily under operating leases.

Most lease agreements contain incentives for tenant improvements, rent holidays, or rent escalation clauses. For incentives for tenant improvements, the company records a deferred rent liability and amortizes the deferred rent over the term of the lease as a reduction to rent expense. For rent holidays and rent escalation clauses during the lease term, the company records minimum rental expenses on a straight-line basis over the term of the lease. For purposes of recognizing lease incentives, the company uses the date of initial possession as the commencement date, which is generally when the company is given the right of access to the space and begins to make improvements in preparation of intended use.

Goodwill and Other Purchased Intangible Assets – The company performs impairment tests for goodwill as of November 30th of each year, or when evidence of potential impairment exists. When it is determined that

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impairment has occurred, a charge to operations is recorded. Goodwill and other purchased intangible asset balances are included in the identifiable assets of the business segment to which they have been assigned. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective business segments' operating margin. Purchased intangible assets are amortized on a straight-line basis over their estimated useful lives.

Self-Insurance Accruals – Included in other long-term liabilities is approximately \$519 million and \$485 million related to self-insured workers' compensation as of December 31, 2007, and 2006, respectively. The company estimates the required liability of such claims on a discounted basis utilizing actuarial methods based on various assumptions, which include, but are not limited to, the company's historical loss experience and projected loss development factors.

Litigation, Commitments, and Contingencies – Amounts associated with litigation, commitments, and contingencies are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Retirement Benefits – The company sponsors various pension plans covering substantially all employees. The company also provides postretirement benefit plans other than pensions, consisting principally of health care and life insurance benefits, to eligible retirees and qualifying dependents. The liabilities and annual income or expense of the company's pension and other postretirement benefit plans are determined using methodologies that involve several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset return (based on the market-related value of assets), and medical trend (rate of growth for medical costs). The fair values of plan assets are determined based on prevailing market prices or estimated fair value for investments with no available quoted prices. Not all net periodic pension income or expense is recognized in net earnings in the year incurred because it is allocated to production as product costs, and a portion remains in inventory at the end of a reporting period. The company's funding policy for pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust.

Foreign Currency Translation – For operations outside the U.S. that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are generally translated at end-of-period exchange rates. Translation adjustments are not material and are included as a separate component of accumulated other comprehensive loss in consolidated shareholders' equity.

Accumulated Other Comprehensive Loss – The components of accumulated other comprehensive loss are as follows:

<i>\$ in millions</i>	December 31	
	2007	2006
Cumulative translation adjustment	\$ 34	\$ 22
Unrealized gain on marketable securities, net of tax expense of (\$2) in 2007, and (\$1) in 2006	3	2
Unamortized benefit plan costs, net of tax benefit of \$470 as of December 31, 2007 and \$900 at December 31, 2006	(736)	(1,284)
Total accumulated other comprehensive loss	\$ (699)	\$ (1,260)

Financial Statement Reclassification – Certain amounts in the prior year financial statements and related notes have been reclassified to conform to the 2007 presentation of the Interconnect Technologies (ITD) businesses, formerly reported in the Electronics segment, as discontinued operations (see Note 5) and the business operation realignments as of January 1, 2007 (see Note 6).

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2. NEW ACCOUNTING STANDARDS

There have been no changes in the company's critical accounting policies during 2007, except for a change in the measurement and recording of uncertain tax positions in accordance with FIN 48. The expanded disclosure requirements of FIN 48 are presented in Note 12 to the consolidated financial statements.

In January 2008, the FASB issued Statement 133 Implementation Issue No. E23 – *Issues Involving the Application of the Shortcut Method under Paragraph 68*. This implementation issue amends the accounting and reporting standards of paragraph 68 of Statement of Financial Accounting Standards (SFAS) No. 133 – *Accounting for Derivative Instruments and Hedging Activities* to permit use of the shortcut method for (1) swaps that have a nonzero fair value at inception, provided that the nonzero fair value at inception is attributable solely to a bid-ask spread; and (2) hedged items that have a settlement date after the swap trade date. This implementation issue is effective for hedging relationships designated on or after January 1, 2008, although adoption requires reconsideration of existing fair value hedges accounted for using the short-cut method at the date of adoption. Management is currently evaluating the effect that adoption of this implementation issue will have on the company's consolidated financial position and results of operations upon adoption in 2008.

In December 2007, the FASB issued SFAS No. 141(R) – *Business Combinations*. SFAS No. 141(R) expands the definition of a business, thus increasing the number of transactions that will qualify as business combinations. SFAS No. 141(R) requires the acquirer to recognize 100 percent of an acquired business' assets and liabilities, including goodwill and certain contingent assets and liabilities, at their fair values at the acquisition date. Contingent consideration will be recognized at fair value on the acquisition date, with changes in fair value recognized in earnings until settled. Likewise, changes in acquired tax contingencies, including those existing at the date of adoption, will be recognized in earnings if outside the maximum allocation period (generally one year). Transaction-related expenses and restructuring costs will be expensed as incurred, and any adjustments to finalize the purchase accounting allocations, even within the allocation period, will be shown as revised in the future financial statements to reflect the adjustments as if they had been recorded on the acquisition date. Finally, a gain could result in the event of a bargain purchase (acquisition of a business below the fair market value of the assets and liabilities), or a gain or loss in the case of a change in the control of an existing investment. SFAS No. 141(R) will be applied prospectively to business combinations with acquisition dates on or after January 1, 2009. Adoption is not expected to materially impact the company's consolidated financial position or results of operations directly when it becomes effective in 2009, as the only impact that the standard will have on recorded amounts at that time is that related to disposition of uncertain tax positions related to prior acquisitions. Following the date of adoption of the standard, the resolution of such items at values that differ from recorded amounts will be adjusted through earnings, rather than through goodwill. Adoption of this statement is, however, expected to have a significant effect on how acquisition transactions subsequent to January 1, 2009 are reflected in the financial statements.

In December 2007, the FASB issued SFAS No. 160 – *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin (ARB) No. 51*. SFAS No. 160 requires (1) presentation of ownership interests in subsidiaries held by parties other than the parent within equity in the consolidated statements of financial position, but separately from the parent's equity; (2) separate presentation of the consolidated net income attributable to the parent and to the minority interest on the face of the consolidated statements of income; (3) accounting for changes in a parent's ownership interest where the parent retains its controlling financial interest in its subsidiary as equity transactions; (4) initial measurement of the noncontrolling interest retained for any deconsolidated subsidiaries at fair value with recognition of any resulting gains or losses through earnings; and (5) additional disclosures that identify and distinguish between the interests of the parent and noncontrolling owners. SFAS No. 160 is effective for the company beginning January 1, 2009. Adoption of this statement is not expected to have a material impact on the company's consolidated financial position and results of operations when it becomes effective in 2009, but will significantly affect the accounting for noncontrolling (or minority) interests from that date forward.

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In December 2007, the EITF issued EITF Issue No. 07-1 – *Accounting for Collaborative Arrangements*. Issue No. 07-1 defines collaborative arrangements and establishes reporting and disclosure requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF Issue No. 07-1 is effective for the company beginning January 1, 2009. Management is currently evaluating the effect that adoption of this issue will have on the company's consolidated financial position and results of operations when it becomes effective in 2009.

In September 2006, the FASB issued SFAS No. 157 – *Fair Value Measurements*, which defines fair value, establishes a framework for consistently measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the implementation for the non-recurring nonfinancial assets and liabilities from fiscal years beginning after November 15, 2007 to fiscal years beginning after November 15, 2008. The provisions of SFAS No. 157 will be applied prospectively. The statement provisions effective as of January 1, 2008, do not have a material effect on the company's consolidated financial position and results of operations. Management does not believe that the remaining provisions will have a material effect on the company's consolidated financial position and results of operations when they become effective on January 1, 2009.

3. COMMON STOCK DIVIDENDS

On February 21, 2007, the company's Board of Directors approved a 23 percent increase to the quarterly common stock dividends, from \$.30 per share to \$.37 per share, effective with the first quarter 2007 dividends.

On May 17, 2006, the company's Board of Directors approved a 15 percent increase to the quarterly common stock dividends, from \$.26 per share to \$.30 per share, effective with the second quarter 2006 dividends.

On March 23, 2005, the company's Board of Directors approved a 13 percent increase to the quarterly common stock dividends, from \$.23 per share to \$.26 per share, effective with the second quarter 2005 dividends.

4. BUSINESS ACQUISITIONS

2007 – In January 2007, the company acquired Essex Corporation (Essex) for approximately \$590 million in cash, including estimated transaction costs of \$15 million, and the assumption of debt totaling \$23 million. Essex provides signal processing services and products, and advanced optoelectronic imaging for U.S. government intelligence and defense customers. The operating results of Essex are reported in the Mission Systems segment. The assets, liabilities, and results of operations of Essex were not material to the company's consolidated financial position or results of operations, and thus pro-forma information is not presented.

In July 2007, the company and Science Applications International Corporation (SAIC) reorganized their joint venture AMSEC, LLC (AMSEC), by dividing AMSEC along customer and product lines. AMSEC is a full-service supplier that provides engineering, logistics and technical support services primarily to Navy ship and aviation programs. Under the reorganization plan, the company retained the ship engineering, logistics and technical service businesses under the AMSEC name (the AMSEC Businesses) and, in exchange, SAIC received the aviation, combat systems and strike force integration services businesses from AMSEC (the Divested Businesses). This reorganization was treated as a step acquisition for the acquisition of SAIC's interests in the AMSEC Businesses, with the company recognizing a pre-tax gain of \$23 million for the effective sale of its interests in the Divested Businesses. The operating results of the AMSEC Businesses and transaction gain have been reported in the Ships segment. Prior to the reorganization, the company accounted for AMSEC, LLC under the equity method. The assets, liabilities, and results of operations of the AMSEC Businesses were not material to the company's consolidated financial position or results of operations, and thus pro-forma information is not presented. The consolidated financial statements reflect preliminary estimates of the fair value of the assets acquired and liabilities assumed and the related allocation of the purchase price for the entities acquired. Management does not expect adjustments to these estimates, if any, to have a material effect on the company's consolidated financial position or results of operations.

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During the third quarter of 2007, the company acquired Xinetics Inc., reported in the Space Technology segment, and the remaining 61 percent of Scaled Composites, LLC, reported in the Integrated Systems segment, for an aggregate amount of approximately \$100 million in cash. The assets, liabilities, and results of operations of these entities were not material to the company's consolidated financial position or results of operations, and thus pro-forma information is not presented. The consolidated financial statements reflect preliminary estimates of the fair value of the assets acquired and liabilities assumed and the related allocation of the purchase price for the entities acquired. Management does not expect adjustments to these estimates, if any, to have a material effect on the company's consolidated financial position or results of operations.

2006 – There were no significant acquisitions during 2006.

2005 – The company acquired Confluent RF Systems Corporation, reported in the Integrated Systems segment, for \$42 million in cash, which included transaction costs of \$2 million, and Integic Corporation, reported in the Information Technology segment, for \$319 million in cash, which included transaction costs of \$6 million.

5. BUSINESS DISPOSITIONS

2007 – During the second quarter, management announced its decision to exit the remaining ITD business reported within the Electronics segment. Sales for this business for the years ended December 31, 2007, 2006, and 2005, were \$14 million, \$35 million, and \$89 million, respectively. The shut-down was completed during the third quarter of 2007 and costs associated with the shutdown were not material. The results of this business are reported as discontinued operations in the consolidated statements of income, net of applicable income taxes, for all periods presented.

2006 – The company sold the assembly business unit of ITD during the first quarter of 2006 and Winchester Electronics (Winchester) during the second quarter of 2006 for net cash proceeds of \$26 million and \$17 million, respectively, and recognized after-tax gains of \$4 million and \$2 million, respectively, in discontinued operations. The results of operations of the assembly business unit of ITD are reported as discontinued operations in the consolidated statements of income, net of applicable income taxes. The results of operations of Winchester, reported in the Electronics segment, were not material to any of the periods presented and have therefore not been reclassified as discontinued operations.

During the second quarter of 2006, the Enterprise Information Technology business, formerly reported in the Information Technology segment, was shut down and costs associated with the exit activities were not material. The results of operations of this business are reported as discontinued operations in the consolidated statements of income, net of applicable income taxes.

2005 – The company sold Teldix GmbH (Teldix) for \$57 million in cash and recognized an after-tax gain of \$14 million in discontinued operations. The results of operations of Teldix, reported in the Electronics segment, were not material to any of the periods presented and have therefore not been reclassified as discontinued operations.

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Discontinued Operations – Sales and operating results of the businesses classified within discontinued operations were as follows:

<i>\$ in millions</i>	Year ended December 31		
	2007	2006	2005
Sales and service revenues	\$ 14	\$ 191	\$ 743
Loss from discontinued operations	(20)	(39)	(21)
Income tax benefit	7	14	8
Loss from discontinued operations, net of tax	(13)	(25)	(13)
(Loss) gain from divestitures		11	24
Income tax expense		(17)	(7)
(Loss) gain from discontinued operations, net of tax	\$ (13)	\$ (31)	\$ 4

Tax rates on discontinued operations vary from the company's effective tax rate due to the non-deductibility of goodwill for tax purposes. The amounts associated with discontinued operations on the consolidated statements of financial position are not material as of December 31, 2007 and 2006, and have been included in other assets.

6. SEGMENT INFORMATION

The company is aligned into seven reportable segments categorized into four primary businesses. The Mission Systems, Information Technology, and Technical Services segments are presented as Information & Services. The Integrated Systems and Space Technology segments are presented as Aerospace. The Electronics and Ships segments are each presented as separate businesses. Newport News and Ship Systems are aggregated and reported as the Ships business in accordance with the provisions of SFAS No. 131 – *Disclosures about Segments of an Enterprise and Related Information*.

Information & Services

Mission Systems – Mission Systems is a leading global systems integrator of complex, mission-enabling systems for government, military, and business clients. Products and services are focused on the fields of Command, Control, Communications, Computers and Intelligence (C4I), strategic missiles, missile and air defense, airborne reconnaissance, intelligence management and processing, and decision support systems.

Information Technology – Information Technology is a premier provider of IT systems engineering and systems integration for the DoD, national intelligence, federal, civilian, state and local agencies, and commercial customers.

Technical Services – Technical Services is a leading provider of logistics, infrastructure, and sustainment support, while also providing a wide array of technical services including training and simulation.

Aerospace

Integrated Systems – Integrated Systems is a leader in the design, development, and production of airborne early warning, electronic warfare and surveillance systems, and battlefield management systems, as well as manned and unmanned tactical and strike systems.

Space Technology – Space Technology develops and integrates a broad range of systems at the leading edge of space, defense, and electronics technology. The segment supplies products primarily to the U.S. Government that play an important role in maintaining the nation's security and leadership in science and technology. Space Technology's business areas focus on the design, development, manufacture, and integration of satellite systems and subsystems, electronic and communications payloads, and high energy laser systems and subsystems.

Electronics

Electronics is a leading designer, developer, manufacturer and integrator of a variety of advanced electronic and maritime systems for national security and select non-defense applications. Electronics provides systems to

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U.S. and international customers for such applications as airborne surveillance, aircraft fire control, precision targeting, electronic warfare, automatic test equipment, inertial navigation, integrated avionics, space sensing, intelligence processing, air traffic control, air and missile defense, communications, mail processing, biochemical detection, ship bridge control, and shipboard components.

Ships

Ships is the nation's sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines for the U.S. Navy. Ships is also one of the nation's leading full service systems providers for the design, engineering, construction, and life cycle support of major surface ships for the U.S. Navy, U.S. Coast Guard, international navies, and for commercial vessels of all types.

Summary Segment Financial Information

U.S. Government Sales – In the following table of segment and major customer data, revenue from the U.S. Government includes revenue from contracts for which Northrop Grumman is the prime contractor as well as those for which the company is a subcontractor and the ultimate customer is the U.S. Government.

Foreign Sales – Direct foreign sales amounted to approximately \$1.8 billion, \$1.6 billion, and \$1.7 billion, or 5.5 percent, 5.2 percent, and 5.5 percent of total revenue for the years ended December 31, 2007, 2006, and 2005, respectively.

Discontinued Operations – The company's discontinued operations are excluded from all of the data elements in the following tables, except for assets by segment.

Assets – Substantially all of the company's assets are located or maintained in the United States.

Realignments – The company, from time to time, acquires or disposes of businesses, and realigns contracts, programs or business areas among and within its operating segments that possess similar customers, expertise, and capabilities. These realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services. In January 2007, certain programs and business areas were transferred between Information Technology, Mission Systems, Space Technology, and Technical Services. The sales and segment operating margin in the following tables have been revised, where applicable, to reflect these realignments for all periods presented.

Subsequent Realignments – In January 2008, the Newport News and Ship Systems sectors were realigned into a single segment called Northrop Grumman Shipbuilding to enable the company to more effectively utilize its shipbuilding assets and deploy its talented shipbuilders, processes, technologies, production facilities and planned capital investment to meet customer needs. This realignment had no impact on the company's consolidated financial position, results of operations, cash flows, or segment reporting.

Also in January 2008, the company announced the transfer of certain programs and assets from the Mission Systems segment to the Space Technology segment, effective July 1, 2008. This transfer will allow Mission Systems to focus on the rapidly growing command, control, communications, computers, intelligence, surveillance, and reconnaissance business, and the missiles business will be an integrated element of the company's Aerospace business growth strategy. In addition, certain Electronics businesses were transferred to Mission Systems effective January 2008. The transfer of these businesses is not expected to have a material effect on the company's consolidated financial position, results of operations, or cash flows.

These subsequent realignments have not been reflected in any of the accompanying financial information.

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Results of Operations By Segment and Major Customer

<i>\$ in millions</i>	Year ended December 31		
	2007	2006	2005
Sales and Service Revenues			
Information & Services			
Mission Systems			
United States Government	\$ 5,441	\$ 5,021	\$ 5,019
Other customers	89	54	46
Intersegment sales	401	419	429
	5,931	5,494	5,494
Information Technology			
United States Government	3,298	3,063	2,921
Other customers	1,042	761	683
Intersegment sales	146	138	132
	4,486	3,962	3,736
Technical Services			
United States Government	1,793	1,483	1,282
Other customers	92	103	80
Intersegment sales	292	272	255
	2,177	1,858	1,617
Aerospace			
Integrated Systems			
United States Government	4,789	5,277	5,272
Other customers	205	169	170
Intersegment sales	73	54	47
	5,067	5,500	5,489
Space Technology			
United States Government	3,022	2,800	2,785
Other customers	67	87	66
Intersegment sales	44	36	15
	3,133	2,923	2,866
Electronics			
United States Government	4,608	4,112	4,015
Other customers	1,798	1,872	1,813
Intersegment sales	500	559	685
	6,906	6,543	6,513
Ships			
United States Government	5,749	5,263	5,727
Other customers	25	48	57
Intersegment sales	14	10	2
	5,788	5,321	5,786
Intersegment eliminations	(1,470)	(1,488)	(1,523)
Total sales and service revenues	\$ 32,018	\$ 30,113	\$ 29,978

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Other Financial Information

\$ in millions	Year ended December 31		
	2007	2006	2005
Operating Margin			
Information & Services			
Mission Systems	\$ 566	\$ 519	\$ 424
Information Technology	329	342	322
Technical Services	120	120	100
Aerospace			
Integrated Systems	591	551	499
Space Technology	261	245	219
Electronics	813	754	709
Ships	538	393	249
Intersegment eliminations	(115)	(117)	(101)
Total Segment Operating Margin	3,103	2,807	2,421
Non-segment factors affecting operating margin			
Unallocated expenses	(224)	(306)	(200)
Net pension adjustment	127	(37)	(21)
Total operating margin	\$ 3,006	\$ 2,464	\$ 2,200

Unallocated Expenses – Unallocated expenses includes the portion of corporate expenses not considered allowable or allocable under applicable U.S. Government Cost Accounting Standards (CAS) regulations and the Federal Acquisition Regulation, and therefore not allocated to the segments, such as management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses.

Net Pension Adjustment – The net pension adjustment reflects the difference between pension expense determined in accordance with accounting principles generally accepted in the United States of America and pension expense allocated to the operating segments determined in accordance with CAS.

\$ in millions	December 31,	
	2007	2006
Assets		
Information & Services		
Mission Systems	\$ 5,856	\$ 4,789
Information Technology	3,576	3,289
Technical Services	1,133	1,108
Aerospace		
Integrated Systems	2,217	2,202
Space Technology	3,993	4,453
Electronics	5,315	5,454
Ships	6,874	6,946
Segment assets	28,964	28,241
Corporate	4,409	3,768
Total assets	\$ 33,373	\$ 32,009

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Other Financial Information (Continued)

\$ in millions	Year ended December 31		
	2007	2006	2005
Capital Expenditures			
Information & Services			
Mission Systems	\$ 43	\$ 49	\$ 70
Information Technology	42	32	35
Technical Services	9	4	5
Aerospace			
Integrated Systems	100	119	142
Space Technology	108	103	107
Electronics	124	130	165
Ships	247	287	266
Corporate	12	13	33
Total capital expenditures	\$ 685	\$ 737	\$ 823
Depreciation and Amortization			
Information & Services			
Mission Systems	\$ 59	\$ 40	\$ 66
Information Technology	64	46	49
Technical Services	7	7	8
Aerospace			
Integrated Systems	108	110	102
Space Technology	127	126	133
Electronics	180	211	247
Ships	170	153	155
Corporate	15	12	12
Total depreciation and amortization	\$ 730	\$ 705	\$ 772

7. EARNINGS PER SHARE

Basic Earnings Per Share – Basic earnings per share from continuing operations are calculated by dividing income from continuing operations available to common shareholders by the weighted-average number of shares of common stock outstanding during each period.

Diluted Earnings Per Share – Diluted earnings per share include the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans, and for 2007 and 2006, 6.4 million dilutive shares from the company's mandatorily redeemable convertible series B preferred stock (Note 14). The dilutive effect of these potential common stock instruments totaled 12.6 million, 12.9 million, and 6.7 million shares for the years ended December 31, 2007, 2006, and 2005, respectively. The weighted-average diluted shares outstanding for the years ended December 31, 2007, 2006, and 2005, exclude stock options to purchase approximately 59 thousand shares, 8 thousand shares, and 4 million shares, respectively, because such options have an exercise price in excess of the average market price of the company's common stock during the year.

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Diluted earnings per share from continuing operations are calculated as follows:

<i>in millions, except per share</i>	December 31,		
	2007	2006	2005
Diluted Earnings Per Share From Continuing Operations			
Income from continuing operations	\$ 1,803	\$ 1,573	\$ 1,396
Add dividends on mandatorily redeemable convertible preferred stock	24	24	
Income from continuing operations available to common shareholders	\$ 1,827	\$ 1,597	\$ 1,396
Weighted-average common shares outstanding	341.7	345.7	356.5
Dilutive effect of stock options, awards, and mandatorily redeemable convertible preferred stock	12.6	12.9	6.7
Weighted-average diluted common shares outstanding	354.3	358.6	363.2
Diluted earnings per share from continuing operations	\$ 5.16	\$ 4.46	\$ 3.84

Share Repurchases – The table below summarizes the company's share repurchases beginning January 1, 2005:

Authorization Date	Amount	Average	Total	Date Completed	Shares Repurchased		
	Authorized (in billions)	Price Per Share	Retired (in millions)		(in millions)		
					2007	2006	2005
October 26, 2004	\$ 1.0	\$ 54.83	18.2	September 2005			12.7
October 24, 2005	1.5	65.08	23.0	February 2007	2.3	11.6	9.1
December 14, 2006	1.0	75.96	13.1	November 2007	13.1		
December 20, 2007	2.5						
					15.4	11.6	21.8

As part of the share repurchase programs, the company has entered into four separate accelerated share repurchase agreements since November 2005, with two different banks (the Banks) to repurchase shares of common stock. In each case, shares were immediately borrowed by the Banks that were then sold to and canceled by the company. Subsequently, shares were purchased in the open market by the Banks to settle their share borrowings. Under these arrangements, the cost of the company's share repurchases was subject to adjustment based on the actual cost of the shares subsequently purchased by the Banks. If an additional amount was owed by the company upon settlement, the price adjustment could have been settled, at the company's option, in cash or in shares of common stock.

The table below summarizes the accelerated share repurchase transactions:

Agreement Date	Shares	Completion Date	Final Average Purchase Price Per Share	Dollar Amount of Shares
	Repurchased (in millions)			Repurchased (in millions)
November 4, 2005	9.1	March 1, 2006	\$ 59.05	\$ 537
March 6, 2006	11.6	May 26, 2006	68.01	788
February 21, 2007	8.0	June 7, 2007	73.86	592
July 30, 2007	6.5	September 17, 2007	77.27	502

Share repurchases take place at management's discretion or under pre-established non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

As of December 31, 2007, the company has authorization to repurchase \$2.5 billion shares of its common stock.

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8. ACCOUNTS RECEIVABLE, NET

Unbilled amounts represent sales for which billings have not been presented to customers at year-end. These amounts are usually billed and collected within one year. Progress payments are received on a number of fixed-price contracts.

Accounts receivable at December 31, 2007, are expected to be collected in 2008, except for approximately \$262 million due in 2009 and \$118 million due in 2010 and later.

Allowances for doubtful amounts mainly represent estimates of overhead costs which may not be successfully negotiated and collected.

Accounts receivable were composed of the following:

<i>\$ in millions</i>	December 31,	
	2007	2006
Due From U.S. Government, Long-Term Contracts		
Billed	\$ 1,158	\$ 1,054
Unbilled	38,867	33,004
Progress payments received	(37,477)	(31,637)
	2,548	2,421
Due From Other Customers, Long-Term Contracts		
Billed	305	212
Unbilled	3,228	2,975
Progress payments received	(2,712)	(2,390)
	821	797
Total due, long-term contracts	3,369	3,218
Trade And Other Accounts Receivable		
Due from U.S. Government	544	477
Due from other customers	472	233
Progress payments received	(286)	(58)
Total due, trade and other	730	652
	4,099	3,870
Allowances for doubtful amounts	(286)	(308)
Total accounts receivable, net	\$ 3,813	\$ 3,562

9. INVENTORIED COSTS, NET

Inventoried costs were composed of the following:

<i>\$ in millions</i>	December 31,	
	2007	2006
Production costs of contracts in process	\$ 1,910	\$ 1,951
General and administrative expenses	172	184
	2,082	2,135
Progress payments received	(1,348)	(1,226)
	734	909
Product inventory	311	267
Total inventoried costs, net	\$ 1,045	\$ 1,176

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10. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

Goodwill and other purchased intangible assets are included in the identifiable assets of the segment to which they have been assigned. Impairment tests are performed at least annually and more often as circumstances require. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective segment's operating margin. The annual impairment test for all segments was performed as of November 30, 2007, with no indication of impairment. In performing the goodwill impairment tests, the company uses a discounted cash flow approach corroborated by comparative market multiples, where appropriate, to determine the fair value of reporting units.

The changes in the carrying amounts of goodwill during 2007 and 2006, are as follows:

<i>\$ in millions</i>	Mission Systems	Information Technology	Technical Services	Integrated Systems	Space Technology	Electronics	Ships	Total
Balance as of January 1, 2006	\$ 4,256	\$ 2,649		\$ 992	\$ 3,295	\$ 2,575	\$ 3,616	\$ 17,383
Goodwill transferred due to segment realignment	(336)	(403)	\$ 792	(13)		(40)		—
Fair value adjustments to net assets acquired	(37)	(27)	(5)	(3)	(41)	(19)	(32)	(164)
Balance as of December 31, 2006	3,883	2,219	787	976	3,254	2,516	3,584	17,219
Goodwill transferred due to segment realignment	346		34		(380)			—
Goodwill acquired	522			47	37		57	663
Adjustment to initially apply FIN 48	(22)	(7)	(3)		(18)	(1)	(12)	(63)
Fair value adjustments to net assets acquired	(52)	(28)	(8)	(2)	(41)	(1)	(15)	(147)
Balance as of December 31, 2007	\$ 4,677	\$ 2,184	\$ 810	\$ 1,021	\$ 2,852	\$ 2,514	\$ 3,614	\$ 17,672

Segment Realignment – Effective in January 2007, the Software Defined Radios business area was transferred from Space Technology to Mission Systems and Technical Services. As a result of this realignment, goodwill of approximately \$380 million was reallocated among these three segments. Effective January 1, 2006, the company realigned businesses among four of its operating segments to form a new segment. As a result of this realignment, goodwill of approximately \$792 million was reallocated among these five segments.

Fair Value Adjustments to Net Assets Acquired – For 2007, the fair value adjustments were primarily due to the favorable settlement of Internal Revenue Service (IRS) audits and a claim for a tax refund. For 2006, the fair value adjustments were primarily due to the favorable settlement of IRS audits and the realization of additional capital loss carryforward tax assets.

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Purchased Intangible Assets

The table below summarizes the company's aggregate purchased intangible assets as follows:

<i>\$ in millions</i>	December 31, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	\$ 2,661	\$ (1,616)	\$ 1,045	\$ 2,594	\$ (1,487)	\$ 1,107
Other purchased intangibles	100	(71)	29	100	(68)	32
Total	\$ 2,761	\$ (1,687)	\$ 1,074	\$ 2,694	\$ (1,555)	\$ 1,139

The company's purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an aggregate weighted-average period of 21 years. Aggregate amortization expense for 2007, 2006, and 2005, was \$132 million, \$134 million, and \$216 million, respectively.

The table below shows expected amortization for purchased intangibles as of December 31, 2007, for each of the next five years:

<i>\$ in millions</i>	
Year ending December 31	
2008	\$ 122
2009	112
2010	92
2011	54
2012	52

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amounts and the related estimated fair values of the company's financial instruments at December 31 are as follows:

<i>\$ in millions</i>	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 963	\$ 963	\$ 1,015	\$ 1,015
Investments in marketable securities	258	258	208	208
Cash surrender value of life insurance policies	315	315	290	290
Short-term notes payable	(26)	(26)	(95)	(95)
Long-term debt	(4,029)	(4,488)	(4,067)	(4,562)
Mandatorily redeemable preferred stock	(350)	(510)	(350)	(459)
Interest rate swaps	4	4	(8)	(8)
Foreign currency forward contracts	4	4		

Short-Term Instruments – For cash and cash equivalents and amounts borrowed under the company's short-term credit lines, the carrying amounts approximate fair value, due to the short-term nature of these items.

Investments in Marketable Securities – The company holds a portfolio of securities, primarily consisting of equity securities that are classified as trading.

Cash Surrender Value of Life Insurance Policies – The company maintains whole life insurance policies on a group of executives in connection with deferred compensation arrangements. These policies are recorded at their cash

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surrender value as determined by the insurance carrier. Additionally, the company has policies with split dollar arrangements which are recorded at the lesser of their cash surrender value or premiums paid. The amounts associated with these policies are recorded in miscellaneous other assets in the consolidated statements of financial position.

Long-Term Debt – The fair value of the long-term debt was calculated based on interest rates available for debt with terms and due dates similar to the company's existing debt arrangements.

Mandatorily Redeemable Preferred Stock – The fair value of the mandatorily redeemable preferred stock was calculated based on the closing market price quoted on the New York Stock Exchange at December 31, 2007, and 2006, respectively.

Interest Rate Swaps – The company has from time to time entered into interest rate swap agreements to mitigate interest rate risk. As described in Note 1, two interest rate swap agreements were in effect at December 31, 2007, and 2006.

Foreign Currency Forward Contracts – The company enters into foreign currency forward contracts to manage foreign currency exchange risk related to receipts from customers and payments to suppliers denominated in foreign currencies. Gains and losses from such transactions are included as contract costs.

12. INCOME TAXES

The company's effective tax rates on income from continuing operations were 33 percent, 31 percent, and 32 percent for the years ended December 31, 2007, 2006, and 2005, respectively. During 2007, the company reached a partial settlement agreement with the IRS regarding its audit of the company's tax years ended December 31, 2001 through 2003 (see below). During 2006, the company reached final approval with the IRS regarding its audit of the company's B-2 program for the years ended December 31, 1997 through December 31, 2000. As a result, during 2007 and 2006, the company recognized net tax benefits of \$22 and \$48 million, respectively, due to the reversal of previously established expense provisions. The company also recognized a net tax benefit of \$18 million in 2006 related to tax credits associated with qualified wages paid to employees affected by Hurricane Katrina.

Income tax expense, both federal and foreign, consisted of the following:

<i>\$ in millions</i>	Year ended December 31		
	2007	2006	2005
Income Taxes on Continuing Operations			
Currently Payable			
Federal income taxes	\$ 671	\$ 528	\$ 503
Foreign income taxes	42	27	27
Total federal and foreign income taxes currently payable	713	555	530
Change in deferred federal and foreign income taxes	170	158	139
Total federal and foreign income taxes	\$ 883	\$ 713	\$ 669

The geographic source of income from continuing operations before income taxes is as follows:

<i>\$ in millions</i>	Year ended December 31		
	2007	2006	2005
Domestic income	\$ 2,595	\$ 2,214	\$ 1,990
Foreign income	91	72	75
Income from continuing operations before income taxes	\$ 2,686	\$ 2,286	\$ 2,065

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Income tax expense differs from the amount computed by multiplying the statutory federal income tax rate times the income from continuing operations before income taxes due to the following:

<i>\$ in millions</i>	Year ended December 31		
	2007	2006	2005
Income tax expense on continuing operations at statutory rate	\$ 940	\$ 801	\$ 723
Manufacturing deduction	(19)	(9)	(9)
Research tax credit	(14)	(3)	(3)
Extraterritorial income exclusion/foreign sales corporation		(6)	(6)
Wage credit		(18)	
Settlement of IRS appeals cases	(22)	(55)	(27)
Other, net	(2)	3	(9)
Total federal and foreign income taxes	\$ 883	\$ 713	\$ 669

Uncertain Tax Positions – The company adopted the provisions of FIN 48 in 2007. As a result of the implementation of FIN 48, the company made a comprehensive review of its portfolio of uncertain tax positions in accordance with recognition standards established by FIN 48. In this regard, an uncertain tax position represents the company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return or claim, that has not been reflected in measuring income tax expense for financial reporting purposes. Until these positions are sustained by the taxing authorities, the company has not recognized the tax benefits resulting from such positions and reports the tax effects as a liability for uncertain tax positions in its consolidated statements of financial position. The company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are recognized as a component of income tax expense.

As a result of this review, the company adjusted the estimated value of its uncertain tax positions on January 1, 2007, by recognizing additional liabilities totaling \$66 million through a charge to retained earnings, and reducing the carrying value of uncertain tax positions resulting from prior acquisitions by \$63 million through a reduction of goodwill. Upon the adoption of FIN 48 at January 1, 2007, the estimated value of the company's uncertain tax positions was a liability of \$514 million, which includes accrued interest of \$55 million. If the company's positions are sustained by the taxing authority in favor of the company, approximately \$331 million would be treated as a reduction of goodwill, and the balance of \$183 million would reduce the company's effective tax rate.

As of December 31, 2007, the estimated value of the company's uncertain tax positions was a liability of \$554 million, which includes accrued interest of \$68 million. If the company's positions are sustained by the taxing authority in favor of the company, approximately \$394 million would be treated as a reduction of goodwill, and the balance of \$160 million would reduce the company's effective tax rate.

The change in unrecognized tax benefits during 2007, excluding interest, is as follows:

<i>\$ in millions</i>	Unrecognized Tax Benefit
Balance at January 1, 2007	\$ 459
Additions based on tax positions related to the current year	18
Additions for tax positions of prior years	85
Reductions for tax positions of prior years	(57)
Settlements	(17)
Net change in unrecognized tax benefits	29
Balance at December 31, 2007	\$ 488

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In connection with the IRS examination of the company's income tax returns for the years ended 2001 through 2003, the company reached a partial settlement agreement with the IRS at the examination level during 2007. In January 2008, the company reached a tentative partial settlement agreement with IRS Appeals on substantially all of the remaining issues for the audit of the years 2001 – 2003. This agreement is subject to review by the Congressional Joint Committee on Taxation (Joint Committee). Although the final outcome is not determinable until the Joint Committee completes its review, during 2008, it is reasonably possible that a reduction to unrecognized tax benefits of up to \$59 million may occur, which could result in a reduction to tax expense of \$10 million. Also as part of the tentative partial agreement, the company anticipates that the net capital loss carryforward benefit will be reduced by \$346 million.

In addition, pursuant to the company's merger with TRW in December 2002, the company is liable for tax deficiencies of TRW and its subsidiaries prior to the merger. The IRS examined the TRW income tax returns for the years ended 1999 through the date of the merger and asserted tax deficiencies for those years to which the company took exception. The 1999 through 2002 TRW audit deficiencies are currently under consideration at IRS Appeals. In January 2008 the company and the IRS reached a tentative agreement with respect to the proposed tax deficiencies. Although the final outcome is not determinable until the Joint Committee completes its review, during 2008 it is reasonably possible that a reduction to unrecognized tax benefits of up to \$82 million may occur, all of which would result in a reduction to goodwill.

The company's federal tax returns for the years 2004 through 2006 are currently under examination by the IRS. In addition, open tax years related to state and foreign jurisdictions remain subject to examination but are not considered material.

Although the company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than the company's accrued position. Accordingly, additional provisions on federal, foreign and state tax related matters could be recorded in the future as revised estimates are made or the underlying matters are effectively settled or otherwise resolved.

During the year ended December 31, 2007, the company recorded approximately \$14 million for tax-related interest and penalties.

Deferred Income Taxes – Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax purposes. Such amounts are classified in the consolidated statements of financial position as current or noncurrent assets or liabilities based upon the classification of the related assets and liabilities.

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The tax effects of significant temporary differences and carryforwards that gave rise to year-end deferred federal, state and foreign tax balances, as presented in the consolidated statements of financial position, are as follows:

<i>\$ in millions</i>	December 31,	
	2007	2006
Deferred Tax Assets		
Retirement benefit plan expense	\$ 610	\$ 1,067
Provision for accrued liabilities	796	693
Tax credits and carryforwards		
Capital loss	592	1,120
Foreign income tax credit		180
Other	462	415
Gross deferred tax assets	2,460	3,475
Less valuation allowance	(592)	(1,300)
Net deferred tax assets	1,868	2,175
Deferred Tax Liabilities		
Provision for accrued liabilities	61	37
Contract accounting differences	284	
Purchased intangibles	327	292
Depreciation and amortization	418	533
Goodwill amortization	505	444
Gross deferred tax liabilities	1,595	1,306
Total net deferred tax assets	\$ 273	\$ 869

Net deferred tax assets (liabilities) as presented in the consolidated statements of financial position are as follows:

<i>\$ in millions</i>	December 31,	
	2007	2006
Net current deferred tax assets	\$ 542	\$ 706
Net non-current deferred tax assets	65	165
Net current deferred tax liabilities	(4)	(2)
Net non-current deferred tax liabilities	(330)	
Total net deferred tax assets	\$ 273	\$ 869

Foreign Income – Deferred income taxes have not been provided on accumulated undistributed earnings of foreign subsidiaries of \$358 million at December 31, 2007, as the company intends to permanently reinvest these earnings, thereby indefinitely postponing their remittance. Should these earnings be distributed in the form of dividends or otherwise, the distributions would be subject to U.S. federal income tax at the statutory rate of 35 percent, less foreign tax credits applicable to such distributions, if any. In addition, such distributions would be subject to withholding taxes in the various tax jurisdictions.

Tax Carryforwards – The company has a capital loss tax carryforward at December 31, 2007, against which a full valuation allowance has been recorded. The majority of the capital loss carryforward, which primarily arose from the sale of TRW Auto, will expire in 2008. In connection with the partial settlement agreement reached during 2007 for the tax return years ended 2001 through 2003, the capital loss carryforward and related valuation allowance decreased by \$528 million during 2007. Future reductions to the valuation allowance resulting from the recognition of tax benefits, if any, will reduce goodwill. During 2007, foreign income tax credit carryforward

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items of \$180 million were utilized and, as a result, the foreign tax credit carryforward and the associated valuation allowance were reversed.

13. NOTES PAYABLE TO BANKS AND LONG-TERM DEBT

Lines of Credit – The company has available short-term credit lines in the form of money market facilities with several banks. The amount and conditions for borrowing under these credit lines depend on the availability and terms prevailing in the marketplace. No fees or compensating balances are required for these credit facilities.

Credit Facility – In August of 2005, the company entered into a credit agreement which provides for a five-year revolving credit facility in an aggregate principal amount of \$2 billion. The credit facility permits the company to request additional lending commitments from the lenders under the agreement or other eligible lenders under certain circumstances, and thereby increase the aggregate principal amount of the lending commitments under the agreement by up to an additional \$500 million. The agreement provides for swingline loans and letters of credit as sub-facilities for the credit facilities provided for in the agreement. Borrowings under the credit facility bear interest at various rates, including the London Interbank Offered Rate, adjusted based on the company's credit rating, or an alternate base rate plus an incremental margin. The credit facility also requires a facility fee based on the daily aggregate amount of commitments (whether or not utilized) and the company's credit rating level. The company's credit agreement contains certain financial covenants relating to a maximum debt to capitalization ratio, and certain restrictions on additional asset liens, unless permitted by the agreement. In August of 2007, the company entered into an amended and restated credit agreement amending the company's 2005 credit agreement. The agreement extends the maturity date of the credit facility from August 5, 2010 to August 10, 2012 and provides improved pricing terms, reduced facility fees, and full availability of the facility for letters of credit. At December 31, 2007, and 2006, there was no balance outstanding under this facility. There was a maximum of \$350 million borrowed under this facility during 2007 and no borrowings during 2006. As of December 31, 2007, the company was in compliance with all covenants.

Concurrent with the effectiveness of the 2005 credit agreement, the prior credit agreement, for \$2.5 billion, was terminated. No principal or interest was outstanding or accrued and unpaid under the prior credit agreement on its termination date.

Gulf Opportunity Zone Industrial Development Revenue Bonds – In December 2006, Ships entered into a loan agreement with the Mississippi Business Finance Corporation (MBFC) under which Ships received access to \$200 million from the issuance of Gulf Opportunity Zone Industrial Development Revenue Bonds by the MBFC. The loan accrues interest payable semi-annually at a fixed rate of 4.55 percent per annum. The company's obligation related to these bonds is recorded in long-term debt in the consolidated statements of financial position. The bonds are subject to redemption at the company's discretion on or after December 1, 2016, and will mature on December 1, 2028. The bond issuance proceeds must be used to finance the construction, reconstruction, and renovation of the company's interest in certain ship manufacturing and repair facilities, or portions thereof, located in the state of Mississippi. As of December 31, 2007 and 2006, approximately \$140 million and \$73 million, respectively, was used by Ships and the remaining \$60 million and \$127 million, respectively, was recorded in miscellaneous other assets as restricted cash in the consolidated statements of financial position. Repayment of the bonds is guaranteed by the company.

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Long-term debt consisted of the following:

<i>\$ in millions</i>	December 31,	
	2007	2006
Notes and debentures due 2008 to 2036, rates from 6.25% to 9.375%	\$ 3,705	\$ 3,777
Other indebtedness due 2008 to 2028, rates from 4.55% to 8.5%	324	290
Total long-term debt	4,029	4,067
Less current portion	111	75
Long-term debt, net of current portion	\$ 3,918	\$ 3,992

Indentures underlying long-term debt issued by the company or its subsidiaries contain various restrictions with respect to the issuer, including one or more restrictions relating to limitations on liens, sale-leaseback arrangements, and funded debt of subsidiaries.

Maturities of long-term debt as of December 31, 2007, are as follows:

<i>\$ in millions</i>	
Year Ending December 31	
2008	\$ 111
2009	473
2010	91
2011	773
2012	3
Thereafter	2,538
Total principal payments	3,989
Unamortized premium on long-term debt, net of discount	40
Total long-term debt	\$ 4,029

The premium on long-term debt primarily represents non-cash fair market value adjustments resulting from acquisitions, which are amortized over the life of the related debt.

14. MANDATORILY REDEEMABLE SERIES B CONVERTIBLE PREFERRED STOCK

The company issued 3.5 million shares of mandatorily redeemable Series B convertible preferred stock in April 2001. Each share of Series B preferred stock has a liquidation value of \$100 per share. The liquidation value, plus accrued but unpaid dividends, is payable on April 4, 2021, the mandatory redemption date. The company has the option to redeem all, but not less than all, of the shares of Series B preferred stock at any time after seven years from the date of issuance for a number of shares of the company's common stock equal to the liquidation value plus accrued and unpaid dividends divided by the current market price of common stock determined in relation to the date of redemption. Under this option, had the redemption taken place at December 31, 2007, each share would have been converted into 1.261 shares of common stock. Each share of preferred stock is convertible, at any time, at the option of the holder into the right to receive shares of the company's common stock. Initially, each share was convertible into .911 shares of common stock, subject to adjustment in the event of certain dividends and distributions, a stock split, a merger, consolidation or sale of substantially all of the company's assets, a liquidation or distribution, and certain other events. Had the conversion taken place at December 31, 2007, each share would have been converted into 1.822 shares of common stock. Holders of preferred stock are entitled to cumulative annual cash dividends of \$7 per share, payable quarterly. Upon liquidation of the company, each share of preferred stock is entitled to a liquidation preference before any distribution may be made on the company's common stock or any series of capital stock that is junior to the Series B preferred stock. In the event of a change in control of the company, holders of Series B preferred stock

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also have specified exchange rights into common stock of the company or into specified securities or property of another entity participating in the change in control transaction.

As of December 31, 2007, 10 million shares of preferred stock are authorized, of which 3.5 million shares designated as Series B preferred are issued and outstanding. No other shares of preferred stock are issued and outstanding.

Subsequent Event – On February 20, 2008, the company's Board of Directors approved the redemption of the Series B convertible preferred stock on April 4, 2008.

15. LITIGATION

U.S. Government Investigations and Claims – Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts.

As previously disclosed, in October 2005, the U.S. Department of Justice and a restricted U.S. Government customer apprised the company of potential substantial claims relating to certain microelectronic parts produced by the Space and Electronics Sector of former TRW Inc., now a component of the company. The relationship, if any, between the potential claims and a civil False Claims Act case that remains under seal in the U.S. District Court for the Central District of California remains unclear to the company. In the third quarter of 2006, the parties commenced settlement discussions. While the company continues to believe that it did not breach the contracts in question and that it acted appropriately in this matter, the company proposed to settle the claims and any associated matters and recognized a pre-tax charge of \$112.5 million in the third quarter of 2006 to cover the cost of the settlement proposal and associated investigative costs. The company extended the offer in an effort to avoid litigation and in recognition of the value of the relationship with this customer. The U.S. Government has not accepted the settlement offer and has advised the company that if settlement is not reached it will pursue its claims through litigation. Because of the highly technical nature of the issues involved and their restricted status and because of the significant disagreement between the company and the U.S. Government as to the U.S. Government's theories of liability and damages (including a material difference between the U.S. Government's damage theories and the company's offer), final resolution of this matter could take a considerable amount of time, particularly if litigation should ensue. If the U.S. Government were to pursue litigation and were to be ultimately successful on its theories of liability and damages, which could be trebled under the Federal False Claims Act, the effect upon the company's consolidated financial position, results of operations, and cash flows would materially exceed the amount provided by the company. Based upon the information available to the company to date, the company believes that it has substantive defenses but can give no assurance that its views will prevail. Accordingly, the ultimate disposition of this matter cannot presently be determined.

As previously disclosed, on May 17, 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Program for eight converted 123-foot patrol boats (the vessels) based on alleged "hull buckling and shaft alignment problems." By letter dated June 5, 2007, the Coast Guard stated that the revocation of acceptance also was based on alleged "nonconforming topside equipment" on the vessels. On August 13, 2007, the company submitted a response to the Coast Guard, maintaining that the revocation of acceptance was improper. In late December 2007, the Coast Guard responded to the company's August submittal and advised Integrated Coast Guard Systems (the contractors' joint venture for performing the Deepwater Program) that the Coast Guard is seeking \$96.1 million from the Joint Venture as a result of the revocation of acceptance of the eight vessels delivered under the 123-foot conversion program. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels which were converted under

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contracts with the company and with a subcontractor to the company. The letter is not a contracting officer's final decision and the company and its joint venture partner and subcontractor are preparing a response. Based upon the information available to the company to date, the company believes that it has substantive defenses but can give no assurance that its views will prevail.

Based upon the available information regarding matters that are subject to U.S. Government investigations, other than as set out above, the company believes, but can give no assurance, that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Litigation – Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. Based upon the information available, the company believes that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

As previously disclosed, the company was a defendant in litigation brought by Cogent Systems, Inc. (Cogent) in Los Angeles Superior Court in California on April 20, 2005, for unspecified damages for alleged unauthorized use of Cogent technology relating to fingerprint recognition. On September 10, 2007, the company and Cogent announced that they had reached an agreement to settle the litigation and settlement documents were executed in the fourth quarter of 2007. Under the terms of the agreement, the company agreed to pay Cogent \$25 million to settle the litigation and \$15 million for a non-exclusive license to use specified Cogent state-of-the-art automated fingerprint identification software in certain existing programs. Substantially all these amounts were charged to expense in 2007. The company and Cogent also agreed to enter into a five-year research and development, service and products agreement, under which the company must purchase from Cogent \$20 million in new products and services over the term of the agreement.

As previously disclosed, the U.S. District Court for the Central District of California consolidated two separately filed Employee Retirement Income Security Act (ERISA) lawsuits, which the plaintiffs seek to have certified as class actions, into the In Re Northrop Grumman Corporation ERISA Litigation. On August 7, 2007, the Court denied plaintiffs' motion for class certification, and the plaintiffs appealed the Court's decision on class certification to the U.S. Court of Appeals for the Ninth Circuit. On October 11, 2007, the Ninth Circuit granted appellate review, which delayed the commencement of trial previously scheduled to begin January 22, 2008. The company believes, but can give no assurance, that the outcome of these matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Insurance Recovery – Property damage from Hurricane Katrina is covered by the company's comprehensive property insurance program. The insurance provider for coverage of property damage losses over \$500 million, Factory Mutual Insurance Company (FM Global), has advised management of a disagreement regarding coverage for certain losses above \$500 million. As a result, the company has taken legal action against the insurance provider as the company believes that its insurance policies are enforceable and intends to pursue all of its available rights and remedies. In August 2007, the district court in which the litigation is pending issued an order finding that the excess insurance policy provided coverage for the company's Katrina related loss. In November 2007, FM Global filed a notice of appeal of the district court's order. Based on the current status of the assessment and claim process, no assurances can be made as to the ultimate outcome of this matter.

Provisions for Legal & Investigative Matters – Litigation accruals are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any exposure to the company may vary from earlier estimates as further facts and circumstances become known.

16. COMMITMENTS AND CONTINGENCIES

Contract Performance Contingencies – Contract profit margins may include estimates of revenues not contractually agreed to between the customer and the company for matters such as contract changes, negotiated settlements,

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claims and requests for equitable adjustment for previously unanticipated contract costs. These estimates are based upon management's best assessment of the underlying causal events and circumstances, and are included in determining contract profit margins to the extent of expected recovery based on contractual entitlements and the probability of successful negotiation with the customer. As of December 31, 2007, the amounts related to the aforementioned items are not material individually or in the aggregate.

In April 2007, the company was notified by the prime contractor on the Wedgetail contract under the Multirole Electronic Scanned Array (MESA) program that it anticipates the prime contractor's delivery dates will be late and this could subject the prime contractor to liquidated damages from the customer. Should liquidated damages be assessed, the company would share in a proportionate amount of those damages to a maximum of approximately \$40 million. As of December 31, 2007, the company has not been notified by the prime contractor as to any claim for liquidated damages. Until such time as additional information is available from the prime contractor, it is not possible to determine the impact to the consolidated financial statements, if any, for this matter.

Environmental Matters – In accordance with company policy on environmental remediation, the estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency, or similarly designated by other environmental agencies. To assess the potential impact on the company's consolidated financial statements, management estimates the total reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that as of December 31, 2007, the range of reasonably possible future costs for environmental remediation sites is \$186 million to \$285 million, of which \$223 million is accrued in other current liabilities. Factors that could result in changes to the company's estimates include: modification of planned remedial actions, increases or decreases in the estimated time required to remediate, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the company may have to incur costs in addition to those already estimated and accrued. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's consolidated financial position, results of operations, or cash flows.

Co-Operative Agreements – In 2003, Ships executed agreements with the states of Mississippi and Louisiana whereby Ships leases facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Ships to these states. As of December 31, 2007, Ships has fully met its obligations under the Mississippi agreement and has met all but one requirement under the Louisiana agreement. Failure by Ships to meet the remaining Louisiana commitment would result in reimbursement by Ships to Louisiana in accordance with the agreement. As of December 31, 2007, Ships expects that the remaining commitment under the Louisiana agreement will be met based on its most recent business plan.

Financial Arrangements – In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company's self-insured workers' compensation plans. At December 31, 2007, there were \$439 million of unused stand-by letters of credit, \$148 million of bank guarantees, and \$538 million of surety bonds outstanding.

The company has also guaranteed a \$200 million loan made to Ships in connection with the Gulf Opportunity Zone Industrial Revenue Bonds issued in December 2006. Under the loan agreement the company guaranteed

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Ships' repayment of the principal and interest to the Trustee. The company also guaranteed payment of the principal and interest by the Trustee to the underlying bondholders. See Note 13.

Indemnifications – The company has retained certain warranty, environmental, income tax, and other potential liabilities in connection with certain divestitures. The settlement of these liabilities is not expected to have a material effect on the company's consolidated financial position, results of operations, or cash flows.

In May 2006, Goodrich Corporation (Goodrich) notified the company of its claims under indemnities assumed by the company in its December 2002 acquisition of TRW that related to the sale by TRW of its Aeronautical Systems business in October 2002. During the fourth quarter of 2007, the company reached a negotiated resolution with Goodrich and paid \$18.5 million in complete release of these claims.

U.S. Government Claims – During the second quarter of 2006, the U.S. Government advised the company of claims and penalties concerning certain potential disallowed costs. The parties are engaged in discussions to enable the company to evaluate the merits of these claims as well as to assess the amounts being claimed. The company does not believe, but can give no assurance, that the outcome of any such matters would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Operating Leases – Rental expense for operating leases, excluding discontinued operations, was \$585 million in 2007, \$548 million in 2006, and \$512 million in 2005. These amounts are net of immaterial amounts of sublease rental income. Minimum rental commitments under long-term noncancellable operating leases as of December 31, 2007, total approximately \$2.1 billion, which are payable as follows: 2008 – \$445 million; 2009 – \$368 million; 2010 – \$293 million; 2011 – \$211 million; 2012 – \$183 million; and thereafter – \$565 million.

Related Party Transactions – For all periods presented, the company had no material related party transactions.

17. IMPACT FROM HURRICANE KATRINA

Background – In August 2005, the company's operations in the Gulf Coast area of the U.S. were significantly impacted by Hurricane Katrina and the company's shipyards in Louisiana and Mississippi sustained significant windstorm damage from the hurricane. As a result of the storm, the company has incurred costs to replace or repair destroyed or damaged assets, suffered losses under its contracts, and incurred substantial costs to clean up and recover its operations. As of the date of the storm, the company had a comprehensive insurance program that provided coverage for, among other things, property damage, business interruption impact on net profitability (referred to in this discussion generally as "lost profits"), and costs associated with clean-up and recovery.

Insurance Coverage Summary – The company's property insurance program at the time of loss was established in two layers of coverage. The primary layer of coverage was provided by a syndicate of leading insurers (the Primary Insurers) and covered losses up to \$500 million. The excess (second) layer of coverage was provided by FM Global (the Secondary Insurer). This excess layer reimburses the company for losses above \$500 million up to the policy limit of approximately \$20 billion. The company has had prior experience with damage from storms and similar events and has had success in obtaining recovery from its insurers for covered damages. Based on its prior experience with processing insurance claims, the company has a well-defined process for developing, analyzing and preparing its claims for insurance recovery.

Accounting for Insurance Recoveries – The company makes various assessments and estimates in determining amounts to record as insurance recoveries, including ascertaining whether damages are covered by insurance and assessing the viability and financial well-being of its insurers. The company and its Primary Insurers reached an arrangement whereby the company submitted detailed requests for reimbursement of its clean-up, restoration and capital asset repair or replacement costs while its overall claim was in the process of being evaluated by the insurers. After such requests were reviewed, progress payments against the overall coverage limits were approved by the insurers. Based on prior experience with insurance recoveries, and in reliance on the acceptance by the

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insurers of the company's claim reimbursement process, the company recognized a receivable from the Primary Insurers as costs were incurred, and offset this receivable with progress payments as received.

In accordance with U.S. government cost accounting regulations affecting the majority of the company's contracts, the cost of insurance premiums for property damage and business interruption coverage, other than "coverage of profit," is an allowable cost that may be charged to long-term contracts. Because the majority of long-term contracts at the shipyards are flexibly-priced, the government customer would benefit from the majority of insurance recoveries in excess of the net book value of damaged assets and the costs for clean-up and recovery. In a similar manner, losses on property damage that are not recovered through insurance are required to be included in the company's overhead pools for allocation to long-term contracts under a systematic process. The company is currently in discussions with its government customers to determine an appropriate methodology to be used to account for these amounts for government contract purposes. The company anticipates that the ultimate outcome of such discussions will not have a material adverse effect on the consolidated financial statements.

The company has full entitlement to insurance recoveries related to lost profits; however, because of uncertainties concerning the ultimate determination of recoveries related to lost profits, in accordance with company policy no such amounts are recognized by the company until they are settled with the insurers. Furthermore, due to the uncertainties with respect to the company's disagreement with the Secondary Insurer, no receivables have been recognized by the company in the accompanying consolidated financial statements for insurance recoveries from the Secondary Insurer.

Insurance Claim – The company's Hurricane Katrina insurance claim is continually being evaluated based on actions to date and an assessment of remaining recovery scope. The company updated its assessment during the fourth quarter of 2007 and, as a result, the company's aggregate claim for insurance recovery as a result of Hurricane Katrina is estimated to be \$1.1 billion, consisting of clean-up and restoration costs of \$278 million, property damages (including the value of destroyed assets not replaced) and other capital expenditures of \$492 million and lost profits of \$318 million. Certain amounts within the overall claim are still in the process of being finalized and the overall value of the claim may change from these amounts.

In June 2007, the company reached a final agreement with all but one of its Primary Insurers under which the insurers agreed to pay their policy limits (less the policy deductible and certain other minor costs). As a result of the agreement regarding the claims from the first layer of coverage, the company received a total insurance recovery for damages to the shipyards of \$466 million reflecting policy limits less certain minor costs. The company is continuing to seek recovery of its claim from the remaining insurer in the first layer that did not participate in the agreement. As a result of the agreement, the company received final cash payments totaling \$113 million in the second quarter of 2007, of which \$62 million has been attributed to the recovery of lost profits and has been included as an adjustment to cost of sales in the Ships segment in the consolidated statement of income. Cumulative proceeds from the agreement have also been used to fund \$126 million in capital expenditures for assets fully or partially damaged by the storm and \$278 million in clean-up and restoration costs. Insurance recoveries received to date have enabled the company to recover the entire net book value of \$98 million of assets totally or partially destroyed by the storm. To the extent that the company is unsuccessful in receiving the full value of its remaining claim relating to capital assets, the company will be responsible for funding the capital expenditures necessary to operate its shipyards. Through December 31, 2007, the company has incurred capital expenditures totaling \$310 million related to assets damaged by Hurricane Katrina.

The company expects that its residual claim will be resolved separately with the remaining insurers in each of its two layers of coverage, and the company has pursued the resolution of its claim with that understanding. The Secondary Insurer has denied coverage for substantial portions of the company's claim and the parties are presently in litigation to resolve this matter. In August 2007, the district court in which the litigation is pending issued an order finding that the excess insurance policy provided coverage for the company's Katrina related loss. The Secondary Insurer has appealed that decision and that appeal is still pending (see Note 15).

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Aside from contract cost adjustments recognized immediately following the hurricane and the subsequent effects of lower contract margins thereafter resulting from hurricane related cost growth, delay and disruption to contracts-in-progress, no other Hurricane Katrina related losses have been, or are expected to be, experienced by the company.

18. RETIREMENT BENEFITS

Plan Descriptions

Pension Benefits – The company sponsors several defined benefit pension plans in the U.S. covering approximately 95 percent of its employees. Pension benefits for most employees are based on the employee's years of service and compensation. It is the policy of the company to fund at least the minimum amount required for all qualified plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into benefit trusts separate from the company. The pension benefit for most employees is based upon criteria whereby employees earn age and service points over their employment period. Ten of the company's 21 domestic qualified plans, which cover approximately 60 percent of all employees, were in a legally defined full-funding limitation status at December 31, 2007.

Defined Contribution Plans – The company also sponsors 401(k) defined contribution plans in which most employees are eligible to participate. Company contributions for most plans are based on a cash matching of employee contributions up to 4 percent of compensation. Certain hourly employees are covered under a target benefit plan. The company also participates in a multiemployer plan for certain of the company's union employees. The company's contributions to these plans for the years ended December 31, 2007, 2006, and 2005, were \$294 million, \$266 million and \$248 million, respectively.

Non-U.S. Benefit Plans – The company sponsors several benefit plans for non-U.S. employees. These plans are designed to provide benefits appropriate to local practice and in accordance with local regulations. Some of these plans are funded using benefit trusts separate from the company.

Medical and Life Benefits – The company provides a portion of the costs for certain health care and life insurance benefits for a substantial number of its active and retired employees. Covered employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Qualifying dependents are also eligible for medical coverage. Approximately 65 percent of the company's current retirees participate in the medical plans. The company reserves the right to amend or terminate the plans at any time. In November 2006, the company adopted plan amendments and communicated to plan participants that it would cap the amount of its contributions to substantially all of its remaining post retirement medical and life benefit plans that were previously not subject to limits on the company's contributions.

In addition to a medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, conformance to a schedule of reasonable fees, the use of managed care providers, and maintenance of benefits with other plans. The plans also provide for a Medicare carve-out, and a maximum lifetime benefit of \$2 million per covered individual. Subsequent to January 1, 2005 (or earlier at some segments), newly hired employees are not eligible for post employment medical and life benefits.

The effect of the Medicare prescription drug subsidy from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 on the company's net periodic postretirement benefit cost for the years ended December 31, 2007, 2006 and 2005, was an increase of \$3 million and a reduction of \$26 million and \$36 million, respectively. The reduction in the accumulated postretirement benefit obligation as a result of the subsidy is \$38 million and \$76 million as of December 31, 2007 and 2006, respectively, based on the impact of the subsidy on the eligible plans.

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Summary Plan Results

The cost to the company of its retirement benefit plans in each of the three years ended December 31 is shown in the following table:

<i>\$ in millions</i>	Pension Benefits			Medical and Life Benefits		
	2007	2006	2005	2007	2006	2005
Components of Net Periodic Benefit Cost						
Service cost	\$ 786	\$ 755	\$ 675	\$ 52	\$ 69	\$ 66
Interest cost	1,250	1,159	1,091	164	183	183
Expected return on plan assets	(1,774)	(1,572)	(1,468)	(58)	(52)	(49)
Amortization of						
Prior service cost (credit)	40	35	53	(65)	(16)	(1)
Net loss from previous years	48	91	59	25	31	27
Other	2					(13)
Net periodic benefit cost	\$ 352	\$ 468	\$ 410	\$ 118	\$ 215	\$ 213

The table below summarizes the 2007 changes of the components of unrecognized benefit plan costs:

<i>\$ in millions</i>	Pension Benefits	Medical and Life Benefits	Total
Changes in Unrecognized Benefit Plan Costs			
Net actuarial gain	\$ (854)	\$ (90)	\$ (944)
Prior service cost (credit)	17	(3)	14
Amortization of			
Prior service (cost) credit	(40)	65	25
Net loss from previous years	(48)	(25)	(73)
Tax benefits related to above items	365	19	384
Changes in unrecognized benefit plan costs	\$ (560)	\$ (34)	\$ (594)

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The following tables set forth the funded status and amounts recognized in the consolidated statements of financial position for the company's defined benefit pension and retiree health care and life insurance benefit plans. Pension benefits data include the qualified plans as well as 21 domestic unfunded non-qualified plans for benefits provided to directors, officers, and certain employees. The company uses a December 31 measurement date for all of its plans. Effective December 31, 2006, the company adopted SFAS No. 158, which requires the recognition of the funded status of a defined benefit pension or postretirement plan in the consolidated statements of financial position.

<i>\$ in millions</i>	Pension Benefits		Medical and Life Benefits	
	2007	2006	2007	2006
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 21,484	\$ 20,692	\$ 2,867	\$ 3,341
Service cost	786	755	52	69
Interest cost	1,250	1,159	164	183
Plan participants' contributions	24	29	84	88
Plan amendments	18	40	(2)	(464)
Actuarial gain	(357)	(119)	(103)	(64)
Benefits paid	(1,157)	(1,112)	(250)	(281)
Acquisitions, divestitures, transfers and other	21	40		(5)
Benefit obligation at end of year	22,069	21,484	2,812	2,867
Change in Plan Assets				
Fair value of plan assets at beginning of year	21,407	18,867	880	780
Gain on plan assets	2,275	2,444	46	95
Employer contributions	342	1,157	191	198
Plan participants' contributions	24	29	84	88
Benefits paid	(1,157)	(1,112)	(250)	(281)
Acquisitions, divestitures, transfers and other		22		
Fair value of plan assets at end of year	22,891	21,407	951	880
Funded status	\$ 822	\$ (77)	\$ (1,861)	\$ (1,987)
Amounts Recognized in the Consolidated Statements of Financial Position				
Non-current assets	\$ 2,033	\$ 1,303	\$ 47	\$ 46
Current liability	(43)	(41)	(68)	(70)
Non-current liability	(1,168)	(1,339)	(1,840)	(1,963)

The following table shows those amounts expected to be recognized in net periodic benefit cost in 2008:

<i>\$ in millions</i>	Pension Benefits	Medical and Life Benefits
Amounts Expected to be Recognized in 2008 Net Periodic Benefit Cost		
Net loss	\$ 25	\$ 22
Prior service cost (credit)	40	(65)

The accumulated benefit obligation for all defined benefit pension plans was \$20.1 billion and \$19.4 billion at December 31, 2007 and 2006, respectively.

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<i>\$ in millions</i>	Pension Benefits		Medical and Life Benefits	
	2007	2006	2007	2006
Amounts Recorded in Accumulated Other Comprehensive Loss				
Net actuarial loss	\$ (975)	(1,877)	\$ (429)	(545)
Prior service cost and net transition obligation	(254)	(277)	452	515
Income tax benefits related to above items	479	890	(9)	10
Unamortized benefit plan costs	\$ (750)	(1,264)	\$ 14	(20)

Amounts for pension plans with accumulated benefit obligations in excess of fair value of plan assets are as follows:

<i>\$ in millions</i>	December 31,	
	2007	2006
Projected benefit obligation	\$ 1,772	\$ 2,055
Accumulated benefit obligation	1,407	1,601
Fair value of plan assets	722	946

The amounts previously disclosed for projected benefit obligation, accumulated benefit obligation and fair value of plan assets as of December 31, 2006 of \$768 million, \$639 million, and \$115 million, respectively, were revised to appropriately include 15 additional plans for which the accumulated benefit obligations exceeded the fair value of plan assets.

Plan Assumptions

On a weighted-average basis, the following assumptions were used to determine the benefit obligations and the net periodic benefit cost:

	Pension Benefits		Medical and Life Benefits	
	2007	2006	2007	2006
Assumptions Used to Determine Benefit Obligation at December 31				
Discount rate	6.22%	5.97%	6.12%	5.91%
Rate of compensation increase	4.25%	4.25%		
Initial health care cost trend rate assumed for the next year			8.00%	8.75%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	5.00%
Year that the rate reaches the ultimate trend rate			2012	2010
Assumptions Used to Determine Benefit Cost for the Year Ended December 31				
Discount rate	5.97%	5.71%	5.91%	5.67%
Expected long-term return on plan assets	8.50%	8.50%	6.75%	6.75%
Rate of compensation increase	4.25%	4.00%		
Initial health care cost trend rate assumed for the next year			8.75%	10.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	5.00%
Year that the rate reaches the ultimate trend rate			2010	2010

The discount rate is determined by calculating, for the most significant plans, the weighted-average yield available on a portfolio of appropriately-rated corporate bonds whose proceeds match the expected benefit payment stream from the plan.

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The assumptions used for pension benefits are consistent with those used for retiree medical and life insurance benefits. The long-term rate of return on plan assets used for the medical and life benefits are reduced to allow for the impact of tax on expected returns as, unlike the pension trust, the earnings of certain VEBA trusts are taxable.

Through consultation with investment advisors, expected long-term returns for each of the plans' strategic asset classes were developed. Several factors were considered, including survey of investment managers' expectations, current market data such as yields/price-earnings ratios, and historical market returns over long periods. Using policy target allocation percentages and the asset class expected returns, a weighted-average expected return was calculated.

In 2007, the company changed the year to reach the ultimate trend rate from 2010 to 2012. Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the initial through the ultimate health care cost trend rates would have the following effects:

<i>\$ in millions</i>	1-Percentage- Point Increase	1-Percentage- Point Decrease
Increase (Decrease) From Change In Health Care Cost Trend Rates To		
Postretirement benefit expense	\$ 9	\$ (9)
Postretirement benefit liability	85	(91)

Plan Assets and Investment Policy

Weighted-average asset allocations at December 31 by asset category are as follows:

	Pension Plan Assets		Medical and Life Benefits Plan Assets	
	2007	2006	2007	2006
Equity securities	48%	57%	74%	74%
Debt securities	34	31	20	22
Real estate	6	4	2	1
Other	12	8	4	3
Total	100%	100%	100%	100%

Plan assets are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long term. The investment goals are (1) to exceed the assumed actuarial rate of return over the long term within reasonable and prudent levels of risk, and (2) to preserve the real purchasing power of assets to meet future obligations. Liability studies are conducted on a regular basis to provide guidance in setting investment goals with an objective to balance risk. Risk targets are established and monitored against acceptable ranges.

All investment policies and procedures are designed to ensure that the plans' investments are in compliance with ERISA. Guidelines are established defining permitted investments within each asset class. Derivatives are used for transitioning assets, asset class rebalancing, managing currency risk, and for management of fixed income and alternative investments. The investment policies for most of the pension plans require that the asset allocation be maintained within the following ranges:

	Asset Allocation Ranges
U.S. equity	30 – 40%
International equity	15 – 25
Long bonds	25 – 35
Real estate and other	10 – 20

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At December 31, 2007, and 2006, plan assets included investments with non-readily determinable fair values, comprised primarily of real estate, private equity investments, and hedge funds, totaling \$4.1 billion and \$2.7 billion, respectively. For these assets, estimates of fair value are determined using the best information available. At December 31, 2007, and 2006, the pension and health and welfare trusts did not hold any Northrop Grumman common stock.

In 2008, the company expects to contribute the required minimum funding level of approximately \$121 million to its pension plans and approximately \$201 million to its other postretirement benefit plans. During 2007 and 2006, the company made voluntary pension contributions of \$200 million and \$800 million, respectively.

It is not expected that any assets will be returned to the company from the benefit plans during 2008.

Benefit Payments

The following table reflects estimated future benefit payments, based upon the same assumptions used to measure the benefit obligation, and includes expected future employee service, as of December 31, 2007:

<i>\$ in millions</i>	Pension Plans	Medical and Life Plans	
	Benefit Payments	Benefit Payments	Subsidy receipts
Year Ending December 31			
2008	\$ 1,176	\$ 215	\$ 11
2009	1,224	221	10
2010	1,281	227	9
2011	1,344	232	8
2012	1,410	234	9
2013 through 2017	8,189	1,233	46

19. STOCK COMPENSATION PLANS**Plan Descriptions**

At December 31, 2007, Northrop Grumman had stock-based compensation awards outstanding under the following plans: the 2001 Long-Term Incentive Stock Plan (2001 LTISP), the 1993 Long-Term Incentive Stock Plan (1993 LTISP), both applicable to employees, and the 1993 Stock Plan for Non-Employee Directors (1993 SPND) and 1995 Stock Plan for Non-Employee Directors (1995 SPND) as amended. All of these plans were approved by the company's shareholders. The company has historically issued new shares to satisfy award grants.

Employee Plans – The 2001 LTISP and the 1993 LTISP permit grants to key employees of three general types of stock incentive awards: Stock Options, Stock Appreciation Rights (SARs), and Stock Awards. Each Stock Option grant is made with an exercise price either at the closing price of the stock on the date of grant (market options) or at a premium over the closing price of the stock on the date of grant (premium options). Stock Options generally vest in 25 percent increments over four years from the grant date under the 2001 LTISP and in years two to five under the 1993 LTISP, and grants outstanding expire ten years after the grant date. No SARs have been granted under either of the LTISPs. Stock Awards, in the form of restricted performance stock rights and restricted stock rights, are granted to key employees without payment to the company. Under the 2001 LTISP, recipients of restricted performance stock rights earn shares of stock, based on financial metrics determined by the Board of Directors in accordance with the plan. If the objectives have not been met at the end of the applicable performance period, up to 100 percent of the original grant for the eight highest compensated employees and up to 70 percent of the original grant for all other recipients will be forfeited. If the financial metrics are met or exceeded during the performance period, all recipients can earn up to 150 percent of the original grant. Beginning in 2007, all members of the Corporate Policy Council could forfeit up to 100 percent of the original 2007 grant, and all recipients could earn up to 200 percent of the original 2007 grant. Restricted stock rights issued under either plan generally vest after three years. Termination of employment can result in forfeiture of some or all of the benefits extended. Of the 50 million shares approved

NORTHROP GRUMMAN CORPORATION

for issuance under the 2001 LTISP, approximately 17 million shares were available for future grants as of December 31, 2007.

Non-Employee Plans – Under the 1993 SPND, half of the retainer fee earned by each director must be deferred into a stock unit account. In addition, directors may defer payment of all or part of the remaining retainer fee, which is placed in a stock unit account until the conclusion of board service. The 1995 SPND provided for annual stock option grants. Effective June 1, 2005, no new grants have been issued from this plan. The 1995 SPND was amended in May 2007 to permit payment of the stock unit portion of the retainer fee described above. Each grant of stock options under the 1995 SPND was made at the closing market price on the date of the grant, was immediately exercisable, and expires ten years after the grant date. At December 31, 2007, approximately 318,000 shares were available for future grants under the 1995 SPND and 25,442 shares were available for future use under the 1993 SPND.

Adoption of New Standard

Prior to January 1, 2006, the company applied Accounting Principles Board Opinion No. 25 – *Accounting for Stock Issued to Employees* and related interpretations in accounting for awards made under the company's stock-based compensation plans. Stock Options granted under the plans had an exercise price equal to or greater than the market value of the common stock on the date of the grant, and accordingly, no compensation expense was recognized. Stock Awards were valued at their fair market value measured at the date of grant, updated periodically using the mark-to-market method, and compensation expense was recognized over the vesting period of the award.

Effective January 1, 2006, the company adopted the provisions of SFAS No. 123R – *Share-Based Payment* (SFAS No. 123R), using the modified-prospective transition method. Under this transition method, compensation expense recognized during the year ended December 31, 2006, included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 – *Accounting for Stock-Based Compensation* (SFAS No. 123), and (b) compensation expense for all share-based awards granted or modified on or after January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. In accordance with the modified-prospective transition method, results for prior periods have not been restated. All of the company's stock award plans are considered equity plans under SFAS No. 123R, and compensation expense recognized as previously described is net of estimated forfeitures of share-based awards over the vesting period. The effect of adopting SFAS No. 123R was not material to the company's income from continuing operations and net income for the year ended December 31, 2006, and the cumulative effect of adoption using the modified-prospective transition method was similarly not material.

Compensation Expense

Total stock-based compensation for the years ended December 31, 2007, 2006, and 2005, was \$196 million, \$202 million, and \$180 million, respectively, of which \$12 million, \$11 million, and \$4 million related to Stock Options and \$184 million, \$191 million, and \$176 million related to Stock Awards, respectively. Tax benefits recognized in the consolidated statements of income for stock-based compensation during the years ended December 31, 2007, 2006, and 2005, were \$77 million, \$71 million, and \$63 million, respectively. In addition, the company realized tax benefits of \$60 million from the exercise of Stock Options and \$78 million from the issuance of Stock Awards in 2007.

Effective January 1, 2006, compensation expense for restricted performance stock rights is estimated based on the grant date fair value and recognized over the vesting period. The fixed 30 percent minimum distribution portion for all but the eight highest compensated employees, and all but the Corporate Policy Council members for 2007 forward, is measured at the grant date fair value and the variable portion is adjusted to the expected distribution at the end of each accounting period. Compensation expense for restricted stock rights is measured at the grant date fair value and recognized over the vesting period.

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Stock Options

The fair value of each of the company's Stock Option awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the company's Stock Option awards is expensed on a straight-line basis over the vesting period of the options, which is generally four years. Expected volatility is based on an average of (1) historical volatility of the company's stock and (2) implied volatility from traded options on the company's stock. The risk-free rate for periods within the contractual life of the Stock Option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. The company uses historical data to estimate forfeitures. The expected term of awards granted is derived from historical experience under the company's stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding.

The significant weighted-average assumptions relating to the valuation of the company's Stock Options for the years ended December 31, 2007, 2006, and 2005, was as follows:

	2007	2006	2005
Dividend yield	2.0%	1.6%	1.8%
Volatility rate	20%	25%	28%
Risk-free interest rate	4.6%	4.6%	4.0%
Expected option life (years)	6	6	6

The weighted-average grant date fair value of Stock Options granted during the years ended December 31, 2007, 2006, and 2005, was \$15, \$17, and \$15 per share, respectively.

Stock Option activity for the year ended December 31, 2007, was as follows:

	Shares Under Option (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$ in millions)
Outstanding at January 1, 2007	19,888	\$ 49	5.0 years	\$ 367
Granted	902	73		
Exercised	(5,879)	49		
Cancelled and forfeited	(28)	43		
Outstanding at December 31, 2007	14,883	\$ 51	4.6 years	\$ 416
Vested and expected to vest in the future at December 31, 2007	14,820	\$ 51	4.6 years	\$ 415
Exercisable at December 31, 2007	13,320	\$ 49	4.1 years	\$ 398
Available for grant at December 31, 2007	11,978			

The total intrinsic value of options exercised during the years ended December 31, 2007, 2006, and 2005, was \$153 million, \$149 million, and \$50 million, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at December 31, 2007 (for outstanding options), less the applicable exercise price.

Stock Awards – Compensation expense for Stock Awards is measured at the grant date based on fair value and recognized over the vesting period. The fair value of Stock Awards is determined based on the closing market price of the company's common stock on the grant date. For purposes of measuring compensation expense, the amount of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. In the table below, the share adjustment resulting from the final performance measure is considered granted in the period that the related grant is vested. During the year ended December 31, 2007, 2.6 million shares of common stock were issued to employees in settlement of

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prior year Stock Awards that were fully vested, with a total value upon issuance of \$199 million and a grant date fair value of \$125 million. In 2008, an additional 2.9 million shares of common stock will be issued to employees that were vested in 2007, with a grant date fair value of \$155 million. During the year ended December 31, 2006, 2.4 million shares of common stock were issued to employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of \$143 million and a grant date fair value of \$133 million. During the year ended December 31, 2005, 1.9 million shares were issued to employees in settlement of prior year Stock Awards that were fully vested, with a total value upon issuance of \$104 million and a grant date fair value of \$77 million. There were 4.2 million and 2.3 million Stock Awards granted for the years ended December 31, 2006, and 2005 with a weighted-average grant date fair value of \$63 and \$54 per share, respectively.

Stock Award activity for the year ended December 31, 2007, was as follows:

	Stock Awards (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2007	7,364	\$ 57	1.3 years
Granted (including performance adjustment on shares vested)	3,584	63	
Vested	(5,520)	50	
Forfeited	(284)	63	
Outstanding at December 31, 2007	5,144	\$ 67	1.3 years
Available for grant at December 31, 2007	5,142		

Unrecognized Compensation Expense – At December 31, 2007, there was \$199 million of unrecognized compensation expense related to unvested awards granted under the company's stock-based compensation plans, of which \$17 million relates to Stock Options and \$182 million relates to Stock Awards. These amounts are expected to be charged to expense over a weighted-average period of 1.4 years.

Pro-forma Compensation Expense – Had compensation expense for the year ended December 31, 2005, been determined based on the fair value at the grant dates for Stock Awards and Stock Options, consistent with SFAS No. 123, net income, basic earnings per share, and diluted earnings per share would have been as shown in the table below:

	Year ended December 31, 2005
<i>\$ in millions, except per share</i>	
Net income as reported	\$ 1,400
Stock-based compensation, net of tax, included in net income as reported	117
Stock-based compensation, net of tax, that would have been included in net income, if the fair value method had been applied to all awards	(196)
Pro-forma net income using the fair value method	\$ 1,321
Basic Earnings Per Share	
As reported	\$ 3.93
Pro-forma	\$ 3.71
Diluted Earnings Per Share	
As reported	\$ 3.85
Pro-forma	\$ 3.64

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20. UNAUDITED SELECTED QUARTERLY DATA

Unaudited quarterly financial results are set forth in the following tables. The financial results for all periods presented have been revised to reflect the various business dispositions that occurred during the 2006 and 2007 fiscal years (see note 5 for further details). The company's common stock is traded on the New York Stock Exchange (trading symbol NOC). This unaudited quarterly information is labeled using a calendar convention; that is, first quarter is consistently labeled as ended on March 31, second quarter as ended on June 30, and third quarter as ended on September 30. It is the company's long-standing practice to establish actual interim closing dates using a "fiscal" calendar, which requires the businesses to close their books on a Friday, in order to normalize the potentially disruptive effects of quarterly closings on business processes. The effects of this practice only exist within a reporting year.

2007

<i>\$ in millions, except per share</i>	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Sales and service revenues	\$ 7,340	\$ 7,926	\$ 7,928	\$ 8,824
Operating margin	685	754	807	760
Income from continuing operations	390	466	490	457
Net income	387	460	489	454
Basic earnings per share from continuing operations	1.13	1.36	1.44	1.35
Basic earnings per share	1.12	1.34	1.44	1.34
Diluted earnings per share from continuing operations	1.11	1.33	1.41	1.32
Diluted earnings per share	1.10	1.31	1.41	1.31

Significant 2007 Fourth Quarter Events – In the fourth quarter of 2007, the company's Board of Directors authorized the repurchase of up to \$2.5 billion of its outstanding common stock and the company made a voluntary pre-funding payment to the company's pension plans of \$200 million.

2006

<i>\$ in millions, except per share</i>	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Sales and service revenues	\$ 7,075	\$ 7,596	\$ 7,429	\$ 8,013
Operating margin	606	686	549	623
Income from continuing operations	363	445	308	457
Net income	357	430	302	453
Basic earnings per share from continuing operations	1.06	1.29	.89	1.32
Basic earnings per share	1.04	1.25	.88	1.31
Diluted earnings per share from continuing operations	1.03	1.27	.88	1.29
Diluted earnings per share	1.02	1.23	.86	1.28

Significant 2006 Fourth Quarter Events – In the fourth quarter of 2006, the company's Board of Directors authorized the repurchase of up to \$1.0 billion of its outstanding common stock. During the quarter, the company made a voluntary pre-funding payment to the company's pension plans of \$800 million. The company recorded pre-tax forward loss provisions of \$42 million for the Wedgetail contract and \$19 million for the Peace Eagle contract (both under the Multi-Role Electronically Scanned Array program) in the Electronics segment. The company also sold its remaining shares of TRW Auto for \$209 million for a pre-tax gain of \$111 million and entered into a definitive agreement to acquire Essex Corporation for approximately \$590 million, including the assumption of debt totaling \$23 million and estimated transaction costs of \$14 million. In November the company repaid its senior notes, totaling \$690 million. Also during the fourth quarter the company incurred debt related to the Gulf Opportunity Zone Industrial Revenue Bonds of \$200 million, bearing interest at 4.55%, due December 1, 2028, with early redemption on or after December 1, 2016.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No information is required in response to this item.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The company's principal executive officer (Chairman and Chief Executive Officer) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of December 31, 2007, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934 (15 USC § 78a et seq) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the fourth quarter of 2007, no change occurred in the company's internal control over financial reporting that materially affected, or is likely to materially affect, the company's internal control over financial reporting.

Item 9B. Other Information

No information is required in response to this item.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Northrop Grumman Corporation (the company) prepared and is responsible for the consolidated financial statements and all related financial information contained in this Annual Report. This responsibility includes establishing and maintaining effective internal control over financial reporting. The company's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

To comply with the requirements of Section 404 of the Sarbanes – Oxley Act of 2002, the company designed and implemented a structured and comprehensive assessment process to evaluate its internal control over financial reporting across the enterprise. The assessment of the effectiveness of the company's internal control over financial reporting was based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Management regularly monitors its internal control over financial reporting, and actions are taken to correct any deficiencies as they are identified. Based on its assessment, management has concluded that the company's internal control over financial reporting is effective as of December 31, 2007.

Deloitte & Touche LLP issued an attestation report dated February 20, 2008, concerning the company's internal control over financial reporting, which is contained in this Annual Report. The company's consolidated financial statements as of and for the year ended December 31, 2007, have been audited by the independent registered public accounting firm of Deloitte & Touche LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States).

/s/ Ronald D. Sugar
Chairman and Chief Executive Officer

/s/ James F. Palmer
Corporate Vice President and Chief Financial Officer

February 20, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders of
Northrop Grumman Corporation
Los Angeles, California

We have audited the internal control over financial reporting of Northrop Grumman Corporation and subsidiaries (the “Company”) as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated February 20, 2008 expressed an unqualified opinion on those financial statements and the financial statement schedule and included an explanatory paragraph regarding the company’s adoption of a new accounting standard.

/s/ Deloitte & Touche LLP
Los Angeles, California
February 20, 2008

NORTHROP GRUMMAN CORPORATION**PART III****Item 10. Directors, Executive Officers, and Corporate Governance****Directors**

The information as to Directors will be incorporated herein by reference to the Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Executive Officers

The following individuals were the executive officers of the company as of February 20, 2008:

<u>Name</u>	<u>Age</u>	<u>Office Held</u>	<u>Since</u>	<u>Prior Business Experience (Last Five Years)</u>
Ronald D. Sugar	59	Chairman and Chief Executive Officer	2006	Chairman, Chief Executive Officer and President (2003-2006); Prior to April 2003, Chief Executive Officer and President; President and Chief Operating Officer (2001-2003)
Jerry B. Agee	64	Corporate Vice President and President, Mission Systems Sector	2005	Vice President and Deputy Sector President, Mission Systems Sector (2004-2005); Prior to June 2004, Vice President and General Manager, Systems-Missile Defense, Mission Systems Sector (2002-2004)
Wesley G. Bush	46	President and Chief Operating Officer	2007	President and Chief Financial Officer (2006-2007); Prior to March 2007, Corporate Vice President and Chief Financial Officer (2005-2006); Corporate Vice President and President, Space Technology Sector (2003-2005); Corporate Vice President of Northrop Grumman Corporation (2002-2003)
James L. Cameron	50	Corporate Vice President and President, Technical Services Sector	2006	Vice President and General Manager of Defensive and Navigation Systems Divisions, Electronic Systems Sector (2005); Prior to February 2005, Vice President and General Manager, Defensive Systems Division, Electronic Systems Sector (2003-2005); President, ITT Systems Defense Group (2000-2003)
Gary W. Ervin	50	Corporate Vice President and President, Integrated Systems Sector	2008	Corporate Vice President (2007); Prior to September 2007, Vice President, Western Region, Integrated Systems Sector (2005-2007); Vice President, Air Combat Systems, Integrated Systems Sector (2002-2005)
Kenneth N. Heintz	61	Corporate Vice President, Controller and Chief Accounting Officer	2005	Independent Financial Consultant (2004-2005); Prior to June 2004, Corporate Vice President, Hughes Electronics Corporation (now The DIRECTV Group, Inc. (2000-2004))
Robert W. Helm	56	Corporate Vice President, Business Development and Government Relations	1994	

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Name	Age	Office Held	Since	Prior Business Experience (Last Five Years)
Alexis C. Livanos	59	Corporate Vice President and President, Space Technology Sector	2005	Vice President and General Manager of Systems Development and Technology and Space Sensors Divisions, and Vice President and General Manager of Navigation and Space Sensors Division, Electronics Sector (2003-2005); Prior to February 2003, Executive Vice President, Boeing Satellite Systems (2000-2003)
Linda A. Mills	58	Corporate Vice President and President, Information Technology Sector	2008	President of the Civilian Agencies business group, Information Technology Sector (2007-January 2008); Prior to February 2007, Vice President for Operations and Processes, Information Technology Sector (2005-2007); Vice President, Mission Assurance/Six Sigma, Mission Systems Sector (2003-2005)
Rosanne P. O'Brien	64	Corporate Vice President, Communications	2000	
James R. O'Neill	54	Corporate Vice President	2008	Corporate Vice President and President, Information Technology Sector (2004-January 2008); Prior to May 2004, President, TASC, Inc. (2002-2004)
James F. Palmer	58	Corporate Vice President and Chief Financial Officer	2007	Executive Vice President and Chief Financial Officer, Visteon Corporation (2004-2007); Prior to June 2004, Senior Vice President, The Boeing Company and President, Boeing Capital Corporation (2000-2004)
C. Michael Petters	48	Corporate Vice President and President, Northrop Grumman Shipbuilding Sector	2008	Corporate Vice President and President, Newport News Sector (2004-January 2008); Prior to November 2004, Vice President, Human Resources, Administration and Trades, Newport News Sector (2001-2004)
James F. Pitts	56	Corporate Vice President and President, Electronics Sector	2005	Vice President and General Manager of Aerospace Systems Division, Electronics Sector (2001-2005)
Mark Rabinowitz	46	Corporate Vice President and Treasurer	2007	Vice President and Assistant Treasurer (2006-2007); Prior to June 2006, Corporate Director and Assistant Treasurer, Banking and Capital Markets (2003-2006)
Scott J. Seymour	57	Corporate Vice President	2008	Corporate Vice President and President, Integrated Systems Sector (2002-2007)
Philip A. Teel	59	Corporate Vice President and Sector President-Elect, Mission Systems Sector	2008	Corporate Vice President and President, Ship Systems Sector (2005- January 2008); Prior to July 2005, Vice President, Airborne Early Warning & Electronic Warfare Systems, Integrated Systems Sector (2000-2005)
W. Burks Terry	57	Corporate Vice President and General Counsel	2000	

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<u>Name</u>	<u>Age</u>	<u>Office Held</u>	<u>Since</u>	<u>Prior Business Experience (Last Five Years)</u>
Ian V. Ziskin	49	Corporate Vice President and Chief Human Resources and Administrative Officer	2006	Corporate Vice President, Human Resources and Leadership Strategy (2003-2005); Prior to June 2003, President and Founder, Executive Excellence Group (2002-2003)

Audit Committee Financial Expert

The information as to the Audit Committee and the Audit Committee Financial Expert will be incorporated herein by reference to the Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Code of Ethics

The company has adopted Standards of Business Conduct for all of its employees, including the principal executive officer, principal financial officer and principal accounting officer. The Standards of Business Conduct can be found on the company's internet web site at www.northropgrumman.com under "Investor Relations – Corporate Governance – Overview."

The web site and information contained on it or incorporated in it are not intended to be incorporated in this Annual Report on Form 10-K or other filings with the Securities Exchange Commission.

Item 11. Executive Compensation

Information concerning Executive Compensation, including information concerning Compensation Committed Interlocks and Insider Participation and Compensation Committee Report, will be incorporated herein by reference to the Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information as to Securities Authorized for Issuance Under Equity Compensation Plans and Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters will be incorporated herein by reference to the Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information as to Certain Relationships and Related Transactions, and Director Independence will be incorporated herein by reference to the Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed within 120 days after the end of the company's fiscal year.

Item 14. Principal Accountant Fees and Services

The information as to principal accountant fees and services will be incorporated herein by reference to the Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed within 120 days after the end of the company's fiscal year.

PART IV**Item 15. Exhibits and Financial Statement Schedule**

- (a) 1. Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements

Financial Statements
Consolidated Statements of Income
Consolidated Statements of Financial Position

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Consolidated Statements of Comprehensive Income
Consolidated Statements of Cash Flows
Consolidated Statements of Changes in Shareholders' Equity
Notes to Consolidated Financial Statements

2. Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts

All other schedules are omitted either because they are not applicable or not required or because the required information is included in the financial statements or notes thereto.

Exhibits

- 3(a) Restated Certificate of Incorporation of Northrop Grumman Corporation effective May 18, 2006 (incorporated by reference to Exhibit 3.1 to Form 8-K dated May 16, 2006 and filed May 19, 2006)
- 3(b) Bylaws of Northrop Grumman Corporation, as amended February 9, 2007 (incorporated by reference to Exhibit 3.1 to Form 8-K dated February 9, 2007 and filed February 13, 2007)
- 4(a) Registration Rights Agreement dated as of January 23, 2001, by and among Northrop Grumman Systems Corporation, Northrop Grumman Corporation and Unitrin, Inc. (incorporated by reference to Exhibit(d)(6) to Amendment No. 4 to Schedule TO filed January 31, 2001)
- 4(b) Certificate of Designations, Preferences and Rights of Series B Preferred Stock of Northrop Grumman Corporation (incorporated by reference to Exhibit C to the Definitive Proxy Statement on Schedule 14A filed April 13, 2001)
- 4(c) Indenture dated as of October 15, 1994, between Northrop Grumman Systems Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as trustee (incorporated by reference to Exhibit 4.1 to Form 8-K dated October 20, 1994, and filed October 25, 1994)
- 4(d) Form of Officer's Certificate (without exhibits) establishing the terms of Northrop Grumman Systems Corporation's 7.75 percent Debentures due 2016 and 7.875 percent Debentures due 2026 (incorporated by reference to Exhibit 4-3 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)
- 4(e) Form of Northrop Grumman Systems Corporation's 7.75 percent Debentures due 2016 (incorporated by reference to Exhibit 4-5 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)
- 4(f) Form of Northrop Grumman Systems Corporation's 7.875 percent Debentures due 2026 (incorporated by reference to Exhibit 4-6 to Form S-4 Registration Statement No. 333-02653 filed April 19, 1996)
- 4(g) Form of Officers' Certificate establishing the terms of Northrop Grumman Systems Corporation's 7.125 percent Notes due 2011 and 7.75 percent Debentures due 2031 (incorporated by reference to Exhibit 10.9 to Form 8-K dated and filed April 17, 2001)
- 4(h) Indenture dated as of April 13, 1998, between Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and The Bank of New York, as trustee, under which its 6.75 percent Senior Debentures due 2018 were issued (incorporated by reference to Exhibit 4.1 to the Form 10-Q of Litton Industries, Inc. for the quarter ended April 30, 1998, and filed June 15, 1998)
- 4(i) Supplemental Indenture with respect to Indenture dated April 13, 1998, dated as of April 3, 2001, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.5 to Form 10-Q for the quarter ended March 31, 2001, filed May 10, 2001)

NORTHROP GRUMMAN CORPORATION

- 4(j) Supplemental Indenture with respect to Indenture dated April 13, 1998, dated as of December 20, 2002, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(q) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 4(k) Senior Indenture dated as of December 15, 1991, between Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) and The Bank of New York, as trustee, under which its 7.75 percent and 6.98 percent debentures due 2026 and 2036 were issued and specimens of such debentures (incorporated by reference to Exhibit 4.1 to the Form 10-Q of Litton Industries, Inc. for the quarter ended April 30, 1996, filed June 11, 1996)
- 4(l) Supplemental Indenture with respect to Indenture dated December 15, 1991, dated as of April 3, 2001, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.7 to Form 10-Q for the quarter ended March 31, 2001, filed May 10, 2001)
- 4(m) Supplemental Indenture with respect to Indenture dated December 15, 1991, dated as of December 20, 2002, among Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation), Northrop Grumman Corporation, Northrop Grumman Systems Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(t) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 4(n) Form of Exchange Security for the \$400,000,000 8 percent senior notes due 2009 of Litton Industries, Inc. (predecessor-in-interest to Northrop Grumman Systems Corporation) (incorporated by reference to Exhibit 4.3 to the Form 10-Q of Litton Industries, Inc. for the quarter ended April 30, 2000, filed June 9, 2000)
- 4(o) Indenture between TRW Inc. (now named Northrop Grumman Space & Mission Systems Corp.) and The Chase Manhattan Bank, as successor Trustee, dated as of May 1, 1986 (incorporated by reference to Exhibit 2 to the Form 8-A Registration Statement of TRW Inc. dated July 3, 1986)
- 4(p) First Supplemental Indenture between TRW Inc. (now named Northrop Grumman Space & Mission Systems Corp.) and The Chase Manhattan Bank, as successor Trustee, dated as of August 24, 1989 (incorporated by reference to Exhibit 4(b) to Form S-3 Registration Statement No. 33-30350 of TRW Inc.)
- 4(q) Fourth Supplemental Indenture between TRW Inc. (now named Northrop Grumman Space & Mission Systems Corp.) and The Chase Manhattan Bank, as successor Trustee, dated as of June 2, 1999 (incorporated by reference to Exhibit 4(e) to Form S-4 Registration Statement No. 333-83227 of TRW Inc. filed July 20, 1999)
- 4(r) Fifth Supplemental Indenture between TRW Inc. (now named Northrop Grumman Space & Mission Systems Corp.) and The Chase Manhattan Bank, as successor Trustee, dated as of June 2, 1999 (incorporated by reference to Exhibit 4(f) to Form S-4 Registration Statement No. 333-83227 of TRW Inc. filed July 20, 1999)
- 10(a) Form of Amended and Restated Credit Agreement dated as of August 10, 2007, among Northrop Grumman Corporation, as Borrower; Northrop Grumman Systems Corporation and Northrop Grumman Space & Mission Systems Corp., as Guarantors; the Lenders party thereto; JPMorgan Chase Bank, N.A., as Payment Agent, an Issuing Bank, Swingline Lender and Administrative Agent; Credit Suisse, as Administrative Agent; Citicorp USA, Inc., as Syndication Agent; Deutsche Bank Securities Inc. and The Royal Bank of Scotland PLC, as Documentation Agents; and BNP Paribas as Co-Documentation Agent (incorporated by reference to Exhibit 10.1 to Form 8-K dated and filed August 13, 2007)
- 10(b) Form of Guarantee dated as of April 3, 2001, by Northrop Grumman Corporation of the indenture indebtedness issued by the former Litton Industries, Inc. (incorporated by reference to Exhibit 10.10 to Form 8-K dated and filed April 17, 2001)

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- 10(c) Form of Guarantee dated as of April 3, 2001, by Northrop Grumman Corporation of Northrop Grumman Systems Corporation indenture indebtedness (incorporated by reference to Exhibit 10.11 to Form 8-K dated and filed April 17, 2001)
- 10(d) Form of Guarantee dated as of March 27, 2003, by Northrop Grumman Corporation, as Guarantor, in favor of JP Morgan Chase Bank (formerly The Chase Manhattan Bank), as trustee, of certain debt securities of Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.) (incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended March 31, 2003, filed May 14, 2003)
- 10(e) Form of Guarantee dated as of January 9, 2003, by Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.) of Northrop Grumman Systems Corporation indenture indebtedness (incorporated by reference to Exhibit 10(qq) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 10(f) Northrop Grumman 1993 Long-Term Incentive Stock Plan, as amended and restated (incorporated by reference to Exhibit 4.1 to Form S-8 Registration Statement No. 333-68003 filed November 25, 1998)
- *10(g) Northrop Grumman Corporation 1993 Stock Plan for Non-Employee Directors (as Amended and Restated January 1, 2008)
- 10(h) Northrop Grumman Corporation 1995 Stock Plan for Non-Employee Directors, as Amended as of May 16, 2007 (incorporated by reference to Exhibit A to Schedule 14A filed April 12, 2007)
- *10(i) Northrop Grumman 2001 Long-Term Incentive Stock Plan (As amended September 17, 2003) (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003), as amended by First Amendment to the Northrop Grumman 2001 Long-Term Incentive Stock Plan dated December 19, 2007
 - (i) Form of Notice of Non-Qualified Grant of Stock Options and Option Agreement (incorporated by reference to Exhibit 10.5 to Form S-4 Registration Statement No. 333-83672 filed March 4, 2002)
 - (ii) Form of Restricted Performance Stock Rights Agreement (officer), as amended May 16, 2005, applicable to 2005 Restricted Performance Stock Rights (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 2005, filed July 28, 2005)
 - (iii) Form of Agreement for 2005 Stock Options (officer) (incorporated by reference to Exhibit 10(d)(v) to Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
 - (iv) Form of letter from Northrop Grumman Corporation regarding Stock Option and RPSR Retirement Enhancement (incorporated by reference to Exhibit 10.2 to Form 8-K dated March 14, 2005 and filed March 15, 2005)
 - (v) Form of Restricted Performance Stock Rights Agreement (non-officer), as amended May 16, 2005, applicable to 2005 Restricted Performance Stock Rights (incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended June 30, 2005, filed July 28, 2005)
 - * (vi) Form of Restricted Performance Stock Rights Agreement applicable to 2006 Restricted Performance Stock Rights, as amended
 - (vii) Form of Agreement for 2006 Stock Options (officer) (incorporated by reference to Exhibit 10(d)(viii) to Form 10-K for the year ended December 31, 2005, filed February 17, 2006)
 - * (viii) Form of Restricted Stock Rights Agreement applicable to 2006 Restricted Stock Rights, as amended
 - * (ix) 2006 CPC Incentive Restricted Stock Rights Agreement of Wesley G. Bush dated May 16, 2006, as amended

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- (x) 2006 CPC Incentive Restricted Stock Rights Agreement of Scott J. Seymour dated May 16, 2006 (incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended June 30, 2006, filed July 27, 2006)
- *(xi) Form of Restricted Performance Stock Rights Agreement, applicable to 2007 Restricted Performance Stock Rights, as amended
- (xii) Form of Agreement for 2007 Stock Options (officers) (incorporated by reference to Exhibit 10(2)(ii) to Form 10-Q for the quarter ended March 31, 2007, filed April 24, 2007)
- *(xiii) Terms and Conditions Applicable to Special 2007 Restricted Stock Rights Granted to James F. Palmer dated March 12, 2007, as amended
- *10(j) Northrop Grumman Supplemental Plan 2 (Amended and Restated Effective as of January 1, 2005)
 - *(i) Appendix A: Northrop Supplemental Retirement Income Program for Senior Executives (Amended and Restated Effective as of January 1, 2005)
 - (ii) Appendix B: ERISA Supplemental Program 2 as amended and restated effective October 1, 2004 (incorporated by reference to Exhibit 10(j)(ii) of Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
 - *(iii) Appendix F: CPC Supplemental Executive Retirement Program (Amended and Restated Effective as of January 1, 2005)
 - *(iv) Appendix G: Officers Supplemental Executive Retirement Program (Amended and Restated Effective as of January 1, 2005)
- *10(k) Northrop Grumman ERISA Supplemental Plan (Amended and Restated Effective as of January 1, 2005)
- *10(l) Northrop Grumman Supplementary Retirement Income Plan (formerly TRW Supplementary Retirement Income Plan) (Amended and Restated Effective January 1, 2005)
- *10(m) Northrop Grumman Electronic Systems Executive Pension Plan (Amended and Restated Effective as of January 1, 2005)
- 10(n) Northrop Grumman Corporation March 2004 Change-in-Control Severance Plan (incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003)
- 10(o) Form of Northrop Grumman Corporation March 2004 Special Agreement (relating to severance program for change in control) (incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003)
- *10(p) Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation As amended and restated effective January 1, 2008
- *10(q) Northrop Grumman Corporation Non-Employee Directors Equity Participation Plan, as Amended and Restated January 1, 2008
- 10(r) Non-Employee Director Compensation Term Sheet, effective October 24, 2007 (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2007, filed October 24, 2007)
- 10(s) Form of Indemnification Agreement between Northrop Grumman Corporation and its directors and executive officers (incorporated by reference to Exhibit 10.39 to Form S-4 Registration Statement No. 333-83672 filed March 4, 2002)
- *10(t) Northrop Grumman Deferred Compensation Plan (Amended and Restated Effective as of January 1, 2005)
- *10(u) The 2002 Incentive Compensation Plan of Northrop Grumman Corporation, As amended and restated effective as of January 1, 2008
- *10(v) Northrop Grumman 2006 Annual Incentive Plan and Incentive Compensation Plan (for Non-Section 162(m) Officers), as amended and restated effective January 1, 2008

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- *10(w) Northrop Grumman Savings Excess Plan (Amended and Restated Effective as of January 1, 2005)
- 10(x) Employment Agreement dated February 19, 2003, between Northrop Grumman Corporation and Dr. Ronald D. Sugar (incorporated by reference to Exhibit 10(nn) to Form 10-K for the year ended December 31, 2002, filed March 24, 2003)
- 10(y) Employment Agreement between Dr. Ronald D. Sugar and Northrop Grumman Corporation dated September 19, 2001 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2001, filed November 5, 2001)
- 10(z) Letter Agreement dated June 21, 2000, between Litton Industries, Inc. and Ronald D. Sugar (incorporated by reference to Exhibit 10.1 to Form 8-K of Litton Industries, Inc. ("LII") dated and filed June 22, 2000), and Letter Agreement dated December 21, 2000, between Northrop Grumman Corporation and Ronald D. Sugar (incorporated by reference to Exhibit 99(e)(7) to Schedule 14D-9 of LII filed January 5, 2001), as amended by Amendment dated January 31, 2001, between Northrop Grumman Corporation and Ronald D. Sugar (incorporated by reference to Exhibit 99(e)(16) to Amendment No. 3 to Schedule 14D-9 of LII filed February 1, 2001)
- *10(aa) Litton Industries, Inc. Restoration Plan 2 (Amended and Restated Effective as of January 1, 2005)
- *10(bb) Litton Industries, Inc. Restoration Plan (Amended and Restated Effective as of January 1, 2005)
- 10(cc) Litton Industries, Inc. Supplemental Executive Retirement Plan as amended and restated effective October 1, 2004 (incorporated by reference to Exhibit 10(ee) to Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
- 10(dd) Northrop Grumman Corporation Supplemental Retirement Replacement Plan (Effective March 12, 2007) for James F. Palmer (incorporated by reference to Exhibit 10(2) to Form 10-Q for the quarter ended June 30, 2007, filed July 24, 2007)
- 10(ee) Northrop Grumman Corporation Special Officer Retiree Medical Plan (As Amended and Restated Effective April 1, 2007) (incorporated by reference to Exhibit 10(5) to Form 10-Q for the quarter ended March 31, 2007, filed April 24, 2007)
- 10(ff) Executive Life Insurance Policy (incorporated by reference to Exhibit 10(gg) to Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
- 10(gg) Executive Accidental Death, Dismemberment and Plegia Insurance Policy (incorporated by reference to Exhibit 10(hh) to Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
- 10(hh) Executive Long-Term Disability Insurance Policy (incorporated by reference to Exhibit 10(ii) to Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
- 10(ii) Executive Dental Insurance Policy Group Numbers 5134 and 5135 (incorporated by reference to Exhibit 10(m) to Form 10-K for the year ended December 31, 1995, filed February 22, 1996)
- 10(jj) Group Personal Excess Liability Policy (incorporated by reference to Exhibit 10(ll) to Form 10-K for the year ended December 31, 2004, filed March 4, 2005)
- 10(kk) Northrop Grumman Executive Medical Plan Benefit Matrix effective July 1, 2006 (incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended June 30, 2006, filed July 27, 2006)
- 10(ll) Retirement Transition Agreement dated October 2, 2007 between Northrop Grumman Corporation and Scott J. Seymour (incorporated by reference to Exhibit 10.1 to Form 8-K dated and filed October 5, 2007)
- 10(mm) Consultant Contract dated October 5, 2007 between Northrop Grumman Corporation and Scott J. Seymour (incorporated by reference to Exhibit 10.2 to Form 8-K dated and filed October 5, 2007)

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10(nn)	Offering letter dated February 1, 2007 from Northrop Grumman Corporation to James F. Palmer relating to position of Corporate Vice President and Chief Financial Officer (incorporated by reference to Exhibit 10(3) to Form 10-Q for the quarter ended March 31, 2007, filed April 24, 2007)
*21	Subsidiaries
*23	Consent of Independent Registered Public Accounting Firm
*24	Power of Attorney
*31.1	Rule 13a-15(e)/15d-15(e) Certification of Ronald D. Sugar (Section 302 of the Sarbanes-Oxley Act of 2002)
*31.2	Rule 13a-15(e)/15d-15(e) Certification of James F. Palmer (Section 302 of the Sarbanes-Oxley Act of 2002)
**32.1	Certification of Ronald D. Sugar pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of James F. Palmer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*	Filed with this Report
**	Furnished with this Report

NORTHROP GRUMMAN CORPORATION**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 20th day of February 2008.

NORTHROP GRUMMAN CORPORATION

By: **/s/ Kenneth N. Heintz**

Kenneth N. Heintz
Corporate Vice President, Controller, and
Chief Accounting Officer
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on behalf of the registrant this the 20th day of February 2007, by the following persons and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
Ronald D. Sugar*	Chairman and Chief Executive Officer (Principal Executive Officer), and Director
James F. Palmer*	Corporate Vice President and Chief Financial Officer (Principal Financial Officer)
Lewis W. Coleman*	Director
Vic Fazio*	Director
Donald E. Felsing*	Director
Stephen Frank*	Director
Phillip Frost*	Director
Charles R. Larson*	Director
Richard B. Myers*	Director
Phillip A. Odeen*	Director
Aulana L. Peters*	Director
Kevin W. Sharer*	Director

*By: **/s/ Stephen D. Yslas**

Stephen D. Yslas
Corporate Vice President, Secretary,
and Deputy General Counsel
Attorney-in-Fact
pursuant to a power of attorney

NORTHROP GRUMMAN CORPORATION

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

(\$ in millions)

Description	Balance at Beginning of Period	Additions At Cost	Changes – Add (Deduct)	Balance at End of Period
Year ended December 31, 2005				
Reserves and allowances deducted(1) from asset accounts:				
Allowances for doubtful amounts	\$ 264	\$ 56	\$ (97)	\$ 223
Valuation allowance on deferred tax assets	1,375		(36)	1,339
Year ended December 31, 2006				
Reserves and allowances deducted(1) from asset accounts:				
Allowances for doubtful amounts	\$ 223	\$ 171	\$ (86)	\$ 308
Valuation allowance on deferred tax assets	1,339		(39)	1,300
Year ended December 31, 2007				
Reserves and allowances deducted(1) from asset accounts:				
Allowances for doubtful amounts	\$ 308	\$ 124	\$ (146)	\$ 286
Valuation allowance on deferred tax assets	1,300	3	(711)	592

(1) Uncollectible amounts written off, net of recoveries.

NORTHROP GRUMMAN CORPORATION
1993 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS
(As Amended and Restated January 1, 2008)

1. Purpose; Effect of Plan Restatement

(a) The purpose of the Northrop Grumman Corporation 1993 Stock Plan for Non-Employee Directors (the “Plan”) is to promote the long-term growth and financial success of Northrop Grumman Corporation (the “Company”) by attracting and retaining non-employee directors of outstanding ability and assisting the Company in promoting a greater identity of interest between the Company’s non-employee directors and its stockholders.

(b) The Plan is amended and restated as set forth herein effective as of January 1, 2008. The terms of the Plan as in effect on December 31, 2004 shall continue to apply to any benefits “earned and vested” within the meaning of Section 409A of the Internal Revenue Code (“Section 409A”) under the Plan on such date, including any Stock Units that are subject to deferral elections made under the Plan, prior to such date. The term “Stock Units” as used in this restatement of the Plan and any provisions of the Plan applicable to such Stock Units refers only to Stock Units that are credited under the Plan on or after June 1, 2005.

2. Term

The Plan shall become effective upon the approval by the stockholders of the Company. The Plan shall operate and shall remain in effect until terminated by action of the Company’s Board of Directors (the “Board”).

3. Plan Operation

The Plan is intended to meet the requirements of Rule 16b-3(c)(2)(ii) adopted under the Securities Exchange Act of 1934 (the “1934 Act”) and accordingly is intended to be self-governing. To this end the Plan requires no discretionary action by any administrative body with regard to any transaction under the Plan. To the extent, if any, that any questions of interpretation arise, these shall be resolved by this Nominating Committee (or any successor committee) of the Board (the “Committee”).

4. Eligibility

Only directors of the Company who are not employees of the Company or any subsidiary of the Company (“Eligible Directors”) shall participate in the Plan.

5. Shares of Common Stock Subject to the Plan

The maximum number of shares of common stock of the Company (“Common Stock”) that shall be reserved for issuance under the Plan shall be 175,000 shares, subject to adjustment upon changes in the capitalization of the Company as provided in Section 6 of the Plan. The shares of Common Stock to be issued pursuant to the Plan may be, at the election of the Company, either authorized and unissued shares or treasury shares, and no fractional shares shall be issued under the Plan. Shares of Common Stock that are paid in settlement of Stock Units (as defined herein) shall be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan.

6. Adjustments and Reorganizations

The Board, as it deems appropriate to meet the intent of the Plan, may make such adjustments to the number of shares available under the Plan pursuant to Section 5 and to any outstanding Stock Units credited under the Plan, provided such adjustments are consistent with the effect on other stockholders arising from any corporate restructuring action. Such actions may include, but are not limited to, any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting shares. The Board may also make such similar appropriate adjustment in the calculation of Fair Market Value (as defined in Section 7) as it deems necessary to preserve Eligible Directors’ rights under the Plan.

7. Fair Market Value

Fair Market Value for all purposes under the Plan shall mean the average (rounded up to the nearest cent) of the closing price on the last day of the month of a share of Common Stock for each of the preceding twelve calendar months, or shorter period as may be applicable, as reported on the composite tape for securities listed on the New York Stock Exchange.

8. Grants of Stock Units

(a) The annual cash retainer payable to each Eligible Director for services as a director, excluding any fees payable for service on Board committees or for extraordinary services (the “Annual Retainer”), shall be payable partly in the form of a credit of Stock Units under the Plan. As used herein, a “Stock Unit” is a non-voting unit of measurement which is credited to a bookkeeping account and deemed for purposes of the Plan to be equivalent in value to one outstanding share of Common Stock. The Stock Units shall be used solely as a device for the determination of any payment to eventually be made to the Eligible Director pursuant to Section 9.

(b) On or as soon as practicable after any date on or after June 1, 2005 on which a quarterly payment of the Annual Retainer is to be paid (each, a “Crediting Date”), each Eligible Director’s account under the Plan will be automatically credited with a number of

Stock Units equal to fifty percent (50%) of the amount of the Annual Retainer scheduled to be paid to such Eligible Director on such Crediting Date, divided by the Fair Market Value of a share of Common Stock on the Crediting Date. The remaining fifty percent (50%) of the amount of the Annual Retainer scheduled to be paid to such Eligible Director on such Crediting Date will be paid to the Eligible Director in cash; provided, however, that the Eligible Director may elect in advance to have all or any portion of such amount credited as Stock Units to his or her account under the Plan in lieu of such cash payment. Any such election to have a portion of the Annual Retainer credited in the form of Stock Units under the foregoing proviso must be made, on a form and in a manner prescribed by the Committee, prior to the beginning of the calendar year to which such Annual Retainer relates. The number of Stock Units to be credited pursuant to such election shall be determined based on the Fair Market Value of a share of Common Stock on the Crediting Date.

9. Payment of Stock Units

All Stock Units shall be paid in an equivalent number of shares of Common Stock in a single distribution within 30 days of the Eligible Director's Separation from Service. Notwithstanding the foregoing if an Eligible Director is a Key Employee as of his Separation from Service, payment shall be made on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of his death), along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years). Such payment shall be subject to adjustment as provided in Section 6 and shall be in complete satisfaction of such Stock Units.

For purposes of this Section, the following terms shall have the meanings indicated below:

Affiliated Company. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.

Code. The Internal Revenue Code of 1986, as amended.

Key Employee. An employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or an Affiliated Company (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in

Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

Separation from Service. A “separation from service” within the meaning of Code section 409A.

10. Dividend Equivalents

No later than sixty (60) days following each date that the Company pays an ordinary cash dividend on its outstanding Common Stock (if any ordinary cash dividends are paid), for which the related record date occurs on or after June 1, 2005 and prior to an Eligible Director’s payment date described in Section 9, the Eligible Director’s Stock Unit account shall be credited with additional Stock Units equal to (i) the number of outstanding and unpaid Stock Units credited to such account as of such record date, multiplied by (ii) the amount of the ordinary cash dividend paid by the Company on a share of Common Stock, divided by (iii) the Fair Market Value of a share of the Common Stock as of such record date.

11. Restrictions on Transfer

Stock Units shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by an Eligible Director other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. An Eligible Director may designate a beneficiary or beneficiaries to receive any distributions under the Plan upon the death of the Eligible Director.

12. Issuance of Certificates

(a) On the payment date described in Section 9, the Company shall issue stock certificates registered in the name of the Eligible Director representing the number of shares of Common Stock equivalent to Stock Units which are payable under the Plan with respect to such payment date.

(b) Whenever under the terms of the Plan a fractional share would be required to be issued, the fractional share shall be rounded up to the next full share.

(c) All shares of Common Stock delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Company may deem advisable or legally necessary under any laws, statutes, rules, regulations and other legal requirements, including those of any stock exchange upon which the Common Stock is then listed and any applicable Federal, state or foreign securities law.

(d) Anything to the contrary herein notwithstanding, the Company shall not be required to issue any shares of Common Stock under the Plan if, in the opinion of legal counsel, the issuance and delivery of such shares would constitute a violation by the

Eligible Director or the Company of any applicable law or regulation of any governmental authority, including, without limitation, Federal and state securities laws, or the regulations of any stock exchange on which the Company's securities may then be listed.

13. Plan Amendment

The Board may suspend or terminate the Plan or any portion of the Plan. The Board may also amend the Plan if deemed to be in the best interests of the Company and its stockholders; provided, however, that (a) no such amendment may impair any Eligible Director's right regarding any outstanding grants or Stock Units or other right to receive shares or cash payments under the Plan without his or her consent, (b) the Plan may not be amended more than once every six months, unless such amendment is permitted by Rule 16b-3(c)(2)(ii)(B) under the 1934 Act, and (c) no such amendment may cause the Plan not to comply with Rule 16b-3, or any successor rule, under the 1934 Act.

14. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Eligible Director or other person. To the extent any person holds any rights by virtue of an award granted under the Plan, such rights (unless otherwise determined by the Committee) shall be no greater than the rights of an unsecured general creditor of the Company.

15. Future Rights

Neither the Plan, nor the granting of Common Stock nor any other action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the Company will retain an Eligible Director for any period of time, or at any particular rate of compensation. Nothing in this Plan shall in any way limit or affect the right of the Board or the stockholders of the Company to remove any Eligible Director or otherwise terminate his or her service as a director of the Company.

16. Governing Law

The Plan and all rights and obligations under the Plan shall be governed by, and construed in accordance with, the laws of the State of California and applicable Federal law.

17. Successors and Assigns

The Plan shall be binding on all successors and assigns of an Eligible Director, including, without limitation, the estate of such Eligible Director and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Eligible Director's creditors.

18. Rights as a Stockholder

The Eligible Director in whose name the certificates are registered shall have all of the rights of a stockholder with respect to such shares, including the right to vote the Common Stock and receive dividends and other distributions made on the Common Stock. Shares of Common Stock issued under the Plan shall be fully paid and non-assessable.

19. Construction

The Plan shall be construed and interpreted to comply with Section 409A. Notwithstanding Section 13 above, the Company reserves the right to amend the Plan and any outstanding grants under the Plan to the extent it reasonably determines is necessary in order to preserve the intended tax consequences of the Stock Units in light of Section 409A and any regulations or other guidance promulgated thereunder.

**First Amendment to the
Northrop Grumman 2001 Long-Term Incentive Stock Plan
(As Amended September 17, 2003)**

Effective as of December 19, 2007, Section 6(a) of the Northrop Grumman 2001 Long-Term Incentive Stock Plan is revised in its entirety to read as follows:

6. Adjustments and Reorganizations

(a) Upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of shares of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Committee shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding awards, (3) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any outstanding awards, and/or (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding awards.

Unless otherwise expressly provided in the applicable award agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Company as an entirety, the Committee shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based awards to the extent necessary to preserve (but not increase) the level of incentives intended by the Plan and the then-outstanding performance-based awards.

It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable legal, tax (including, without limitation and as applicable in the circumstances, Section 424 of the Code, Section 409A of the Code and Section 162(m) of the Code) and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements.

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NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO 2006 RESTRICTED PERFORMANCE STOCK RIGHTS GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions (“Terms”) apply to certain “Restricted Performance Stock Rights” (“RPSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2006. If you were granted an RPSR award by the Company in 2006, the date of grant of your RPSR award and the target number of RPSRs applicable to your award are set forth in the letter from the Company announcing your RPSR award grant (your “Grant Letter”) and are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to your 2006 RPSR award. If you were granted an RPSR award, you are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RPSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The performance period applicable to your award is January 1, 2006 to December 31, 2008 (the “Performance Period”). The target number of RPSRs subject to your award are subject to adjustment as provided herein. The RPSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting: Payment of RPSRs.

The RPSRs are subject to the vesting and payment provisions established (or to be established, as the case may be) by the Committee with respect to the Performance Period. RPSRs that vest based on such provisions and any related Dividend Equivalents (as defined below) will be paid as provided below. No fractional shares will be issued.

Performance-Based Vesting of RPSRs. At the conclusion of the Performance Period, the Committee shall determine whether and the extent to which the applicable performance criteria have been achieved for purposes of determining earnouts and RPSR payments. Based on its determination, the Committee shall determine the percentage of target RPSRs subject to the award (if any) that have vested for the Performance Period in accordance with the earnout schedule established (or to be established, as the case may be) by the Committee with respect to the Performance Period (the “Earnout Percentage”). Except as provided in Section 1.2 below, any RPSRs subject to the award that are not vested as of the conclusion of the Performance Period after giving effect to the Committee’s determinations under this Section 1.1 shall terminate and become null and void immediately following such determinations.

Minimum Vesting. The Earnout Percentage determined under Section 1.1 shall not be less than thirty (30) percent; provided, however, that such minimum Earnout Percentage shall not apply if, as of the December 31 immediately preceding the start of the Performance Period, the Grantee is either the Chief

Executive Officer of the Company, is otherwise a “Covered Employee” (as defined for purposes of Section 162(m) of the Code) of the Company, or is one of the next three highest compensated employees (as determined by proxy convention) with respect to the Company.

Payment of RPSRs. The number of RPSRs payable at the conclusion of the Performance Period (“Earned RPSRs”) shall be determined by multiplying the Earnout

Percentage by the target number of RPSRs subject to the award. The Earned RPSRs may be paid out in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for each Earned RPSR to be paid in cash will equal the Fair Market Value of a share of Common Stock as of the date the Committee determines the extent to which the applicable RPSR performance criteria have been achieved. RPSRs will be paid in the calendar year following the calendar year containing the last of the Performance Period (and generally will be paid in the first 75 days of such year).

Dividend Equivalents. At the conclusion of the Performance Period, the Grantee shall be entitled to payment for Dividend Equivalents (if any) with respect to the Earned RPSRs (if any). For purposes of these Terms, “Dividend Equivalents” means the aggregate amount of dividends paid by the Company on a number of shares of Common Stock equivalent to the number of Earned RPSRs during the period from the beginning of the Performance Period until the date the Earned RPSRs are paid (without interest or other adjustments to reflect

the time value of money, but subject to adjustment pursuant to Section 5.1). For these purposes, any Earned RPSRs in excess of the target number of RPSRs subject to the award shall be considered to have been granted at the beginning of the Performance Period.

Payment of Dividend Equivalents. Dividend Equivalents (if any) will be paid at the same time as the Earned RPSRs to which they relate are paid. Dividend Equivalents will be paid in cash or, in the discretion of the Committee, distributed in shares of Company Common Stock or a combination of cash and shares. If distributed in shares, the number of shares to be issued will be determined by (a) determining the aggregate cash amount of the Dividend Equivalents payable, and (b) dividing such amount by the average closing price of a share of Common Stock on the composite tape of the New York Stock Exchange for trading days during the last month of the Performance Period. Fractional shares will not be paid.

2. Early Termination of Award; Termination of Employment.

General. The RPSRs and related Dividend Equivalents subject to the award shall terminate and become null and void prior to the conclusion of the Performance Period if and when (a) the award terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

Termination of Employment Due to Retirement, Death or Disability. The number of RPSRs (and related Dividend Equivalents) subject to the award shall vest on a prorated basis as provided herein if the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's Retirement, death, or Disability and, in each case, only if the Grantee has completed at least six (6) consecutive calendar months of employment with the Company or a subsidiary during the three-year Performance Period. Such prorating of RPSRs (and related Dividend Equivalents) shall be based on the number of full months the Grantee was actually employed by the Company or one of its subsidiaries out of the thirty-six month Performance Period. Partial months of employment during the Performance Period, even if substantial, shall not be counted for purposes of prorated vesting. Any RPSRs (and related Dividend Equivalents) subject to the award that do not vest in accordance with this Section 2.2 upon a termination of the Grantee's employment due to Retirement, death or Disability shall terminate immediately upon such termination of employment.

Death or Disability. In the case of death or Disability (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs (but in no event shall such date be more than one year before the Grantee's termination of employment), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will be made in the calendar year containing the 75th day following the date of the Grantee's

death or Disability (and generally will be paid on or about such 75th day). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Retirement in General. Subject to the following paragraph, in the case of Retirement, (a) the entire Performance Period will be used to calculate the Grantee's Earned RPSRs, (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for the Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Retirement Due to Government Service. In the case of Retirement where the Grantee accepts a position in the federal government or a state or local government and an accelerated distribution under the award is permitted under Code Section 409A based on such government employment and related ethics rules (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs prior to the Grantee's Retirement (but in no event shall such date be more than one year before the Grantee's Retirement), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will be made in the calendar year containing the 75th day following the Grantee's date of Retirement (and generally will be paid on or about such 75th day). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Other Terminations of Employment. Subject to Section 5.2, all RPSRs subject to the award and related Dividend Equivalents terminate immediately upon a termination of the Grantee's employment: (a) for any reason other than due to the Grantee's Retirement, death or Disability; or (b) for Retirement, death or Disability, if the six-month employment requirement under Section 2.2 above is not satisfied.

Leave of Absence. Unless the Committee otherwise provides (at the time of the leave or otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the award, and (b) shall be deemed to be employed by the Company for the duration of such approved leave of absence for purposes of the award. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

Salary Continuation. Subject to Section 2.4 above, the term “employment” as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.4) will not, in and of itself, constitute “employment” for purposes hereof (in the case of salary continuation without active employment, the Grantee’s cessation of active employee status shall, subject to Section 2.4, be deemed to be a termination of “employment” for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

Sale or Spinoff of Subsidiary or Business Unit. For purposes of the RPSRs (and related Dividend Equivalents) subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested and the Grantee does not Retire upon or immediately before such event and the Grantee does not otherwise continue to be employed by the Company or one of its subsidiaries after such event.

Continuance of Employment Required. Except as expressly provided in Sections 2.2 and 2.4 above and in Section 5 below, the vesting of the RPSRs and related Dividend Equivalents subject to the award requires continued employment through the last day of the Performance Period as a condition of the payment of such RPSRs and Dividend Equivalents. Employment for only a portion of the Performance Period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Grant Letter, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee’s status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or

interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

Death. In the event of the Grantee’s death subsequent to the vesting of RPSRs but prior to the delivery of shares or other payment with respect to such RPSRs and related Dividend Equivalents, the Grantee’s Successor shall be entitled to any payments to which the Grantee would have

been entitled under this Agreement with respect to such RPSRs.

3. Non-Transferability and Other Restrictions.

The award, as well as the RPSRs and Dividend Equivalents subject to the award, are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to transfers to the Company. Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company's ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

4. Compliance with Laws; No Stockholder Rights Prior to Issuance.

The Company's obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder, including without limitation the right to vote or receive dividends, with respect to any shares which may be issued in respect of the RPSRs and/or Dividend Equivalents until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee), if such shares become deliverable.

5. Adjustments; Change in Control.

Adjustments. The RPSRs, Dividend Equivalents, related performance criteria, and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the

Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

Possible Acceleration on Change in Control.

Notwithstanding the provisions of Section 2 hereof, and further subject to the Company's ability to terminate the award as provided in Section 5.3 below, the Grantee shall be entitled to proportionate vesting of the award as provided below if the Grantee is not otherwise entitled to a pro-rata payment pursuant to Section 2 and in the event of the Grantee's termination of employment in the following circumstances:

- (a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, and the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.
- (b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination, the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, and the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to clause (b) above if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months. The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.2, then the Grantee will be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated

based on performance for the portion of the three-year Performance Period ending on the last day of the month coinciding with or immediately preceding the date of the termination of the Grantee's employment, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and through the date of the termination of the Grantee's employment (but not in

excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the termination shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment of any amount due under this Section 5.2 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the Grantee shall be entitled to a prorated payment of the RPSRs as provided below and the award shall terminate. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the award. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the award; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.3, then the Grantee will, be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of

full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and before the occurrence of the Change in Control (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the Change in Control shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment of any amount due under this Section 5.3 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

6. Tax Matters.

Tax Withholding. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of making any payments or issuing any shares upon vesting of the RPSRs or related Dividend Equivalents, that the Grantee or other person entitled to such shares or other payment pay any sums required to be withheld by federal, state, local or other applicable tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy such withholding obligations).

Transfer Taxes. The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the RPSRs or related Dividend Equivalents.

Compliance with Code. The Committee shall administer and construe the award, and may amend the Terms of the award, in a manner designed to comply with the Code and to avoid adverse tax consequences under Code Section 409A or otherwise.

Unfunded Arrangement. The right of the Grantee to receive payment under the award shall be an unsecured contractual claim against the Company. As such, neither the Grantee nor any Successor shall have any rights in or against any specific assets of the Company based on the award. Awards shall at all times be considered entirely unfunded for tax purposes.

7. Committee Authority.

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these

Terms, the Grant Letter, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Grant Letter, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

8. Plan; Amendment.

The RPSRs and Dividend Equivalents subject to the award are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Grant Letter and/or the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall control.

9. Definitions.

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

"Board" means the Board of Directors of the Company.

"Cause" means the occurrence of either or both of the following:

- (i) The Grantee's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee's part shall be considered "willful" unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

"Change in Control" is used as defined in the Plan.

"Change in Control Severance Arrangement" means a "Special Agreement" entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company's Change-in-Control Severance Plan, as each may be in effect from

time to time, or any similar successor agreement or plan that provides severance protections in the event of a change in control of the Company.

“**Code**” means the United States Internal Revenue Code of 1986, as amended.

“**Committee**” means the Company’s Compensation and Management Development Committee or any successor committee appointed by the Board to administer the Plan.

“**Common Stock**” means the Company’s common stock.

“**Disability**” means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee’s employer; all construed and interpreted consistent with the definition of “Disability” set forth in Code Section 409A(a)(2)(C).

“**Fair Market Value**” is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may utilize such other exchange, market, or listing as it deems appropriate.

“**Good Reason**” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

- (i) A material and substantial reduction in the nature or status of the Grantee’s authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee’s authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company’s industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee

immediately prior to the start of the Protected Period. The Company may retain a nationally-recognized executive placement firm for purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue.

In addition, if the Grantee is a vice president, the Grantee’s loss of vice-president status will constitute “Good Reason”; provided that the loss of the title of “vice president” will not, in and of itself, constitute Good Reason if the Grantee’s lack of a vice president title is generally consistent with the manner in which

the title of vice president is used within the Grantee's business unit or if the loss of the title is the result of a promotion to a higher level office. For the purposes of the preceding sentence, the Grantee's lack of a vice-president title will only be considered generally consistent with the manner in which such title is used if most persons in the business unit with authorities, duties, and responsibilities comparable to those of the Grantee immediately prior to the commencement of the Protected Period do not have the title of vice-president.

- (ii) A reduction by the Company in the Grantee's annualized rate of base salary as in effect on the first to occur of the start of the Performance Period or the start of the Protected Period, or as the same shall be increased from time to time.
- (iii) A material reduction in the aggregate value of the Grantee's level of participation in any of the Company's short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be "Good Reason" if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.
- (iv) A material reduction in the Grantee's aggregate level of participation in the Company's stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be "Good Reason" if the reduced level of participation remains

substantially consistent with the average level of participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

- (v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason herein.

"Parent" is used as defined in the Plan.

"Plan" means the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The **"Protected Period"** corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and include the date of the Change in Control.

"Retirement" or **"Retire"** means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause). In the case of a Grantee who is an officer of the Company subject to the Company's mandatory retirement at age 65 policy, "Retirement" or "Retire" shall also include as to that Grantee (without limiting the Grantee's ability to Retire

pursuant to the preceding sentence) a termination of the Grantee's employment pursuant to such mandatory retirement policy (regardless of the Grantee's years of service and other than in connection with a termination by the Company or a subsidiary for cause).

"Successor" means the person acquiring a Grantee's rights to a grant under the Plan by will or by the laws of descent or distribution.

NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO 2006 RESTRICTED STOCK RIGHTS GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions (“Terms”) apply to certain “Restricted Stock Rights” (“RSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2006. If you were granted an RSR award by the Company in 2006, the date of grant of your RSR award (“Date of Grant”) and the number of RSRs applicable to your award are set forth in the letter from the Company announcing your RSR award grant (your “Grant Letter”) and are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to your 2006 RSR award. If you were granted an RSR award, you are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The number of RSRs subject to your award is subject to adjustment as provided herein. The RSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Payment.

Subject to Sections 2 and 5 below, one hundred percent (100%) of the RSRs subject to your award (subject to adjustment as provided in Section 5.1) shall vest upon the third anniversary of the Date of Grant.

Except as otherwise provided below, the Company shall pay a vested RSR within 90 days following the vesting of the RSR on the third anniversary of the Date of Grant. The Company shall pay a vested RSR in a share of Common Stock, or, in the discretion of the Committee, in cash. In the event of a cash payment, the amount of the payment for the RSR to be paid in cash will equal the Fair Market Value of a share of Common Stock as of the vesting date of the RSR. No fractional shares shall be issued. Upon payment of the RSR, the Grantee’s rights with respect to the RSR shall terminate.

2. Early Termination of Award; Termination of Employment.

General. The RSRs subject to the award, to the extent not previously vested, shall terminate and become null and void if and when the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries, except as provided in Section 2.2 and in Section 5.

Termination of Employment Due to Retirement, Death or Disability. A pro-rated number of RSRs subject to the award shall vest on the date the Grantee’s employment by the Company and its subsidiaries terminates due to the Grantee’s Retirement, death or Disability and, in each case, only if the Grantee has

completed at least six (6) consecutive calendar months of employment with the Company or a subsidiary during the period between the Date of Grant and the third anniversary of the Date of Grant. Such prorating of RSRs shall be based on the number of full months the Grantee was actually employed by the Company or one of its subsidiaries out of the thirty-six month vesting period of the RSRs. Partial months of employment during such period, even if

substantial, shall not be counted for purposes of prorated vesting. Any RSRs subject to the award that do not vest in accordance with this Section 2.2 upon a termination of the Grantee's employment due to Retirement, death or Disability shall terminate immediately upon such termination of employment.

RSRs vesting under this Section shall be paid in the calendar year containing the 75th day (and generally will be paid on or about such 75th day) following the earliest of (a) Grantee's death, (b) Grantee's Disability, or (c) Grantee's Separation from Service. If an RSR is to be paid upon a Grantee's Separation from Service and the Grantee is a Key Employee at the time of Separation from Service, payment shall be made six months after the Separation from Service.

Retirement Due to Government Service. Notwithstanding the foregoing, in the case of Retirement where the Grantee accepts a position in the federal government or a state or local government and an accelerated distribution under the award is permitted under Code Section 409A based on such government employment and related ethics rules, payment will be made in the calendar year containing the 75th day

following the Grantee's date of Retirement (and generally will be paid on or about such 75th day).

Leave of Absence. Unless the Committee otherwise provides (at the time of the leave or otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the award, and (b) shall be deemed to be employed by the Company for the duration of such approved leave of absence for purposes of the award. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

Salary Continuation. Subject to Section 2.3 above, the term "employment" as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.3) will not, in and of itself, constitute "employment" for purposes hereof (in the case of salary continuation without active employment, the Grantee's cessation of active employee status shall, subject to Section 2.3, be deemed to be a termination of "employment" for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

Sale or Spinoff of Subsidiary or Business Unit. For purposes of the RSRs subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested and the Grantee does not Retire upon or immediately before such event and Grantee does not otherwise continue to be employed by the Company or one of its subsidiaries after such event.

Continuance of Employment Required. Except as expressly provided in Section 2.2 above and in Section 5 below, the vesting of the RSRs subject to the award requires continued employment through the third anniversary of the Date of Grant as a condition to the vesting of the award. Employment for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Grant Letter, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any

right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

Death. In the event of the Grantee's death subsequent to the vesting of RSRs but prior to the delivery of shares or other payment with respect to such RSRs, the Grantee's Successor shall be entitled to any payments to which the

Grantee would have been entitled under this Agreement with respect to such RSRs.

3. Non-Transferability and Other Restrictions.

The award, as well as the RSRs subject to the award, are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to transfers to the Company. Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company's ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

4. Compliance with Laws; No Stockholder Rights Prior to Issuance.

The Company's obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder, including without limitation the right to vote or receive dividends, with respect to any shares which may be issued in respect of the RSRs until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee), if such shares become deliverable.

5. Adjustments; Change in Control.

Adjustments. The RSRs and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

Possible Acceleration on Change in Control.

Outstanding and previously unvested RSRs subject to the award shall become fully vested as of the date of the Grantee's termination of employment in the following circumstances:

- (a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, and the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.
- (b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination, the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, and the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to clause (b) above if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months. The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

Payment of any amount due under this Section will be made within 90 days of the third anniversary of the Date of Grant.

Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the outstanding and

previously unvested RSRs subject to the award shall vest fully and completely. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the award. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the

award pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the RSRs; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

Payment of any amount due under this Section will be made within 90 days of the third anniversary of the Date of Grant.

6. Tax Matters.

Tax Withholding. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of making any payments or issuing any shares upon vesting of the RSRs, that the Grantee or other person entitled to such shares or other payment pay any sums required to be withheld by federal, state, local, or other applicable tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy such withholding obligations).

Transfer Taxes. The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the RSRs.

Compliance with Code. The Committee shall administer and construe the award, and may amend the Terms of the award, in a manner designed to comply with the Code and to avoid adverse tax consequences under Code Section 409A or otherwise.

Unfunded Arrangement. The right of a Grantee to receive payment under the RSR award shall be an unsecured claim against the Company, and neither the Grantee nor any Successor shall have any rights in or against any assets of the Company based on the award. Awards of RSRs shall at all times be considered entirely unfunded for tax purposes.

7. Committee Authority.

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these Terms, the Grant Letter, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Grant Letter, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

8. Plan; Amendment.

The RSRs are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Grant Letter and/or the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall control.

9. Definitions.

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

"Affiliated Companies" means the Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.

"Board" means the Board of Directors of the Company.

"Cause" means the occurrence of either or both of the following:

- (i) The Grantee's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee's part shall be considered "willful" unless done, or omitted to be done, by the Grantee not in good faith and without reasonable

belief that his action or omission was in the best interest of the Company.

"Change in Control" is used as defined in the Plan.

"Change in Control Severance Arrangement" means a "Special Agreement" entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company's Change-in-Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan that provides severance

protections in the event of a change in control of the Company.

“**Code**” means the United States Internal Revenue Code of 1986, as amended.

“**Committee**” means the Company’s Compensation and Management Development Committee or any successor committee appointed by the Board to administer the Plan.

“**Common Stock**” means the Company’s common stock.

“**Disability**” means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee’s employer; all construed and interpreted consistent with the definition of “Disability” set forth in Code Section 409A(a)(2)(C).

“**Fair Market Value**” is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may utilize such other exchange, market, or listing as it deems appropriate.

“**Good Reason**” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

- (i) A material and substantial reduction in the nature or status of the Grantee’s authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the

Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee's authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company's industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. The Company may retain a nationally-recognized executive placement firm for purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue.

In addition, if the Grantee is a vice president, the Grantee's loss of vice-president status will constitute "Good Reason"; provided that the loss of the title of "vice president" will not, in and of itself, constitute Good Reason if the Grantee's lack of a vice president title is generally consistent with the manner in which the title of vice president is used within the Grantee's business unit or if the loss of the title is the result of a promotion to a higher level office. For the purposes of the preceding sentence, the Grantee's lack of a vice-president title will only be considered generally consistent with the manner in which such title is used if most persons in the business unit with authorities, duties, and responsibilities comparable to those of the Grantee immediately prior to the commencement of the Protected Period do not have the title of vice-president.

- (ii) A reduction by the Company in the Grantee's annualized rate of base salary as in effect on the first to occur of the Date of Grant or the start of the Protected Period, or as the same shall be increased from time to time.
- (iii) A material reduction in the aggregate value of the Grantee's level of participation in any of the Company's short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate value shall not be deemed to be "Good Reason" if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.
- (iv) A material reduction in the Grantee's aggregate level of participation in the Company's stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be "Good Reason" if the reduced level of participation

remains substantially consistent with the average level of participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

- (v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason herein.

"Key Employee" means an employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which employees are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

"Parent" is used as defined in the Plan.

"Plan" means the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The “**Protected Period**” corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company’s stock or by the offeror’s acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and include the date of the Change in Control.

“**Retirement**” or “**Retire**” means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause). In the case of a Grantee who is an officer of the Company subject to the Company’s mandatory retirement at age 65 policy, “Retirement” or “Retire” shall also include as to that Grantee (without limiting the Grantee’s ability to Retire pursuant to the preceding sentence) a termination of the Grantee’s employment pursuant to such mandatory retirement policy (regardless of the Grantee’s years of service and other than in connection with a termination by the Company or a subsidiary for cause).

“**Separation from Service**” means a “separation from service” within the meaning of Code section 409A.

“**Successor**” means the person acquiring a Grantee’s rights to a grant under the Plan by will or by the laws of descent or distribution.

NORTHROP GRUMMAN CORPORATION
TERMS AND CONDITIONS APPLICABLE TO 2006 CPC INCENTIVE
RESTRICTED STOCK RIGHTS
GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions (“Terms”) apply to certain “Restricted Stock Rights” (“RSRs”) granted by Northrop Grumman Corporation (the “Company”) to **Wesley G. Bush** in 2006. The date of grant of the RSR award is May 16, 2006 (the “Grant Date”). The number of RSRs applicable to the award is 40,000. The date of grant and number of RSRs are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to Mr. Bush’s 2006 RSR award. You (Mr. Bush) are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The number of RSRs subject to your award is subject to adjustment as provided herein. The RSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Issuance of Shares.

Subject to Sections 2 and 5 below, one hundred percent (100%) of the number of RSRs subject to your award (subject to adjustment as provided in Section 5.1) shall vest upon the fourth anniversary of the Grant Date.

Except as otherwise provided below, the Company shall pay a vested RSR within 90 days following the vesting of the RSR on the fourth anniversary of the Grant Date. The Company shall pay such vested RSRs in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for vested RSR to be paid in cash (subject to tax withholding as provided in Section 6 below) will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date that such RSR became vested. No fractional shares will be issued.

2. Early Termination of Award; Termination of Employment.

General. The RSRs subject to the award, to the extent not previously vested, shall terminate and become null and void if and when (a) the award terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided in Section 2.6 and in Section 5, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

Leave of Absence. Unless the Committee otherwise provides (at the time of the leave or otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the award, and (b) shall be deemed to be employed by the Company for the duration of such approved leave of absence for purposes of the award. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by

the Company.

Salary Continuation. Subject to Section 2.2 above, the term “employment” as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.2) will not, in and of itself, constitute “employment” for purposes hereof (in the case of salary continuation without active employment, the Grantee’s cessation of active employee status shall, subject to Section 2.2, be deemed to be a termination of “employment” for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

Sale or Spinoff of Subsidiary or Business Unit. For purposes of the RSRs subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a

subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested and the Grantee does not otherwise continue to be employed by the Company after such event.

Continuance of Employment Required. Except as expressly provided in Section 2.6 and in Section 5, the vesting of the RSRs subject to the award requires continued employment through the fourth anniversary of the Grant Date as a condition to the vesting of any portion of the award. Employment for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

Death or Disability. If the Grantee dies while employed by the Company or a subsidiary, or if the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's Disability, the outstanding and previously unvested RSRs subject to the award shall vest as of the date of the Grantee's death or Disability, as applicable. RSRs vesting under this Section shall be paid in the calendar year containing the 75th day (and generally will be paid on or about such 75th day) following the earlier of (a) Grantee's death or (b) Grantee's Disability. In the event of the Grantee's death prior to the delivery of shares or other payment with respect to any vested RSRs, the Grantee's Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement with respect to such vested and unpaid RSRs.

3. Non-Transferability and Other Restrictions.

The award, as well as the RSRs subject to the award, are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to: (a) transfers to the Company; or (b) transfers pursuant to a qualified domestic relations order (as defined in the Code). Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company's ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

4. Compliance with Laws; No Stockholder Rights Prior to Issuance.

The Company's obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the

Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder with respect to any shares which may be issued in respect of the RSRs until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee), if such shares become deliverable.

5. Adjustments; Change in Control.

Adjustments. The RSRs and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

Possible Acceleration on Change in Control. Notwithstanding the Company's ability to terminate the award as provided in Section 5.3 below, the outstanding and previously unvested RSRs subject to the award shall become fully vested as of the date of the Grantee's termination of employment in the following circumstances:

- (a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.
- (b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination and if the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily

terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to clause (b) above if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months. The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

Payment of any amount due under this Section will be made within 90 days of the fourth anniversary of the Grant Date.

Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the outstanding and previously unvested RSRs subject to the award shall vest fully and completely. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the award. The award shall terminate, subject to such acceleration provisions, upon a Change in Control triggered by clause (iii) or (iv) of the definition thereof in which the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the RSRs; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

Payment of any amount due under this Section will be made within 90 days of the fourth anniversary of the Grant Date.

6. Tax Matters.

Tax Withholding. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of making any payments or issuing any shares upon vesting of the RSRs, that the Grantee or other person

entitled to such shares or other payment pay any sums required to be withheld by federal, state or local tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy such withholding obligations at the flat percentage rates applicable to supplemental wages).

Transfer Taxes. The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the RSRs.

Compliance with Code. The Committee shall administer and construe the award, and may amend the Terms of the award, in a manner designed to comply with the Code and to avoid adverse tax consequences under Code Section 409A or otherwise.

7. Committee Authority.

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these Terms, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

8. Plan; Amendment.

The RSRs are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms, the Certificate or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of

a conflict between the provisions of the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall govern.

9. Definitions

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

“**Board**” means the Board of Directors of the Company.

“**Cause**” means the occurrence of either or both of the following:

- (i) The Grantee’s conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee’s part shall be considered “willful” unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

“**Change in Control**” is used as defined in the Plan.

“**Change in Control Severance Arrangement**” means a “Special Agreement” entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company’s Change-in-Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan that provides severance protections in the event of a change in control of the Company.

“**Code**” means the United States Internal Revenue Code of 1986, as amended.

“**Committee**” means the Company’s Compensation and Management Development Committee or any successor committee appointed by the Board to administer the Plan.

“**Disability**” means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental

impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee’s employer; all construed and interpreted consistent with the definition of “Disability” set forth in Code Section 409A(a)(2)(C).

“**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended.

“**Fair Market Value**” is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may utilize such

other exchange, market, or listing as it deems appropriate. For purposes of a cashless exercise, the Fair Market Value of the shares shall be the price at which the shares in payment of the exercise price are sold.

“**Good Reason**” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

- (i) A material and substantial reduction in the nature or status of the Grantee’s authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee’s authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company’s industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. The Company may retain a nationally-recognized executive placement firm for purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue.
- (ii) A reduction by the Company in the Grantee’s annualized rate of base salary as in effect on the date of grant of the award or as the same shall be increased from time to time.
- (iii) A significant reduction by the Company of the Grantee’s aggregate incentive opportunities under the Company’s short and/or long-term incentive programs, as such opportunities exist

on the date of grant of the award, or as such opportunities may be increased after the date of grant of the award. For this purpose, a significant reduction in the Grantee's incentive opportunities shall be deemed to have occurred in the event the Grantee's targeted annualized award opportunities and/or the degree of probability of attainment of such annualized award opportunities are diminished by the Company from the levels and probability of attainment that existed as of the date of grant of the award.

- (iv) The failure of the Company to maintain (x) the Grantee's relative level of coverage and accruals under the Company's employee benefit and/or retirement plans, policies, practices, or arrangements in which the Grantee participates as of the date of grant of the award, both in terms of the amount of benefits provided, and amounts accrued and (y) the relative level of the Grantee's participation in such plans, policies, practices, or arrangements on a basis at least as beneficial as, or substantially equivalent to, that on which the Grantee participated in such plans immediately prior to the date of grant of the award. For this purpose, the Company may eliminate and/or modify existing programs and coverage levels; provided, however, that the Grantee's level of coverage under all such programs must be at least as great as is provided to executives who have the same or lesser levels of reporting responsibilities within the Company's organization.
- (v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason herein.

"Plan" means the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The **"Protected Period"** corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and including the date of the Change in Control.

“**Successor**” means the person acquiring a Grantee’s rights to a grant under the Plan by will or by the laws of descent or distribution.

NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO 2007 RESTRICTED PERFORMANCE STOCK RIGHTS GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions (“Terms”) apply to certain “Restricted Performance Stock Rights” (“RPSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2007. If you were granted an RPSR award by the Company in 2007, the date of grant of your RPSR award and the target number of RPSRs applicable to your award are set forth in the letter from the Company announcing your RPSR award grant (your “Grant Letter”) and are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to your 2007 RPSR award. If you were granted an RPSR award, you are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RPSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The performance period applicable to your award is January 1, 2007 to December 31, 2009 (the “Performance Period”). The target number of RPSRs subject to your award is subject to adjustment as provided herein. The RPSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting: Payment of RPSRs.

The RPSRs are subject to the vesting and payment provisions established (or to be established, as the case may be) by the Committee with respect to the Performance Period. RPSRs that vest based on such provisions and any related Dividend Equivalents (as defined below) will be paid as provided below. No fractional shares will be issued.

Performance-Based Vesting of RPSRs. At the conclusion of the Performance Period, the Committee shall determine whether and the extent to which the applicable performance criteria have been achieved for purposes of determining earnouts and RPSR payments. Based on its determination, the Committee shall determine the percentage of target RPSRs subject to the award (if any) that have vested for the Performance Period in accordance with the earnout schedule established (or to be established, as the case may be) by the Committee with respect to the Performance Period (the “Earnout Percentage”). Except as provided in Section 1.2 below, any RPSRs subject to the award that are not vested as of the conclusion of the Performance Period after giving effect to the Committee’s determinations under this Section 1.1 shall terminate and become null and void immediately following such determinations.

Minimum Vesting. The Earnout Percentage determined under Section 1.1 shall not be less than thirty (30) percent; provided, however, that such minimum Earnout Percentage shall not apply if, as of the grant date, the Grantee is either the Chief Executive Officer of

the Company or is a member of the Company’s Corporate Policy Council.

Payment of RPSRs. The number of RPSRs payable at the conclusion of the Performance Period (“Earned RPSRs”) shall be determined by multiplying the Earnout Percentage by the target number of RPSRs subject to the award. The Earned RPSRs may be paid out in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of

shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for each Earned RPSR to be paid in cash will equal the Fair Market Value of a share of Common Stock as of the date the Committee determines the extent to which the applicable RPSR performance criteria have been achieved. RPSRs will be paid in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

Dividend Equivalents. At the conclusion of the Performance Period, the Grantee shall be entitled to payment for Dividend Equivalents (if any) with respect to the Earned RPSRs (if any). For purposes of these Terms, “Dividend Equivalents” means the aggregate amount of dividends paid by the Company on a number of shares of Common Stock equivalent to the number of Earned RPSRs during the period from the beginning of the Performance Period until the date the Earned RPSRs are paid (without interest or other adjustments to reflect the time value of money, but subject to adjustment pursuant to Section 5.1). For these purposes, any Earned RPSRs in excess of the target number of RPSRs subject

to the award shall be considered to have been granted at the beginning of the Performance Period.

Payment of Dividend Equivalents. Dividend Equivalents (if any) will be paid at the same time as the Earned RPSRs to which they relate are paid. Dividend Equivalents will be paid in cash or, in the discretion of the Committee, distributed in shares of Company Common Stock or a combination of cash and shares. If distributed in shares, the number of shares to be issued will be determined by (a) determining the aggregate cash amount of the Dividend Equivalents payable, and (b) dividing such amount by the average closing price of a share of Common Stock on the composite tape of the New York Stock Exchange for trading days during the last month of the Performance Period. Fractional shares will not be paid.

2. Early Termination of Award; Termination of Employment.

General. The RPSRs and related Dividend Equivalents subject to the award shall terminate and become null and void prior to the conclusion of the Performance Period if and when (a) the award terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

Termination of Employment Due to Retirement, Death or Disability. The number of RPSRs (and related Dividend Equivalents) subject to the award shall vest on a prorated basis as provided herein if the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's Retirement, death, or Disability and, in each case, only if the Grantee has completed at least six (6) consecutive calendar months of employment with the Company or a subsidiary during the three-year Performance Period. Such prorating of RPSRs (and related Dividend Equivalents) shall be based on the number of full months the Grantee was actually employed by the Company or one of its subsidiaries out of the thirty-six month Performance Period. Partial months of employment during the Performance Period, even if substantial, shall not be counted for purposes of prorated vesting. Any RPSRs (and related Dividend Equivalents) subject to the award that do not vest in accordance with this Section 2.2 upon a termination of the Grantee's employment due to Retirement, death or Disability shall terminate immediately upon such termination of employment.

Death or Disability. In the case of death or Disability (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the

RPSRs (but in no event shall such date be more than one year before the Grantee's termination of employment), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will be made in the calendar year containing the 75th day following the date of the Grantee's death or Disability (and generally will be paid on or about such 75th day). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Retirement in General. Subject to the following paragraph, in the case of Retirement, (a) the entire Performance Period will be used to calculate the Grantee's Earned RPSRs, (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for the Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Retirement Due to Government Service. In the case of Retirement where the Grantee accepts a position in the federal government or a state or local government and an accelerated distribution under the award is permitted under Code Section 409A based on such government employment and related ethics rules (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs prior to the Grantee's Retirement (but in no event shall such date be more than one year before the Grantee's Retirement), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will be made in the calendar year containing the 75th day following the Grantee's date of Retirement (and generally will be paid on or about such 75th day). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Other Terminations of Employment. Subject to Section 5.2, all RPSRs subject to the award and related Dividend Equivalents terminate immediately upon a termination of the Grantee's employment: (a) for any reason other than due to the Grantee's Retirement, death or Disability; or (b) for Retirement, death or Disability, if the six-month employment requirement under Section 2.2 above is not satisfied.

Leave of Absence. Unless the Committee otherwise provides (at the time of the leave or

otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the award, and (b) shall be deemed to be employed by the Company for the duration of such approved leave of absence for purposes of the award. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

Salary Continuation. Subject to Section 2.4 above, the term “employment” as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.4) will not, in and of itself, constitute “employment” for purposes hereof (in the case of salary continuation without active employment, the Grantee’s cessation of active employee status shall, subject to Section 2.4, be deemed to be a termination of “employment” for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

Sale or Spinoff of Subsidiary or Business Unit. For purposes of the RPSRs (and related Dividend Equivalents) subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested and the Grantee does not Retire upon or immediately before such event and the Grantee does not otherwise continue to be employed by the Company or one of its subsidiaries after such event.

Continuance of Employment Required. Except as expressly provided in Sections 2.2 and 2.4 above and in Section 5 below, the vesting of the RPSRs and related Dividend Equivalents subject to the award requires continued employment through the last day of the Performance Period as a condition of the payment of such RPSRs and Dividend Equivalents. Employment for only a portion of the Performance Period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Grant Letter, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee’s status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of

any subsidiary to terminate such employment at any time.

Death. In the event of the Grantee’s death subsequent to the vesting of RPSRs but prior to the delivery of shares or other payment with respect to such RPSRs and related Dividend Equivalents, the Grantee’s Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement with respect to such RPSRs.

3. Non-Transferability and Other Restrictions.

The award, as well as the RPSRs and Dividend Equivalents subject to the award, are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to transfers to the Company. Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company's ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

4. Compliance with Laws; No Stockholder Rights Prior to Issuance.

The Company's obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder, including without limitation the right to vote or receive dividends, with respect to any shares which may be issued in respect of the RPSRs and/or Dividend Equivalents until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee), if such shares become deliverable.

5. Adjustments; Change in Control.

Adjustments. The RPSRs, Dividend Equivalents, related performance criteria, and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

Possible Acceleration on Change in Control.

Notwithstanding the provisions of Section 2 hereof, and further subject to the Company's ability to terminate the award as provided in Section 5.3 below, the Grantee shall be entitled to proportionate vesting of the award as provided below if the Grantee is not otherwise entitled to a pro-rata payment pursuant to Section 2 and in the event of the Grantee's termination of employment in the following circumstances:

- (a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, and the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.
- (b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination, the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, and the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to clause (b) above if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months. The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.2, then the Grantee will be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the last day of the month coinciding with or immediately preceding the date of the

termination of the Grantee's employment, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and through the date of the termination of the Grantee's employment (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the termination shall be paid to the Grantee with respect to the

Grantee's RPSRs which are paid. Payment of any amount due under this Section 5.2 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the Grantee shall be entitled to a prorated payment of the RPSRs as provided below and the award shall terminate. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the award. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the award; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.3, then the Grantee will, be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of

the Performance Period and before the occurrence of the Change in Control (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the Change in Control shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment of any amount due under this Section 5.3 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

6. Tax Matters.

Tax Withholding. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of making any payments or issuing any shares upon vesting of the RPSRs or related Dividend Equivalents, that the Grantee or other person entitled to such shares or other payment pay any sums required to be withheld by federal, state, local or other applicable tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy such withholding obligations).

Transfer Taxes. The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the RPSRs or related Dividend Equivalents.

Compliance with Code. The Committee shall administer and construe the award, and may amend the Terms of the award, in a manner designed to comply with the Code and to avoid adverse tax consequences under Code Section 409A or otherwise.

Unfunded Arrangement. The right of the Grantee to receive payment under the award shall be an unsecured contractual claim against the Company. As such, neither the Grantee nor any Successor shall have any rights in or against any specific assets of the Company based on the award. Awards shall at all times be considered entirely unfunded for tax purposes.

7. Committee Authority.

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these Terms, the Grant Letter, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Grant Letter, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

8. Plan; Amendment.

The RPSRs and Dividend Equivalents subject to the award are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Grant Letter and/or the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall control.

9. Definitions.

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

"Board" means the Board of Directors of the Company.

"Cause" means the occurrence of either or both of the following:

- (i) The Grantee's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee's part shall be considered "willful" unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

"Change in Control" is used as defined in the Plan.

"Change in Control Severance Arrangement" means a "Special Agreement" entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company's Change-in-Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan

that provides severance protections in the event of a change in control of the Company.

“**Code**” means the United States Internal Revenue Code of 1986, as amended.

“**Committee**” means the Company’s Compensation and Management Development Committee or any successor committee appointed by the Board to administer the Plan.

“**Common Stock**” means the Company’s common stock.

“**Disability**” means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee’s employer; all construed and interpreted consistent with the definition of “Disability” set forth in Code Section 409A(a)(2)(C).

“**Fair Market Value**” is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may utilize such other exchange, market, or listing as it deems appropriate.

“**Good Reason**” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

- (i) A material and substantial reduction in the nature or status of the Grantee’s authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee’s authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company’s industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected

Period. The Company may retain a nationally-recognized executive placement firm for purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue.

In addition, if the Grantee is a vice president, the Grantee’s loss of vice-president status will constitute “Good Reason”; provided that the loss of the title of “vice president” will not, in and of itself, constitute Good Reason if the Grantee’s lack of a vice president title is generally consistent with the manner in which the title of vice president is used within the Grantee’s

business unit or if the loss of the title is the result of a promotion to a higher level office. For the purposes of the preceding sentence, the Grantee's lack of a vice-president title will only be considered generally consistent with the manner in which such title is used if most persons in the business unit with authorities, duties, and responsibilities comparable to those of the Grantee immediately prior to the commencement of the Protected Period do not have the title of vice-president.

- (ii) A reduction by the Company in the Grantee's annualized rate of base salary as in effect on the first to occur of the start of the Performance Period or the start of the Protected Period, or as the same shall be increased from time to time.
- (iii) A material reduction in the aggregate value of the Grantee's level of participation in any of the Company's short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be "Good Reason" if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.
- (iv) A material reduction in the Grantee's aggregate level of participation in the Company's stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be "Good Reason" if the reduced level of participation remains substantially consistent with the average level of

participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

- (v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason herein.

"Parent" is used as defined in the Plan.

"Plan" means the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The **"Protected Period"** corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected

Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and include the date of the Change in Control.

"Retirement" or **"Retire"** means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause). In the case of a Grantee who is an officer of the Company subject to the Company's mandatory retirement at age 65 policy, "Retirement" or "Retire" shall also include as to that Grantee (without limiting the Grantee's ability to Retire

pursuant to the preceding sentence) a termination of the Grantee's employment pursuant to such mandatory retirement policy (regardless of the Grantee's years of service and other than in connection with a termination by the Company or a subsidiary for cause).

"Successor" means the person acquiring a Grantee's rights to a grant under the Plan by will or by the laws of descent or distribution.

NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO SPECIAL 2007 RESTRICTED STOCK RIGHTS GRANTED TO JAMES F. PALMER UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions (“Terms”) apply to certain “Restricted Stock Rights” (“RSRs”) granted by Northrop Grumman Corporation (the “Company”) to **James F. Palmer** in 2007 in connection with his employment with the Company. The date of grant of the RSR award is March 12, 2007 (the “Grant Date”). The number of RSRs applicable to the award is 40,000. The date of grant and number of RSRs are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to Mr. Palmer’s Special 2007 RSR award. You (Mr. Palmer) are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The number of RSRs subject to your award is subject to adjustment as provided herein. The RSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Issuance of Shares.

Subject to Sections 2 and 5 below, one-fourth of the number of RSRs subject to your award (subject to adjustment as provided in Section 5.1) shall vest upon the first, second, third and fourth anniversary of the Grant Date.

Except as otherwise provided below, the Company shall pay a vested RSR within 90 days following the vesting of the RSR on the applicable anniversary of the Grant Date. The Company shall pay such vested RSRs in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for vested RSR to be paid in cash (subject to tax withholding as provided in Section 6 below) will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date that such RSR became vested. No fractional shares will be issued.

2. Early Termination of Award; Termination of Employment.

General. The RSRs subject to the award, to the extent not previously vested, shall terminate and become null and void if and when (a) the award terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided in Section 2.6 and in Section 5, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

Leave of Absence. Unless the Committee otherwise provides (at the time of the leave or otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the award, and (b) shall be deemed to be employed by the Company for the duration of such approved leave of absence for purposes of the award. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or

if the Grantee commences a leave that is not approved by the Company.

Salary Continuation. Subject to Section 2.2 above, the term “employment” as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.2) will not, in and of itself, constitute “employment” for purposes hereof (in the case of salary continuation without active employment, the Grantee’s cessation of active employee status shall, subject to Section 2.2, be deemed to be a termination of “employment” for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

Sale or Spinoff of Subsidiary or Business Unit. For purposes of the RSRs subject to the award, a termination of employment of the Grantee shall be

deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested and the Grantee does not otherwise continue to be employed by the Company after such event.

Continuance of Employment Required. Except as expressly provided in Section 2.6 and in Section 5, the vesting of the RSRs subject to the award requires continued employment through each vesting date as a condition to the vesting of the corresponding installment of the award. Employment before or between specified vesting dates, even if substantial, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

Death, Disability or Qualifying Termination. If (i) the Grantee dies while employed by the Company or a subsidiary, or (ii) the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's Disability, or (iii) the Grantee undergoes a Qualifying Termination, then the outstanding and previously unvested RSRs subject to the award shall vest as of the date of the Grantee's death, Disability or Qualifying Termination, as applicable. RSRs vesting under this Section shall be paid in the calendar year containing the 75th day (and generally will be paid on or about such 75th day) following the earliest of (a) Grantee's death, (b) Grantee's Disability, or (c) Grantee's Separation from Service. If an RSR is to be paid upon a Grantee's Separation from Service and the Grantee is a Key Employee at the time of Separation from Service, payment shall be made six months after the Separation from Service.

In the event of the Grantee's death prior to the delivery of shares or other payment with respect to any vested RSRs, the Grantee's Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement with respect to such vested and unpaid RSRs.

3. Non-Transferability and Other Restrictions.

The award, as well as the RSRs subject to the award, are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to: (a)

transfers to the Company; or (b) transfers pursuant to a qualified domestic relations order (as defined in the Code). Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company's ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable

legal, regulatory and listing requirements.

4. Compliance with Laws; No Stockholder Rights Prior to Issuance.

The Company's obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder with respect to any shares which may be issued in respect of the RSRs until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee), if such shares become deliverable.

5. Adjustments; Change in Control.

Adjustments. The RSRs and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

Possible Acceleration on Change in Control.

Notwithstanding the Company's ability to terminate the award as provided in Section 5.3 below, the outstanding and previously unvested RSRs subject to the award shall become fully vested as of the date of the Grantee's termination of employment in the following circumstances:

- (a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.

- (b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination and if the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to clause (b) above if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months. The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

Payment of any amount due under this Section will be made within 90 days of the anniversary of the Grant Date on which the RSRs would otherwise have vested under Section 1.

Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the outstanding and previously unvested RSRs subject to the award shall vest fully and completely. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the award. The award shall terminate, subject to such acceleration provisions, upon a Change in Control triggered by clause (iii) or (iv) of the definition thereof in which the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the RSRs; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

Payment of any amount due under this Section will be made within 90 days of the anniversary of the Grant Date on which the RSRs would otherwise have vested under Section 1.

6. Tax Matters.

Tax Withholding. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of making any payments or issuing any shares upon vesting of the RSRs, that the Grantee or other person entitled to such shares or other payment pay any sums required to be withheld by federal, state or local tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy such withholding obligations at the flat percentage rates applicable to supplemental wages).

Transfer Taxes. The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the RSRs.

Compliance with Code. The Committee shall administer and construe the award, and may amend the Terms of the award, in a manner designed to comply with the Code and to avoid adverse tax consequences under Code Section 409A or otherwise.

7. Committee Authority.

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these Terms, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the

Committee and shall be conclusive and binding on all persons.

8. Plan; Amendment.

The RSRs are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms, the Certificate or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall govern.

9. Definitions.

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

"Affiliated Companies" means the Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.

"Board" means the Board of Directors of the Company.

"Cause" means the occurrence of either or both of the following:

- (i) The Grantee's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee's part shall be considered "willful" unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

"Change in Control" is used as defined in the Plan.

"Change in Control Severance Arrangement" means a "Special Agreement" entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company's Change-in-

Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan that provides severance protections in the event of a change in control of the Company.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Committee" means the Company's Compensation and Management Development Committee or any successor committee appointed by the Board to administer the Plan.

"Disability" means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or

mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee's employer; all construed and interpreted consistent with the definition of "Disability" set forth in Code Section 409A(a)(2)(C).

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended.

"Fair Market Value" is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may utilize such other exchange, market, or listing as it deems appropriate. For purposes of a cashless exercise, the Fair Market Value of the shares shall be the price at which the shares in payment of the exercise price are sold.

"Good Reason" means, without the Grantee's express written consent, the occurrence of any one or more of the following:

- (i) A material and substantial reduction in the nature or status of the Grantee's authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee's authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into

consideration the Company's industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. The Company may retain a nationally-recognized executive placement firm for purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue.

- (ii) A reduction by the Company in the Grantee's annualized rate of base salary as in effect on the date of grant of the award or as the same shall be increased from time to time.
- (iii) A significant reduction by the Company of the Grantee's aggregate incentive opportunities under the Company's short and/or long-term incentive programs, as such opportunities exist on the date of grant of the award, or as such opportunities may be increased after the date of grant of the award. For this purpose, a significant reduction in the Grantee's incentive opportunities shall be deemed to have occurred in the event the Grantee's targeted annualized award opportunities and/or the degree of probability of attainment of such annualized award opportunities are diminished by the Company from the levels and probability of attainment that existed as of the date of grant of the award.
- (iv) The failure of the Company to maintain (x) the Grantee's relative level of coverage and accruals under the Company's employee benefit and/or retirement plans, policies, practices, or arrangements in which the Grantee participates as of the date of grant of the award, both in terms of the amount of benefits provided, and amounts accrued and (y) the relative level of the Grantee's participation in such plans, policies, practices, or arrangements on a basis at least as beneficial as, or substantially equivalent to, that on which the Grantee participated in such plans immediately prior to the date of grant of the award. For this purpose, the Company may eliminate and/or modify existing programs and coverage levels; provided, however, that the Grantee's level of coverage under all such programs must be at least as great as is provided to executives who have the same or lesser levels of reporting responsibilities within the Company's organization.
- (v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the

Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of

rights with respect to, any circumstances constituting Good Reason herein.

“**Key Employee**” means an employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company’s or an Affiliated Company’s stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which employees are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

“**Plan**” means the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The “**Protected Period**” corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company’s stock or by the offeror’s acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and

including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and including the date of the Change in Control.

“Qualifying Termination” shall have the same meaning as in the Company’s Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation.

“Separation from Service” means a “separation from service” within the meaning of Code section 409A.

“Successor” means the person acquiring a Grantee’s rights to a grant under the Plan by will or by the laws of descent or distribution.

NORTHROP GRUMMAN
SUPPLEMENTAL PLAN 2
(Amended and Restated Effective as of January 1, 2005)

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Note: All of the following Appendices are saved as separate documents.

Confidential documents may be requested from Benefits Strategy & Design.

APPENDIX A Northrop Supplemental Retirement Income Program For Senior Executives

APPENDIX B ERISA Supplemental Program 2

APPENDIX C Arthur F. Dauer Program (Confidential)

APPENDIX D Nelson Gibbs, Jr. Program (Confidential)

APPENDIX E Oliver Boileau Program (Confidential)

APPENDIX F CPC Supplemental Executive Retirement Program

APPENDIX G Officers Supplemental Executive Retirement Program

APPENDIX H Robert P. Iorizzo Program

The Northrop Grumman Supplemental Plan 2 (the "Plan") is hereby amended and restated effective as of January 1, 2005. This restatement amends the October 1, 2004 restatement of the Plan to address the requirements of Code section 409A and certain other changes.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

ARTICLE I

Definitions

For purposes of the Plan, the following terms, when capitalized, will have the following meanings:

- 1.01 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.
 - 1.02 Board of Directors. The Board of Directors of the Company.
 - 1.03 CIC Plans. Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan.
 - 1.04 Code. The Internal Revenue Code of 1986, as amended.
 - 1.05 Company. Northrop Grumman Corporation.
 - 1.06 Deferred Compensation Plan. The Northrop Grumman Deferred Compensation Plan and the Northrop Grumman Savings Excess Plan.
 - 1.07 ERISA. The Employee Retirement Income Security Act of 1974, as amended.
 - 1.08 Grandfathered Amounts. Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.
 - 1.09 Key Employee. An employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key
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Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

- 1.10 Participant. Any employee of the Company who is eligible for benefits under a particular Program and has not received full payment under the Program.
- 1.11 Payment Date. The 1st of the month coincident with or following the later of (a) the date the Participant attains age 55, or (b) the date the Participant Separates from Service.
- 1.12 Pension Plan.
- (a) The Northrop Grumman Pension Plan (subject to the special effective dates noted below for the following merged plans)
 - The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
 - The Northrop Grumman Commercial Aircraft Division Salaried Retirement Plan (effective as of July 1, 2000)
 - The Grumman Pension Plan (effective as of July 1, 2003)
 - (b) The Northrop Grumman Electronic Systems — Space Division Consolidated Pension Plan (effective as of October 22, 2001)
 - (c) The Northrop Grumman Norden Systems Employee Retirement Plan (effective July 1, 2003)
- 1.13 Plan. The Northrop Grumman Supplemental Plan 2.
- 1.14 Program. One of the eligibility and benefit structures described in the Appendices.
- 1.15 Qualified Plan. The Northrop Grumman Pension Plan and Cash Balance Plans (as defined under the Northrop Grumman Pension Plan).
- 1.16 Separation from Service or Separates from Service. A “separation from service” within the meaning of Code section 409A.
- 1.17 Termination of Employment. Complete termination of employment with the Affiliated Companies.

- (a) If a Participant leaves one Affiliated Company to go to work for another, he or she will not have a Termination of Employment.
- (b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spunoff.

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ARTICLE II

General Provisions

- 2.01 In General. The Plan contains a number of different benefit Programs which are set forth in the Appendices. The Appendices describe the eligibility conditions and the amount of benefits payable under the Programs. The Company, in its sole discretion, will determine all eligibility conditions, make all benefit determinations, and otherwise exercise sole authority to interpret the Plan and Programs.
- 2.02 Treatment of 2000 Ad Hoc Increases for Retirees. In no event, however, (1) will this Plan pay any amount of a Participant's retirement benefit, if any, attributable to the "2000 Ad Hoc Increase for Retirees" Appendix added to certain of the Company's tax-qualified plans pursuant to the Board of Directors resolution adopted May 17, 2000, or (2) will a Participant be entitled to a benefit (or an increased benefit) from or as a result of participation in this Plan under the Board of Directors resolution adopted May 17, 2000.
- 2.03 Forms and Times of Benefit Payments. This Section only applies to Grandfathered Amounts. The Company will determine the form and timing of benefit payments in its sole discretion unless particular rules regarding the form and timing of benefit payments are set forth in a Program or where a lump sum election under Article III is applicable.
- (a) For payments made to supplement those of a particular tax-qualified retirement or savings plan, the Company will only select among the options available under that plan, using the same actuarial adjustments used in that plan, except in cases of lump sums.
 - (b) Whenever the present value of the amount payable under a particular Program does not exceed \$10,000, it will be paid in the form of a single lump sum as of the first of the month following Termination of Employment. The lump sum will be calculated using the factors and methodology described in Section 3.06 below (See Section 2.05 for the rule that applies as of January 1, 2008).
 - (c) No payments will commence under this Plan until a Participant has a Termination of Employment, even in cases where benefits have commenced under a qualified retirement plan for Participants over age 70 ^{1/2}, or for any other reason.

See Appendix 1 and Appendix 2 for the rules that apply to other benefits earned under the Plan.

- 2.04 Beneficiaries and Spouses. This Section only applies to Grandfathered Amounts. If the Company selects a form of payment which includes a survivor benefit, the Participant may make a beneficiary designation, which may be changed at any

time prior to commencement of benefits. A beneficiary designation must be in writing and will be effective only when received by the Company.

- (a) If a Participant is married on the date his or her benefits are scheduled to commence, his or her beneficiary will be his or her spouse unless some other beneficiary is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before benefits commence and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.
- (b) With respect to Programs designed to supplement tax-qualified retirement or savings plans, the Participant's spouse will be the spouse as determined under the underlying tax-qualified plan. Otherwise, the Participant's spouse will be determined by the Company in its sole discretion.

See Appendix 1 and Appendix 2 for the rules that apply to other benefits earned under the Plan.

2.05 Mandatory Cashout. Notwithstanding any other provisions in the Plan, Participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

- (a) Post-2007 Terminations. Participants who have a Termination of Employment after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of Termination of Employment (without interest), if such present value is below the Code section 402(g) limit in effect at the Termination of Employment.
- (b) Pre-2008 Terminations. Participants who had a Termination of Employment before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Northrop Grumman Pension Plan shall be used.

2.06 Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

- (a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for

these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.

- (b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

- 2.07 Amendment and Plan Termination. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not a Participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to the Grandfathered Amounts.

The Company may, in its sole discretion, seek reimbursement from the Company's tax-qualified plans to the extent this Plan pays tax-qualified plan benefits to which Participants were entitled to or became entitled to under the tax-qualified plans.

- 2.08 Not an Employment Agreement. Nothing contained in this Plan gives any Participant the right to be retained in the service of the Company, nor does it interfere with the right of the Company to discharge or otherwise deal with Participants without regard to the existence of this Plan.
- 2.09 Assignment of Benefits. A Participant, surviving spouse or beneficiary may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to attachment or garnishment by any of their creditors or to legal process.
- 2.10 Nonduplication of Benefits. This Section applies if, despite Section 2.09, with respect to any Participant (or his or her beneficiaries), the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due the Participant (or his or

her beneficiaries) under this Plan will be reduced by the actuarial value of the payments required to be made to such other person or entity.

- (a) Actuarial value will be determined using the factors and methodology described in Section 3.06 below (in the case of lump sums) and using the actuarial assumptions in the underlying Pension Plan in all other cases.
- (b) In dividing a Participant's benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased actuarial cost to the Company.

2.11 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to make benefit payments in the future. The Company may, but need not, fund benefits under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. It is the intention of the Company and Participants that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.

Any funding of benefits under this Plan will be in the Company's sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.

2.12 Construction. The Company shall have full discretion to construe and interpret the terms and provisions of this Plan, to make factual determinations and to remedy possible inconsistencies and omissions. The Company's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or beneficiary. The Company shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

2.13 Governing Law. This Plan shall be governed by the law of the State of California, except to the extent superseded by federal law.

2.14 Actions by Company. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Board of Directors or its delegate. The Board of Directors may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.

2.15 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.

2.16 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.

ARTICLE III

Lump Sum Election

This Article only applies with respect to Grandfathered Amounts. See Appendix 1 and Appendix 2 for the distribution rules that apply to other benefits earned under the Plan.

3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.05, this Article does not apply to employees in cases where benefits under a particular Program are automatically payable in lump sum form under Article II. This Article will not apply if a particular Program so provides.

3.02 Election. Participants may elect to have their benefits paid in the form of a single lump sum under this Section.

- (a) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—
 - (1) Benefits payable to the Participant during his or her lifetime, and
 - (2) Survivor benefits (if any) payable to the Participant's beneficiary, including preretirement death benefits (if any) payable to the Participant's spouse.
- (b) An election does not become effective until the earlier of:
 - (1) the Participant's Termination of Employment, or
 - (2) the Participant's death.
- (c) Before the election becomes effective, it may be revoked.
- (d) If a Participant does not have a Termination of Employment within 60 days after making an election, the election will never take effect.
- (e) An election may only be made once. If it fails to become effective after 60 days or is revoked before becoming effective, it cannot be made again at a later time.
- (f) After a Participant has a Termination of Employment, no election can be made.
- (g) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits which may be due the spouse.

- (h) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.
- 3.03 Lump Sum—Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.02 has a Termination of Employment after he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.
- (a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:
- (1) in the case of a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant's life and ceasing upon the Participant's death should he or she die before the 12 months elapse, or
 - (2) in the case of a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form—
 - (A) with the survivor benefit equal to 50% of the Participant's benefit;
 - (B) with the Participant's spouse as the survivor annuitant;
 - (C) determined by using the contingent annuitant option factors used to convert straight life annuities to 50% joint and survivor annuities under the Northrop Grumman Retirement Plan; and
 - (D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.
- (b) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.
- (c) No lump sum payment will be made if:
- (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.

- (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.
 - (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
 - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.
- 3.04 Lump Sum—Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.02 has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.
- (a) No monthly benefit payments will be made.
 - (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant's Termination of Employment.
 - (c) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
 - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.
 - (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.
- 3.05 Lump Sums with CIC Severance Plan Election. A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.

3.06 Calculation of Lump Sum.

- (a) The factors to be used in calculating the lump sum are as follows:
 - (1) Interest: Whichever of the following two rates that produces the smaller lump sum:
 - (A) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or
 - (B) the applicable interest rate that would be used to calculate a lump sum value for the benefit under the Pension Plans.
 - (2) Mortality: the applicable mortality table, which would be used to calculate a lump sum value for the benefit under the Pension Plans.
 - (3) Increase in Section 415 Limit: 4% per year.
 - (4) Age: Age rounded to the nearest month on the date the lump sum is payable.
 - (5) Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after the date the lump sum is payable.
- (b) The annuity to be converted to a lump sum will be the remaining annuity currently payable to the Participant or his or her beneficiary at the time the lump sum is due.
 - (1) For example, assume a Participant is receiving benefit payments in the form of a 50% joint and survivor annuity.
 - (2) If the Participant and the survivor annuitant are both still alive at the time the lump sum payment is due, the present value calculation will be based on the remaining benefits that would be paid to both the Participant and the survivor in the annuity form.
 - (3) If only the survivor is alive, the calculation will be based solely on the remaining 50% survivor benefits that would be paid to the survivor.
 - (4) If only the Participant is alive, the calculation will be based solely on the remaining benefits that would be paid to the Participant.
 - (5) In the case of a Participant who dies prior to commencement of benefits under this Plan so that only a preretirement surviving

spouse benefit (if any) is payable, the lump sum will be based solely on the value of the preretirement surviving spouse benefit.

- (c) In the case of a lump-sum under Section 3.05 (related to lump sums with a CIC Severance Plan election), the lump-sum amount will be calculated as described in that section and the rules of this Section 3.06 are not used.

3.07 Spousal consent. Spousal consent, as required for elections as described above, need not be obtained if the Company determines that there is no spouse or the spouse cannot be located.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas

Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS

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APPENDIX 1 — 2005-2007 TRANSITION RULES

This Appendix 1 provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

- 1.01 Election. Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the Participant's selected benefit commencement date.
- 1.02 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Participants commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Participant.
- (a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee's date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.
- (b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:
- (i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a Participant must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;
 - (ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and
 - (iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan's procedures for calculating lump sums as of December 31, 2004.

- 1.03 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Participant's benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Participant's benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

APPENDIX 2 — POST 2007
DISTRIBUTION OF 409A AMOUNTS

The provisions of this Appendix 2 shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Articles II and III, and Appendix 1 addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

- 2.01 Time of Distribution. Subject to the special rules provided in this Appendix 2, distributions to a Participant of his vested retirement benefit shall commence as of the Payment Date.
- 2.02 Special Rule for Key Employees. If a Participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the Participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Participant's death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).
- 2.03 Forms of Distribution. Subject to the special rules provided in this Appendix 2, a Participant's vested retirement benefit shall be distributed in the form of a single life annuity. However, a Participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:
- (a) 50% joint and survivor annuity
 - (b) 75% joint and survivor annuity
 - (c) 100% joint and survivor annuity.
- If a Participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.
- 2.04 Death. If a married Participant dies before the Payment Date, a death benefit will be payable to the Participant's spouse commencing 90 days after the Participant's death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a Participant's vested retirement benefit based on a 100% joint and survivor annuity determined on the Participant's date of death. This benefit is

also payable to a Participant's domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

- 2.05 Actuarial Assumptions. Except as provided in Section 2.06 of this Appendix 2, all forms of payment under this Appendix 2 shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

2.06 Accelerated Lump Sum Payouts.

- (a) Post-2007 Separations. Notwithstanding the provisions of this Appendix 2, for Participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section 2.02 of this Appendix 2, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Participant's Separation from Service.
- (b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix 2, for Participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Participant attains age 55, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Participant attains age 55, but no earlier than January 1, 2008.
- (c) Conflicts of Interest. The present value of a Participant's vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.
- (d) Present Value Calculation. The conversion of a Participant's retirement benefit into a lump sum payment and the present value calculations under

this Section 2.06 of this Appendix 2 shall be based on the GATT assumptions in effect under the Northrop Grumman Pension Plan, and will be based on the Participant's immediate benefit if the Participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Participant will be eligible to receive at age 55.

2.07 Effect of Early Taxation. If the Participant's benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Participant.

2.08 Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Company's reasonable anticipation of one or more of the following events:

- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (b) The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section 2.08 of this Appendix 2 shall be paid in accordance with Code section 409A.

2.09 Special Tax Distribution. On the date a Participant's retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Participant's portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will reduce the Participant's future benefit payments under the Plan. This reduction shall be calculated using GATT assumptions in effect under the Northrop Grumman Pension Plan and a cost of living adjustment of 4%.

APPENDIX A
TO THE NORTHROP GRUMMAN SUPPLEMENTAL PLAN 2
Northrop Supplemental Retirement Income Program For Senior Executives

(Amended and Restated Effective as of January 1, 2005)

Appendix A to the Northrop Grumman Supplemental Plan 2 (the "Appendix") is hereby amended and restated effective as of January 1, 2005. This restatement amends the October 1, 2004 restatement of the Appendix to address Code section 409A.

- A.01 Purpose. The purpose of this Program is to provide minimum pension and death benefits to senior executives participating in the Pension Plans who have only had a short period of service with the Company prior to retirement.
- A.02 Eligibility. Officers of the Company may become Participants under this Program only if they are designated as such by the Board of Directors.
- (a) Effective as of April 1, 2003, Kent Kresa ceased being an active Participant under this Program and entered pay-status.
 - (b) Effective as of January 1, 2002, the Board of Directors has determined that Dr. Ronald D. Sugar (the "Executive") will be eligible to participate in this Program.
 - (c) There are no other Participants in this Program as of July 1, 2003.
- A.03 Retirement Benefit. A Participant is eligible for the benefit under Section A.04 upon voluntary or involuntary Termination of Employment with the Company (other than by death) at or after age 55 with 10 or more years of Vesting Service.
- A.04 Amount of Retirement Benefit. The amount of the retirement benefit under this Appendix is the amount in (a), reduced by (b), where:
- (a) is the greater of
 - (1) the amount of the Participant's retirement income under the Pension Plans on a straight life annuity basis, computed:
 - (A) without regard to the limitations on benefits and the cap on counted compensation imposed by Code sections 415 and 401(a)(17), and
 - (B) using Eligible Pay as defined in subsection (c) below, or
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- (2) the amount of a straight life annuity with annual payments equal to the participant's Final Average Salary (as defined below) in effect on the date of his or her Termination of Employment multiplied by the appropriate percentage shown in the following schedule:

Age at Termination Date*	Percentage of Final Average Salary at Termination Date**
55	30%
56	34%
57	38%
58	42%
59	46%
60	50%
61	52%
62	54%
63	56%
64	58%
65 and over	60%

(b) is the sum of (1) and (2) below, where:

- (1) is the amount of the Participant's retirement income payable to the Participant, including all early retirement subsidies, supplements, and other such benefits, under the following plans and programs:
- (A) the Qualified Plans, including any predecessor plans, taking into account the limitations on benefits and the cap on counted compensation imposed by Code sections 415 and 401(a)(17);
 - (B) the CPC Supplemental Executive Retirement Program set forth in Appendix F;
 - (C) the Northrop Grumman ERISA Supplemental Plan;
 - (D) the ERISA Supplemental Program 2 set forth in Appendix B; and
 - (E) any defined benefit retirement plans, programs, and arrangements (whether qualified or nonqualified) maintained by TRW Inc. or Litton Industries, Inc., their predecessors, or any affiliates of either in which the Executive participated prior to the commencement of his employment with the Company; and

* Calculated to years and completed months on the Termination Date.

** The applicable percentage shall be straight line interpolation depending on the Participant's age on his termination date. The percentage thus determined shall be rounded to the nearest hundredth. For example, if a Participant terminates when he is 55 years and 8 months old, the applicable percentage is $30.00\% + 2.67\% = 32.67\%$.

(2) is an annual benefit of \$124,788 which represents a portion of the retirement benefits previously received by the Executive from certain plans previously maintained by Litton Industries, Inc.

(c) Final Average Salary.

(1) Final Average Salary for any Plan Year is the Participant's average Eligible Pay for the highest three of the last ten consecutive Plan Years. For this purpose, years will be deemed to be consecutive even though a break in service year(s) intervenes.

(2) Eligible Pay will be determined under the rules of Appendix F.

A.05 Post-55 Preretirement Surviving Spouse Benefit. If a Participant dies:

(a) after age 55;

(b) while credited with 10 or more years of Vesting Service;

(c) prior to Termination of Employment; and

(d) his or her spouse is entitled to a survivor annuity under the Pension Plans,

then the Participant's spouse will be entitled to the benefit under Section A.06.

A.06 Amount of Post-55 Spouse's Benefit. The Participant's surviving spouse benefit under this Section shall be equal in value to the sum of (a) and (b), with such sum then reduced by (c) where:

(a) is the amount of retirement income that the Participant would have received under the 100% Joint and Survivor Option under the Qualified Plan in which he or she was participating had the Participant retired on the date of death,

(b) is the amount of the benefit under this Program, after the offset of the benefits included in Section A.04(b), the Participant would have received if he or she had retired on the date of his or her death with this 100% Joint and Survivor Option in effect, and

(c) is the amount of the annuity benefit payable to the surviving spouse under the Qualified Plans (even if the annuity is commuted to a lump sum).

A.07 Payment of Post-55 Spouse's Benefit. The spouse's benefit described in Section A.06 will be payable commencing the first day of the month next following the Participant's date of death and shall terminate on the date of death of the surviving spouse.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

A.08 Pre-55 Preretirement Surviving Spouse Benefit. If a Participant dies:

- (a) before age 55;
- (b) while credited with 10 or more years of Vesting Service; and
- (c) prior to Termination of Employment,
then the Participant's spouse will be entitled to the benefit under Section A.09.

A.09 Amount of Pre-55 Spouse's Benefit. The Participant's surviving spouse benefit under this Section shall be equal in value to the benefit standing to the credit of the Participant under the Pension Plans as of the date of his or her death, actuarially reduced in accordance with the factors in the following table:

Age of Participant at Date of Death*	Factor to be Applied to the Earned Benefit**
55	.431
54	.399
53	.370
52	.343
51	.319
50	.297
49	.276
48	.257
47	.240
46	.223
45	.208

Any extension of the above table below age 45 shall be based on the following assumptions (i) Mortality — 1971 Towers, Perrin, Forster & Crosby Forecast Mortality Table, and (ii) Interest — 6% compounded annually.

A.10 Payment of Pre-55 Spouse's Benefit. The spouse's benefit described in Section A.09 will be payable commencing the first day of the month next following the Participant's date of death and will terminate on the date of death of the surviving spouse.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

* Calculated to years and completed months on date of death.

** The applicable factor shall be determined by straight line interpolation depending on Participant's age at date of death.

- A.11 Effective Date. This Program first became effective on July 18, 1973 and will be effective as to each Participant on the date the Board of Directors takes the action designating him or her as a Participant under this Program.
- A.12 Vesting Service.
- (a) In General. Vesting Service is generally determined under the Qualified Plans.
 - (b) Special Rule for the Executive. The Executive is deemed to have earned 5 years of Vesting Service as of January 1, 2002. For service performed after December 31, 2001, the Executive's Vesting Service is determined under the Qualified Plans.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS

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APPENDIX F
TO THE NORTHROP GRUMMAN SUPPLEMENTAL PLAN 2

CPC Supplemental Executive Retirement Program

(Amended and Restated Effective as of January 1, 2005)

Appendix F to the Northrop Grumman Supplemental Plan 2 (the "Appendix") is hereby amended and restated effective as of January 1, 2005. This restatement amends the October 1, 2004 restatement of the Appendix to address Code section 409A.

F.01 Purpose. The purpose of this Program is to give enhanced retirement benefits to eligible elected officers of the Company's Corporate Policy Council. This Program is intended to supplement benefits that are otherwise available under the Qualified Plans.

F.02 Definitions and Construction.

- (a) Capitalized terms used in this Appendix that are not defined in this Appendix or Article I of the Plan are taken from the Qualified Plans and are intended to have the same meaning.
 - (b) CPC Service.
 - (1) Months of CPC Service will be determined under the rules of the Qualified Plans for determining Credited Service.
 - (2) Only months of Credited Service after the commencement of a Participant's tenure on the Corporate Policy Council will be counted.
 - (3) Months of CPC Service will continue to be counted for a Participant until the earlier of (A) and (B):
 - (A) The date the Participant ceases to earn benefit accrual service under either the Qualified Plans or some other defined benefit plan of the Affiliated Companies that is qualified under section 401(a) of the Code ("Successor Qualified Plan").
 - (B) Cessation of the officer's membership on the Corporate Policy Council (whether because of termination of his membership or dissolution of the Council).
 - (C) Examples: The following examples assume that the Participant continues to earn months of CPC Service under the Qualified Plans until termination of employment.
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Example 1: Officer A terminates employment with the Affiliated Companies on March 31, 2004. At that time, he is still a member of the CPC. His service under this Program ceases to accrue on March 31, 2004.

Example 2: Officer B ceases to be a member of the CPC on December 31, 2005, though continuing to work for the Affiliated Companies after that date. His service under this Program ceases to accrue on December 31, 2005.

- (4) If a Participant is transferred to a position with an Affiliated Company not covered by a Qualified Plan, CPC Service will be determined as the Credited Service under the Participant's last Qualified Plan.
 - (A) If such a transfer occurs, the Participant will continue to earn deemed service credits as if he or she were still participating under the Qualified Plan.
 - (B) Those deemed service credits will not be considered as earned under the Qualified Plan for purposes of determining:
 - (i) benefits under the Qualified Plan or supplements to the Qualified Plan other than this Program, or
 - (ii) the offset under Section F.04(b) below, including the early retirement factors associated with the plans included in the offset.
- (c) Eligible Pay. Subject to paragraphs (1) through (3) below, Eligible Pay will generally be determined under the rules of the Participant's supplemental benefit plan (for section 401(a)(17) purposes).
 - (1) For periods during which a Participant did not participate in a supplemental benefit plan, Eligible Pay will be determined by reference to the applicable qualified defined benefit retirement plan under which the Participant benefits.
 - (A) Eligible Pay will be calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).
 - (B) Eligible Pay will include compensation deferred under a Deferred Compensation Plan and in connection with the Northrop Grumman Electronic Systems Executive Pension Plan.
 - (C) For purposes of (B), any compensation deferred will only be treated as compensation for Plan benefit calculation purposes in

the year(s) payment would otherwise have been made and not in the year(s) of actual payment.

- (2) For periods during which a Participant did not participate in a supplemental benefit plan or a qualified defined benefit retirement plan, Eligible Pay will be his or her annualized base pay (determined in accordance with the Northrop Grumman Retirement Plan), plus any bonuses received.
 - (A) Annualized base pay is calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).
 - (B) Annualized base pay includes compensation deferred under a deferred compensation arrangement with those deferrals treated as compensation for Plan benefit calculation purposes in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.
- (3) If a Participant experiences a Termination of Employment before December 31 of any year, Eligible Pay for the year in which the Participant's Termination of Employment occurs is determined in accordance with the Standard Annualization Procedure in Article 2 of the Standard Definitions and Procedures for Certain Northrop Grumman Corporation Retirement Plans.
- (d) Final Average Salary will mean the Participant's average Eligible Pay for the highest three of the last ten consecutive Plan Years. For this purpose, years will be deemed to be consecutive even though a break in service year(s) intervenes.
- (e) The benefits under this Program are designed to supplement benefits under the Qualified Plans and are therefore to be construed utilizing the same principles and benefit calculation methodologies applicable under the Qualified Plans except where expressly modified.
- (f) Benefits under this Program will be calculated without regard to the limits in sections 401(a)(17) and 415 of the Code.

F.03 Eligibility. Eligibility for benefits under this Program will be limited to those elected officers of the Company's Corporate Policy Council, other than Charles H. Noski, designated as "Participants" by the Company's Board of Directors or Compensation and Management Development Committee. No Participant will be entitled to any benefits under this Appendix F until he or she becomes Vested under the Qualified Plans, except to the extent provided in Section F.08.

F.04 Benefit Amount. A Participant's total accrued benefit under this Program is his or her gross benefit under (a), reduced by (b) (as modified by (c)), and adjusted under (d). The

benefit calculated under this Section F.04 will be subject to the benefit limit under Section F.05.

- (a) A Participant's gross annual benefit under this Program will equal $3.33\% \times \text{Final Average Salary} \times \text{months of CPC Service} \div 12$.
 - (1) The benefit payable is a single, straight life annuity commencing on the Participant's Normal Retirement Date. The form of benefit and timing of commencement will be determined under Section F.06.
 - (2) If a Participant's benefit is paid under this Program before his Normal Retirement Date, the gross benefit will be adjusted for early commencement in accordance with Section G.04(c).
- (b) The gross benefit under (a) above (multiplied by any applicable early retirement factor) is reduced by the retirement benefits the participant is entitled to receive (including all early retirement subsidies, supplements, and other such benefits) under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified (but not contributory or defined contribution plans, programs, or arrangements).
- (c) For purposes of the offset adjustment in subsection (b):
 - (1) The Participant's gross benefit under subsection (a) will be reduced only by the benefits accrued under the plans described in (b) for the period during which the Participant earns CPC Service.
 - (A) No offset will be made for accruals earned before (or after) participation in this Program.
 - (B) Offsets will be made for benefits accrued under any plan while a Participant:
 - (i) is employed by the Affiliated Companies; or
 - (ii) was employed by a company before it became an Affiliated Company.
 - (C) The offset under (b) includes any benefit enhancements under change-in-control Special Agreements (including enhancements for age and service) that Participants have entered into with the Company ("Special Agreements").
 - (D) The offset under (b) does not include:
 - (i) benefits accrued under the Supplemental Retirement Income Program for Senior Executives described in Appendix A; or

(ii) Part II benefits under the Litton Restoration Plan and Litton Restoration Plan II.

- (2) If a Participant's benefit under this Program commences upon reaching age 65, benefits under all the plans and programs described in (b) above will be compared on the basis of a single, straight life annuity commencing at age 65 using the assumptions in Section F.09.
- (3) If a Participant's benefit under this Program commences before age 65, benefits under this Program will be offset for the plans described in (b) above by converting the benefits paid or payable from those plans to an actuarially equivalent single life annuity benefit commencing upon retirement. For this purpose, the benefit will be converted to an early retirement benefit under each applicable plan's terms and further adjusted, if necessary, for different normal forms of benefits or different commencement dates using the actuarial assumptions in Section F.09.
- (d) A Participant's benefit under this Program will be no less than the benefit that would have been accrued under Appendix G had the Participant been eligible to participate in that Program.
 - (1) If the net benefit calculated under Appendix G would be greater than the benefit determined in accordance with Sections F.04(a) through (c), the Participant will receive an additional amount under this Program equal to the difference between the net benefit calculated under Appendix G and the benefit calculated under Sections F.04(a) through (c).
 - (2) The above comparison will be made following the application of the applicable early retirement factors and offset adjustments under this Program and Appendix G.

F.05 Benefit Limit. A Participant's total accrued benefits under all plans, programs, and arrangements in which he or she participates, including the benefit accrued under Section F.04 and all plans included in Section F.04(b), may not exceed 60% of his or her Final Average Salary. If this limit is exceeded, the Participant's benefit accrued under this Program will be reduced to the extent necessary to satisfy the limit.

- (a) The accrued benefits a Participant has earned under the plans included in Section F.04(b) that are taken into account for purposes of this Section are not limited to those benefits accrued during the time he or she participated in this Program (as described in Section F.04(c)(1)), but instead will count all service with the Affiliated Companies.
- (b) If a participant has previously received a distribution from one of the plans included in Section F.04(b), that previously received benefit applies toward the limit in this Section.

- (c) The Participant's Final Average Salary is reduced for early retirement applying the factors in Section G.04(c).
- (d) The limit in this Section may not be exceeded even after the benefits under this Program have been enhanced under any Special Agreements.

F.06 Payment of Benefits.

- (a) Benefits will generally be paid in accordance with Section 2.03 of the Plan.

In addition to all other benefit forms otherwise available under this Program, effective as of January 1, 2004, a Participant may elect to have his or her benefits paid in the form of a 75% Joint and Survivor Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant's spouse is still alive, a benefit equal to 75% of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life. If the spouse is not still alive when the Participant dies, no further payments are made. The determination of the benefit payable under this option will be made utilizing the factors for a 75% Joint and Survivor Option under the provisions of the Northrop Grumman Retirement Plan.

- (b) Except as provided in subsection (c), benefits will commence as of the first day of the month following the Participant's Termination of Employment or, if later, as of the date the Participant's early retirement benefit commences under the Qualified Plans.
- (c) If a Participant has a Termination of Employment because of Disability before the Participant is eligible for an early retirement benefit from a Qualified Plan, benefits may commence immediately, subject to adjustment for early commencement using the applicable factors and methodologies under Sections F.04(a)(2) and F.04(c)(3).
- (d) If a Participant dies after commencement of benefits, any survivor benefits will be paid in accordance with the form of benefit selected by the Company. If a Participant dies prior to commencement of benefits, payment will be made under Section F.07.

The distribution rules under this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

F.07 Preretirement Death Benefits. If a Participant dies before benefits commence, preretirement surviving spouse benefits are payable under this Program if his or her surviving spouse is eligible for a qualified preretirement survivor annuity (as required under section 401(a)(11) of the Code) from a Qualified Plan.

- (a) Amount and Form of Preretirement Death Benefit. A preretirement death benefit paid to a surviving spouse is the survivor benefit portion of a 100% joint-and-

survivor annuity calculated using the survivor annuity factors under the Northrop Grumman Pension Plan in an amount determined as follows:

- (1) First, the Participant's gross benefit under Section F.04(a) will be calculated and reduced, as necessary, for early retirement using the factors in Section F.04(a)(2) and adjusted, as necessary, in accordance with Section F.04(d);
 - (2) Second, the target preretirement death benefit under this Program will be calculated by applying the appropriate 100% joint-and-survivor annuity factor (as provided in the Northrop Grumman Pension Plan) to the amount determined in (1); and
 - (3) Third, the target preretirement death benefit determined in (2) will be reduced by the preretirement death benefits, if any, payable under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified, that are otherwise included in the offsets described under Section F.04(b) such that the sum of the preretirement death benefit payments made to the surviving spouse under all plans, including this Program, will equal, at all times, the level of payments determined to be the target preretirement death benefit (subject to the benefit limit described in Section G.05(a)).
- (b) Timing of Preretirement Death Benefit.
- (1) Benefits commence as of the first day of the month following the death of the Participant, subject to adjustment for early commencement using the applicable factors under G.04(c).
 - (2) If there is a dispute as to whom payment is due, the Company may delay payment until the dispute is settled.
- (c) No benefit is payable under this Program with respect to a spouse after the spouse dies.

The distribution rules under this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

F.08 Individual Arrangements. This Section applies to a Participant who has an individually-negotiated arrangement with the Company for supplemental retirement benefits.

- (a) This Section is intended to coordinate the benefits under this Program with those of any individually-negotiated arrangement. Participants with such arrangements will be paid the better of the benefits under the arrangement or under Sections F.04 or F.07 (as limited by F.05).

- (b) In no case will duplicate benefits be paid under this Program and such an individual arrangement. Any payments under this Program will be counted toward the Company's obligations under an individual arrangement, and vice-versa.
- (c) If the benefit under an individually-negotiated arrangement exceeds the one payable under this Program, then the individual benefit will be substituted as the benefit payable under this Program (even if it exceeds the limit under F.05).
- (d) To determine which benefit is greater, all benefits will be compared, subject to adjustment for early retirement using the applicable factors and methodologies under Sections F.04(a)(2) and F.04(c)(3).
- (e) For purposes of (d), the individually-negotiated benefit will be determined in accordance with all of its terms and conditions. Nothing in this Section is meant to alter any of those terms and conditions.
- (f) This Section does not apply to the Special Agreements.

F.09 Actuarial Assumptions: The following defined terms and actuarial assumptions will be used to the extent necessary to convert benefits to straight life annuity form commencing at the Participant's Normal Retirement Date under Sections F.04 and F.08:

Interest: Five percent (5%)

Mortality: The applicable mortality table which would be used to calculate a lump sum value for the benefit under the Qualified Plans.

Increase in Code Section 415 Limit: 2.8% per year.

Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after commencement of benefits.

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IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas

Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS

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APPENDIX G
TO THE NORTHROP GRUMMAN SUPPLEMENTAL PLAN 2

Officers Supplemental Executive Retirement Program

(Amended and Restated Effective as of January 1, 2005)

Appendix G to the Northrop Grumman Supplemental Plan 2 (the "Appendix") is hereby amended and restated effective as of January 1, 2005. This restatement amends the October 1, 2004 restatement of the Appendix to address Code section 409A.

G.01 Purpose. The purpose of this Program is to give enhanced retirement benefits to eligible officers of the Company. This Program is intended to supplement benefits that are otherwise available under the Qualified Plans.

G.02 Definitions and Construction.

- (a) Capitalized terms used in this Appendix that are not defined in this Appendix or Article I of the Plan are taken from the Qualified Plans, and are intended to have the same meaning.
 - (b) Eligible Pay. Subject to paragraphs (1) through (3) below, Eligible Pay will generally be determined under the rules of the Participant's supplemental benefit plan (for section 401(a)(17) purposes).
 - (1) For periods during which a Participant did not participate in a supplemental benefit plan, Eligible Pay will be determined by reference to the applicable qualified defined benefit retirement plan under which the Participant benefits.
 - (A) Eligible Pay will be calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).
 - (B) Eligible Pay will include compensation deferred under a Deferred Compensation Plan and in connection with the Northrop Grumman Electronic Systems Executive Pension Plan.
 - (C) For purposes of (B), any compensation deferred will only be treated as compensation for Plan benefit calculation purposes in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.
 - (2) Special Rules for Certain Participants.
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- (A) Former Northrop Grumman Electronic Systems Executive Pension Plan Participants. For years prior to 2002, Eligible Pay is determined by reference to the Participant's total base salary under the Northrop Grumman Electronic Systems Pension Plan plus any bonuses that were received or would have been received had the Participant not elected to have the amounts deferred under a deferred compensation arrangement. No compensation of any kind paid or otherwise earned while employed by an entity prior to that entity becoming an Affiliated Company will be included in the Participant's Eligible Pay.
- (B) Employees of Newport News Shipbuilding, Inc. For the period beginning on January 1, 1994 and ending December 31, 2003, Eligible Pay is determined by reference to the Participant's total base salary plus any bonuses that were received or would have been received had the Participant not elected to have the amounts deferred under a deferred compensation arrangement.
- (3) If a Participant experiences a Termination of Employment before December 31 of any year, Eligible Pay for the year in which the Participant's Termination of Employment occurs is determined in accordance with the Standard Annualization Procedure in Article 2 of the Standard Definitions and Procedures for Certain Northrop Grumman Corporation Retirement Plans.
- (c) Final Average Salary for any Plan Year is the Participant's average Eligible Pay for the highest three of the last ten consecutive Plan Years in which the Participant was an employee of an Affiliated Company and a participant in a qualified defined benefit retirement plan. For this purpose, years will be deemed to be consecutive even though a break in service year(s) intervenes.
- (d) Months of Benefit Service.
 - (1) Months of Benefit Service will be determined under the rules of the Qualified Plans for determining Credited Service.
 - (2) Months of Benefit Service will continue to be counted for a Participant until the earlier of (A) or (B):
 - (A) The date the Participant ceases to earn benefit accrual service under either the Qualified Plans or some other defined benefit plan of the Affiliated Companies that is qualified under section 401(a) of the Code ("Successor Qualified Plan").
 - (B) Cessation of the Participant's status as an elected or appointed officer of the Company.

- (3) If a Participant is transferred to a position with an Affiliated Company not covered by a Qualified Plan, Months of Benefit Service will be determined as the Credited Service in the Participant's last Qualified Plan.
 - (A) If such a transfer occurs, the Participant will continue to earn deemed service credits as if he or she were still participating under the Qualified Plan.
 - (B) Those deemed service credits will not be considered as earned under the Qualified Plan for purposes of determining:
 - (i) benefits under the Qualified Plan or supplements to the Qualified Plan other than this Program, or
 - (ii) the offset under Section G.05 below, including the early retirement factors associated with the plans included in the offset.
- (e) The benefits under this Program are designed to supplement benefits under the Qualified Plans and are to be construed using the same principles and benefit calculation methodologies applicable under the Qualified Plans except where expressly modified in this Program.
- (f) Benefits are calculated without regard to the limits in sections 401(a)(17) and 415 of the Code.

G.03 Eligibility. Except as otherwise provided in (1) through (5) below, eligibility for benefits under this Program is limited to elected or appointed officers of the Company, other than Charles H. Noski.

- (1) Employees of Newport News Shipbuilding Inc. will be eligible to participate under this Program effective January 1, 2004.
- (2) No employees of Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.), Component Technologies, or Premier America Credit Union are eligible for benefits under this Program.
- (3) No Participant is entitled to any benefits under this Appendix G until he or she becomes Vested under the Qualified Plans, except to the extent provided in Section G.08.
- (4) No individual who is, was, or will be eligible to participate in and receive benefits under Appendix F of the Plan (the "CPC SERP") is eligible to participate under this Program.

Effective January 1, 2005, Section G.03 is restated in its entirety to provide as follows:

G.03 Eligibility. Except as otherwise provided in (1) through (5) below, eligibility for benefits under this Program is limited to elected or appointed officers of the Company, other than Charles H. Noski.

- (1) Employees of Newport New Shipbuilding, Inc. will be eligible to participate under this Program effective January 1, 2004.
- (2) No employees of Vinnell Corporation, Component Technologies, or Premier America Credit Union are eligible for benefits under this Program.
- (3) No Participant is entitled to any benefits under this Appendix G until he or she becomes Vested under the Qualified Plans, except to the extent provided in Section G.08.
- (4) No individual who is, was, or will be eligible to participate in and received benefits under Appendix F of the Plan (the "CPC SERP") is eligible to participate under this Program.
- (5) Notwithstanding any other provisions of this Program to the contrary, elected and appointed officers of the Company's Mission Systems and Space Technology Sectors will be eligible to participate under this Program effective as of January 1, 2005.

G.04 Benefit Amount.

- (a) A Participant's annual Normal Retirement Benefit under this Program equals the sum of (1) through (3) below, subject to the limit described in Section G.05:

- (1) $2.0\% \times \text{Final Average Salary} \times \text{Months of Benefit Service up to 120 months} \div 12$
- (2) $1.5\% \times \text{Final Average Salary} \times \text{Months of Benefit Service in excess of 120 months up to 240 months} \div 12$
- (3) $1.0\% \times \text{Final Average Salary} \times \text{Months of Benefit Service in excess of 240 months up to 540 months} \div 12$

However, if an employee performs service during his or her career in covered positions under both this Appendix G and the CPC SERP: the employee's entire benefit will be calculated under Section F.04 of the CPC SERP and payable under the terms of that program; all benefits accrued under this Program will be eliminated; and no amounts will be payable under this Appendix G.

- (b) The total benefit payable is a single, straight life annuity commencing at age 65, assuming an annual benefit equal to the gross benefit under (a). The form of benefit and timing of commencement will be determined under Section G.06.

- (c) If a Participant's benefit is paid under this Program before age 65, the benefit will be adjusted as follows. The Early Retirement Benefit is a monthly benefit equal to the Normal Retirement Benefit reduced by the lesser of:
- (1) 1/12th of 2.5% for each calendar month the payment of benefits begins before age 65; or
 - (2) 2.5% for each Benefit Point less than 85 where the Participant's Benefit Points (truncated to reach a whole number) equal the sum of:
 - (A) his or her age (computed to the nearest 1/12th of a year) at the annuity starting date and
 - (B) 1/12th of his or her months of Credited Service under the applicable Qualified Plan (also computed to the nearest 1/12th of a year) as of the date his or her employment terminated.

A Participant's Vesting Service and months of Credited Service earned under the Qualified Plans (or deemed earned in the event of a transfer) are used to determine whether the Early Retirement Benefit provisions apply and to calculate the early retirement reduction.

- (d) Except as provided under Sections G.06(c) and G.07, no benefit will be paid under this Program if a Participant:
- (1) experiences a Termination of Employment before attaining age 55 and completing 120 Months of Benefit Service; or
 - (2) is not an active Participant in the Plan at the time of his or her Termination of Employment.

Notwithstanding any other provision of the Program to the contrary, a Participant who otherwise satisfies the requirements of this subsection (d) is not required to retire and commence benefits under this Program upon his or her Termination of Employment.

G.05 Benefit Limit. Accruals under Section G.04 will be limited as provided in this Section.

- (a) A Participant's total accrued benefits under all plans, programs, and arrangements in which he or she participates, including the benefit accrued under Section G.04 and all plans included in Section G.05(b), may not exceed 60% of his or her Final Average Salary. If this limit is exceeded, the Participant's benefit accrued under this Program will be reduced to the extent necessary to satisfy the limit.
- (1) The Participant's Final Average Salary will be reduced for early retirement applying the factors in Section G.04(c).
 - (2) The limit in this subsection may not be exceeded even after the benefits under this Program have been enhanced under any Special Agreements.

- (b) The gross benefit calculated under Section G.04 above (multiplied by any applicable early retirement factor) is reduced by the retirement benefits the participant is entitled to receive (including all early retirement subsidies, supplements, and other such benefits) under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified (but not contributory or defined contribution plans, programs, or arrangements).
- (c) For purposes of the offset in subsection (b):
 - (1) Offsets will be made:
 - (A) with respect to:
 - (i) benefits accrued under any plan while a Participant is employed by the Affiliated Companies; and
 - (ii) benefits accrued under any plan while a Participant was employed by a company before it became an Affiliated Company;
 - (B) with respect to any benefit enhancements under change-in-control Special Agreements (including enhancements for age and service) that Participants have entered into with the Company (“Special Agreements”); and
 - (C) without regard to:
 - (i) benefits accrued under the Supplemental Retirement Income Program for Senior Executives described in Appendix A;
 - (ii) Part II benefits under the Litton Restoration Plan and Litton Restoration Plan II; or
 - (iii) benefits accrued under the Company’s Pilot’s Transition Plan.
 - (2) If a Participant’s benefit under this Program commences upon reaching age 65, the Participant’s benefits under all the plans and programs described in (b) above will be compared on the basis of a single, straight life annuity commencing at age 65 using the assumptions stated in Section G.09.
 - (3) If a Participant’s benefit under this Program commences before age 65, benefits under this Program will be offset for the plans described in (b) above by converting the benefits paid or payable from those plans to an

actuarially equivalent single life annuity benefit commencing upon retirement. For this purpose, the benefit will be converted to an early retirement benefit under each applicable plan's terms and further adjusted, if necessary, for different normal forms of benefits or different commencement dates using the actuarial assumptions of Section G.09.

- (4) If a Participant previously received a distribution under one of the plans described in (b) above for a period of service that counts as Months of Benefit Service, that previously received benefit applies toward the limit under this Section.
- (e) Example: A Participant elects to receive an early retirement benefit at age 55 after completing 240 Months of Benefit Service with Final Average Salary equal to \$250,000. The Participant has accrued monthly benefits under the Northrop Grumman Electronic Systems Pension Plan (the "ES Plan") equal to \$2,550 payable at age 55, the Northrop Grumman ERISA Supplemental Program 2 ("ERISA 2") equal to \$600 payable at age 55, and the Northrop Grumman Electronic Systems Executive Pension Plan (the "ES EPP") equal to \$600 payable at age 65.

The Participant's pre-offset benefit under this Program, calculated in accordance with Section G.04, equals 35% of the Participant's Final Average Salary (\$250,000) x 75% to account for the early retirement reduction under Section G.04(c). This results in a monthly gross benefit under this Program, before the benefit limit is applied, equal to \$5,468.75. The Participant's total net benefit is calculated, taking into account the offset under (b) above, by reducing the gross benefit by the following:

- (1) the \$2,550 monthly benefit under the ES Plan payable at age 55, subject to that plan's conversion factors; and
- (2) the \$600 ERISA 2 early retirement single life annuity payable at age 55.
- (3) No offset results from the ES EPP, however, because the Participant is not eligible to receive a benefit at age 55 under that plan.

This results in a monthly gross benefit under this Program equal to \$2,318.75.

G.06 Payment of Benefits.

- (a) Benefits will generally be paid in accordance with Section 2.03 of the Plan.

In addition to all other benefit forms otherwise available under this Program, effective as of January 1, 2004, a Participant may elect to have his or her benefits paid in the form of a 75% Joint and Survivor Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant's spouse is still alive, a benefit equal to 75% of the Participant's monthly benefit is paid to the spouse for the remainder of his or her life. If the spouse is not still

alive when the Participant dies, no further payments are made. The determination of the benefit payable under this option will be made utilizing the factors for a 75% Joint and Survivor Option under the provisions of the Northrop Grumman Retirement Plan.

- (b) Except as provided in (c), benefits will commence as of the first day of the month following the Participant's Termination of Employment or, if later, as of the date the Participant's early retirement benefit commences under the Qualified Plans.
- (c) If a Participant has a Termination of Employment because of disability before the Participant is eligible for an early retirement benefit from a Qualified Plan, benefits may commence immediately, subject to adjustment for early commencement using the applicable factors and methodologies under Sections G.04(c) and G.05(c)(3).
- (d) If a Participant dies after commencement of benefits, any survivor benefits will be paid in accordance with the form of benefit selected by the Company. If a Participant dies prior to commencement of benefits, payment will be made under Section G.07.

The distribution rules under this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

G.07 Preretirement Death Benefits. If a Participant dies before benefits commence, preretirement surviving spouse benefits are payable under this Program on behalf of the Participant if his or her surviving spouse is eligible for a qualified preretirement survivor annuity (as required under section 401(a)(11) of the Code) from a Qualified Plan.

- (a) **Amount and Form of Preretirement Death Benefit.** A preretirement death benefit paid to a surviving spouse is the survivor benefit paid to a surviving spouse is the survivor benefit portion of a 100% joint and survivor annuity calculated using the survivor annuity factors under the Northrop Grumman Pension Plan in an amount determined as follows:
 - (1) First, the Participant's gross benefit under Section G.04(a) will be calculated and reduced, as necessary, for early retirement using the factors in Section G.04(c);
 - (2) Second, the target preretirement death benefit under this Program will be calculated by applying the appropriate 100% joint-and-survivor annuity factor (as provided in the Northrop Grumman Pension Plan) to the amount determined in (1); and
 - (3) Third, the target preretirement death benefit determined in (2) will be reduced by the preretirement death benefits, if any, payable under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified, that are otherwise included in the offsets described under Section G.05(b) such

that the sum of the preretirement death benefit payments made to the surviving spouse under all plans, including this Program, will equal, at all times, the level of payments determined to be the target preretirement death benefit (subject to the benefit limit described in Section G.05(a)).

(b) Timing of Preretirement Death Benefit.

- (1) Benefits commence as of the first day of the month following the death of the Participant, subject to adjustment for early commencement using the applicable factors under G.04(c).
- (2) If there is a dispute as to whom payment is due, the Company may delay payment until the dispute is settled.

(c) No benefit is payable under this Program with respect to a spouse after the spouse dies.

The distribution rules under this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

G.08 Individual Arrangements. This Section applies to a Participant who has an individually-negotiated arrangement with the Company for supplemental retirement pension benefits. Notwithstanding any other provision to the contrary, this Section does not apply to any individually-negotiated arrangements between a Participant and the Company concerning severance payments.

- (a) This Section is intended to coordinate the benefits under this Program with those of any individually-negotiated arrangement. Participants with such arrangements will be paid the better of the benefits under the arrangement or under Sections G.04 or G.07 (as limited by G.05).
- (b) In no case will duplicate benefits be paid under this Program and such an individual arrangement. Any payments under this Program will be counted toward the Company's obligations under an individual arrangement, and vice-versa.
- (c) If the benefit under an individually-negotiated arrangement exceeds the one payable under this Program, then the individual benefit will be substituted as the benefit payable under this Program (even if it exceeds the limit under G.05).
- (d) To determine which benefit is greater, all benefits will be compared, subject to adjustment for early retirement using the applicable factors and methodologies under Sections G.04(c) and G.05(c)(3).
- (e) For purposes of (d), the individually-negotiated benefit will be determined in accordance with all of its terms and conditions. Nothing in this Section is meant to alter any of those terms and conditions.
- (f) This Section does not apply to the Special Agreements.

G.09 Actuarial Assumptions. The following defined terms and actuarial assumptions will be used to the extent necessary under Sections G.05 and G.08 to convert benefits to straight life annuity form commencing upon the Participant reaching age 65:

Interest: Five percent (5%)

Mortality: The applicable mortality table which would be used to calculate a lump sum value for the benefit under the Qualified Plans.

Increase in Code Section 415 Limit: 2.8% per year.

Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after commencement of benefit.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS

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NORTHROP GRUMMAN

ERISA SUPPLEMENTAL PLAN

(Amended and Restated Effective as of January 1, 2005)

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INTRODUCTION

The Northrop Grumman ERISA Supplemental Plan (the “Plan”), formerly known as the Northrop Corporation ERISA Supplemental Plan 1, is hereby amended and restated effective as of January 1, 2005. This restatement amends the October 1, 2004 restatement of the Plan to address the requirements of Code section 409A and certain other changes.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

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ARTICLE I

Definitions

For purposes of the Plan, the following terms, when capitalized, will have the following meanings:

- 1.01 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.
- 1.02 CIC Plans. Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan.
- 1.03 Code. The Internal Revenue Code of 1986, as amended.
- 1.04 Company. The Company as designated in the Pension Plans.
- 1.05 Grandfathered Amounts. Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.
- 1.06 Key Employee. An employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.
- 1.07 Participant. Any employee who (a) is eligible for benefits under one or both Pension Plans, (b) meets the eligibility requirements of Section 2.02 of this Plan and (c) and has not received full payment under the Plan.
- 1.08 Payment Date. The 1st of the month coincident with or following the later of (a) the date the Participant attains age 55, or (b) the date the Participant Separates from Service.
- 1.09 Plan. The Northrop Grumman ERISA Supplemental Plan, formerly known as the Northrop Corporation ERISA Supplemental Plan 1.
- 1.10 Pension Plan Benefits. This term is defined in Section 2.08 of this Plan.
- 1.11 Pension Plan and Pension Plans. Any of the following:

- (a) The Northrop Grumman Retirement Plan
- (b) The Northrop Grumman Retirement Plan—Rolling Meadows Site
- (c) The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
- (d) The Northrop Grumman Electronics Systems – Space Division Salaried Employees’ Pension Plan (effective as of the Aerojet Closing Date)
- (e) The Northrop Grumman Electronics Systems – Space Division Union Employees’ Pension Plan (effective as of the Aerojet Closing Date)

“Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.

1.12 Separation from Service or Separates from Service. A “separation from service” within the meaning of Code section 409A.

1.13 Termination of Employment. Complete termination of employment with the Affiliated Companies.

- (a) If a Participant leaves one Affiliated Company to go to work for another, he or she will not have a Termination of Employment.
- (b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spunoff.

ARTICLE II

Eligibility for and Amount of Benefits

- 2.01 Purpose. The purpose of this Plan is simply to restore to employees of the Company the benefits they lose under the Pension Plans as a result of the benefit limits in Code section 415, as amended, or any successor section ("section 415"), as the benefit limits are described in the applicable Pension Plan.
- 2.02 Eligibility. Each Participant is eligible to receive a benefit under this Plan if:
- (a) he or she has vested in benefits under one or both Pension Plans;
 - (b) he or she has vested benefits reduced because of the application of section 415;
 - (c) he or she is not eligible to receive a benefit under the Northrop Corporation Supplemental Retirement Income Program for Senior Executives or any other plan or program which bars an employee from participation in this Plan; and
 - (d) he or she is not a "Participant" in the Charles H. Noski Executive Retirement Plan as that term is defined under that plan.
- 2.03 Amount of Benefit. The benefit payable from the Company under this Plan to a Participant will equal the retirement benefit, if any, which would have been payable to the Participant under the terms of a Pension Plan but for the restrictions of section 415 (as described in the applicable Pension Plan).
- The benefit payable under this Plan will be reduced by the amount of Pension Plan Benefits attributable to the applicable Pension Plan.
- Benefits under this Plan will only be paid to supplement benefit payments actually made from a Pension Plan. If benefits are not payable under a Pension Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Plan with respect to such Pension Plan.
- In no event, however, (1) will this Plan pay any amount of a Participant's retirement benefit, if any, attributable to the "2000 Ad Hoc Increase for Retirees" Appendix added to certain of the Company's tax-qualified plans pursuant to the Board of Directors resolution adopted May 17, 2000, or (2) will a Participant be entitled to a benefit (or an increased benefit) from or as a result of participation in this Plan under the Board of Directors resolution adopted May 17, 2000.
- 2.04 Preretirement Surviving Spouse Benefit. This Section only applies to Grandfathered Amounts.

Preretirement surviving spouse benefits will be payable under this Plan on behalf of a Participant if such Participant's surviving spouse is eligible for preretirement surviving spouse benefits payable from a Pension Plan. The benefit payable will be the amount which would have been payable under the Pension Plan but for the restrictions of section 415 (as described in the applicable Pension Plan).

The benefit payable under this Plan will be reduced by the amount of Pension Plan Benefits attributable to the applicable Pension Plan.

No benefit will be payable under this Plan with respect to a spouse after the death of that spouse.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

2.05 Forms and Times of Benefit Payments. This Section only applies to Grandfathered Amounts.

The Company will determine the form and timing of benefit payments in its sole discretion. However, for payments made to supplement those of a particular Pension Plan, the Company will only select among the options available under that Pension Plan, and using the same actuarial adjustments used in that Pension Plan except in cases of lump sums.

Whenever the present value of the amount payable under the Plan does not exceed \$10,000, it will be paid in the form of a single lump sum as of the first of the month following Termination of Employment. The lump sum will be calculated using the factors and methodology described in Section 3.08 below. (See Section 2.09 for the rule that applies as of January 1, 2008).

No payments will commence under this Plan until a Participant has a Termination of Employment, even in cases where benefits have commenced under a Pension Plan for Participants over age 70-1/2.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

2.06 Beneficiaries and Spouses. This Section only applies to Grandfathered Amounts.

If the Company selects a form of payment which includes a survivor benefit, the Participant may make a beneficiary designation, which may be changed at any time prior to commencement of benefits. A beneficiary designation must be in writing and will be effective only when received by the Company.

If a Participant is married on the date his or her benefits are scheduled to commence, his or her beneficiary will be his or her spouse unless some other beneficiary is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before benefits commence and must be witnessed by a Plan representative or notary public. No

spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

The Participant's spouse will be the spouse as determined under the underlying Pension Plan.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

2.07 Plan Termination. No further benefits may be earned under this Plan with respect to a particular Pension Plan after the termination of such Pension Plan.

2.08 Pension Plan Benefits. The term "Pension Plan Benefits" generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Pension Plan. However, this Plan is only intended to remedy pension reductions caused by the operation of section 415 and not reductions caused for any other reason. In those instances where pension benefits are reduced for some other reason, the term "Pension Plan Benefits" shall be deemed to mean the benefits that would have been actually payable but for such other reason.

Examples of such other reasons include, but are not limited to, the following:

- (a) A reduction in pension benefits as a result of a distress termination (as described in ERISA § 4041(c) or any comparable successor provision of law) of a Pension Plan. In such a case, the Pension Plan Benefits will be deemed to refer to the payments that would have been made from the Pension Plan had it terminated on a fully funded basis as a standard termination (as described in ERISA § 4041(b) or any comparable successor provision of law).
 - (b) A reduction of accrued benefits as permitted under Code section 412(c)(8), as amended, or any comparable successor provision of law.
 - (c) A reduction of pension benefits as a result of payment of all or a portion of a Participant's benefits to a third party on behalf of or with respect to a Participant.
- 2.09 Mandatory Cashout. Notwithstanding any other provisions in the Plan, Participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:
- (a) Post-2007 Terminations. Participants who have a Termination of Employment after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of Termination of Employment (without interest), if such present value is below the Code section 402(g) limit in effect at the Termination of Employment.
 - (b) Pre-2008 Terminations. Participants who had a Termination of Employment before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment

of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Northrop Grumman Pension Plan shall be used.

2.10 Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

- (a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.
- (b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

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ARTICLE III

Lump Sum Election

This Article only applies with respect to Grandfathered Amounts. See Appendix A and Appendix B for the distribution rules that apply to other benefits earned under the Plan.

3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.08, this Article does not apply to active employees (as defined in Section 3.04) in cases where benefits are automatically payable in lump sum form under Article II.

3.02 Retirees Election. Participants and Participants' beneficiaries already receiving monthly benefits under the Plan at its inception will be given a one-time opportunity to elect a lump sum payout of future benefit payments.

- (a) The election must be made within a 60-day period determined by the Company. Within its discretion, the Company may delay the commencement of the 60-day period in instances where the Company is unable to timely communicate with a particular payee.
- (b) The determination as to whether a payee is already receiving monthly benefits will be made at the beginning of the 60-day period.
- (c) An election to take a lump sum must be accompanied by a waiver of the existing retiree medical benefits by those Participants (and their covered spouses or surviving spouses) entitled either to have such benefits entirely paid for by the Company or to receive such benefits as a result of their classification as an employee under Executive Class Code II.
Following the waiver, waiving Participants (and covered spouses or surviving spouses) will be entitled to the coverage offered to employees who are eligible for Senior Executive Retirement Insurance Benefits in effect as of July 1, 1993.
- (d) If the person receiving payments as of the beginning of the 60-day period dies prior to making a lump sum election, his or her beneficiary, if any, may not make the lump sum election.
- (e) Elections to receive a lump sum (and waivers under (c)) must be made in writing and must include spousal consent if the payee (whether the Participant or beneficiary) is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.
- (f) An election (with spousal consent, where required) to receive the lump sum made at any time during the 60-day period will be irrevocable. If no proper election has been made by the end of the 60-day period, payments will continue unchanged in the monthly form that had previously been applicable.

- 3.03 Retirees Lump Sum. If a retired Participant or beneficiary makes a valid election under Section 3.02 within the 60-day period, monthly payments will continue in the previously applicable form for 12 months (assuming the payees live that long).
- (a) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum to the Participant, if alive, or, if not, to the beneficiary under the previously applicable form of payment.
 - (b) No lump sum payment will be made if:
 - (1) The Participant is receiving monthly benefit payments in a form that does not provide for survivor benefits and the Participant dies before the time the lump sum payment is due.
 - (2) The Participant is receiving monthly benefit payments in a form that does provide for survivor benefits but the Participant and the beneficiary die before the time the lump sum payment is due.
 - (c) The following rules apply where payment is being made in the form of a 10-year certain and continuous life annuity option:
 - (1) If the Participant is deceased at the commencement of the 60-day election period, the surviving beneficiary may not make the election if there are less than 13 months left in the 10-year certain period.
 - (2) If the Participant elects the lump sum and dies prior to the first of the 13th month:
 - (A) if the 10-year certain period has already ended, all monthly payments will cease at the Participant's death and no lump sum payment will be made;
 - (B) if the 10-year certain period ends after the Participant's death and before the beginning of the 13th month, monthly payments will end at the end of the 10-year certain period and no lump sum payment will be made; and
 - (C) if the 10-year certain period ends after the beginning of the 13th month, monthly payments will continue through the 12th month, and a lump sum payment will be made as of the first of the 13th month, equal to the present value of the remaining benefit payments.

3.04 Actives Election. Active Participants may elect to have their benefits paid in the form of a single lump sum under this Section.

- (a) A Participant is considered to be “Active” under this Section if he or she is still employed by the Affiliated Companies on or after the beginning of the initial 60-day period referred to in Section 3.02.
- (b) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—
 - (1) Benefits payable to the Participant during his or her lifetime, and
 - (2) Survivor benefits (if any) payable to the Participant’s beneficiary, including preretirement death benefits (if any) payable to the Participant’s spouse.
- (c) An election does not become effective until the earlier of
 - (1) the Participant’s Termination of Employment, or
 - (2) the Participant’s death.

Before the election becomes effective, it may be revoked.

If a Participant does not have a Termination of Employment within 60 days after making an election, the election will never take effect.

- (d) An election may only be made once. If it fails to become effective after 60 days or is revoked before becoming effective, it cannot be made again at a later time.
- (e) After a Participant has a Termination of Employment, no election can be made.
- (f) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits which may be due the spouse.
- (g) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.

3.05 Actives Lump Sum – Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04 has a Termination of Employment after he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

- (a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:

- (1) in the case of a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant's life and ceasing upon the Participant's death should he or she die before the 12 months elapse, or
- (2) in the case of a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form —
 - (A) with the survivor benefit equal to 50% of the Participant's benefit;
 - (B) with the Participant's spouse as the survivor annuitant;
 - (C) determined by using the contingent annuitant option factors used to convert straight life annuities to 50% joint and survivor annuities under the Northrop Retirement Plan; and
 - (D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.
- (b) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.
- (c) No lump sum payment will be made if:
 - (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
 - (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.
- (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
 - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.

3.06 Actives Lump Sum – Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04, has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

- (a) No monthly benefit payments will be made.
- (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant's Termination of Employment.
- (c) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
 - (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.
- (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.

3.07 Lump Sums with CIC Severance Plan Election. A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.

3.08 Calculation of Lump Sum. The factors to be used in calculating the lump sum are as follows:

Interest: Whichever of the following two rates that produces the smaller lump sum:

- (1) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or
- (2) the applicable interest rate that would be used to calculate a lump sum value for the benefit under the Pension Plans.

Mortality: the applicable mortality table that would be used to calculate a lump sum value for the benefit under the Northrop Grumman Retirement Plan.

Increase in Section 415 Limit: 4% per year.

Age: Age rounded to the nearest month on the date the lump sum is payable.

Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after the date the lump sum is payable.

The annuity to be converted to a lump sum will be the remaining annuity currently payable to the Participant or his or her beneficiary at the time the lump sum is due.

For example, assume a Participant is receiving benefit payments in the form of a 50% joint and survivor annuity.

If the Participant and the survivor annuitant are both still alive at the time the lump sum payment is due, the present value calculation will be based on the remaining benefits that would be paid to both the Participant and the survivor in the annuity form.

If only the survivor is alive, the calculation will be based solely on the remaining 50% survivor benefits that would be paid to the survivor.

If only the Participant is alive, the calculation will be based solely on the remaining benefits that would be paid to the Participant.

In the case of a Participant who dies prior to commencement of benefits under this Plan so that only a preretirement surviving spouse benefit (if any) is payable, the lump sum will be based solely on the value of the preretirement surviving spouse benefit.

In the case of a lump-sum under Section 3.07 (related to lump sums with a CIC Severance Plan election), the lump-sum amount will be calculated as described in that section and the rules of this Section 3.08 are not used.

3.09 Spousal Consent. Spousal consent, as required for elections as described above, need not be obtained if the Company determines that there is no spouse or the spouse cannot be located.

ARTICLE IV

Miscellaneous

- 4.01 Amendment and Plan Termination. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not a Participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to the Grandfathered Amounts.

The Company may, in its sole discretion, seek reimbursement from the Pension Plans to the extent this Plan pays Pension Plan Benefits to which Participants were entitled to or became entitled to under the Pension Plans.

- 4.02 Not an Employment Agreement. Nothing contained in this Plan gives any Participant the right to be retained in the service of the Company, nor does it interfere with the right of the Company to discharge or otherwise deal with Participants without regard to the existence of this Plan.
- 4.03 Assignment of Benefits. A Participant, surviving spouse or beneficiary may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to attachment or garnishment by any of their creditors or to legal process.
- 4.04 Nonduplication of Benefits. This Section applies if, despite Section 4.03, with respect to any Participant (or his or her beneficiaries), the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due the Participant (or his or her beneficiaries) under this Plan will be reduced by the actuarial value of the payments required to be made to such other person or entity.

Actuarial value will be determined using the factors and methodology described in Section 3.08 above (in the case of lump sums) and using the actuarial assumptions in the underlying Pension Plan in all other cases.

In dividing a Participant's benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased actuarial cost to the Company.

- 4.05 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to make benefit payments in the future. The Company may, but need not, fund benefits under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. It is the intention of the Company and Participants that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.
- Any funding of benefits under this Plan will be in the Company's sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.
- 4.06 Construction. The Company shall have full discretionary authority to determine eligibility and to construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions.
- 4.07 Governing Law. This Plan shall be governed by the law of the State of California, except to the extent superseded by federal law.
- 4.08 Actions By Company. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Board of Directors or its delegate. The Board may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.
- 4.09 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.
- 4.10 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.
- 4.11 2001 Reorganization. Effective as of the 2001 Reorganization Date in (d), the corporate structure of Northrop Grumman Corporation and its affiliates was modified. Effective as of the Litton Acquisition Date in (e), Litton Industries, Inc. was acquired and became a subsidiary of the Northrop Grumman Corporation (the "Litton Acquisition").
- (a) The former Northrop Grumman Corporation was renamed Northrop Grumman Systems Corporation. It became a wholly-owned subsidiary of the new parent of the reorganized controlled group.
 - (b) The new parent corporation resulting from the restructuring is called Northrop Grumman Corporation. All references in this Plan to the former Northrop Grumman Corporation and its Board of Directors now refer to the new parent corporation bearing the same name and its Board of Directors.

- (c) As of the 2001 Reorganization Date, the new Northrop Grumman Corporation became the sponsor of this Plan, and its Board of Directors assumed authority over this Plan.
- (d) 2001 Reorganization Date. The date as of which the corporate restructuring described in (a) and (b) occurred.
- (e) Litton Acquisition Date. The date as of which the conditions for the completion of the Litton Acquisition were satisfied in accordance with the "Amended and Restated Agreement and Plan of Merger Among Northrop Grumman Corporation, Litton Industries, Inc., NNG, Inc., and LII Acquisition Corp.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS

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APPENDIX A – 2005-2007 TRANSITION RULES

This Appendix A provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

- A.01 Election. Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the Participant's selected benefit commencement date.
- A.02 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Participants commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Participant.
- (a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee's date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.
- (b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:
- (i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a Participant must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;
 - (ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and
 - (iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan's procedures for calculating lump sums as of December 31, 2004.

A.03 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Participant's benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Participant's benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

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APPENDIX B – POST 2007 DISTRIBUTION OF 409A AMOUNTS

The provisions of this Appendix B shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Articles II and III, and Appendix A addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

- B.01 Time of Distribution. Subject to the special rules provided in this Appendix B, distributions to a Participant of his vested retirement benefit shall commence as of the Payment Date.
- B.02 Special Rule for Key Employees. If a Participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the Participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Participant's death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).
- B.03 Forms of Distribution. Subject to the special rules provided in this Appendix B, a Participant's vested retirement benefit shall be distributed in the form of a single life annuity. However, a Participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:
- (a) 50% joint and survivor annuity
 - (b) 75% joint and survivor annuity
 - (c) 100% joint and survivor annuity.
- If a Participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.
- B.04 Death. If a married Participant dies before the Payment Date, a death benefit will be payable to the Participant's spouse commencing 90 days after the Participant's death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a Participant's vested retirement benefit based on a 100% joint and survivor annuity determined on the Participant's date of death. This benefit is also payable to a

Participant's domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

- B.05 Actuarial Assumptions. Except as provided in Section B.06, all forms of payment under this Appendix B shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

B.06 Accelerated Lump Sum Payouts.

- (a) Post-2007 Separations. Notwithstanding the provisions of this Appendix B, for Participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section B.02, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Participant's Separation from Service.
- (b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix B, for Participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Participant attains age 55, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Participant attains age 55, but no earlier than January 1, 2008.
- (c) Conflicts of Interest. The present value of a Participant's vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.
- (d) Present Value Calculation. The conversion of a Participant's retirement benefit into a lump sum payment and the present value calculations under this Section B.06 shall be based on the GATT assumptions in effect under the Northrop Grumman Pension Plan, and will be based on the Participant's immediate benefit

if the Participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Participant will be eligible to receive at age 55.

B.07 Effect of Early Taxation. If the Participant's benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Participant.

B.08 Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Company's reasonable anticipation of one or more of the following events:

- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (b) The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section B.08 shall be paid in accordance with Code section 409A.

B.09 Special Tax Distribution. On the date a Participant's retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Participant's portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will reduce the Participant's future benefit payments under the Plan. This reduction shall be calculated using GATT assumptions in effect under the Northrop Grumman Pension Plan and a cost of living adjustment of 4%.

**NORTHROP GRUMMAN SUPPLEMENTARY
RETIREMENT INCOME PLAN**

Amended and Restated

Effective January 1, 2005

1. Purpose. The purpose of the Northrop Grumman Supplementary Retirement Income Plan (SRIP) is to provide supplemental retirement and death benefits to those:

(i) employees, including officers, of Northrop Grumman Space & Mission Systems Corp. and its subsidiaries (“NGSMSC”) whose benefits under the Northrop Grumman Space & Mission Systems Corp. Salaried Pension Plan (“SPP”) have been limited by virtue of §415 of the Internal Revenue Code of 1986 (“Code”);

(ii) management and highly-compensated employees of NGSMSC whose benefits under the SPP are limited by Code §401(a)(17);

(iii) management and highly-compensated employees of NGSMSC whose compensation otherwise included as pensionable earnings received by such individual within the meaning of the SPP could not be so included because such compensation was deferred in accordance with the provisions of the Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan or the Northrop Grumman Deferred Compensation Plan (“DC Plan” or DC Plans”); and

(iv) management and highly-compensated employees of NGSMSC whose compensation otherwise included as “Earnings” under the SPP and service otherwise included as Benefit Service under the SPP would not be so included because of a determination by NGSMSC that such inclusion could violate the regulations under Code §401(a)(4).

The SRIP is unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act (“ERISA”) and is designed to provide benefits which mirror the provisions of the SPP but cannot be paid from the SPP because of certain Code limitations.

The SRIP is hereby amended and restated effective as of January 1, 2005. This restatement amends the January 1, 2004 restatement of the SRIP to address the requirements of Code section 409A and certain other changes.

The SRIP is intended to comply with Code section 409A and official guidance issued thereunder (except for SRIP benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official

guidance thereunder (“Grandfathered Amounts”). Notwithstanding any other provision of the SRIP, the SRIP shall be interpreted, operated and administered in a manner consistent with this intention.

2. Eligibility. Employees of NGSMSC covered by the SPP and not otherwise covered by the BDM International, Inc. Defined Contribution Supplemental Executive Retirement Plan (the “BDM DC SERP”) whose base pay and bonus paid in any year (or deferred pursuant to the DC Plan) exceed the limitations of Code §401(a)(17) shall automatically be covered under the SRIP. All SPP participants not otherwise covered by the BDM DC SERP who are eligible to receive benefits from the SPP shall automatically receive a benefit from the SRIP if their benefit cannot be fully provided under the SPP because of the limits under Code §415.

The foregoing notwithstanding, effective as of February 28, 2003, individuals who qualify as “TRW Automotive Participants” under the February 28, 2003 Employee Matters Agreement between Northrop Grumman Space & Mission Systems Corp. and TRW Automotive Acquisition Corp. cease to participate in the SRIP, and the SRIP and NGSMSC cease to be liable for TRW Automotive Participants’ benefits.

3. Benefits. The amount of the benefit payable under the SRIP shall be equal to the amount which would be payable to or in respect of a participant under the SPP if the limitations identified in §1 above were inapplicable, less the amount of the benefit payable under the SPP, taking into account such limitations. The amount of benefit payable under the SRIP to a participant shall also be reduced to the extent that any other nonqualified plan established by NGSMSC or any other entity affiliated with NGSMSC under Code §414(b) or (c) (“Affiliate”) pays benefits to the participant that are attributable to limits imposed upon the SPP other than those identified in §1 above. The benefit payable under the SRIP for those participants who were participants in The BDM Corporation Supplemental Executive Retirement Plan which was merged into the SRIP (the “BDM SERP”) on the close of business on December 31, 1998 (the “Merger Effective Date”) will not be less than the benefit which had accrued under the BDM SERP as of the Merger Effective Date for such participants. Schedule A attached hereto sets forth the relevant provisions of the BDM SERP necessary to calculate such accrued benefits. The benefit payable under the SRIP for the sole participant who was a “Covered Executive” in the Astro Aerospace Corporation Supplemental Executive Retirement Plan (the “Astro SERP”) on the close of business on November 30, 1999 will not be less than the benefit which had accrued under the Astro SERP as of November 30, 1999 for such participant, as determined in accordance with the terms of the Astro SERP as in effect on November 30, 1999 (a copy of which is attached hereto as Schedule B) and the benefit payable to such participant’s spouse under the SRIP shall not be less than the benefit which would have been payable to such spouse under the terms of the Astro SERP had the participant died on November 30, 1999.

4. Payment of Benefits. The distribution rules of this Section 4 only apply to Grandfathered Amounts. See Appendix A and Appendix B for the rules that apply to other benefits earned under the SRIP.

a. Except as provided below, no benefit is payable from the SRIP, even if the participant has terminated his/her employment, unless a participant has five years of vesting service as defined under the SPP and has attained age fifty-five, provided, however, a benefit will be payable from the SRIP prior to a participant's attainment of age fifty-five if the participant terminates his or her employment in connection with (i) a special voluntary early retirement program offered under the SPP, the terms of which provide for eligibility prior to age fifty-five, or (ii) a special early commencement option under the SPP, the terms of which provide for commencement of the SPP benefit before age fifty-five.

b. If a participant who has five or more years of vesting service dies before his/her benefit commencement date under the SPP, the SRIP benefit shall be paid in the same form and shall commence at the same time as a pre-retirement survivor benefit under the SPP.

c. Except as provided in paragraph g., i., j., or as provided below, any participant in the SPP and the SRIP who is entitled to a vested or deferred vested pension under the SPP shall have his SRIP benefit (i) commence at the same time as his benefit commencement date under the SPP and (ii) paid in the same form and with the same designated joint annuitant, if any, as his form of payment under the SPP unless otherwise provided under the terms of any Qualified Domestic Relations Order applicable to said participant or unless otherwise determined by the Administrative Committee in its sole discretion. Any such participant who is eligible for the special early commencement option under the SPP may petition the Administrative Committee at any time at least two months prior to his severance from service date under the SPP to change such form of payment into a single sum or annual installments from two to ten years, or any other payment form approved by the Administrative Committee in their or its discretion. If annual installment payments are elected, interest, if any, on such installments shall be determined by the Actuary, subject to approval by the Administrative Committee.

d. Except as provided above or in paragraph g., i., or j., payment of benefits under the SRIP shall be made commencing with the January following the date the participant becomes eligible, having terminated his employment with NGSMSC and all Affiliates, for benefits under the SPP; provided, however, that if the participant's termination of employment is the result of a divestiture of the NGSMSC or Affiliate unit or operation where the participant worked prior to termination of employment and the participant obtains employment with the entity that acquired such unit or operations, then the SRIP benefit shall not be payable until such participant is eligible for and receives (or commences to receive) his SPP benefit (even if the SRIP benefit is less than \$5,000).

e. Except as provided above and in paragraph g., i., or j., the automatic form of benefit payable under the Plan shall be, for an unmarried participant, a single life annuity, and, for a married participant, a 50% joint and survivor annuity, with the participant's eligible spouse being the survivor annuitant. Notwithstanding the above, the participant may elect, by notice to the administrator for the SRIP, at any time at least two months prior to the severance from service date under the SPP (the "Severance from Service Date") to change such form of payment into a single sum or annual installments from two to ten years, or any other payment form approved by the Administrative Committee in its discretion. If annual installment payments are elected, interest, if any, on such installments shall be determined by the Actuary, subject to approval by the Administrative Committee.

f. If not rejected by the Administrative Committee at least 14 days prior to the Severance from Service Date, any election of a form of payment or benefit commencement date other than the automatic form and commencement date shall be irrevocable.

g. If the present value of a participant's interest in the SRIP, determined as of the later of the participant's age 55 or severance from service date under the SPP, is less than an amount which, if converted to a single sum equals \$5,000, the benefit shall be paid out in a single sum, either at the same time as his benefit commencement date under the SPP or at another date as determined by the Administrative Committee in its sole discretion. (See paragraph i for the rule that applies as of January 1, 2008.)

h. Payments to be made pursuant to the SRIP shall be made by NGSMSC, with any appropriate reimbursement being made by subsidiaries of NGSMSC. The SRIP shall be unfunded, and NGSMSC shall not be required to establish any special or separate fund nor to make any other segregation of assets in order to assure the payment of any amounts under the SRIP. Participants of the SRIP shall have the status of general unsecured creditors of NGSMSC and the SRIP constitutes a mere promise by NGSMSC to make benefit payments in the future.

i. Mandatory Cashout. Notwithstanding any other provisions in the SRIP, participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

i. Post-2007 Terminations. Participants who have a complete termination of employment with NGSMSC and the Affiliates after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of such termination (without interest), if such present value is below the Code section 402(g) limit in effect at the termination.

ii. Pre-2008 Terminations. Participants who had a complete termination of employment with NGSMSC and the Affiliates before 2008 will

receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

j. Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect i. or ii. below:

i. To receive their Grandfathered Amounts in any form of distribution available under the SRIP at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under the SRIP on October 3, 2004.

ii. To receive their Grandfathered Amounts in any life annuity form not included in i. above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

5. Non-Alienation of Benefits. Neither a participant nor any other person shall have any right to sell, assign, transfer, pledge, mortgage or otherwise encumber, in advance of actual receipt, any SRIP benefit. Any such attempted assignment or transfer shall be ineffective; NGSMS's sole obligation under the SRIP shall be to pay benefits to the participant, his beneficiary or his estate, as appropriate. No part of any SRIP benefit shall, prior to actual payment, be subject to the payment of any debts, judgments, alimony or separate maintenance owed by a participant or any other person; nor shall any SRIP benefit be transferable by operation of law in the event of a participant's or any other person's bankruptcy or insolvency, except as required or permitted by law.

6. Committees.

a. An Administrative Committee and an Investment Committee (together, the "Committees"), each of one or more persons, shall be appointed by and serve at the pleasure of the board of directors of NGSMS (the "Board"). The number of members comprising the Committees shall be determined by the Board, which may from time to time vary the number of members. A member of the Committees may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its

resolution of removal to such member. Vacancies in the membership of the Committees shall be filled promptly by the Board.

b. i. Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any determination of action of the Committees may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members of the Committees then in office. A member of the Committees shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of each Committee designated by the Chairman may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

ii. The Board shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The members of the Investment Committee will elect one of their members as Chairman and will appoint a Secretary and any other officers as the Investment Committee may deem necessary. The Committees shall conduct their business according to the provisions of this Article and the rules contained in the current edition of Robert's Rules of Order or such other rules of order the Committees may deem appropriate. The Committees shall hold meetings from time to time in any convenient location.

c. The Administrative Committee shall enforce the SRIP in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- i. To construe and interpret the terms and provisions of the SRIP and make all factual determinations;
 - ii. To compute and certify to the amount and kind of benefits payable to participants and their beneficiaries;
 - iii. To maintain all records that may be necessary for the administration of the SRIP;
 - iv. To provide for the disclosure of all information and the filing or provision of all reports and statements to participants, beneficiaries or governmental agencies as shall be required by law;
 - v. To make and publish such rules for the regulation of the SRIP and procedures for the administration of the SRIP as are not inconsistent with the terms hereof;
-

vi. To appoint a plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the SRIP as the Administrative Committee may from time to time prescribe (including the power to subdelegate);

vii. To exercise powers granted the Administrative Committee under other Sections of the SRIP; and

viii. To take all actions necessary for the administration of the SRIP, including determining whether to hold or discontinue insurance policies purchased in connection with the SRIP.

d. The Investment Committee shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

i. To oversee the rabbi trust, if any; and

ii. To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

e. The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of the SRIP, to make factual determinations and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliates and any participant or beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the SRIP.

f. To enable the Committees to perform their functions, the Affiliates adopting the SRIP shall supply full and timely information to the Committees on all matters relating to the compensation of all participants, their death or other events that cause termination of their participation in the SRIP, and such other pertinent facts as the Committees may require.

g. i. The members of the Committees shall serve without compensation for their services hereunder.

ii. Committees are authorized to employ such accounting, consultants or legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

iii. To the extent permitted by ERISA and applicable state law, NGSMSC shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliates against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in

good faith of responsibilities under or incident to the SRIP, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by NGSMSC or provided by NGSMSC under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

7. Claims Procedure.

a. A person who believes that he or she is being denied a benefit to which he or she is entitled under the SRIP (hereinafter referred to as "Claimant") must file a written request for such benefit with the Administrative Committee, setting forth his or her claim.

b. Upon receipt of a claim, the Administrative Committee shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. The Administrative Committee may, however, extend the reply period for an additional ninety (90) days for special circumstances.

If the claim is denied in whole or in part, the Administrative Committee shall inform the Claimant in writing, using language calculated to be understood by the Claimant, setting forth: (A) the specific reason or reasons for such denial; (B) specific references to pertinent provisions of the SRIP on which such denial is based; (C) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (D) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (E) the time limits for requesting a review under subsection (c).

c. Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Administrative Committee review the initial claim determination. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Administrative Committee. If the Claimant does not request a review within such sixty (60) day period, he or she shall be barred and estopped from challenging the initial determination.

d. Within sixty (60) days after the Administrative Committee's receipt of a request for review, after considering all materials presented by the Claimant, the Administrative Committee will inform the Participant in writing, in a manner calculated to be understood by the Claimant, the decision setting forth the specific reasons for the decision containing specific references to the pertinent provisions of the SRIP on which the decision is based. If special circumstances require that the sixty (60) day time period be extended, the Administrative Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

e. No action may be brought in court on a claim for benefits under the SRIP after the later of:

i. Six months after the claim arose, or

ii. Six months after the decision on appeal under this Section (or six months after the expiration of the time to take an appeal if no appeal is taken).

8. Amendment and Termination. NGSMSC may, in its sole discretion, terminate, suspend or amend the SRIP at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the SRIP with respect to lump sum distributions, including any lump sum calculation factors, whether or not a participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the SRIP shall reduce the amount of a participant's accrued benefit under the SRIP as of the date of such amendment or termination.

No amendment of the SRIP shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a SRIP amendment from resulting in an inadvertent "material modification" to the Grandfathered Amounts.

9. Miscellaneous.

a. As used herein, the masculine gender shall include the feminine gender. To the extent that any term is not defined under the SRIP, it shall have the same meaning as defined in the SPP.

b. Employment rights with NGSMSC shall not be enlarged or affected by the existence of the SRIP.

c. In case any provision of the SRIP shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions.

d. The SRIP shall be governed by the laws of the State of Ohio to the extent not preempted by ERISA.

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS

APPENDIX A

2005-2007 TRANSITION RULES

This Appendix A provides the distribution rules that apply to the portion of benefits under the SRIP subject to Code section 409A for participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

A.1 Election. Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the SRIP as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the participant's selected benefit commencement date.

A.2 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, participants commencing payments in 2005 from the SRIP may elect a form of distribution from among those available under the SRIP on December 31, 2004, and benefit payments shall begin at the time elected by the participant.

a. Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with SRIP distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee's date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and SRIP distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.

For purposes of Appendix A and Appendix B, A "Key Employee" is an employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of NGSMSC or an Affiliate (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if NGSMSC's or an Affiliate's stock is publicly traded on an established securities market or otherwise. NGSMSC shall determine in accordance with a uniform NGSMSC policy which participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

For purposes of Appendix A and Appendix B, “Separation from Service” or “Separates from Service” means a “separation from service” within the meaning of Code section 409A.

b. Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:

i. In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a participant must be an elected or appointed officer of NGSMSC and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;

ii. The lump sum payment shall be made in 2005 as soon as feasible after the election; and

iii. Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the SRIP’s procedures for calculating lump sums as of December 31, 2004.

A.3 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of SRIP benefits subject to Code section 409A shall begin 12 months after the later of: (a) the participant’s benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the participant’s benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

APPENDIX B

POST 2007 DISTRIBUTION OF 409A AMOUNTS

The provisions of this Appendix B shall apply only to the portion of benefits under the SRIP that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Section 4, and Appendix A addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

B.1 Time of Distribution. Subject to the special rules provided in this Appendix B, distributions to a participant of his vested retirement benefit shall commence as of the 1st of the month coincident with or following the later of (a) the date the participant attains age 55, or (b) the date the participant Separates from Service ("Payment Date").

B.2 Special Rule for Key Employees. If a participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the participant's death). Amounts otherwise payable to the participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the participant's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).

B.3 Forms of Distribution. Subject to the special rules provided in this Appendix B, a participant's vested retirement benefit shall be distributed in the form of a single life annuity. However, a participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:

- a. 50% joint and survivor annuity
- b. 75% joint and survivor annuity
- c. 100% joint and survivor annuity.

If a participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a SRIP representative or notary public. No spousal consent is necessary if NGSMSC determines that there is no spouse or that the spouse cannot be found.

B.4 Death. If a married participant dies before the Payment Date, a death benefit will be payable to the participant's spouse commencing 90 days after the participant's death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a participant's vested retirement benefit based on a 100% joint and survivor annuity determined on the participant's date of death. This benefit is also payable to a participant's domestic partner who is properly registered with NGSMSC in accordance with procedures established by NGSMSC.

B.5 Actuarial Assumptions. Except as provided in Section B.6, all forms of payment under this Appendix B shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

B.6 Accelerated Lump Sum Payouts.

a. Post-2007 Separations. Notwithstanding the provisions of this Appendix B, for participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to \$25,000, such benefit amount shall be distributed to the participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section B.2, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the participant's Separation from Service.

b. Pre-2008 Separations. Notwithstanding the provisions of this Appendix B, for participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the participant attains age 55, is less than or equal to \$25,000, such benefit amount shall be distributed to the participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the participant attains age 55, but no earlier than January 1, 2008.

c. Conflicts of Interest. The present value of a participant's vested retirement benefit shall also be payable in an immediate lump sum to the

extent required under conflict of interest rules for government service and permissible under Code section 409A.

d. Present Value Calculation. The conversion of a participant's retirement benefit into a lump sum payment and the present value calculations under this Section B.6 shall be based on the GATT assumptions in effect under the Northrop Grumman Pension Plan, and will be based on the participant's immediate benefit if the participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the participant will be eligible to receive at age 55.

B.7 Effect of Early Taxation. If the participant's benefits under the SRIP are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the participant.

B.8 Permitted Delays. Notwithstanding the foregoing, any payment to a participant under the SRIP shall be delayed upon NGSMSC's reasonable anticipation of one or more of the following events:

- a. NGSMSC's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- b. The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section B.8 shall be paid in accordance with Code section 409A.

B.9 Special Tax Distribution. On the date a participant's retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the participant's portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will reduce the participant's future benefit payments under the SRIP. This reduction shall be calculated using GATT assumptions in effect under the Northrop Grumman Pension Plan and a cost of living adjustment of 4%.

Article 2
BENEFITS

2.1 Computation of Benefits.

a. Total Benefit Objective. Total retirement benefits from the Company, coupled with expected Social Security benefits, are designed to provide a level of income during retirement based on the Member's service and income while with the Company. The Benefit Objective (as determined on or prior to Normal Retirement Date) for a Member who retires on or after his/her Normal Retirement Date with 20 or more years of Benefit Service (Benefit Service accrues to age 65), is 45% of the Member's Average Annual Compensation for the five highest consecutive plan years of his/her employment with the Company. For Members who retire with less than 20 years of Benefit Service, the Benefit Objective is the amount calculated above reduced by multiplying that amount by a fraction the numerator of which is the number of years of Benefit Service and the denominator of which is 20. The Benefit Objective, as defined above, is intended to be met by unreduced retirement income (without any reductions associated with any payment option) from both the Company's Retirement Plan and Supplemental Executive Retirement Plan plus the unreduced Social Security Benefit (commencing as late as age 67).

b. Calculation of Benefits Under This Plan. The benefit payable under this Plan shall be equal to the Benefit Objective as stated in paragraph a. above, reduced, as applicable, by the factors and in accordance with the provisions set forth for such purposes in the Retirement Plan, (i) for commencement prior to Normal Retirement Date, (ii) for election of a form of payment other than life only to the Member, and (iii) upon death, less the Retirement Plan Benefit and the unreduced Social Security Benefit as stated in paragraph a. above. If the benefit payable under this plan according to the preceding sentence plus the Retirement Plan Benefit is less than the Target Benefit Amount, as hereinafter defined, the benefit payable under this Plan shall be equal to the Target Benefit Amount less the Retirement Plan Benefit. The Target Benefit Amount shall mean \$90,000, reduced, as applicable, by the factors and in accordance with the provisions set forth for such purposes in the Retirement Plan, (i) for commencement prior to Normal Retirement Date, (ii) for election of a form of payment other than life only to the Member, and (iii) upon death.

2.2 Form of Benefit Payments.

The benefit payable to or on behalf of a Member as determined under Section 2.1 shall be paid in the same form, and to the same beneficiary, if any, as the Member's benefit under the Retirement Plan.

2.3 Time of Benefit Payments.

Benefits due under this Plan shall be paid coincident with the payment date of benefits under the Retirement Plan.

APPENDIX A
ASTRO AEROSPACE CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
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ASTRO AEROSPACE CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

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ASTRO AEROSPACE CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

INTRODUCTION

The purpose of this Supplemental Executive Retirement Plan (the “Plan”) is to provide a further means whereby Astro Aerospace Corporation (the “Corporation”) may afford financial security to a select group of Covered Executives of the Corporation, who render valuable services to the Corporation, constituting an important contribution toward its continued growth and success, by providing for additional future compensation so that such employees may be retained and their productive efforts encouraged, all as provided herein. Retirement Allowances under this Supplemental Executive Retirement Plan are in addition to benefits payable under the Astro Aerospace Corporation Employees’ Pension Plan and any other qualified retirement plan maintained by the Corporation.

ARTICLE I
DEFINITIONS

- (a) "Administrator" means the Corporation which shall be responsible for the administration of this Plan.
- (b) "Astro Pension Plan" means the Astro Aerospace Corporation Employees' Pension Plan, as amended from time to time.
- (c) "Affiliate" means a member of a controlled group of corporations, within the meaning of section 414(b) of the Internal Revenue Code ("Code"), which includes the Corporation; a trade or business (whether or not incorporated) which is in common control with the Corporation as determined in accordance with section 414(c) of the Code; or any organization which is a member of an affiliated service group, within the meaning of section 414(m) of the Code, which includes the Corporation, and any other organization required to be aggregated with the Corporation pursuant to section 414(o) of the Code.
- (d) "Corporation" means Astro Aerospace Corporation.
- (e) "Covered Executive" means a person who is a member of the Astro Pension Plan and who is designated by the board of directors of the Corporation as being eligible to receive a Retirement Allowance.
- (f) "Covered Service" means, with respect to a Covered Executive, a number of years and completed months equal to his period of "Service" for purposes of the Astro Pension Plan. For purposes of this Plan, "Service", as defined under the Astro Pension Plan, shall include Service with the Corporation and its Affiliates. Covered Service shall not exceed 35 years.
- (g) "Early Retirement Date" means retirement from employment with Corporation and all Affiliates after attaining age 55 with 10 years of Covered Service.
- (h) "Effective Date" means September 1, 1993.
- (i) "Final Average Earnings" shall have the meaning ascribed under the terms of the Spar Pension Plan except that it will not be subject to the compensation limitation imposed by Internal Revenue Code Section 401(a)(17).
- (j) "Former Covered Executive" means a Covered Executive who is no longer an active Covered Executive of the Plan but who remains entitled to benefits under the Plan and is not yet receiving a Retirement Allowance.
- (k) "Normal Retirement Date" means retirement from employment with Corporation and all Affiliates after attaining age 65.

(l) "Postponed Retirement Date" means the actual retirement date of a Covered Executive who continues employment with the Corporation or any Affiliate beyond Normal Retirement Date.

(m) "Plan" means the plan to provide Retirement Allowances set forth herein and as amended from time to time, which shall be known as the Astro Aerospace Corporation Supplemental Executive Retirement Plan.

(n) "Plan Year" means the period January 1 to December 31.

(o) "Retired Executive" means a Covered Executive or Former Covered Executive who has retired and is receiving a Retirement Allowance under the Plan.

(p) "Retirement Allowance" means an amount payable to a Covered Executive, a Former Covered Executive or a Spouse under the terms of the Plan.

(q) "Spar Pension Plan" or "Registered Plan" means the Spar Aerospace Limited Pension Plan for Executive Employees, as amended from time to time.

(r) "Spar SERP" means the Spar Aerospace Limited Supplemental Executive Retirement Plan.

(s) "Spouse" means, with respect to a (Former) Covered Executive, that person to whom the (Former) Covered Executive is lawfully married at the relevant time.

(t) "Total and Permanent Disability" means a physical or mental condition which results in a Covered Executive being eligible to receive disability benefits under the federal Social Security program, or under any formal program of long-term disability insurance provided by the Corporation or its Affiliates.

ARTICLE II

DESIGNATION OF COVERED EXECUTIVES

The Board of Directors of the Corporation ("Board") shall, from time to time, in its discretion, designate as Covered Executives, for the purposes of the Plan, individuals who are members of the Astro Pension Plan. Once an individual is designated as a Covered Executive, the Board shall notify such Covered Executive in writing of his designation and shall provide him with a copy of the Plan.

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ARTICLE III
RETIREMENT BENEFITS

3.01 Retirement Allowance on Normal or Postponed Retirement Date. A Covered Executive retiring on his Normal Retirement Date or on his Postponed Retirement Date shall be entitled to receive a monthly Retirement Allowance equal to the excess of:

(a) $1/12 \times 2\% \times$ the Covered Executive's Final Average Earnings multiplied by his Covered Service; over

(b) The sum of the monthly benefits payable to the Covered Executive under the Astro Pension Plan and any other qualified retirement plan to the extent such benefits are attributable to contributions of the Corporation or its Affiliates on the Covered Executive's behalf, excluding employee deferrals and employer matching contributions under the Astro Aerospace Corporation 401(k) Savings Plan ("401(k) Plan").

The benefits payable or benefits that would be payable under (a) and (b) above shall be determined as follows:

(i) under the Astro Pension Plan (or any other defined benefit plan of the Corporation or its Affiliates in which the Covered Executive participates or participated) assuming a straight life annuity form of benefit; and

(ii) under any defined contribution plan of the Corporation or its Affiliates in which the Covered Executive participates or participated assuming the Covered Executive's account balance(s) attributable to contributions by the Corporation or its Affiliates (other than elective salary deferrals, other employee contributions, employer matching contributions and earnings thereon) is paid in the form of a single life annuity beginning on the date the payment of the Retirement Allowance commences.

When determining the amount of the Covered Executive's benefits in any plan, any such benefits paid out prior to the date on which the Retirement Allowance is determined (e.g., hardship withdrawals, payments pursuant to a qualified domestic relations order or other in-service withdrawal) shall be treated as if no such payment was made and shall be included in the calculation of (a) and (b) above in accordance with Section 3.05 herein.

3.02 Retirement Allowance on Early Retirement Date. A Covered Executive who retires on an Early Retirement Date shall be entitled to receive a Retirement Allowance commencing on his Early Retirement Date calculated in accordance with Section 3.01 provided that:

(a) The amounts in Subsection 3.01(a) and 3.01(b) will be reduced to take into account the early receipt of the Retirement Allowance. The reduction will be

calculated consistent with the actuarial reduction applied to the benefit under the Astro Pension Plan; and

(b) The benefits under the Astro Pension Plan and any other qualified retirement plan of the Corporation or its Affiliates will be determined according to the applicable terms of such plan(s) at the Early Retirement Date.

3.03 Payment of Retirement Allowance. Retirement Allowances shall be paid on the first day of each month commencing after the Covered Executive's Normal Retirement Date, Early Retirement Date or Postponed Retirement Date, as the case may be, and, subject to Section 3.04, ceasing with the 360th monthly payment or, if earlier, the payment made coincident with or immediately preceding the death of the Covered Executive.

3.04 Retirement Allowance Payable to Surviving Spouse of a Covered Executive. If a Covered Executive who has a Spouse at the date payment of his Retirement Allowance commences, dies after retirement but before receiving 360 monthly payments of his Retirement Allowance under the Plan, such Spouse is entitled to receive a monthly amount equal to 66 2/3% of the monthly amount paid to the Covered Executive in the month immediately preceding his date of death from the Plan.

This monthly amount is payable to the Spouse for the balance of the 360 payments or until the death of the Spouse, whichever occurs first.

3.05 Deeming Rule. If the benefits payable to a Covered Executive or his Spouse under the Astro Pension Plan or any other qualified plan of the Corporation or its Affiliates are (were):

(i) commuted at the election of the Covered Executive or his Spouse, or;

(ii) divided pursuant to a decree, order or judgment of a competent tribunal, or a written separation agreement, relating to a division of property between the Covered Executive and his Spouse or former Spouse in settlement of rights arising out of their marriage or other conjugal relationship, on or after the breakdown of the marriage or other relationship; for the purposes of calculating the amount of the Covered Executive's or the surviving Spouse's Retirement Allowance, the benefits payable under such plans shall be deemed to be equal to the amount of the benefit that would have been payable if such election to commute or such division of the benefits under the plans had not been made and payment of such benefits commenced at the same time as the Retirement Allowance.

ARTICLE IV
TERMINATION OF SERVICE

4.01 Termination Benefits. A Covered Executive, who has been a member of the Astro Pension Plan for 24 continuous months and whose employment with the Corporation and its Affiliates is terminated for any reason other than retirement or death prior to his Normal Retirement Date, shall be entitled to a Retirement Allowance commencing, subject to Section 4.02, on his Normal Retirement Date. The Retirement Allowance shall be determined in accordance with section 3.01.

4.02 Early Commencement of Deferred Retirement Allowance. A Former Covered Executive who is entitled to a Retirement Allowance payable under the terms of Section 4.01 who has elected to receive Early Retirement benefits under the Astro Pension Plan will commence receipt of his Retirement Allowance prior to his Normal Retirement Date coincident with the commencement of benefit payments from the Astro Pension Plan provided that he attained the age of 55 and had ten (10) years of Covered Service on his date of termination. The Retirement Allowance payable from such date shall be reduced to take into account the early receipt of the Retirement Allowance. The reduction will be calculated consistent with the actuarial reduction which would be applied under the Astro Pension Plan for an Early Retirement.

4.03 Applicable Provisions. The provisions of Section 3.03 and 3.04 apply to Retirement Allowances paid under Article IV, with such wording changes as may be necessary. However, the provisions of Article V shall apply when a Former Covered Executive dies prior to commencement of his Retirement Allowance.

ARTICLE V
DEATH BENEFITS

5.01 Benefits on Covered Executive's Death Prior to Retirement. If a Covered Executive dies prior to commencement of a Retirement Allowance, the person who is his Spouse at the date of his death shall be entitled to a monthly amount equal to the excess of:

(a) 66 2/3% of the amount in Subsection 3.01(a) of the Plan calculated at the date of the Covered Executive's death,
less

(b) an amount, if any, equal to the sum of the monthly survivor benefits from the Astro Pension Plan and any other qualified plan of the Corporation or Affiliate payable to the Spouse in the same month.

The actual benefits under the Astro Pension Plan and any other qualified plan of the Corporation or Affiliate will be determined according to the applicable terms of such plan(s) at the date of the Covered Executive's death and shall not include benefits attributable to the Covered Executive's salary deferrals or matching contributions and earnings thereon under the 401(k) Plan.

Payment of the Spouse's benefit will commence on the first day of the month following the Covered Executive's date of death.

This monthly amount is payable to the Spouse for 360 monthly payments or until the death of the Spouse, whichever occurs first.

5.02 Benefits on a Former Covered Executive's Death Prior to Retirement. If a Former Covered Executive dies prior to commencement of a Retirement Allowance, his Spouse at the date of death shall be entitled to receive a Retirement Allowance equal to the Retirement Allowance calculated in accordance with Section 5.01 provided that:

(a) The amounts in subsection 3.01 will be reduced to take into account the early receipt of the Retirement Allowance. The reduction will be calculated consistent with the actuarial reduction applied to the benefit under the Astro Pension Plan; and

(b) The actual benefits under the Astro Pension Plan and any other qualified plan of the Corporation or Affiliate will be determined according to the applicable terms of such plan(s) at the Former Covered Executive's date of termination of employment with the Corporation and its Affiliates.

Payment of the Spouse's benefit will commence on the later of (1) first day of the month following the Former Covered Executive's date of death, (2) the Annuity Starting Date (as defined under the Astro Pension) elected by the surviving Spouse, or (3) the

first date the surviving Spouse receives payment of the death benefit under the Astro Pension Plan.

This monthly amount is payable to the Spouse for 360 monthly payments or until the death of the Spouse, whichever occurs first.

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ARTICLE VI
DISABILITY BENEFITS

6.01 Disabled Covered Executives. A Covered Executive who is receiving benefits under a long-term disability benefit plan designated by the Corporation shall continue to be a Covered Executive. Such Covered Executive's Covered Service shall continue to accrue during the covered disability. The Covered Executive's Final Average Earnings while on disability shall be deemed to be equal to the Final Average Earnings in effect immediately preceding the commencement of the disability.

If the disabled Covered Executive does not return to active employment with the Corporation or any Affiliate, he will be entitled to receive a Retirement Allowance commencing, subject to Section 6.02, on his Normal Retirement Date calculated in accordance with Section 3.01, based on his Final Average Earnings on his date of disability and his Covered Service at his Normal Retirement Date.

6.02 Disability Retirement. A Covered Executive who, while in the employ of the Corporation or any Affiliate and, prior to his Normal Retirement Date:

- (1) incurs a Total and Permanent Disability;
- (2) does not qualify or ceases to qualify for benefits under any salary continuance or long-term disability benefits plan designated by the Corporation, or any applicable Worker's Compensation legislation; and
- (3) retires under the Astro Pension Plan;

will be entitled to receive a Retirement Allowance coincident with the commencement of the payment of his benefit under the Astro Pension Plan. Such Retirement Allowance shall be equal to the amount calculated in accordance with Section 3.02 based on his Final Average Earnings on his date of disability and his Covered Service at his date of retirement.

6.03 Applicable Provisions. The provisions of Sections 3.03 and 3.04 apply to Retirement Allowances paid under Article VI, with such wording changes as may be necessary. However, the provisions of Article V shall apply when a disabled Covered Executive dies prior to commencement of his Retirement Allowance.

ARTICLE VII
ADMINISTRATION

The Corporation is the Administrator of the Plan. The Administrator shall be responsible for the general administration of the Plan and shall perform all administrative functions and shall interpret, construe and apply the Plan provisions in accordance with its terms. The Corporation as Administrator may establish, adopt or revise rules and regulations as it deems necessary or advisable for the administration of the Plan. The Corporation may consult with and rely upon the advice of such counsel, actuaries and other advisors as it shall see fit.

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ARTICLE VIII

AMENDMENT OR TERMINATION OF THE PLAN

It is the intention of the Corporation in establishing the Plan that it should operate to the indefinite future. The Corporation does however, reserve the sole right to terminate the Plan at any time. The Corporation further reserves the right in its sole discretion to amend the Plan in any respect; provided, however, that no such amendment that reduces the value of the benefits therefore accrued by the Covered Executive shall be effective unless the Covered Executive consents to such amendment in writing.

In the event of termination of the Plan, the value of the benefits accrued by the Covered Executive at the time of termination will be determined assuming the Astro Pension Plan and all other qualified retirement plans of the Corporation and its Affiliates are terminated at the same time. Any amendment or termination shall be made pursuant to a resolution of the Board of Directors of the Corporation and shall be effective as of the date specified in such resolution.

ARTICLE IX

CLAIMS REVIEW PROCEDURE

9.01 Denial of Benefits. If a Retirement Allowance under the Plan is wholly or partially denied, notice of the decision shall be furnished to the Covered or Former Covered Executive or Spouse (claimant) as the case may be by the Administrator within a reasonable period of time after such decision is reached.

9.02 Notice. Any claimant who is denied a claim for Benefits shall be furnished written notice setting forth:

- (a) the specific reason or reasons for the denial;
- (b) specific reference to the pertinent provision of the Plan upon which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim; and
- (d) an explanation of the claim review procedure under the Plan.

9.03 Appeals Procedure. In order that a claimant may appeal a denial of a claim, the claimant or the claimant's duly authorized representative may:

- (a) request a review by written application to the Administrator, or its designate, no later than 60 days after receipt by the claimant of written notification of denial of a claim;
- (b) review pertinent documents; and
- (c) submit issues and comments in writing.

9.04 Review. A decision on review of a denied claim shall be made not later than 60 days after receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered within a reasonable period of time, but not later than 120 days after receipt of a request for review. The decision on review shall be in writing and shall include the specific reason(s) for the decision and the specific reference(s) to the pertinent provisions of the Plan on which the decision is based.

ARTICLE X

GENERAL

10.01 No Employment Rights. Nothing herein shall constitute a contract of continuing employment or in any manner obligate the Corporation to continue the service of a Covered Executive, or obligate a Covered Executive to continue in the service of the Corporation, and nothing herein shall be construed as fixing or regulating the compensation paid to Covered Executive.

10.02 No Claim Against the Company. Neither a Covered Executive nor any other person shall acquire by reason of the Plan any right in or title to any assets, funds or property of the Corporation whatsoever including, without limiting the generality of the foregoing, any specific funds or assets which the Corporation, in its sole discretion, may set aside in anticipation of a liability hereunder. Any trust which is created in connection with this Plan or any agreement shall provide that the assets of the trust are subject to the claims of the Corporation's general creditors. A Covered Executive shall have only a Contractual right to the amounts, if any, payable hereunder unsecured by any asset of the Corporation.

10.03 Incompetence. If the Administrator determines that any person entitled to any payment hereunder is incompetent by reason of any physical or mental disability, and consequently unable to give a valid receipt, the Administrator may cause any payment due to such person to be made to another person for his benefit, without responsibility on the part of the Administrator to follow the application of such funds. Payment made pursuant to this section 10.03 shall operate as a complete discharge of the responsibility of the Administrator.

10.04 Nonassignability. Neither a Covered Executive nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Covered Executive or any other person, nor be transferable by operation of law in the event of a Covered Executive's or any other person's bankruptcy or insolvency.

10.05 Continuance of Payments. The payment of a Retirement Allowance to a Covered Executive or Former Covered Executive, or to his surviving Spouse, is subject to satisfactory proof of the existence of a Covered Executive or Former Covered Executive, or his surviving Spouse, as the case may be, as may be required from time to time by the Administrator.

10.06 Notice. Any notice required or permitted to be given to the Administrator of the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Corporation, directed to the attention of the

Administrator. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for registration or certification.

10.07 Gender and Number. Wherever appropriate herein, the masculine may mean the feminine and the singular may mean the plural or vice versa.

10.08 Corporate Successors. The Plan shall not be automatically terminated by a transfer or sale of assets of the Corporation or the merger or consolidation of the Corporation into or with any other corporation or other entity, but the Plan shall be continued after such sale, merger or consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue the Plan. In the event that the Plan is not continued by the transferee, purchaser or successor entity, then the Plan shall terminate subject to the provisions of Article VIII.

10.09 Unclaimed Benefits. Each Covered Executive shall keep the Corporation informed of his current address and the current address of his Spouse. The Corporation shall not be obligated to search for the whereabouts of any person. If the location of a Covered Executive is not made known to the Corporation within three (3) years after the date on which payment of the Covered Executive's Retirement Allowance may first be made, payment may be made as though the Covered Executive had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed, or, within three years after the actual death of a Covered Executive, the Corporation is able to locate any surviving Spouse of the Covered Executive, then the Corporation shall have no further obligation to pay any benefit hereunder to such Covered Executive or surviving Spouse or any other person and such benefit shall be irrevocably forfeited.

10.10 Withholding; Employment Taxes. To the extent required by the law in effect at the time payments are made, the Corporation shall withhold from payments made hereunder any taxes required to be withheld by the Federal or any state or local government.

10.11 Validity. In the event any provision of this Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

10.12 Applicable Law. This Plan shall be governed and construed in accordance with the laws of the State of California.

NORTHROP GRUMMAN
ELECTRONIC SYSTEMS EXECUTIVE PENSION PLAN
(Amended and Restated Effective as of January 1, 2005)

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NORTHROP GRUMMAN
ELECTRONIC SYSTEMS EXECUTIVE PENSION PLAN
(Amended and Restated Effective as of January 1, 2005)

The Northrop Grumman Electronic Systems Executive Pension Plan (the “Plan”) is hereby amended and restated effective as of January 1, 2005. This restatement amends the October 1, 2004 restatement of the Plan to address the requirements of Code section 409A and certain other changes.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

ARTICLE 1

Introduction

Section 1.01. Introduction. The Northrop Grumman Electronic Systems Executive Pension Plan is a supplemental pension plan that provides nonqualified deferred compensation for a select group of management or highly compensated employees.

Section 1.02. Effective Date. The Plan became effective March 1, 1996.

Section 1.03. Sponsor. The Plan sponsor is Northrop Grumman Corporation.

Section 1.04. Predecessor Plan. The Plan was established as a successor to the Westinghouse Executive Pension Plan, maintained by Westinghouse Electric Corporation ("Westinghouse") for the benefit of certain executive employees of the Westinghouse Electronic Systems Group as of February 29, 1996 who became employees of the Northrop Grumman Electronic Sensors & Systems Division as of March 1, 1996 as a result of the Westinghouse Acquisition, and certain other executive employees who may become employed by the Northrop Grumman Electronic Sensors & Systems Division on or after March 1, 1996. The Northrop Grumman Electronic Sensors & Systems Division became the Northrop Grumman Electronic Sensors & Systems Sector effective August 24, 1998.

Section 1.05. 2001 Reorganization. Effective as of the 2001 Reorganization Date in (d), the corporate structure of Northrop Grumman Corporation and its affiliates was modified. Effective as of the Litton Acquisition Date in (e), Litton Industries, Inc. was acquired and became a subsidiary of the Northrop Grumman Corporation (the "Litton Acquisition").

(a) The former Northrop Grumman Corporation was renamed Northrop Grumman Systems Corporation. It became a wholly-owned subsidiary of the new parent of the reorganized controlled group.

(b) The new parent corporation resulting from the restructuring is called Northrop Grumman Corporation. All references in this Plan to the former Northrop Grumman Corporation and its Board of Directors now refer to the new parent corporation bearing the same name and its Board of Directors.

(c) As of the 2001 Reorganization Date, the new Northrop Grumman Corporation became the sponsor of this Plan, and its Board of Directors assumed authority over this Plan.

(d) 2001 Reorganization Date. The date as of which the corporate restructuring described in (a) and (b) occurred.

(e) Litton Acquisition Date. The date as of which the conditions for the completion of the Litton Acquisition were satisfied in accordance with the Amended and Restated Agreement and Plan of Merger Among Northrop Grumman Corporation, Litton Industries, Inc., NNG, Inc., and LII Acquisition Corp.

ARTICLE 2

Definitions

Capitalized terms which are defined in the ES Pension Plan will have the same meanings in this Plan unless otherwise expressly stated. In addition, the following terms when used and capitalized will have the following meanings:

Section 2.01. Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.

Section 2.02. Annual Incentive Programs. See Article 6.

Section 2.03. Average Annual Compensation. See Article 6.

Section 2.04. Board. Board means the Board of Directors of Northrop Grumman Corporation, or its delegate.

Section 2.05. Code. The Internal Revenue Code of 1986, as amended, and as it may be amended.

Section 2.06. Committee. A committee of not less than three members appointed by the Board with responsibility for the general administration of the Plan. The Committee is the “plan administrator” under ERISA.

Section 2.07. Company. Northrop Grumman Corporation.

Section 2.08. Defined Contribution Plan. A defined contribution plan within the meaning of ERISA § 3(34), but not including:

(a) the Northrop Grumman Electronic Systems Savings Program or any similar program of a Participating Company or a Designated Entity or

(b) any amount received pursuant to a cash or deferred arrangement (as that term is defined in the Code) maintained by a Participating Company or a Designated Entity.

Section 2.09. Designated Entity. Designated Entity means an Affiliated Company or other entity that has been and is still designated by the Committee as participating in the Plan.

Section 2.10. ERISA. The Employee Retirement Income Security Act of 1974, as amended, and as it may be amended.

Section 2.11. ES Pension Plan. The Northrop Grumman Electronic Systems Pension Plan, formerly known as the ESSD Pension Plan.

Section 2.12. Executive. Executive means an individual who satisfies (a) and (b) and is not excluded by (c) or (d):

(a) An Employee who is employed by ES (or by a Participating Company, Designated Entity, or other Affiliated Company) in a position that is determined by the Company's Chief Executive Officer or Vice President and Chief Human Resources and Administrative Officer to be eligible as an Executive position under this Plan based on the duties and responsibilities of the position.

(b) The Employee has been notified by the Committee in writing that he or she is eligible for benefits under the Plan.

(c) No Employee may receive benefits under this Plan if he or she is currently accruing supplemental benefits under any other nonqualified deferred compensation plan, contract, or arrangement maintained by the Affiliated Companies or to which the Affiliated Companies contribute with the exception of the Officers Supplemental Executive Retirement Program under the Northrop Grumman Supplemental Plan 2.

(d) Notwithstanding any provision of the Plan to the contrary, effective as of July 1, 2003, no Employee will first become eligible to participate in the Plan or otherwise receive credit for service or compensation for purposes of calculating a benefit under the Plan unless the Employee was classified as an Executive eligible to participate in the Plan before that date. Executives that terminate employment and are later rehired into positions that are determined to be eligible as Executive positions under the Plan will be eligible to resume participation in the Plan and will be subject to Appendix B.

Section 2.13. Executive Benefit Service. See Article 6.

Section 2.14. Executive Pension Base. See Article 6.

Section 2.15. Executive Pension Supplement. The pension calculated pursuant to Articles 4 and 5 of this Plan. There will be no Executive Pension Supplement payable if the Executive's Qualified Plan Benefit equals or exceeds his or her Executive Pension Base.

Section 2.16. Grandfathered Amounts. Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.

Section 2.17. Key Employee. An employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Executives are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

Section 2.18. Maximum Contribution. An Employee will be deemed to have made the Maximum Contribution if he or she has made the contributions under (a) and (b), as interpreted under (c):

(a) During such time as the Employee was eligible to participate in the ES Pension Plan and the Westinghouse Pension Plan, he or she contributed the maximum amount the Employee was permitted to contribute under those plans, and

(b) During such time as the Employee was employed by a Designated Entity (which includes for this purpose a “Designated Entity” under the Westinghouse Plan during periods before the Westinghouse Acquisition),

(1) The Employee contributed the maximum amount he or she was permitted to contribute, if any, to that Designated Entity’s defined benefit pension or Defined Contribution Plan, if any, and

(2) The Employee paid to the Company (or to Westinghouse, before the Westinghouse Acquisition) an amount of each of his or her annual incentive compensation awards based on the maximum ES Pension Plan contribution formula (or Westinghouse Pension Plan contribution formula, as appropriate) applied to 50% of his or her awards. This payment is pre-tax and is made by a deferral election entered into prior to the year in which the annual incentive compensation award is determined and paid.

(c) This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C). Accordingly, this Section is to be interpreted as requiring an Executive to have made the Maximum Contribution not only under this Plan but also under the Westinghouse Plan.

Section 2.19. Participating Company. Any of the “Participating Companies” under the ES Pension Plan.

Section 2.20. Payment Date. The 1st of the month coincident with or following the later of (a) the date the Executive attains age 55, or (b) the date the Executive Separates from Service.

Section 2.21. Pension Plan and Pension Plans. Any of the following:

- (a) The Northrop Grumman Retirement Plan
- (b) The Northrop Grumman Retirement Plan—Rolling Meadows Site
- (c) The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
- (d) The Northrop Grumman Electronics Systems — Space Division Salaried Employees’ Pension Plan (effective as of the Aerojet Closing Date)
- (e) The Northrop Grumman Electronics Systems — Space Division Union Employees’ Pension Plan (effective as of the Aerojet Closing Date)

“Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.

Section 2.22. Plan. The Northrop Grumman Electronic Systems Executive Pension Plan.

Section 2.23. Qualified Plan Benefit.

(a) The Qualified Plan Benefit is equal to the sum of:

- (1) the annual amount of pension the Executive has accrued under the ES Pension Plan and any applicable defined benefit pension plan of a Designated Entity based on Benefit Service accumulated up to the earlier of the Executive’s actual retirement date or death;
- (2) the amount the Executive is entitled to receive on a life annuity basis for retirement under any applicable Defined Contribution Plan of a Designated Entity;
- (3) in any case where service included in the Executive’s Vesting Service also entitles that Executive to benefits under one or more retirement plans (whether a defined benefit or Defined Contribution Plan or both) of another company, the amount the Executive is entitled to receive on a life annuity basis for retirement from those plans; and
- (4) the amount of any “Qualified Plan Benefits” taken into account under the Westinghouse Plan (or which would have been taken into account, but for the Westinghouse Acquisition) with respect to plans that were not acquired by the Affiliated Companies as part of the Westinghouse Acquisition;

provided, the method of benefit measurement, in the case of (2), (3) and (4) above, will be on the basis of procedures determined by the Committee on a plan-by-plan basis.

(b) The Qualified Plan Benefit does not include any early pension retirement supplement.

(c) The term Qualified Plan Benefit will also include amounts accrued under an excess benefit plan or other similar arrangement in which the Executive is a participant.

Section 2.24. Retirement Eligible. An Executive is Retirement Eligible if he or she is accruing Vesting Service and:

- (a) has attained age 65 and completed five or more years of Vesting Service;
- (b) has attained age 60 and completed 10 or more years of Vesting Service;

- (c) has attained age 58 and completed 30 or more years of Vesting Service; or
- (d) has satisfied the requirements for an immediate pension under the Special Retirement Benefit provisions of the ES Pension Plan.

Section 2.25. Separation from Service or Separates from Service. A “separation from service” within the meaning of Code section 409A.

Section 2.26. Westinghouse. Westinghouse Electric Corporation.

Section 2.27. Westinghouse Acquisition. The acquisition by Northrop Grumman Corporation of the Electronic Systems Group of Westinghouse effective March 1, 1996.

Section 2.28. Westinghouse Plan. The Westinghouse Executive Pension Plan, as it existed from time to time.

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ARTICLE 3

Qualification for Benefits; Mandatory Retirement

Section 3.01. Qualification for Benefits. Subject to Article 8 and other applicable provisions of the Plan, if any, each Executive will be entitled to the benefits of this Plan on separation from service from a Participating Company, a Designated Entity, or any other Affiliated Company, provided that such Executive meets the following four conditions:

(a) He or she has been employed in a position that meets the definition of Executive for five or more continuous years immediately preceding the earlier of the Executive's actual retirement date or the Executive's Normal Retirement Date. For purposes of this five-year requirement (but not for purposes of determining Executive Benefit Service under Section 6.05), the General Manager of ES and the Vice President of Human Resources for ES may determine that one or more years of an Employee's service with an Affiliated Company prior to the Employee's transfer to ES shall be counted as having been in an Executive position.

(b) He or she has made the Maximum Contribution during each year of Vesting Service from the date he or she first became an Executive until the earliest of his or her date of death, actual retirement date or Normal Retirement Date;

(c) He or she is a participant in the ES Pension Plan or in the defined benefit plan or Defined Contribution Plan of a Designated Entity, if any;

(d) He or she is Retirement Eligible on the date of voluntary or involuntary separation from service from a Participating Company or a Designated Entity or, in the case of a Surviving Spouse benefit, satisfies the requirements for benefits under Article 5 of the Plan.

Section 3.02. Mandatory Retirement. Pursuant to this Plan, the Company will be entitled, at its option, to retire any Executive who has attained age 65 and who, for the two-year period immediately before his or her retirement, has participated in this Plan, if such Executive is entitled to an immediate nonforfeitable annual retirement benefit from a pension, profit-sharing, savings or deferred compensation plan, or any combination of such plans, of a Participating Company or any Affiliated Company, which equals, in the aggregate, at least \$44,000. The calculation of the \$44,000 (or greater) amount will be performed in a manner consistent with 29 U.S.C. § 631(c)(2).

Section 3.03. Certain Transfers. Except as otherwise provided in (e) below, if an Executive transfers to a position with an Affiliated Company that is not covered by a Participating Company or Designated Entity:

(a) He or she will immediately cease to accrue Executive Benefit Service.

(b) He or she will continue to earn Vesting Service (for purposes of the Plan other than Executive Benefit Service) for periods of employment with the Affiliated Company.

(c) His or her Average Annual Compensation will include earnings as an employee from the Affiliated Company for periods after the transfer until his or her termination of employment with all Affiliated Companies.

(d) He or she may receive benefits under the Plan if he or she subsequently retires from the Company and satisfies the Plan's eligibility requirements.

(e) Effective as of July 1, 2003, if an Executive transfers to a position with an Affiliated Company that has been determined by the Company's Chief Executive Officer or Vice President and Chief Human Resources and Administrative Officer to be an eligible position under the Plan, (a)-(d) above will not apply and the Executive will continue to be classified as an active participant for all purposes under the Plan until the Executive's separation from service from all Affiliated Companies.

ARTICLE 4

Calculation of Executive Pension Supplement

Section 4.01. In General. The Executive Pension Supplement for an Executive who meets the qualifications of Article 3 of the Plan retiring on an Early, Normal or Special Retirement Date will be calculated as described in Section 4.02(a) or (b).

Section 4.02. Amount.

(a) If the Executive

- (1) has attained age 60 and completed 10 or more years of Vesting Service,
- (2) has attained age 65, or
- (3) has satisfied the eligibility requirements for an immediate pension under the “Special Retirement Benefit” provisions of the ES Pension Plan,

the Executive Pension Supplement is determined by subtracting the Executive’s Qualified Plan Benefit that would be payable if he or she elected a Life Annuity Option (after any reduction for early retirement, if applicable) from his or her Executive Pension Base.

(b) If the Executive has not met the requirements of paragraph (a) above but has attained age 58 and completed 30 or more years of Vesting Service, the Executive Pension Supplement is determined by subtracting the Executive’s Qualified Plan Benefit that would be payable if he or she elected a Life Annuity Option (before any reduction for retirement prior to age 60) from his or her Executive Pension Base.

ARTICLE 5

Death in Active Service

Section 5.01. Eligibility For an Immediate Benefit. If an Executive dies in active service and, on his or her date of death, satisfies the requirements of the “Special Surviving Spouse Benefit” under the ES Pension Plan and satisfied the requirements of Section 3.01(b) and (c) of this Plan at the time of death, a Surviving Spouse benefit will also be payable under this Plan if his or her Executive Pension Base exceeds his or her Qualified Plan Benefit. The requirement of Section 3.01(a) is waived.

Section 5.02. Calculation of Immediate Benefit. The amount of the immediate Surviving Spouse benefit under Section 5.01 will be the Executive Pension Supplement reduced in the same manner as though the benefit were a “Special Surviving Spouse Benefit” under the ES Pension Plan. For purposes of this Section, the Executive Pension Supplement will be calculated as follows:

(a) If the Executive had attained age 60 or if the Executive had completed 30 years of Vesting Service, the Executive Pension Supplement would be calculated as described in Section 4.02(a);

(b) Otherwise, the Executive Pension Supplement would be 80% of the difference between the Executive Pension Base and the unreduced Qualified Plan Benefit.

Section 5.03. Eligibility For a Deferred Benefit. If an Executive dies in active service who does not satisfy the requirements of Section 5.01 but who satisfies the requirements of the “Surviving Spouse Benefit” under the ES Pension Plan and satisfied the requirements of Section 3.01(b) and (c) of this Plan at the time of death, a Surviving Spouse benefit will also be payable under this Plan if his or her Executive Pension Base exceeds his or her Qualified Plan Benefit. The requirement of Section 3.01(a) is waived.

Section 5.04. Calculation of Deferred Benefit. The amount of the deferred Surviving Spouse benefit under Section 5.03 will be the Executive Pension Supplement reduced in the same manner as though the benefit were payable under the ES Pension Plan. For purposes of this paragraph, the Executive Pension Supplement will be calculated by subtracting the Executive’s Qualified Plan Benefit (before any reductions) from his or her Executive Pension Base.

ARTICLE 6

Executive Pension Base

Section 6.01. In General. This Article sets forth the rules for determining a Participant's Executive Pension Base.

Section 6.02. Executive Pension Base. The Executive Pension Base = (a) x (b) x (c) as follows:

- (a) 1.47%;
- (b) Average Annual Compensation;
- (c) the number of years of Executive Benefit Service accrued to the earliest of:
 - (1) the Executive's actual retirement date,
 - (2) the date of the Executive's death, or
 - (3) the Executive's Normal Retirement Date.

Section 6.03. Average Annual Compensation. Average Annual Compensation = (a) + (b) as follows:

- (a) 12 times the average of the five highest of the Executive's December 1 monthly base salaries during the 10-year period immediately preceding the earliest of:
 - (1) the Executive's date of death,
 - (2) the Executive's actual retirement date, or
 - (3) the Executive's Normal Retirement Date;
- (b) the average of the Executive's five highest annual incentive compensation awards paid under the Annual Incentive Programs or equivalent annual program or programs during the 10-year period ending with the earliest of:
 - (1) the year of the Executive's death,
 - (2) the year of the Executive's actual retirement date, or
 - (3) the year of the Executive's Normal Retirement Date.
- (c) No earnings before March 1, 1996 are taken into account under this Article.
- (d) Average Annual Compensation normally includes only pay earned while an Executive. But see Section 3.03.

Section 6.04. Annual Incentive Programs. The Annual Incentive Programs are the Timely Awards Program, Management Achievement Plan, the Incentive Compensation Plan, the Incentive Management Achievement Plan and the Performance Achievement Plan of the Company.

Section 6.05. Executive Benefit Service. An Executive's Executive Benefit Service is determined under (a) or (b) as appropriate:

(a) Executive Benefit Service is an Executive's total years of Vesting Service under the ES Pension Plan if:

- (1) the Executive was making the Maximum Contribution during each of those years; or
- (2) the use of the Executive Buy Back process has been authorized by the Committee and the Executive:

(A) was making the Maximum Contribution during each of those years after the date he or she first became an Executive and

(B) has complied with the provisions of the Executive Buy Back process (as set forth in Appendix A) as to those years prior to his or her first becoming an Executive.

(b) Otherwise, Executive Benefit Service is the Executive's period of Vesting Service during which he or she made the Maximum Contribution.

(c) No service before March 1, 1996 is taken into account under this Article.

ARTICLE 7

Payment of Benefits

Section 7.01. Limitation on Benefits. No benefits will be payable under this Plan to any Executive whose employment terminates for any reason other than death prior to becoming Retirement Eligible.

Section 7.02. Normal Form and Commencement of Benefits. This Section only applies to Grandfathered Amounts. The Executive Pension Supplement will be paid for life in monthly installments, each equal to 1/12th of the annual amount determined in Article 4 or 5, whichever is applicable.

(a) The Committee will determine the form and commencement of benefit payments in its sole discretion.

(b) The Committee will choose among the various forms of payment, other than the lump sum, then available under the ES Pension Plan, subject to the same reductions or other provisions that apply to the elected form of payment under the ES Pension Plan.

(c) No payments may commence under this Plan until payments to the Executive or Surviving Spouse have commenced under the ES Pension Plan or other tax-qualified defined benefit plan or Defined Contribution Plan maintained by a Participating Company or Designated Entity.

See Appendix D and Appendix E for the rules that apply to other benefits earned under the Plan.

Section 7.03. Guaranteed Benefit. This Section only applies to Grandfathered Amounts. Regardless of the form of payment elected by the Committee, after the Executive retires and begins receiving an Executive Pension Supplement, a minimum of 60 times the monthly payment he or she would have received on a life annuity basis is guaranteed.

See Appendix D and Appendix E for the rules that apply to other benefits earned under the Plan.

Section 7.04. Guaranteed Surviving Spouse Benefit. This Section only applies to Grandfathered Amounts. Once a Surviving Spouse Benefit determined under Sections 5.01 and 5.02 has commenced, a minimum of 60 times the monthly benefit payable to the Surviving Spouse is guaranteed. See Appendix D and Appendix E for distribution rules that apply to death benefits that are not Grandfathered Amounts

Section 7.05. Lump Sum Payments. This Section only applies to Grandfathered Amounts. An Executive who elects lump sum payments of all his or her nonqualified benefits under the Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan (collectively, the "CIC Plans") is entitled to have his or her Executive Pension Supplement paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, Executive Pension Supplement payments are governed by the general provisions of this Article, which do not provide for lump sum payments.

Northrop Grumman Corporation may, in its sole discretion, amend or eliminate any provision of the Plan with respect to lump sum distributions at any time. This applies whether or not a Participant has already made a lump sum election.

See Appendix D and Appendix E for the rules that apply to other benefits earned under the Plan

Section 7.06. Mandatory Cashout. Notwithstanding any other provisions in the Plan, Executives with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

- (a) Post-2007 Terminations. Executives who have a complete termination of employment with the Affiliated Companies after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of such termination (without interest), if such present value is below the Code section 402(g) limit in effect at the termination.
- (b) Pre-2008 Terminations. Executives who had a complete termination of employment with the Affiliated Companies before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Northrop Grumman Pension Plan shall be used.

Section 7.07. Optional Payment Forms. Executives with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

- (a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.
- (b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

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Section 7.08. Rehires. In the event that an Executive retires or otherwise ceases to be an Employee of a Participating Company or a Designated Entity and is later rehired by one of those entities, the provisions of Appendix B will apply.

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ARTICLE 8

Conditions to Receipt of Executive Pension Supplement

Section 8.01. Non-Competition Condition. Payments of benefits under this Plan to Executives are subject to the condition that the recipient will not compete with the Company.

(a) Competition for this purpose means engaging directly or indirectly in any business which is at the time competitive with any business, part of a business, or activity then conducted by the Company, any of its subsidiaries or any other corporation, partnership, joint venture or other entity of which the Company directly or indirectly holds a 10% or greater interest (together, the "Affiliated Group") in the area in which such business, part of a business, or activity is then being conducted by the Affiliated Group.

(b) The condition of this Section may be waived with respect to a recipient but only in writing and only by the Compensation Committee of the Board.

Section 8.02. Breach of Condition. Breach of the condition contained in Section 8.01 will be deemed to occur immediately upon an Executive's engaging in competitive activity.

(a) Payments suspended for breach of the condition will not be resumed whether or not the Executive terminates the competitive activity.

(b) A recipient will be deemed to be engaged in such a business indirectly if he or she is an employee, officer, director, trustee, agent or partner of, or a consultant or advisor to or for, a person, firm, corporation, association, trust or other entity which is engaged in such a business or if he or she owns, directly or indirectly, in excess of 5% of any such firm, corporation, association, trust or other entity.

Section 8.03. Waiver After 65. The ongoing condition of this Article will not apply to an Executive age 65 or older.

ARTICLE 9

Administration

Section 9.01. Committee. This Plan will be administered by the Committee. The Committee will have the right to make reasonable rules from time to time regarding the Plan. All such rules will be consistent with the policy provided by this Plan document. The Committee will have full discretion to interpret the Plan, and to resolve ambiguities and inconsistencies. The Committee's interpretations will in all cases be final and not be subject to appeal.

Section 9.02. Claims Procedures. In accordance with the provisions of ERISA § 503, the Committee will provide a procedure for handling claims of participants or their beneficiaries under this Plan.

Section 9.03. Trust. The Board may authorize the establishment of one or more trusts and the appointment of a trustee or trustees ("Trustee") to hold any and all assets of the Plan in trust. The Board may delegate this power to the Committee.

ARTICLE 10

Modification or Termination

Section 10.01. Amendment and Plan Termination. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not an Executive has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of an Executive's accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to the Grandfathered Amounts.

ARTICLE 11

Miscellaneous

Section 11.01. Benefits Not Assignable. No Executive, former Executive or Surviving Spouse shall have the right to anticipate, alienate, sell, transfer, assign, pledge, encumber, or otherwise subject to lien any of the benefits provided under this Plan. Such rights may not be subject to the debts, contracts, liabilities, engagements or torts of the Executive, former Executive or Surviving Spouse of an Executive.

Section 11.02. Facility of Payment. If the Committee deems any person entitled to receive any payment under the Plan incapable of receiving it by reason of age, illness, infirmity, mental incompetency or incapacity of any kind, the Committee may, in its discretion, direct that payment be made in any one or more of the following manners:

- (a) Applying the amount directly for the comfort, support and maintenance of the payee;
- (b) Reimbursing any person for any such support supplied by any other person to the payee;
- (c) Paying the amount to a legal representative or guardian or any other person selected by the Committee on behalf of the payee; or
- (d) Depositing the amount in a bank account to the credit of the payee.

Section 11.03. Committee Rules. Payment of benefits will be made in accordance with the rules and procedures of the Committee.

Section 11.04. Limitation on Rights. The Company, in adopting this Plan, will not be held to create or vest in any Executive or any other person any interest, pension or benefits other than the benefits specifically provided herein, or to confer upon any Executive the right to remain in the service of the Company.

Section 11.05. Benefits Unsecured. Any assets purchased by the Company to provide benefits under this Plan will at all times remain subject to the claims of general creditors of the Company and any Executive, former Executive or Surviving Spouse of an Executive participating in the Plan has only an unsecured promise to pay benefits from the Company.

Section 11.06. Governing Law. To the extent not preempted by federal law, the law of the State of Maryland will govern the construction and administration of the Plan.

Section 11.07. Severability. If any provision of this Plan or its application to any circumstance or person is held to be invalid by a court of competent jurisdiction, the remainder of the Plan and the application of such provision to other circumstances or persons will not be affected thereby.

Section 11.08. Expanded Benefits. The Board or the Compensation Committee of the Board may, from time to time and without notice, by resolution of the Board or of the Compensation Committee of the Board, authorize the payment of benefits or expand the benefits otherwise payable or to be payable to any one or more individuals. Notwithstanding the foregoing, this Section 11.08 shall not apply to any benefits under the Plan that are not Grandfathered Amounts.

Section 11.09. Plan Costs. Benefits payable under the Plan and any expenses in connection therewith will be paid by the Company to the extent they are not available to be paid from any trust fund established by the Company to help defray the costs of providing Plan benefits.

Section 11.10. Termination of Participation. Participation in the Plan will terminate:

- (a) in the case of a nonvested Executive, upon separation from service with a Participating Company or Designated Entity;
- (b) in the case of a vested Executive, when payment of all amounts due with respect to the Executive are paid, or purported to be paid, by the Plan.

ARTICLE 12

Change in Control

Section 12.01. Definition. The term “Change in Control” means the occurrence of one or more of the following events:

(a) There will be consummated:

(1) Any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company’s common stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company’s common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or

(2) Any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or

(b) The stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(c) (1) Any person (as such term is defined in section 13(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), corporation or other entity will purchase any common stock of the Company (or securities convertible into Company common stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, unless, prior to the making of such purchase of Company common stock (or securities convertible into Company common stock), the Board will determine that the making of such purchase will not constitute a Change in Control; or

(2) Any person (as such term is defined in section 13(d) of the Exchange Act), corporation or other entity (other than the Company or any benefit plan sponsored by the Affiliated Companies) will become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Exchange Act:), directly or indirectly, of securities of the Company representing twenty percent or more of the combined voting power of the Company’s then outstanding securities ordinarily (and apart from any rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) in the case of rights to acquire any such securities), unless, prior to such person so becoming such beneficial owner, the Board will determine that such person so becoming such beneficial owner will not constitute a Change in Control; or

(d) At any time during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board will cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

Section 12.02. Vesting and Funding Rules. Notwithstanding any other provision of the Plan, upon a Change in Control, as defined above, all Executives will be deemed fully vested under this Plan, but only such vesting as to the otherwise applicable five-year service requirement. In addition, upon a Change in Control, but only under circumstances where the successor, surviving or parent company of Northrop Grumman Corporation or the successor plan sponsor or any successor thereto, if any, does not agree to assume the obligation to provide benefits under this Plan as they become due and payable, then an amount sufficient to fund all unpaid benefits and any Surviving Spouse benefits payable under this Plan will be paid immediately by the Company to a Trustee pursuant to a Trust Agreement for the payment of such benefits at the earliest date available in accordance with the provisions of the Plan and on such terms as the committee composed of the Company's Chief Executive Officer, Chief Financial Officer and General Counsel, will deem appropriate (including a direction to the Trustee to pay immediately all benefits that are Grandfathered Amounts on a present value basis and/or such other terms as they may deem appropriate). Notwithstanding this funding, the Company will be obligated to pay benefits to Executives and to Surviving Spouses of Executives to the extent such funding proves to be insufficient. To the extent such funding proves to be more than sufficient, any excess will revert to the Company.

Section 12.03. Special Retirement Provisions. Upon a Change in Control, for any Executive in the Plan who is involuntarily separated and who is not then eligible for a Normal or Special Retirement Pension under the ES Pension Plan, such separation will be deemed to be a separation due to a "Permanent Job Separation", and the Special Retirement Pension provisions under the ES Pension Plan will be used for purposes of determining eligibility and payment of benefits to such Executive under the Plan, provided that distribution of amounts that are not Grandfathered Amounts will still be controlled by Appendix D and Appendix E.

Section 12.04. Calculation of Present Value. The present value of benefits payable by the Trustee will be calculated for specific groups of Executives at the time of the Change in Control as follows:

(a) The present value of the benefits payable from this Plan to Executives who have retired at the time of the Change in Control (as well as benefits payable from this Plan to any Surviving Spouse of an Executive) will be calculated by using the PBGC immediate discount rate established and in effect for the beginning of the calendar year in which the Change in Control occurs.

(b) The present value of the benefits payable from this Plan to Executives who are eligible to retire under the terms of this Plan at the time of the Change in Control will be calculated by using the PBGC immediate discount rates established and in effect at the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is immediately payable at the time of the Change in Control.

(c) The present value of the benefits payable from this Plan to Executives who have completed at least 30 years of service with a Participating Company or a Designated Entity but have not yet attained age 58 at the time of the Change in Control will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 58.

(d) The present value of benefits payable from this Plan to Executives who have completed at least 10 years of service with a Participating Company or a Designated Entity but less than 30 years of service at the time of the Change in Control, but have not yet attained age 60 at the time of the Change in Control, will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 60.

(e) The present value of benefits payable from this Plan to Executives who have completed less than 10 years of service with a Participating Company or a Designated Entity at the time of the Change in Control will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 65.

Section 12.05. Calculation of Offset. In calculating the benefit payable to each Executive, any offset for the ES Pension Plan or other plan in which the Executive participates, will be based upon the last official pension file data available, adjusted to the date of any Change in Control by assuming that the most recent salary reflected in the pension file remains constant.

Section 12.06. Limitation on Amendment, Suspension and Termination.
Notwithstanding any provision of this Plan, this Plan may not be:

- (a) Amended such that future benefits would be reduced;
- (b) Suspended; or
- (c) Terminated;

as to the further accrual of benefits, for a period of 24 months following a Change in Control; and as to the payment of benefits, at any time prior to the last payment, determined in accordance with the provisions of this Plan, to each Executive, former Executive receiving benefits under the Plan, or eligible spouse.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS
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APPENDIX A

Executive Buyback

Section A.01. Introduction. The Executive Buy Back process permits newly eligible Executives to “buy back” past years of Executive Benefit Service under the Plan for periods of time during which they did not make the Maximum Contribution.

Section A.02. Buy Back Offer. If an Employee did not make the Maximum Contribution during each of the years of his or her Vesting Service prior to the time he or she first became an Executive, the Employee will be permitted to pay make-up payments of Maximum Contributions in order to “buy back” his or her non-contributory years of service.

(a) The make-up payments required are the Maximum Contributions that would have been payable during the 10 years prior to the date he or she first became an Executive (or such lesser period from the date the Employee was employed by a Participating Company or a Designated Entity) plus compounded interest on those amounts.

(b) This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C). Accordingly, this Section is to be interpreted as requiring an Executive to make up Maximum Contributions not only for his or her periods of participation under this Plan but also Maximum Contributions that would have been due under the Westinghouse Plan. The terms of (a) will be interpreted to include the corresponding terms under the Westinghouse Plan and the 10-year period will include periods before the Westinghouse Acquisition.

Section A.03. One-Time Opportunity. Upon qualifying as an Executive, an Executive will be offered an Executive Buy Back opportunity at the time he or she first becomes an Executive (or when this Appendix first becomes effective, if later). The actual terms of the Executive Buy Back will be determined from time to time by the Committee. This election will be offered one time to the Executive and his or her decision whether or not to “buy back” will be irrevocable.

Section A.04. Payment. Executive Buy Back payments are pre-tax and are made from compensation by deferral elections entered into prior to the year in which the compensation is determined and paid. Executive Buy Back payments will not be deposited into the ES Pension Plan trust and will not increase the Executive’s Qualified Plan Benefit.

Section A.05. Refund of Buy Back Payment. If, at some point, an Employee is no longer an Executive or otherwise becomes ineligible to receive an Executive Pension Supplement, any Executive Buy Back payments the Employee has made (including any interest the Employee paid) plus any other amount as defined in Section 2.16(b)(2) in the definition of Maximum Contribution paid by the Employee to the Company will be refunded, with interest at such time as the Employee meets one of the following criteria:

(a) Termination or retirement from a Participating Company or a Designated Entity; or

(b) Death;

provided, however, no refund will be made if the Employee is an eligible Executive, whether or not the amount of his or her Executive Pension Supplement exceeds zero. All interest rates will be determined at the discretion of the Committee.

Any amounts that are refundable under this Section A.05 that are not Grandfathered Amounts will be paid in a lump sum upon the Executive's Separation from Service, subject to the six-month delay rule in Section E.02.

Section A.06. Effective Date. The provisions of this Appendix permitting Buy Backs will become effective on a date specified by resolution of the Committee specifically citing this Section.

APPENDIX B

Rehired Executives

Section B.01. Retired Executives Rehired as Executives. If an Executive who retired from a Participating Company or a Designated Entity and who received or is receiving an Executive Pension Supplement as a lump sum or on a monthly basis is rehired in an Executive position by a Participating Company, Designated Entity, or any other Affiliated Company, the following provisions apply:

(a) Monthly Payments: For an Executive with a monthly Executive Pension Supplement:

(1) The Plan will suspend all Executive Pension Supplement payments that are Grandfathered Amounts;

(2) If, but only if, the Executive is Retirement Eligible at the time of subsequent actual retirement:

(A) Previous years of Vesting Service and Executive Benefit Service accrued prior to the Executive's retirement will be restored; and

(B) The Executive's Executive Pension Supplement will be recalculated in accordance with the Plan at his or her subsequent actual retirement date as long as the Executive then meets all Plan benefit qualification requirements;

(3) The Executive, having previously met the requirement of five years of continuous service as an Executive prior to his or her first retirement, need not again meet that requirement;

(4) The Executive's Average Annual Compensation will be computed without regard to the break in service, using zero for any periods during which the Executive was a retiree;

(5) If the Executive elected to take a lump sum Qualified Plan Benefit with respect to his or her initial retirement, then in any subsequent calculation of the Executive's Executive Pension Supplement, the Executive's Executive Pension Base will be reduced by both the Executive's Qualified Plan Benefit received at the time of the initial retirement and the Executive's Qualified Plan Benefit accrued from the date of rehire through the date of his or her subsequent retirement.

(6) If the Executive continued to receive payments that were not Grandfathered Amounts during the period of rehire, an actuarial reduction will apply at his subsequent termination.

(b) Lump Sums: For an Executive who received a lump sum Executive Pension Supplement and who is Retirement Eligible at the time of subsequent actual retirement:

- (1) Previous years of Vesting Service will be restored but not previous years of Executive Benefit Service;
- (2) The Plan will calculate the Executive's additional Executive Pension Supplement at his or her subsequent actual retirement date on the basis of years of service after the rehire in accordance with the Plan as the Executive then meets all Plan benefit qualification requirements;
- (3) The Executive, having previously met the requirement of five years of continuous service as an Executive prior to his or her first retirement, need not again meet that requirement;
- (4) The Executive's Average Annual Compensation will be computed without regard to the break in service, using zero for any periods during which the Executive was a retiree;
- (5) If the Executive elected a monthly Qualified Plan Benefit with respect to his or her initial retirement, then the Executive's Qualified Plan Benefit accrued from the date of rehire through the subsequent date of actual retirement will be subtracted from the Executive's Executive Pension Base in calculating the Executive's additional Executive Pension Supplement at his or her subsequent retirement.

Section B.02. Former Executives with Vested Pensions Rehired as Executives. If the employment of an Executive of a Participating Company or a Designated Entity who was eligible only for a vested pension under the relevant qualified defined benefit or Defined Contribution Plan, if any, was terminated and the Executive is rehired by a Participating Company, Designated Entity, or any other Affiliated Company, the following provisions apply:

- (a) Previous years of Vesting Service and Executive Benefit Service accrued prior to the Executive's termination of employment will be restored;
- (b) The Executive must meet the requirement of five years of continuous service as an Executive prior to a subsequent actual retirement, counting only years of service after the rehire;
- (c) Only base salary and incentive awards earned after the rehire will be used in computing Average Annual Compensation;
- (d) If the Executive elected to take his or her vested pension as a lump sum, in any calculation of an Executive Pension Supplement at actual retirement, the Executive's Executive Pension Base will be reduced by both the Executive's Qualified Plan Benefit at the time of the initial termination of employment and the Executive's Qualified Plan Benefit accrued from the date of rehire through the date of actual retirement.

Section B.03. Retired Executives Rehired in Non-Executive Positions. If an Executive who retired from a Participating Company or a Designated Entity and who received or is receiving an Executive Pension Supplement as a lump sum or on a monthly basis is rehired by a

Participating Company, Designated Entity, or any other Affiliated Company in a non-Executive position, the following provisions apply:

(a) For a former Executive who was receiving a monthly Executive Pension Supplement:

(1) The Plan will suspend all Executive Pension Supplement payments that are Grandfathered Amounts;

(2) If, but only if, the former Executive is still Retirement Eligible at the time of subsequent actual retirement, the Plan will recommence Executive Pension Supplement payments that were suspended at the time of the Executive's subsequent actual retirement without recalculation of amount;

(3) At subsequent actual retirement, the former Executive may receive any form of payment of his or her Executive Pension Supplement then permitted under the Plan, as selected by the Committee.

(b) For a former Executive who received his or her Executive Pension Supplement as a lump sum, no further benefits will be paid by the Plan.

Section B.04. Events That Span Westinghouse Acquisition. This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C) and this Appendix is to be interpreted accordingly.

(a) Reductions for payments of Qualified Plan Benefits will be interpreted to include reductions for payments of similar benefits under Westinghouse plans.

(b) Determination of the form of Qualified Plan Benefits will take into account the form of payments under Westinghouse plans.

(c) The terms of this Appendix will be interpreted, where appropriate, to include the corresponding terms under the Westinghouse Plan and to take into account events both before and after the Westinghouse Acquisition.

Section B.05. Breaks Spanning March 1, 1996. There may be Executives who participated in the Westinghouse Plan but because of a break in their service did not become employees of the Affiliated Companies on March 1, 1996 as a result of the Westinghouse Acquisition.

(a) Those Executives might be hired later by the Electronic Sensors & Systems Division.

(b) They will in no case be entitled to service or compensation credits or benefits under this Plan with respect to any service or compensation prior to their first hire by the Electronic Sensors & Systems Division after March 1, 1996. The Executives will not be

considered to have previously met the requirement of five years of continuous service as an Executive.

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APPENDIX C

Coordination With Westinghouse Plan

Section C.01. In General. As part of the Westinghouse Acquisition, this Plan was established by Northrop Grumman Corporation.

(a) This Plan is intended to be a continuation of the Westinghouse Plan with only minor changes.

(b) This Plan assumes remaining liabilities of the Westinghouse Plan with regard to those participants of the Westinghouse Plan who became Employees of the Northrop Grumman controlled group on March 1, 1996 as a result of the Westinghouse Acquisition. Accordingly, benefits earned by Participants of this Plan under the Westinghouse Plan before March 1, 1996 are payable under this Appendix.

(c) Employees first hired after the Westinghouse Acquisition will therefore not be affected by this Appendix and will have their pension benefits governed entirely by the other Articles and Appendices of this Plan.

Section C.02. Pre-Acquisition Benefits.

(a) Except as provided in Sections C.03 and C.04, benefits earned under the Westinghouse Executive Pension Plan are in addition to the benefits which may be earned under Articles 4 and 5.

(b) The Westinghouse Plan benefits will be calculated taking into account all pertinent facts for determining benefits under the Westinghouse Plan's provisions (including benefits and contributions under Westinghouse plans) as they have existed from time to time.

Section C.03. Coordination of Pre and Post-Acquisition Benefits. The Plan will be interpreted in light of events before and after the Westinghouse Acquisition to coordinate the calculation of benefits (including service and compensation components, benefits and contributions under Westinghouse plans and rehire provisions) under this Appendix and benefits based on Articles 4 and 5 so that the Plan will function as if it were essentially a continuation of the Westinghouse Plan.

Section C.04. No Duplication of Benefits. Because this Plan is intended as a continuation of the Westinghouse Plan, this Plan will not pay any benefits already paid or payable by the Westinghouse Plan itself.

APPENDIX D

2005-2007 Transition Rules

This Appendix D provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Executives with benefit commencement dates after January 1, 2005 and before January 1, 2008.

Section D.01. Election. Executives scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Executives electing optional forms of benefits under this provision will commence payments on the Executive's selected benefit commencement date.

Section D.02. 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Executives commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Executive.

(a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee's date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.

(b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:

(1) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, an Executive must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;

(2) The lump sum payment shall be made in 2005 as soon as feasible after the election; and

(3) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan's procedures for calculating lump sums as of December 31, 2004.

Section D.03. 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Executive's benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Executive's benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

APPENDIX E

Post 2007 Distribution of 409A Amounts

The provisions of this Appendix E shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Article VII, and Appendix D addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

Section E.01. Time of Distribution. Subject to the special rules provided in this Appendix E, distributions to an Executive of his vested retirement benefit shall commence as of the Payment Date.

Section E.02. Special Rule for Key Employees. If an Executive is a Key Employee and age 55 or older at his Separation from Service, distributions to the Executive shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Executive's death). Amounts otherwise payable to the Executive during such period of delay shall be accumulated and paid on the first day of the seventh month following the Executive's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).

Section E.03. Forms of Distribution. Subject to the special rules provided in this Appendix E, an Executive's vested retirement benefit shall be distributed in the form of a single life annuity. However, an Executive may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:

- (a) 50% joint and survivor annuity
- (b) 75% joint and survivor annuity
- (c) 100% joint and survivor annuity.

If an Executive is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

Section E.04. Death. If a married Executive dies before the Payment Date, a death benefit will be payable to the Executive's spouse commencing 90 days after the Executive's death. The death benefit will be a single life annuity in an amount equal to the survivor portion of an Executive's vested retirement benefit based on a 100% joint and survivor annuity determined on the Executive's date of death. This benefit is also payable to an Executive's

domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

Section E.05. Actuarial Assumptions. Except as provided in Section E.06, all forms of payment under this Appendix E shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

Section E.06. Accelerated Lump Sum Payouts.

(a) Post-2007 Separations. Notwithstanding the provisions of this Appendix E, for Executives who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of an Executive's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to \$25,000, such benefit amount shall be distributed to the Executive (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section E.02, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Executive's Separation from Service.

(b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix E, for Executives who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of an Executive's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Executive attains age 55, is less than or equal to \$25,000, such benefit amount shall be distributed to the Executive (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Executive attains age 55, but no earlier than January 1, 2008.

(c) Conflicts of Interest. The present value of an Executive's vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.

(d) Present Value Calculation. The conversion of an Executive's retirement benefit into a lump sum payment and the present value calculations under this Section E.06 shall be based on the GATT assumptions in effect under the Northrop Grumman Pension Plan, and will be based on the Executive's immediate benefit if the Executive is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Executive will be eligible to receive at age 55.

Section E.07. Effect of Early Taxation. If the Executive's benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Executive.

Section E.08. Permitted Delays. Notwithstanding the foregoing, any payment to an Executive under the Plan shall be delayed upon the Company's reasonable anticipation of one or more of the following events:

- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (b) The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section E.08 shall be paid in accordance with Code section 409A.

Section E.09. Special Tax Distribution. On the date an Executive's retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Executive's portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will reduce the Executive's future benefit payments under the Plan. This reduction shall be calculated using GATT assumptions in effect under the Northrop Grumman Pension Plan and a cost of living adjustment of 4%.

Severance Plan for
Elected and Appointed Officers of
Northrop Grumman Corporation
As amended and restated effective January 1, 2008

1. Purpose of Plan. The purpose of the Plan is to provide severance benefits for eligible Elected and Appointed Officers of Northrop Grumman Corporation who reside and work in the United States. The terms of this amended and restated Plan are effective as of January 1, 2008.

2. Definitions. The terms defined in this section shall have the meaning given below:

- (a) **“Committee”** means the Compensation and Management Development Committee of the Board of Directors of the Company or any successor to the Committee.
- (b) **“Code”** means the Internal Revenue Code of 1986, as amended.
- (c) **“Company”** means Northrop Grumman Corporation.
- (d) **“CPC”** means the Corporate Policy Council
- (e) **“Disability”** means any disability of an Officer recognized as a disability for purposes of the Company’s long-term disability plan, or similar plan later adopted by the Company in place of such plan.
- (f) **“Key Employee”** means an employee treated as a “specified employee” as of his Separation from Service under Code section 409A(a)(2)(B)(i) of the Company or its affiliate (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company’s stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.
- (g) **“Officer ”** means an Elected or Appointed Officer of Northrop Grumman Corporation who resides and works in the United States.
- (h) **“Plan”** means this Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation, as it may be amended from time to time.
- (i) **“Qualifying Termination”** means any one of the following (i) an Officer’s involuntary termination of employment with the Company, other than Termination for Cause or mandatory retirement, (ii) an Officer’s election to terminate employment with the Company in lieu of accepting a downgrade to a non-Officer position or status, (iii) following a divestiture of the Officer’s business unit, an Officer’s election to terminate employment with

the acquiring Company in lieu of accepting a relocation to a job site located more than fifty miles from the Officer's current work location, or (iv) if the Officer's position is affected by a divestiture, the Officer is not offered a position of equivalent salary with the buyer at the time of such divestiture or is not offered buyer's annual bonus (or similar program) offered to similarly situated officers of buyer. "Qualifying Termination" does not include any change in the Officer's employment status due to any transfer within the Company or to an affiliate, Disability, voluntary termination or normal retirement.

- (j) **"Separation from Service" or "Separate from Service"** means a "separation from service" within the meaning of Code section 409A.
- (k) **"Termination for Cause"** means an Officer's termination of employment with the Company because of:
 - (i) The continued failure by the Officer to devote reasonable time and effort to the performance of his duties (other than a failure resulting from the Officer's incapacity due to physical or mental illness) after written demand for improved performance has been delivered to the Officer by the Company which specifically identifies how the Officer has not devoted reasonable time and effort to the performance of his duties;
 - (ii) The willful engaging by Officer in misconduct which is substantially injurious to the Company, monetarily or otherwise, or
 - (iii) The Officer's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offences or as a result of vicarious liability).

A Termination for Cause shall not include a termination attributable to:

- (i) Bad judgment or negligence on the part of the Officer other than habitual negligence; or
- (ii) An act or omission believed by the Officer in good faith to have been in or not opposed to the best interests of the Company and reasonably believed by the Officer to be lawful.

3. Eligibility Requirements.

- (a) Benefits under the Plan are subject to the Company's sole discretion and approval.

(b) To be considered to receive benefits under the Plan an Officer must meet the following conditions:

- (i) The Officer must experience a Qualifying Termination that results in termination of employment. If, before termination of employment occurs due to the Qualifying Termination event, the Officer voluntarily quits, retires, or experiences a Termination for Cause, the Officer will not receive benefits under this Plan.
- (ii) The Officer must sign a Confidential Separation Agreement and General Release that will include, among other things, a release of any and all claims that he may have against the Company.

4. Severance Benefits. Upon the Qualifying Termination of any eligible Officer, the terminated Officer shall be entitled to the following benefits under the Plan: (a) a lump-sum severance cash payment, (b) an extension of the Officer's existing medical and dental coverage, (c) a prorated annual cash bonus payment, and (d) certain other fringe benefits.

- (a) Lump-sum cash severance payment. The designated Appendix describes the lump sum severance benefit available to the Officer.
- (b) Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer's medical and dental benefits for the period of time following the Officer's termination date that is specified in the designated Appendix. Such continuation coverage shall run concurrently with COBRA continuation coverage (or similar state law). The Officer must continue to pay his portion of the cost of this coverage with after-tax dollars. If rates for active employees increase during this continuation period, the contribution amount will increase proportionately. Also, if medical and dental benefits are modified, terminated or changed in any way for active employees during this continuation period the Officer will also be subject to such modification, termination or change. Following the continuation period specified in the designated Appendix the Officer will be eligible to receive COBRA benefits for any remaining portion of the applicable COBRA period (typically 18 months) at normal COBRA rates. The COBRA period starts the first day of the month following the end of the continuation period.

Example: A Non-CPC Officer receives a layoff notice on June 15, 2004, and his last day of work is June 30, 2004. The Officer's 18-month COBRA period commences July 1, 2004. The Officer will continue to receive medical and dental coverage from July 1, 2004 through June 30, 2005, as long as the Officer continues to pay the appropriate contribution. Full COBRA rates will apply to the Officer from July 1, 2005 until the end of the remaining COBRA period on December 31, 2005.

If the Officer is not covered by medical and dental benefits at the time of his termination, this section 4(b) will not apply and no continuation coverage will be offered. No health or welfare benefits other than medical and dental will be continued pursuant to the Plan, including but not limited to disability benefits.

The medical and dental benefits to be provided or payments to be made under this section 4(b) shall be reduced to the extent that the Officer is eligible for benefits or payments for the same occurrence under another employer sponsored plan to which the Officer is entitled because of his employment subsequent to the Qualifying Termination.

To the extent the benefits under this section 4(b) are, or ever become, taxable to the Officer and to the extent the benefits continue beyond the period in which the Officer would be entitled (or would, but for the Plan, be entitled) to COBRA continuation coverage if the Officer elected such coverage and paid the applicable premiums, the Company shall administer such continuation of coverage consistent with the following additional requirements as set forth in Treas. Reg. § 1.409A-3(i)(1)(iv):

- (i) Officer's eligibility for benefits in one year will not affect Officer's eligibility for benefits in any other year;
- (ii) Any reimbursement of eligible expenses will be made on or before the last day of the year following the year in which the expense was incurred; and
- (iii) Officer's right to benefits is not subject to liquidation or exchange for another benefit.

In the event the preceding sentence applies and the Officer is a Key Employee, provision of these benefits after the COBRA period shall commence on the first day of the seventh month following the Officer's Separation from Service (or, if earlier, the first day of the month after the Officer's death).

- (c) Company Performance Related Payment. The Officer will be eligible for a pro-rated cash payment for the current performance year, in addition to the lump-sum cash severance payment described in section 4(a). This severance payment will be equal in amount to the Officer's annual bonus calculation using the Company-achieved Unit Performance Factor with an Individual Performance Factor set at 100, prorated from the beginning of the performance period (January 1st) to the Officer's date of termination. This severance payment will be paid when the annual bonuses are paid to active employees.
- (d) Other Fringe Benefits. All reimbursements will be within the limits

established in the Executive Perquisite Program. These perquisites will cease as of the date of termination except for the following:

- (i) Financial Planning and Tax Preparation. If an Officer is eligible for financial planning reimbursement at the time of termination, the Officer will be reimbursed for any financial planning fees incurred before his termination date. If an Officer is eligible for tax preparation reimbursement at the time of termination, he will be reimbursed for any income tax preparation fees incurred for income earned during the year in which he terminated employment with the Company. All such reimbursements shall be administered consistent with the following additional requirements as set forth in Treas. Reg. § 1.409A-3(i)(1)(iv): (1) Officer's eligibility for benefits in one year will not affect Officer's eligibility for benefits in any other year; (2) any reimbursement of eligible expenses will be made on or before the last day of the year following the year in which the expense was incurred; and (3) Officer's right to benefits is not subject to liquidation or exchange for another benefit. In addition, no reimbursements shall be made to an Officer who is a Key Employee for six months following the Officer's Separation from Service.

Example: If an Officer's employment is terminated during the calendar year 2003, the Officer will receive reimbursement for income tax preparation that would normally be incurred during the beginning of 2004. Such reimbursement must be paid no later than December 31, 2005.

- (ii) Automobile Allowance. If an Officer has an automobile allowance at the time of termination, the Officer will receive a lump sum payment equal to the value specified on the designated Appendix.
 - (iii) Outplacement Service. The Officer will be reimbursed for the cost of reasonable outplacement services provided by the Company's outplacement service provider for services provided within one year after the Officer's date of termination; provided, however, that the total reimbursement shall be limited to an amount equal to fifteen percent (15%) of the Officer's base salary as of the date of termination. All services will be subject to the current contract with the provider, and all such expenses shall be reimbursed as soon as practicable, but in no event later than the end of the year following the year the Officer Separates from Service.
- (e) Time and Form of Payment. The severance benefits under sections 4(a) and 4(d)(ii) will be paid to the eligible Officer in a lump sum as soon as practicable following the Officer's Separation from Service, but in no event

beyond thirty (30) days from such date, provided the Officer signs the requisite release. Notwithstanding the foregoing, if the Officer is a Key Employee, the lump sum payment shall be made on the first day of the seventh month following the Officer's Separation from Service (or, if earlier, the first day of the month after the Officer's death). This amount will be paid after all regular taxes and withholdings have been deducted. No payment made pursuant to the Plan is eligible compensation under any of the Company's benefit plans, including without limitation, pension, savings, or deferred compensation plans.

5. Limitation of Plan Benefits. If the total amount of benefits, including Plan benefits, provided to the Officer results in an "excess parachute payment" within the meaning of Code section 280G, the Company, in its sole discretion, may reduce the benefits provided under the Plan so that the total payment will not result in the making of an excess parachute payment to the Officer.

6. Offset for Other Benefits Received. The benefits under the Plan are in lieu of, and not in addition to, any other severance or separation benefits for which the Officer is eligible under any Company plan, policy or arrangements (including but not limited to, severance benefits provided under any employment agreement, retention incentive agreement, or similar benefits under any individual change in control agreements, plans, policies, arrangements and change in control agreements of acquired companies or business units) (collectively, "severance plans"). If an Officer receives any benefit under any severance plan, such benefit shall cause a corresponding reduction in benefits under this Plan. If, despite any release that the Officer signs in connection with the Plan, such Officer is later awarded and receives benefits under any other severance plan(s), any benefits that the Officer receives under the Plan will be treated as having been received under those other severance plans for purposes of calculating total benefits received under those other severance plans (that is, benefits under those other severance plans will be reduced by amounts received under the Plan).

7. Administration. The Plan shall be administered by the Chief Human Resources Officer of the Company (the "administrator"). The administrator has sole and absolute discretion to interpret the terms of the Plan, eligibility for benefits, and determine questions of fact. The administrator may delegate any of his duties or authority to any individual or entity. Authority to hear appeals has been delegated to the corporate Severance Plan Review Committee.

8. Claims and Appeals Procedures

Claims Procedure. If an Officer believes that he or she is entitled to benefits under the Plan and has not received them, the Officer or his authorized representative (each, a "claimant") may file a claim for benefits by writing to the Chief Human Resources Officer, in care of the Company. The letter must state the reason why the claimant believes the Officer is entitled to benefits, and the letter must be received no later than 90 days after the Officer's termination of employment, or 90 days after a payment was due, whichever comes first.

If the claim is denied, in whole or in part, the claimant will receive a written response within 90 days. This response will include (i) the reason(s) for the denial, (ii) reference(s) to the specific Plan provisions on which denial is based, (iii) a description of any additional information necessary to perfect the claim, and (iv) a description of the Plan's claims and appeals procedures. In some cases more than 90 days may be needed to make a decision, in which case the claimant will be notified prior to the expiration of the 90 days that more time is needed to review the claim and the date by which the Plan expects to render the decision. In no event will the extension be for more than an additional 90 days.

Appeal of Denied Claim. The claimant may appeal a denied claim by filing an appeal with the corporate Severance Plan Review Committee within 60 days after the claim is denied. The appeal should be sent to the Severance Plan Review Committee c/o the Company. As part of the appeal process the claimant will be given the opportunity to submit written comments and information and be provided, upon request and free or charge, with copies of documents and other information relevant to the claim. The review on appeal will take into account all information submitted on appeal, whether or not it was provided for in the initial benefit determination. A decision will be made on the appeal within 60 days, unless additional time is needed. If more time is needed, the claimant will be notified prior to the expiration of the 60 days that up to an additional 60 days is needed and the date by which the Plan expects to render the decision. If the claim is denied, in whole or in part, on appeal the claimant will receive a written response which will include (i) the reason(s) for the denial, (ii) references to the specific Plan provisions on which the denial is based, (iii) a statement that the claimant is entitled to receive, upon request and free of charge, copies of all documents and other information relevant to the claim on appeal, and (iv) a description of the Plan's claims and appeals procedures.

If the claim is denied on appeal, the Officer has the right to bring an action under Section 502(a) of the Employee Retirement Income Security Act of 1974, as amended. Any claimant must pursue all claims and appeals procedures described in the Plan document before seeking any other legal recourse with respect to Plan benefits. In addition, any lawsuit must be filed within six months from the date of the denied appeal, or two years from the Officer's termination date, whichever occurs first.

9. Amendment. The Company (acting through the Committee) reserves the right at any time to terminate or amend this Plan in any respect and without the consent of any Officer.

10. Unfunded Obligations. All benefits due an Officer or the Officer's beneficiary under this Plan are unfunded and unsecured and are payable out of the general funds of the Company. The Company, in its sole and absolute discretion, may establish a trust associated with the payment of Plan benefits, provided that the trust does not alter the characterization of the Plan as an "unfunded plan" for purposes of the Employee

Retirement Income Security Act, as amended. Any such trust shall make distributions in accordance with the terms of the Plan.

11. Transferability of Benefits. The right to receive payment of any benefits under this Plan shall not be transferred, assigned or pledged except by beneficiary designation or by will or under the laws of descent and distribution.

12. Taxes. The Company may withhold from any payment due under this Plan any taxes required to be withheld under applicable federal, state or local tax laws or regulations.

13. Gender. The use of masculine pronouns in this Plan shall be deemed to include both males and females.

14. Construction, Governing Laws. The Plan is intended as (i) a pension plan within the meaning of Section 3(2) of the Employee Retirement Income Security Act, as amended ("ERISA"), and (ii) an unfunded pension plan maintained by the Company for a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 2520.104-23 promulgated under ERISA, and Sections 201, 301, and 401 of ERISA. Nothing in this Plan creates a vested right to benefits in any employee or any right to be retained in the employ of the Company. Except to the extent that federal legislation or applicable regulation shall govern, the validity and construction of the Plan and each of its provisions shall be subject to and governed by the laws of the State of California.

15. Severability. If any provision of the Plan is found, held or deemed to be void, unlawful or unenforceable under any applicable statute or other controlling law, the remainder of the Plan shall continue in full force and effect.

Appendix for Corporate Policy Council (CPC) Officers

The following benefits shall apply for purposes of eligible Officers who are members of the CPC:

Section 4(a). Lump-sum Cash Severance Payment. The lump sum cash severance payment shall equal two times the sum of (A) one year's base salary as in effect on the effective date of the Officer's termination, plus (B) the greater of (i) the Officer's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan bonus program (or any successor bonus program) for the fiscal year in which the date of termination occurs, or (ii) the average of the Officer's bonus earned under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for the three full fiscal years prior to the date of the Officer's termination. No supplemental bonuses or other bonuses will be combined with the executive's annual bonus for purposes of this computation.

Section 4(b). Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer's medical and dental benefits for two years following the Officer's termination date.

Section 4(d)(ii). Automobile Allowance. If an Officer has an automobile allowance, the Officer will receive a lump sum payment equal to the value of a twenty-four month car allowance.

Appendix for non-CPC Officers

The following benefits shall apply for purposes of eligible Officers who are not members of the CPC:

Section 4(a). Lump-sum Cash Severance Payment. The lump sum cash severance payment shall equal the sum of (A) one year's base salary as in effect on the effective date of the Officer's termination, plus (B) the greater of (i) the Officer's target annual bonus established under the Company's Performance Achievement Plan or Incentive Compensation Plan bonus program (or any successor bonus program) for the fiscal year in which the date of termination occurs, or (ii) the average of the Officer's bonus earned under the Company's Performance Achievement Plan or Incentive Compensation Plan (or a successor bonus program) for the three full fiscal years prior to the date of the Officer's termination. No supplemental bonuses or other bonuses will be combined with the executive's annual bonus for purposes of this computation.

Section 4(b). Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer's medical and dental benefits for one year following the Officer's termination date.

Section 4(d)(ii). Automobile Allowance. If an Officer has an automobile allowance, the Officer will receive a lump sum payment equal to the value of a twelve month car allowance.

NORTHROP GRUMMAN CORPORATION
NON-EMPLOYEE DIRECTORS EQUITY PARTICIPATION PLAN
As Amended and Restated January 1, 2008

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ARTICLE 1

Introduction

Section 1.01. Purpose. The purposes of the Plan are to enable the Company to attract and retain outstanding individuals to serve as non-employee directors of the Company, and to further align the interests of non-employee directors with the interests of the other shareholders of the Company by making the amount of the compensation of non-employee directors dependent in part on the value and appreciation over time of the Common Stock of the Company.

Section 1.02. Effective Date. This restatement of the Plan is effective as of January 1, 2008. The Plan was originally effective March 19, 1997.

ARTICLE 2

Definitions

The following terms when used and capitalized in the Plan will have the following meanings:

Section 2.01. Accrual. Any dollar amounts credited to the Equity Participation Account, including any Special Accrual, Annual Accruals, Additional Accruals and Dividend Equivalents.

Section 2.02. Annual Accrual. This is defined in Section 6.02.

Section 2.03. Annual Retainer Fee. That fixed amount paid to Directors exclusive of travel expenses, meeting fees, committee fees, or any other similar remuneration.

Section 2.04. Board. The Board of Directors of the Company.

Section 2.05. Change in Control. This is defined in Sections A.02-A.04.

Section 2.06. Common Stock. The Common Stock of the Company.

Section 2.07. Company. Northrop Grumman Corporation.

Section 2.08. Conversion Date. The date the Outside Director's service as a member of the Board terminates for any reason, including death.

Section 2.09. Debilitating Illness. Any physical or mental condition which renders an individual unable to carry on the normal duties of his or her active business career.

Section 2.10. Director. A member of the Board.

Section 2.11. Dividend Equivalent. An amount equal to the cash dividend per share which is payable on any dividend payment date for the Common Stock.

Section 2.12. Electing Outside Director. An Outside Director participating in the Retirement Plan who, at the inception of this Plan, elected to terminate participation in the Retirement Plan and to participate in this Plan instead.

Section 2.13. Equity Participation Account. An unfunded bookkeeping account maintained by the Company for a Participant to which amounts are credited under the Plan.

Section 2.14. Fair Market Value Of The Common Stock. This is determined as follows:

(a) for relevant Accruals and Conversion Dates that occur on or before February 18, 1998, the closing price of a share of Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange (the "Exchange") for the date in question. If no sales of Common Stock were made on the Exchange on that date, the closing price of a share of Common Stock as reported on said composite tape for the preceding day on which sales of Common Stock were made on the Exchange shall be substituted; and

(b) for relevant Accruals and Conversion Dates that occur after February 18, 1998, the average of the daily closing prices of a share of Common Stock as reported on the composite tape for securities listed on the Exchange for the 20 trading days (counting as trading days only days on which sales of Common Stock are reported) ending with the date in question.

Section 2.15. Outside Director. A Director who is not a common law employee of the Company.

Section 2.16. Participant. Each current or former Outside Director eligible for benefits under the Plan who has not yet received a complete distribution of his or her benefits under the Plan, other than a former Outside Director who terminated service with the Board without any entitlement to benefits under Sections 4.01-4.03.

Section 2.17. Plan. The Northrop Grumman Corporation Non-Employee Directors Equity Participation Plan.

Section 2.18. Retired Outside Director. An Outside Director whose service as a member of the Board for any reason has terminated and who is entitled to receive a distribution.

Section 2.19. Retirement Plan. The Northrop Grumman Corporation Board of Directors Retirement Plan.

Section 2.20. Special Accrual. This is defined in Section 6.03.

Section 2.21. Surviving Spouse. A person who:

- (a) was legally married to the Participant for at least one year prior to the date the Participant ceases to serve on the Board (including death while serving on the Board), and
- (b) outlives the deceased Participant by at least 30 calendar days,

to the extent he or she is not prevented from receiving benefits under the Plan by a court order or property settlement at the time payments would otherwise be due.

Section 2.22. Total Disability. Total disability as defined in the Northrop Grumman Long-Term Disability Insurance Plan.

Section 2.23. Unit. An equivalent to a share of Common Stock, which is the denomination into which all dollar Accruals to any Equity Participation Account are to be converted.

Section 2.24. Year Of Service. A 12-consecutive-month period of service as an Outside Director.

ARTICLE 3

Participation

Section 3.01. In General. A Director is eligible to participate in the Plan if he or she:

- (a) becomes an Outside Director after March 19, 1997, or
- (b) is an Electing Outside Director.

ARTICLE 4

Entitlement To Benefits

Section 4.01. Normal Benefit. Each Participant who terminates service on the Board will be entitled to receive a benefit under Section 5.01 if he or she satisfies (a) or (b):

- (a) He or she completes at least three consecutive Years of Service.
- (b) He or she retires from the Board as a result of Total Disability or a Debilitating Illness.

Notwithstanding any provision of the Plan to the contrary, a Participant that terminates service on the Board without satisfying either (a) or (b) above will be entitled to receive a benefit under Section 5.01 if:

- (i) He or she terminated service on the Board for the sole purpose of pursuing or accepting a position (whether appointed, elected, or otherwise) with a federal, state, or local governmental entity or for some other purpose that is determined by the Company to constitute public service; and
- (ii) He or she recommences service on the Board as an Outside Director within a reasonably practicable period following the termination of, or termination of the pursuit of, the governmental or public service position and the Participant's total service before and after the

termination and recommencement of service on the Board, when aggregated, equals at least three Years of Service.

Section 4.02. Partial Benefit. A Participant will be entitled to receive a partial benefit under Section 5.02 if:

- (a) he or she terminates service on the Board prior to completing three consecutive Years of Service, and
- (b) his or her termination occurs because he or she will have attained age 70 prior to the Annual Meeting of Shareholders.

Section 4.03. Change in Control Benefit. A Participant who is not entitled to benefits under Section 4.01 will be entitled to receive a Change in Control benefit under Section 5.03 if the conditions described in Appendix A are met.

Section 4.04. Better-Of Benefit. A Participant entitled to a benefit under Sections 4.01-4.03 will be entitled to “better-of” benefits under Section 5.04 if he or she:

- (a) was a Participant in the Plan and a current Outside Director as of March 1, 1998, and
- (b) terminates service on account of death, Debilitating Illness or Total Disability.

Section 4.05. Surviving Spouse Benefit. Upon a Participant’s death, his or her Surviving Spouse, if any, will be eligible to receive the remainder of the payments due the Participant. If there is no Surviving Spouse, all payments will cease.

Section 4.06. Other Participants. No benefits will be paid with respect to a Participant who terminates service with the Board unless the eligibility conditions of Section 4.01, 4.02 or 4.03 are satisfied.

ARTICLE 5

Amount Of Benefit

Section 5.01. Normal Benefit Amount. The normal benefit amount is the full balance of the Participant’s Equity Participation Account.

Section 5.02. Partial Benefit Amount. The partial benefit amount is the Participant’s Equity Participation Account multiplied by a fraction.

(a) The numerator of the fraction is the number of the Participant’s completed consecutive Years of Service and the denominator is three.

(b) For purposes of (a), completed Years of Service include completed months of service (rounded up to the nearest month) expressed as a fraction of a year to the nearest quarter.

Section 5.03. Change in Control Benefit Amount. The Change in Control benefit is equal to the full balance of the Participant's Equity Participation Account.

Section 5.04. Better-Of Benefit Amount. A Participant entitled to "better-of" benefits will have his or her benefits determined under this Section if that would result in greater benefits than those provided under Sections 5.01-5.03, as applicable.

(a) The benefit under this Section equals the benefit the Participant would receive (if any) if he or she were a participant under the Retirement Plan.

(b) If a Participant would not be entitled to any benefit under the Retirement Plan (e.g., because he or she failed to meet the five years of service requirement), this Section will not provide any alternative benefits.

(c) The Retirement Plan benefit will be considered greater for purposes of this Section if the present value of the projected Retirement Plan benefit is greater than the Participant's balance in his or her Equity Participation Account at the Conversion Date.

(d) For purposes of determining the present value of the Retirement Plan benefit, the following assumptions will be used:

(1) An interest rate assumption of 6.5% will be used.

(2) No mortality factor will be applied. The Participant will be assumed to get all payments before dying.

(3) The Annual Retainer Fee used by the Retirement Plan will be assumed to remain constant for all future years.

ARTICLE 6

Accounts

Section 6.01. Equity Participation Accounts. An Equity Participation Account will be maintained for each Participant having an amount to his or her credit under the Plan. The account will keep track of Accruals and payments for a Participant's benefit.

Section 6.02. Annual Accruals. On each March 19, the Company will credit an amount equal to 50% of the Annual Retainer Fee in effect on that date (an "Annual Accrual") to the Equity Participation Account of each Participant who provided a full Year of Service in the immediately preceding 12-month period.

(a) No accrual will be made for any Outside Director who has provided at least ten consecutive Years of Service.

(b) Participants who have provided less than a full Year of Service for the immediately preceding 12-month period will receive a pro rated portion of the normal Annual Accrual based on their months of service for the period (rounded up to the nearest month) divided by 12.

Section 6.03. Special Accruals. As of March 19, 1997, the Company credited to the Equity Participation Account of each Electing Outside Director a special, one-time credit (a "Special Accrual"). The dollar amount of the Special Accrual was equal to the present value (calculated at a 6.5% discount rate) of the accrued benefits of an Electing Outside Director under the Retirement Plan.

Section 6.04. Conversion Of Accruals Into Units. Each Accrual will be converted into Units by dividing the dollar amount of the Accrual by the Fair Market Value of the Common Stock on the day the Accrual is made. Units will be calculated and recorded in Equity Participation Accounts rounded to the third decimal place.

Section 6.05. Dividend Equivalents. On each date on which cash dividends are paid on shares of the Common Stock, Equity Participation Accounts will be credited with one Dividend Equivalent for each Unit credited to such Account.

(a) Each fraction of a Unit will be credited with a like fraction of a Dividend Equivalent on such date.

(b) Dividend Equivalents credited to each Equity Participation Account will be converted into Units by dividing the dollar amount of the Dividend Equivalent by the Fair Market Value of the Common Stock on the date the Dividend Equivalent is accrued.

Section 6.06. Change in the Common Stock. In the event of any stock dividend, stock split, recapitalization, distribution of property, merger, split-up, spin-off, or other change affecting or distribution with respect to the Common Stock of the Company (other than cash dividends), the Units in each Account will be adjusted in the same manner and proportion as the change to the Common Stock.

Section 6.07. Benefit Accrual Freeze Effective June 1, 2005. Notwithstanding any other provision of this Plan, no further Accruals shall be credited to any Participant's Equity Participation Account under this Plan at any time after May 31, 2005; provided, however, that Dividend Equivalents will continue to be credited to a Participant's Equity Participation Account after such date in accordance with Section 6.05. Accordingly, each Participant shall be entitled to the benefit he or she earned under this Plan through and including May 31, 2005, but, except with respect to Dividend Equivalents, shall not be credited with any additional Accruals or other benefits following May 31, 2005. No person shall become a Participant under this Plan at any time after May 31, 2005. Notwithstanding the foregoing provisions, a Participant shall continue to be credited with Years of Service for periods of service as an Outside Director after May 31, 2005."

ARTICLE 7

Distributions

Section 7.01. In General.

(a) All distributions of Equity Participation Accounts to Participants will be made in cash.

(b) The Equity Participation Account of each Retired Outside Director will be paid in a number of annual installments equal to the number of full Years of Service for which benefits have been accrued (not to exceed ten), subject to (e).

(c) Payments will commence on the 20th business day following the Conversion Date for such Equity Participation Account.

(d) Notwithstanding (c), all Section 409A Payments shall commence on the 20th business day following a Participant's Separation from Service. However, if a Participant is a Key Employee as of his Separation from Service, payment shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of his death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).

For purposes of this Section, the following terms shall have the meanings indicated below:

Affiliated Company. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.

Code. The Internal Revenue Code of 1986, as amended.

Key Employee. An employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or an Affiliated Company (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

Section 409A Payments. Payments related to Plan benefits that were not earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.

Separation from Service. A “separation from service” within the meaning of Code section 409A.

(e) All payments will cease no later than:

- (1) upon the death of the Surviving Spouse, or
- (2) if there is no Surviving Spouse, upon the death of the Participant.

Any payment that would have been payable to the Participant or a Surviving Spouse absent death that is not payable as a result of this subsection (e) shall be forfeited.

Section 7.02. Amount of Installments. Each installment will be in an amount equal to the total dollar value of the Equity Participation Account as of the payment date divided by the number of installments remaining to be paid.

Section 7.03. Conversion of Units into Dollars. The total dollar value of the Equity Participation Account will be determined by multiplying the number of Units then in the account by the Fair Market Value of the Common Stock on the payment date. The number of Units in the account will be reduced by the Unit equivalent of each payment.

Section 7.04. T-Bond Election: If a Participant makes an election under this section, the amount of each payment will be determined under this section rather than under Section 7.03. The timing and number of payments will still be determined under Section 7.01.

(a) Account Balance: If a Participant makes an election under this section, his or her Equity Participation Account will be converted to a deemed principal amount at the Conversion Date which will earn deemed interest on the remaining balance. The Account will be increased for deemed interest and reduced for payments made. The Account will no longer be based on the value of the Common Stock.

(b) Initial Principal Amount: The initial principal amount for any Participant will be determined on the Conversion Date by multiplying the number of Units in the Participant’s Equity Participation Account by the Fair Market Value of the Common Stock on the Conversion Date.

(c) Initial Payment: The initial payment will be equal to the Initial Principal Amount divided by the total number of installments to be paid.

(d) Later Payments: Each annual installment after the Initial Payment will be equal to the remaining Account balance at the applicable payment date divided by the number of remaining installments.

(e) Interest Credits: Interest will be credited on the amount remaining after the Initial Payment and future account balances at the rate specified in (f), compounded daily.

(f) T-Bond Rate: The interest rate will be equal to the average interest rate on 10-year U.S. Treasury bonds for the 52 weeks ending immediately prior to the applicable payment date.

(g) Elections: An election under this subsection may be made only by delivering a written election of this T-Bond option to the Secretary of Northrop Grumman Corporation (or its successor), on a form specified by the Secretary:

(1) no later than March 1, 1998, in the case of Participants who were Outside Directors as of February 18, 1998, or

(2) no later than 30 days after becoming an Outside Director with respect to Participants who become Outside Directors after March 1, 1998.

After the relevant date in (1) or (2), an election (or failure to make an election) under this Section will become irrevocable.

Section 7.05. Payment to a Trust. The Participant may elect that payments under this Article be made to a trust. Any payments due will be made to the trust as long as the election by the Participant remains in effect.

ARTICLE 8

Miscellaneous Provisions

Section 8.01. Amendment And Termination. The Board may at any time, or from time to time, amend or terminate the Plan.

(a) No such amendment or termination may reduce Plan benefits which accrued prior to the amendment or termination without the prior written consent of each person entitled to receive benefits under the Plan who is adversely affected by such action.

(b) The amendment and termination power of this Section is also subject to the provisions of Section A.06.

Section 8.02. Plan Unfunded. The Plan is unfunded. Benefits under the Plan represent only a general contractual conditional obligation of the Company to pay in accordance with the provisions of the Plan.

Section 8.03. No Assignments. All payments under the Plan will be made only to the Participant, to his or her Surviving Spouse, or to any trust designated by the Participant under Section 7.05. The right to receive payments under the Plan may not otherwise be assigned or transferred by, and is not subject to the claims of creditors of, any Participant or his or her Surviving Spouse.

Section 8.04. No Double Payment. This Section applies if, despite the prior Section, with respect to any Participant (or his or her Surviving Spouse), the Company is required to make payments under this Plan to a person or entity other than the proper payees described in the Plan. In such a case, any amounts due the Participant (or his or her Surviving Spouse) under this Plan will be reduced by the actuarial value of the payments required to be made to such other person or entity.

(a) Actuarial value will be determined using the following actuarial assumptions specified by Treas. Reg. § 1.417(e)-1(d)(2)-(4) (or any successor regulation). The stability period will be one calendar month and the lookback month will be the second calendar month preceding the stability period.

(b) In dividing a Participant's benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased cost to the Company on an actuarial basis.

Section 8.05. No Other Rights. Neither the establishment of the Plan, nor any action taken under it, will in any way obligate the Company to nominate an Outside Director for re-election or continue to retain an Outside Director on the Board or confer upon any Outside Director any other rights with respect to the Company.

Section 8.06. Successors of the Company. The Plan will be binding upon any successor to the Company, whether by merger, acquisition, consolidation or otherwise.

Section 8.07. Law Governing. The Plan will be governed by the laws of the State of California.

Section 8.08. Actions By Company. Any powers exercisable by the Company under the Plan will be utilized by written resolution adopted by the Board or its delegate. The Board may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.

Section 8.09. Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board or its delegate.

Section 8.10. Construction. The Plan shall be construed and interpreted to comply with section 409A of the Internal Revenue Code. Notwithstanding Section 8.01 above, the Company reserves the right to amend the Plan to the extent it reasonably determines is necessary in order to preserve the intended tax consequences of the Plan in light of section 409A and any regulations or other guidance promulgated thereunder.

APPENDIX A

Change In Control Benefits

Section A.01. In General. This Appendix provides for accelerated vesting of benefits in the event of a Change of Control.

Section A.02. Change In Control. Except as provided in Sections A.03 and A.04, a Change in Control occurs under any of the following circumstances:

(a) Any “person” as such term is used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (“Exchange Act”) or any successor provisions, other than a trustee or other fiduciary holding securities under any other employee benefit plan of the Company or an Affiliate, becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act or any successor provisions), directly or indirectly, of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company’s then outstanding securities (unless the event causing the fifteen percent (15%) threshold to be crossed is an acquisition of securities directly from the Company).

(b) During any period of two consecutive years, “Continuing Directors”, as described in (2), cease for any reason to constitute at least a majority of the Board.

(1) The period of two consecutive years does not include any period prior to the adoption of this Plan on March 19, 1997.

(2) The term “Continuing Directors”, for purposes of this Appendix, means:

(A) individuals who at the beginning of the two-consecutive-year period constitute the Board, and

(B) any new director whose nomination by the Board or election by the Company’s shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-consecutive-year period or whose election or nomination for election was previously so approved. This clause (B) does not include a director designated by a person who has entered into an agreement with the Company to effect a transaction described in (a) or (c) of this Section.

(c) The shareholders of the Company approve a merger or consolidation of the Company with any other corporation, but only if the transaction closes or is otherwise effectuated. This subsection (c) does not cover a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation.

(d) The shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition of the Company or all or substantially all of the Company's assets, but only if the transaction closes or is otherwise effectuated.

Section A.03. Override by Board. Transactions described in the previous Section do not constitute Changes in Control if, immediately prior to the change in ownership, merger, consolidation, sale or other disposition, liquidation or change in the Board, the Board shall pass a resolution approved by a vote of the majority of the Continuing Directors to the effect that it has determined that such transaction does not constitute a Change in Control within the intention of this definition. In addition, if a Change in Control has occurred, no subsequent event shall result in another Change in Control.

Section A.04. February, 1998 Vote. No Change in Control will be deemed to have occurred by virtue of the vote of shareholders on February 26, 1998 to merge with Lockheed Martin Corporation unless and until that merger closes.

Section A.05. Vesting at Change in Control. Any Participant serving as an Outside Director at the time of a Change in Control will immediately become entitled to Change in Control benefits under Section 5.03. Actual payment of benefits will not commence until termination of his or her service in accordance with Section 7.01.

Section A.06. Limitation on Amendment Authority. The Plan may not be amended, terminated, or otherwise modified or interpreted to eliminate, reduce or defer Change in Control benefits with respect to the circumstances described in Section A.02(c) or (d), between the date of the shareholder vote and the closing or other effectuation of the transaction. This Section is not intended to reduce the Board's authority under Section A.03.

NORTHROP GRUMMAN
DEFERRED COMPENSATION PLAN
(Amended and Restated Effective as of January 1, 2005)

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NORTHROP GRUMMAN
DEFERRED COMPENSATION PLAN
(Amended and Restated Effective as of January 1, 2005)

The Northrop Grumman Deferred Compensation Plan (the “Plan”) is hereby amended and restated effective as of January 1, 2005.

This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the “Code”) and official guidance issued thereunder (except with respect to amounts covered by Appendix B), and (2) to be “a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

The Northrop Grumman Corporation (the “Company”) established this unfunded Plan for a select group of management and highly compensated employees effective as of December 1, 2000. Since then the Plan has been amended as follows:

- (a) to provide for the acceptance of a transfer of certain liabilities from the Northrop Grumman Executive Deferred Compensation Plan, effective March 1, 2001;
- (b) to account for the acquisition of Litton Industries, Inc. and the associated corporate reorganization, effective December 1, 2000;
- (c) to provide for the acceptance of a transfer of certain liabilities from certain nonqualified deferred compensation plans of Aerojet-General Corporation, effective December 1, 2000;
- (d) to provide the Plan’s administrative committee with additional discretion in determining whether and when employees may participate in the Plan, effective January 1, 2002; and
- (e) to provide for the acceptance of a transfer of certain liabilities from the TASC, Inc. Supplemental Retirement Plan, generally effective March 28, 2003.

ARTICLE I
DEFINITIONS

1.1 Definitions

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

- (a) "Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.
- (b) "Administrative Committee" means the committee in charge of Plan administration, as described in Article VII.
- (c) "Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).
- (d) "Base Salary" shall mean a Participant's annual base salary, excluding bonuses, commissions, incentive and all other remuneration for services rendered to the Affiliated Companies and prior to reduction for any salary contributions to a plan established pursuant to section 125 of the Code or qualified pursuant to section 401(k) of the Code.
- (e) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.
 - (1) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.
 - (2) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.
 - (3) No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who

can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Effective January 1, 2007, a Participant will automatically revoke a designation of a spouse as primary beneficiary upon the dissolution of their marriage.

(4) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor.

(5) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

(f) "Board" shall mean the Board of Directors of the Company.

(g) "Bonuses" shall mean the bonuses earned under the Company's formal incentive plans as defined by the Administrative Committee.

(h) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(i) "Committees" shall mean the Committees appointed by the Board to administer the Plan and investments in accordance with Article VII.

(j) "Company" shall mean Northrop Grumman Corporation and any successor.

(k) "Compensation" shall be Base Salary plus Bonuses. However, any payment authorized by the Compensation and Management Development Committee that is (1) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Plan (AIP) for a given year and (2) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, shall not be treated as Compensation.

(l) "Disability" or "Disabled" shall mean the Participant's inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

(m) "Early Distribution" shall mean an election by a Participant in accordance with Appendix Section B.2 to receive a withdrawal of amounts from his or her Account prior to the time at which such Participant would otherwise be entitled to such amounts.

(n) “Eligible Employee” shall mean any Employee who meets the following conditions:

- (1) he or she is initially treated by the Affiliated Companies as an Employee and not as an independent contractor; and
- (2) he or she meets the eligibility criteria established by the Administrative Committee.

The eligibility criteria established by the Administrative Committee will include, but not be limited to, classifications of Employees who are eligible to participate and the date as of which various groups of Employees will be eligible to participate. This includes, for example, Administrative Committee authority to delay eligibility for employees of newly acquired companies who become Employees.

(o) “Employee” shall mean any common law employee of the Affiliated Companies.

(p) “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

(q) “Hardship Distribution” shall mean a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of his or her dependent (as defined in Section 152(a) of the Code), loss of a Participant’s property due to casualty, or other similar or extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that would constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, a Hardship Distribution may not be made to the extent that such hardship is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant’s assets, to the extent the liquidation of assets would not itself cause severe financial hardship, or (iii) by cessation of deferrals under this Plan.

(r) “Initial Election Period” shall mean:

(1) in the case of a newly hired Employee who is entitled to participate under Article II, the 30-day period following the date on which the Employee first becomes an Eligible Employee; and

(2) in the case of any other Employee who becomes an Eligible Employee and is entitled to participate under Article II, the next Open Enrollment Period.

(s) “Investment Committee” means the committee in charge of investment aspects of the Plan, as described in Article VII.

(t) “Key Employee” means an employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the

Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

(u) "Open Enrollment Period" means the period each Plan Year designated by the Administrative Committee for electing deferrals for the following Plan Year.

(v) "Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II.

(w) "Payment Date" shall mean:

(1) for distributions upon early termination under Section B.1(a), a date after the end of the month in which termination of employment occurs;

(2) for distributions after Retirement, Disability or death under Section B.1(b), a date after the end of the month in which occurs Retirement, the determination of Disability by the Administrative Committee, or the notification of the Administrative Committee of the Participant's death (or later qualification of the Beneficiary or Beneficiaries), as applicable; and

(3) for distributions with a scheduled withdrawal date under Section B.1(c), a date after the December 31 prior to the elected payment year,

the exact date in each case to be determined by the Administrative Committee to allow time for administrative processing.

(x) "Plan" shall be the Northrop Grumman Deferred Compensation Plan.

(y) "Plan Year" shall be the calendar year.

(z) "Retirement" shall mean termination of employment with the Affiliated Companies after reaching age 55.

(aa) "Scheduled Withdrawal Date" shall mean the distribution date elected by the Participant for an in-service withdrawal of amounts deferred in a given Plan Year, and earnings and losses attributable thereto, as set forth on the election form for such Plan Year.

(bb) "Separation from Service" or "Separates from Service" or "Separating from Service" means a "separation from service" within the meaning of Code section 409A.

ARTICLE II
PARTICIPATION

2.1 In General

(a) An Eligible Employee may become a Participant by complying with the procedures established by the Administrative Committee for enrolling in the Plan.

(b) Anyone who becomes an Eligible Employee will be entitled to become a Participant during his or her Initial Election Period or any subsequent Open Enrollment Period.

(c) An individual will cease to be a Participant when he or she no longer has a positive balance to his or her Account under the Plan.

2.2 Disputes as to Employment Status

(a) Because there may be disputes about an individual's proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.

(b) The Affiliated Companies will make the initial determination of an individual's employment status.

(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an "Eligible Employee" and he or she will not be entitled to participate in the Plan.

(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary of the plan and enrollment forms or other actions are taken indicating that he or she may participate.

(c) Disputes may arise as to an individual's employment status. As part of the resolution of the dispute, an individual's status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees.

2.3 Cessation of Eligibility

If the Administrative Committee determines or reasonably believes that a Participant has ceased to be a management or highly compensated employee within the meaning of ERISA Title I, the Participant will no longer be able to make elections to defer compensation under the Plan.

If an Eligible Employee receives a distribution under Appendix Section B.2, the Employee will not be permitted to defer amounts under the Plan for the two Plan Years following the year of distribution.

ARTICLE III
DEFERRAL ELECTIONS

3.1 Elections to Defer Compensation

(a) Initial Elections. Each Participant may elect to defer an amount of Compensation by filing an election with the Administrative Committee no later than the last day of his or her Initial Election Period. If the election is made pursuant to Section 1.1(r)(1), it will apply for the remainder of the Plan Year. Otherwise, the election will apply for the following Plan Year.

(b) Subsequent Elections. A Participant may elect to defer Compensation earned in subsequent Plan Years by filing a new election in the Open Enrollment Period for each subsequent Plan Year. An election to participate for a Plan Year is irrevocable.

(c) General Rules for all Elections. The Administrative Committee may establish procedures for elections and set limits and other requirements on the amount of Compensation that may be deferred. The Administrative Committee may change these rules from time to time. An Eligible Employee's minimum contribution for any Plan Year will be \$5,000, provided the minimum contribution can be satisfied from any element of Compensation. If a Participant defers less than this amount during a Plan Year, the deferred amount will be refunded to the Participant in the first quarter of the following Plan Year.

(d) Committee Rules. All elections must be made in accordance with rules, procedures and forms provided by the Administrative Committee. The Administrative Committee may change the rules, procedures and forms from time to time and without prior notice to Participants.

(e) Cancellation of Election. If a Participant becomes disabled (as defined under Code Section 409A) or obtains a distribution on account of an Unforeseeable Emergency under Section 6.3 during a Plan Year, his deferral election for such Plan Year shall be cancelled.

3.2 Crediting of Deferrals. Amounts deferred by a Participant under the Plan shall be credited to the Participant's Account as soon as practicable after the amounts would have otherwise been paid to the Participant.

3.3 Investment Elections

(a) The Investment Committee will establish a number of different types of investments for the Plan. The Investment Committee may change the investments from time to time, without prior notice to Participants.

(b) Participants may elect how their future contributions and existing Account balances will be deemed invested in the various types of investment and may change their elections from time to time.

(c) Although the Participants may designate the deemed investment of their Accounts, the Investment Committee is not bound to invest any actual amounts in any particular investment. The Investment Committee will select from time to time, in its sole and absolute discretion, commercially available investments of each of the types offered. Any investments actually made remain the property of the Affiliated Companies (or the rabbi trust under Section 4.2) and are not Plan assets.

(d) Selections of the types of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may prescribe rules which may include, among other matters, limitations on the amounts which may be transferred and procedures for electing transfers.

(2) The Administrative Committee may prescribe rules for valuing Accounts for purposes of transfers. Such rules may, in the Administrative Committee's discretion, use averaging methods to determine values and accrue estimated expenses.

(3) The Administrative Committee may prescribe the periods and frequency with which Participants may change deemed investment elections and make transfers.

(4) The Administrative Committee may change its rules from time to time and without prior notice to Participants.

3.4 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of their contributions due to poor investment performance.

ARTICLE IV
ACCOUNTS AND TRUST FUNDING

4.1 Accounts

The Administrative Committee shall establish and maintain an Account for each Participant under the Plan. Each Participant's Account shall be further divided into separate subaccounts ("investment subaccounts"), each of which corresponds to an investment type elected by the Participant pursuant to Section 3.3. A Participant's Account shall be credited as follows:

(a) The Administrative Committee shall credit the investment subaccounts of the Participant's Account with an amount equal to Compensation deferred by the Participant in accordance with the Participant's election under Section 3.3; that is, the portion of the Participant's deferred Compensation that the Participant has elected to be deemed invested in a certain type of investment shall be credited to the investment subaccount corresponding to that investment type.

(b) The investment subaccounts of Participants' Accounts will be credited with earnings or losses based on the earnings or losses of the corresponding investments selected by the Participant and valued in accordance with the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(2) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(3) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

4.2 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies that it may use in meeting its obligations under the Plan. Any trust set up will be a rabbi trust and any assets placed in the trust shall continue for all purposes to be part of the general assets of the Company and shall be available to its general creditors in the event of the Company's bankruptcy or insolvency.

ARTICLE V

VESTING

5.1 In General

A Participant's interest in his or her Account will be nonforfeitable.

5.2 Exceptions

The following exceptions apply to the vesting rule:

- (a) Forfeitures on account of a lost payee. See Section 6.5.
- (b) Forfeitures under an escheat law.
- (c) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (d) Expenses charged to a Participant's Account.
- (e) Investment losses.
- (f) Forfeitures resulting from early withdrawals. See Section B.2.

ARTICLE VI
DISTRIBUTIONS

6.1 Distribution of Deferred Compensation Contributions

(a) Separate Distribution Election. A Participant must make a separate distribution election for each year beginning with the 2005 deferral election. A Participant generally makes a distribution election at the same time the Participant makes the deferral election, i.e., during the Open Enrollment Period. The Participant will specify in the distribution election whether the amounts deferred for the year (and earnings thereon) will be paid upon a Separation from Service or upon a specified date, and the method of distribution for such amounts. Even if a Participant elects to have a year's deferrals payable upon a specified date, he shall also specify a method of distribution for payments upon a Separation from Service.

(b) Distribution Upon Separation from Service. A Participant may elect on a deferral form to have the portion of his Account related to amounts deferred under the deferral form (and earnings thereon) distributed in a lump sum or in quarterly installments over a period of 5, 10, or 15 years. If a Participant does not elect a method for distribution for a deferred amount, the amount will be distributed in quarterly installments over 10 years. Notwithstanding the foregoing, if a Participant's Account balance is \$50,000 or less at the time the Participant Separates from Service or if the Separation from Service occurs before age 55 for reasons other than death or disability (as defined under Code section 409A), the deferred amount will be distributed in a lump sum payment.

A lump sum payment shall be made in the second month following the month of Separation from Service. Installment payments shall commence as of the January, April, July, or October that next follows the month of Separation from Service and that is not the month immediately following the month of Separation from Service. For example, if a Separation from Service occurs in January, payments begin in April. If a Separation from Service occurs in March, payments begin in July.

Notwithstanding the foregoing, distributions may not be made to a Key Employee upon a Separation from Service before the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee). Any lump sum payment that would otherwise be made during this period of delay shall be paid on the first day of the seventh month following the Participant's Separation from Service (or, if earlier, the first day of the month after the Participant's death). Any series of installment payments impacted by this delay shall begin as of the January, April, July, or October coincident with or next following the Participant's Separation from Service. The initial payment of such an installment series shall include any installment payments that would have otherwise been made during the period of delay.

(c) Distribution as of Specified Date. A Participant may elect on a deferral form to have the portion of his Account related to amounts deferred under the deferral form (and earnings thereon) paid to the Participant as of a January that is at least two years after the year of deferral. The Participant may elect to receive such amount as a lump sum or in quarterly installments over 2 to 5 years. If the amount is \$25,000 or less at the specified date for distribution, the Participant will receive a lump sum distribution of the amount regardless of his elected distribution form. If the Participant Separates from Service before the specified date or while receiving a distribution of an amount under this Section 6.1(c), such portion of the Account will be distributed in accordance with the Participant's distribution election for a Separation from Service made at the time of the Participant's deferral election.

(d) Changes in Time or Form of Distribution. A Participant may make up to two subsequent elections to change the time or form of a distribution for any year's deferral. Such an election, however, shall be effective only if the following conditions are satisfied:

(1) The election may not take effect until at least twelve (12) months after the date on which the election is made;

(2) In the case of an election to change the time or form of the distribution under Sections 6.1(b) or (c), a distribution may not be made earlier than at least five (5) years from the date the distribution would have otherwise been made; and

(3) In the case of an election to change the time or form of a distribution under Section 6.1(c), the election must be made at least twelve (12) months before the date the distribution is scheduled to be paid.

(e) Effect of Taxation. If Plan benefits are includible in the income of a Participant under Code section 409A prior to actual receipt of the benefits, the Administrative Committee shall immediately distribute the benefits found to be so includible to the Participant.

(f) Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Committee's reasonable anticipation of one or more of the following events:

(1) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or

(2) The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section 6.1(f) shall be paid in accordance with Code section 409A.

6.2 Pre-2005 Deferrals. Notwithstanding the foregoing, Appendix B governs the distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt

from the requirements of Code section 409A. Thus, Section 6.1 does not apply to pre-2005 deferrals.

6.3 Withdrawals for Unforeseeable Emergency. A Participant may withdraw all or any portion of his Account balance for an Unforeseeable Emergency. The amounts distributed with respect to an Unforeseeable Emergency may not exceed the amounts necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship) or by cessation of deferrals under the Plan. "Unforeseeable Emergency" means for this purpose a severe financial hardship to a Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Code section 152(a)) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

6.4 Payments Not Received At Death. In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check which has been issued by the Plan. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

6.5 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required payment date, the amount allocated to the Participant's Account shall be forfeited. If, after such forfeiture, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period.

6.6 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

ARTICLE VII
ADMINISTRATION

7.1 Committees

(a) An Administrative Committee of one or more persons, shall be appointed by, and serve at the pleasure of, the Chairman and Chief Executive Officer. The number of members comprising the Administrative Committee shall be determined by the Chairman, President, and Chief Executive Officer, who may from time to time vary the number of members. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Chairman, President, and Chief Executive Officer. The Chairman, President, and Chief Executive Officer may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Administrative Committee shall be filled promptly by the Chairman, President, and Chief Executive Officer.

(b) An Investment Committee of one or more persons, shall be appointed by, and serve at the pleasure of, the Board. The number of members comprising the Investment Committee shall be determined by the Board, who may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

7.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any action permitted to be taken at a meeting may be taken without a meeting if, prior to such action, a written consent to the action is signed by all members of the Committee and such written consent is filed with the minutes of the proceedings of the Committee. A member of a Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The chairman of a Committee, or any other member or members of each Committee designated by the chairman of the Committee, may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

7.3 Powers and Duties of the Administrative Committee

The Administrative Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan;
- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;

(c) To maintain all records that may be necessary for the administration of the Plan;

(d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;

(e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;

(f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);

(g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and

(h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

7.4 Powers and Duties of the Investment Committee

The Investment Committee, shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

(a) To select types of investment and the actual investments against which earnings and losses will be measured;

(b) To oversee any rabbi trust; and

(c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

7.5 Construction and Interpretation

The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of this Plan and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or Beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

7.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the Compensation of all Participants, their death or other events which cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

7.7 Committee Compensation, Expenses and Indemnity

(a) The members of the Committees shall serve without compensation for their services hereunder.

(b) The Committees are authorized to employ such legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

7.8 Disputes

(a) Claims

A person who believes that he or she is being denied a benefit to which he or she is entitled under this Plan (hereinafter referred to as "Claimant") must file a written request for such benefit with the Administrative Committee, setting forth his or her claim.

(b) Claim Decision

Upon receipt of a claim, the Administrative Committee shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. The Administrative Committee may, however, extend the reply period for an additional ninety (90) days for special circumstances.

If the claim is denied in whole or in part, the Administrative Committee shall inform the Claimant in writing, using language calculated to be understood by the Claimant, setting forth: (1) the specific reason or reasons for such denial; (2) specific references to pertinent provisions of this Plan on which such denial is based; (3) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (4) an explanation of the

procedure for review of the denied or partially denied claim set forth below, including the Claimant's right to bring a civil action under ERISA section 502(a) following an adverse benefit determination on review.

(c) Request For Review

Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Administrative Committee review the initial claim determination. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Administrative Committee. If the Claimant does not request a review within such sixty (60) day period, he or she shall be barred and estopped from challenging the initial determination.

(d) Review of Decision

Within sixty (60) days after the Administrative Committee's receipt of a request for review, after considering all materials presented by the Claimant, the Administrative Committee will inform the Participant in writing of its decision, in a manner calculated to be understood by the Claimant. If special circumstances require that the sixty (60) day time period be extended, the Administrative Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review. If a claim is denied on review, the decision shall set forth: (1) The specific reason or reasons for the adverse determination; (2) specific reference to pertinent Plan provisions on which the adverse determination is based; (3) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits; and (4) a statement describing any voluntary appeal procedures offered by the Plan and the Claimant's right to obtain the information about such procedures, as well as a statement of the Claimant's right to bring an action under ERISA section 502(a).

(e) Limitation on Claims

No action may be brought in court on a claim for benefits under this Plan after the later of:

(1) Two years after the claim arose, or

(2) One year after the decision on appeal under this Section (or one year after the expiration of the time to take an appeal if no appeal is taken).

ARTICLE VIII
MISCELLANEOUS

8.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

8.2 Restriction Against Assignment

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 5.2 will not be treated as violations of this Section.

(c) Notwithstanding the foregoing, all or a portion of a Participant's Account balance may be paid to another person as specified in a domestic relations order that the Administrative Committee determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

(1) issued pursuant to a State's domestic relations law;

(2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;

(3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and

(4) meets such other requirements established by the Administrative Committee.

The Administrative Committee shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Administrative Committee may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

8.3 Restriction Against Double Payment

If a court orders an assignment of benefits despite the previous Section, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

8.4 Withholding

There shall be deducted from each payment made under the Plan or any other Compensation payable to the Participant (or Beneficiary) all taxes which are required to be withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

8.5 Amendment, Modification, Suspension or Termination

The Administrative Committee may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination may reduce a Participant's Account balance below its dollar value immediately prior to the amendment. The preceding sentence is not intended to protect Participants against investment losses. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and as the time described in Article VI, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

Notwithstanding the foregoing, no amendment of the Plan shall apply to amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to amounts that are "grandfathered" and exempt from the requirements of Code section 409A.

8.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

8.7 Receipt or Release

Any payment to a Participant or the Participant's Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Committees and the Affiliated Companies. The Administrative Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

8.8 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

8.9 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan, any Trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

8.10 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

8.11 2001 Reorganization

Effective as of the 2001 Reorganization Date in (d), the corporate structure of Northrop Grumman Corporation and its affiliates was modified. Effective as of the Litton Acquisition Date in (e), Litton Industries, Inc. was acquired and became a subsidiary of the Northrop Grumman Corporation (the "Litton Acquisition").

(a) The former Northrop Grumman Corporation was renamed Northrop Grumman Systems Corporation. It became a wholly-owned subsidiary of the new parent of the reorganized controlled group.

(b) The new parent corporation resulting from the restructuring is called Northrop Grumman Corporation. All references in this Plan to the former Northrop Grumman Corporation and its Board of Directors now refer to the new parent corporation bearing the same name and its Board of Directors.

(c) As of the 2001 Reorganization Date, the new Northrop Grumman Corporation became the sponsor of this Plan, and its Board of Directors assumed authority over this Plan.

(d) 2001 Reorganization Date. The date as of which the corporate restructuring described in (a) and (b) occurred.

(e) Litton Acquisition Date. The date as of which the conditions for the completion of the Litton Acquisition were satisfied in accordance with the "Amended and Restated Agreement and Plan of Merger Among Northrop Grumman Corporation, Litton Industries, Inc., NNG, Inc., and LII Acquisition Corp.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora L. Catsavas
Vice President, Compensation, Benefits and
HRIS

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APPENDIX A

2005 TRANSITION RELIEF

The following provisions apply only during 2005, pursuant to transition relief granted in IRS Notice 2005-1:

A.1 Cash-Out

Participants Separating from Service during 2005 for any reason before age 55 will receive an immediate lump sum distribution of their Account balances. Other Participants Separating from Service in 2005 will receive payments in accordance with their prior elections.

A.2 Elections

During the Plan's open enrollment period in June 2005 Participants may fully or partially cancel 2005 deferral elections and receive in 2005 a refund of amounts previously deferred in 2005.

In addition, individuals working in Company facilities impacted by Hurricane Katrina may stop or reduce 2005 elective contributions to the Plan at any time during 2005. All payments under this Section A.2 will be made before the end of calendar year 2005.

A.3 Key Employees

Key Employees Separating from Service on or after July 1, 2005, with distributions subject to Code section 409A and scheduled for payment in 2006 within six months of Separation from Service, may choose I or II below, subject to III:

- I. Delay the distributions described above for six months from the date of Separation from Service. The delayed payments will be paid as a single sum with interest at the end of the six month period, with the remaining payments resuming as scheduled.
- II. Accelerate the distributions described above into a payment in 2005 without interest adjustments.
- III. Key Employees must elect I or II during 2005.

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APPENDIX B

DISTRIBUTION RULES FOR PRE-2005 AMOUNTS

Distribution of amounts earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) are exempt from the requirements of Code section 409A and shall be made in accordance with the Plan terms as in effect on December 31, 2004 and as summarized in the following provisions.

B.1 Distribution of Contributions

(a) Distributions Upon Early Termination

(1) Voluntary Termination. If a Participant voluntarily terminates employment with the Affiliated Companies before age 55 or Disability, distribution of his or her Account will be made in a lump sum on the Participant's Payment Date.

(2) Involuntary Termination. If a Participant involuntarily terminates employment with the Affiliated Companies before age 55, distribution of his or her Account will generally be made in quarterly installments over a 5, 10 or 15-year period, commencing on the Participant's Payment Date, in accordance with the Participant's original election on his or her deferral election form. Payment will be made in a lump sum if the Participant had originally elected a lump sum, if the Account balance is \$50,000 or less, or if the Administrative Committee so requires.

(b) Distribution After Retirement, Disability or Death. In the case of a Participant who separates from service with the Affiliated Companies on account of Retirement, Disability or death and has an Account balance of more than \$50,000, the Account shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 10 years commencing on the Participant's Payment Date.

(1) An optional form of benefit may be elected by the Participant, on the form provided by Administrative Committee, during his or her initial election period from among those listed below:

- (A) A lump sum distribution on the Participant's Payment Date.
- (B) Quarterly installments over 5 years beginning on the Participant's Payment Date.
- (C) Quarterly installments over 10 years beginning on the Participant's Payment Date.
- (D) Quarterly installments over 15 years beginning on the Participant's Payment Date.

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(2) A Participant from time to time may modify the form of benefit that he or she has previously elected. Upon his or her separation from service, the most recently elected form of distribution submitted at least 12 months prior to separation will govern. If no such election exists, distributions will be paid under the 10-year installment method.

(3) In the case of a Participant who terminates employment with the Affiliated Companies on account of Retirement, Disability or death with an Account balance of \$50,000 or less, the Account shall be paid to the Participant in a lump sum distribution on the Participant's Payment Date.

(4) In general, upon the Participant's death, payment of any remaining Account balance will be made to the Beneficiary in a lump sum on the Payment Date. But the Beneficiary will receive any remaining installments (starting on the Payment Date) if the Participant was receiving installments, or if the Participant died on or after age 55 with an Account balance over \$50,000 and with an effective installment payout election in place. In such cases, the Beneficiary may still elect a lump sum payment of the remaining Account balance, but only with the Administrative Committee's consent.

(c) Distribution With Scheduled Withdrawal Date. A Participant who has elected a Scheduled Withdrawal Date for a distribution while still in the employ of the Affiliated Companies, will receive the designated portion of his or her Account as follows:

(1) A Participant's Scheduled Withdrawal Date can be no earlier than two years from the last day of the Plan Year for which the deferrals of Compensation are made.

(2) A Participant may extend the Scheduled Withdrawal Date for any Plan Year, provided such extension occurs at least one year before the Scheduled Withdrawal Date and is for a period of not less than two years from the Scheduled Withdrawal Date. The Participant shall have the right to twice modify any Scheduled Withdrawal Date.

(3) Payments under this subsection may be in the form of a lump sum, or 2, 3, 4 or 5-year quarterly installments. The default form will be a lump sum. If the Account balance to be distributed is \$25,000 or less, payment will automatically be made in a lump sum. Payments will commence on the Scheduled Withdrawal Date.

(4) In the event a Participant terminates employment with the Affiliated Companies prior to the commencement or completion of a distribution under this subsection, the portion of the Participant's Account associated with a Scheduled Withdrawal Date which has not been distributed prior to such termination shall be distributed in accordance with Section B.1(a) and (b) along with the remainder of the Account.

B.2 Early Non-Scheduled Distributions

A Participant shall be permitted to elect an Early Distribution from his or her Account prior to a Payment Date under Section B.1, subject to the following restrictions:

(a) The election to take an Early Distribution shall be made by filing a form provided by and filed with the Administrative Committee prior to the end of any calendar month.

(b) The amount of the Early Distribution shall equal up to 90% of his or her Account balance.

(c) The amount described in subsection (b) above shall be paid in a lump sum as of a date after the receipt by the Administrative Committee of the request for a withdrawal under this Section. The exact date will be determined by the Administrative Committee to allow time for administrative processing.

(d) A Participant shall forfeit 10% of the amount of the requested distribution. The Affiliated Companies shall have no obligation to the Participant or his or her Beneficiary with respect to such forfeited amount.

(1) Example 1: A Participant requests a distribution of 100% of the Account. The Participant receives 90%. The amount forfeited is 10% of the Account.

(2) Example 2: A Participant requests a distribution of 50% of the Account. The Participant receives 45%. The amount forfeited is 5% of the Account.

(e) All distributions shall be made on a pro rata basis from among a Participant's investment subaccounts.

B.3 Hardship Distribution

A Participant shall be permitted to elect a Hardship Distribution from his or her Account prior to a Payment Date under Section B.1, subject to the following restrictions:

(a) The election to take a Hardship Distribution shall be made by filing a form provided by and filed with the Administrative Committee prior to the end of any calendar month.

(b) The Administrative Committee shall have made a determination that the requested distribution constitutes a Hardship Distribution.

(c) The amount determined by the Administrative Committee as a Hardship Distribution shall be paid in a lump sum as of a date after the approval by the Administrative Committee of the request for a withdrawal under this Section. The exact date will be determined by the Administrative Committee to allow time for administrative processing.

B.4 Plan Termination

In the event that this Plan is terminated, the amounts allocated to a Participant's Account shall be distributed to the Participant or, in the event of his or her death, to his or her Beneficiary in a lump sum.

APPENDIX C
TRANSFER OF LIABILITIES —
NORTHROP GRUMMAN EXECUTIVE DEFERRED COMPENSATION PLAN

C.1 Background

Effective March 1, 2001, all liabilities under the Northrop Grumman Executive Deferred Compensation Plan other than the Estate Enhancement Program Account, were transferred to this Plan. This Appendix describes the treatment of those liabilities (plus earnings) (“Transferred Liabilities”) and the Participant to whom those liabilities are owed (“Transferred Participant”).

C.2 Treatment of Transferred Liabilities

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

C.3 Investments

The Transferred Participant may make investment elections for the Transferred Liabilities in accordance with Section 3.3. Section 3.4 will also apply.

C.4 Distributions

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Appendix B. The following exceptions and special rules apply:

(a) Section B.1

(1) For purposes of Sections B.1(a)(2) and B.1(b)(1), the Transferred Participant will be deemed to have made an election of 5 or 10-year installments corresponding to his elections of 5 or 10-year installments under Section 6.9(b)(2) of the Northrop Grumman Executive Deferred Compensation Plan.

(2) The Transferred Participant may utilize Section B.1(b)(2) to vary the form of his distribution.

(3) Distributions under Section B.1(c) are not available.

(b) Section B.2. The Early Non-Scheduled Distribution election is available. The Transferred Liabilities will be aggregated with any other amounts in the Transferred Participant’s Account for purposes of distributions under Section B.2.

(c) Sections 6.3-6.6. These Sections are fully applicable.

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C.5 Other Provisions

The Transferred Liabilities and the Transferred Participant will be fully subject to the provisions of Articles IV, V, VII and VIII.

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APPENDIX D

TRANSFER OF LIABILITIES — AEROJET-GENERAL LIABILITIES

D.1 Background

(a) Effective as of the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation (the “APA”), certain liabilities (“Transferred Liabilities”) under the Benefits Restoration Plan for Salaried Employees of GenCorp Inc. and Certain Subsidiary Companies and the GenCorp Inc. and Participating Subsidiaries Deferred Bonus Plan were transferred to this Plan.

(b) The transfer took place pursuant to section 10.6 of the APA, under which Northrop Grumman acquired the Azusa and Colorado Operations units from Aerojet-General Corporation. That section reads:

* * * * *

10.6 Unfunded Deferred Compensation

(a) Subject to legal requirements for employee acquiescence, as of the effective time of the Closing, the Purchaser shall assume any and all obligations of the Seller to pay any and all unfunded deferred compensation as set forth on Schedule 10.6 for all Transferring Employees, provided such benefits are adequately reflected on the Balance Sheet.

(b) The Seller shall retain any and all legal obligation to pay any and all unfunded deferred compensation for all Aerojet Employees that are not Transferring Employees.

* * * * *

(c) This Appendix is intended to effectuate the assumption of certain of the liabilities contemplated by section 10.6 of the APA. It describes the treatment of those liabilities (plus earnings) and the Participants to whom those liabilities are owed (“Transferred Participants”).

(d) The only liabilities assumed by this Plan are:

(1) those from the GenCorp Inc. and Participating Subsidiaries Deferred Bonus Plan, and

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(2) those liabilities under the Benefits Restoration Plan for Salaried Employees of GenCorp Inc. and Certain Subsidiary Companies which represent supplements with respect to an Aerojet defined contribution plan.

No liabilities are assumed which represent supplements with respect to an Aerojet defined benefit plan.

(e) The assumed liabilities will be represented by starting Account balances for the Transferred Participants, determined in the discretion of the Administrative Committee.

D.2 Treatment of Transferred Liabilities

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

D.3 Investments

The Transferred Participants may make investment elections for the Transferred Liabilities in accordance with Section 3.3. Section 3.4 will also apply.

D.4 Distributions

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Appendix B. The following exceptions and special rules apply:

(a) Section B.1

(1) For purposes of Sections B.1(a)(2) and B.1(b)(1), the Transferred Participants will be deemed to have made an election of 10-year installments.

(2) The Transferred Participants may utilize Section B.1(b)(2) to vary the form of their distributions.

(3) Distributions under Section B.1(c) are not available.

(b) Section B.2. The Early Non-Scheduled Distribution election is available. The Transferred Liabilities will be aggregated with any other amounts in the Transferred Participants' Accounts for purposes of distributions under Section B.2.

(c) Sections 6.3-6.6. These Sections are fully applicable.

D.5 Other Provisions

The Transferred Liabilities and the Transferred Participants will be fully subject to the provisions of Articles IV, V, VII and VIII.

APPENDIX E
TRANSFER OF LIABILITIES — TASC, INC. SUPPLEMENTAL
RETIREMENT PLAN

E.1 Background

(a) Effective as of the TASC Merger Date, all liabilities under the TASC, Inc. Supplemental Retirement Plan were transferred to this Plan. This Appendix describes the treatment of those liabilities (plus earnings) (“Transferred Liabilities”) and the Participant to whom those liabilities are owed (“Transferred Participant”).

(b) The “TASC Merger Date” is March 28, 2003 or such other date that the Northrop Grumman Director of Benefits Administration and Services determines is feasible. If the Northrop Grumman Director of Benefits Administration and Services determines that March 28, 2003 is not feasible, he shall identify in writing, before March 28, 2003, a date that is feasible.

E.2 Treatment of Transferred Liabilities

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

E.3 Investments

The Transferred Participant may make investment elections for the Transferred Liabilities in accordance with Section 3.3. Section 3.4 will also apply.

E.4 Distributions

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Appendix B.

E.5 Other Provisions

The Transferred Liabilities and the Transferred Participant will be fully subject to the provisions of Articles IV, V, VII and VIII.

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**THE 2002 INCENTIVE COMPENSATION PLAN
OF
NORTHROP GRUMMAN CORPORATION
As amended and restated effective January 1, 2008**

**SECTION I
PURPOSE**

The purpose of this Plan is to promote the success of the Company and render its operations profitable to the maximum extent by providing for the Senior Executives of the Company incentives that continue to be dependent upon the overall successful performance of the Company. The Senior Executives, for this purpose, are only those elected corporate officers who participate in making the basic and strategic decisions which affect the corporate-wide performance of the Company, together with those Senior Executives who are in charge of significant operating subsidiaries. The Plan is designed to comply with the performance-based compensation exception under Section 162(m) of the Internal Revenue Code of 1986, as amended.

**SECTION II
DEFINITIONS**

1. COMPANY — Northrop Grumman Corporation and such of its subsidiaries as are consolidated in its consolidated financial statements.
 2. CODE — The Internal Revenue Code of 1986, as amended from time to time.
 3. COMMITTEE — The Compensation and Management Development Committee of the Board of Directors of the Company. It shall be composed of not less than three members of the Board of Directors, no one of whom shall be an officer or employee of the Company and it shall be constituted so as to permit this Plan to comply with the “outside director” requirement of Code section 162(m).
 4. INCENTIVE COMPENSATION — Awards payable under this Plan.
 5. PERFORMANCE CRITERIA — Economic Earnings, and for purposes of this Plan, “Economic Earnings” shall mean income from continuing operations before federal and foreign income taxes and the cumulative effect of accounting changes and extraordinary items, less pension income (or plus pension expense) plus amortization and impairment of goodwill and other purchased intangibles, plus restructuring or similar charges to the extent they are separately disclosed in the annual report.
 6. PERFORMANCE YEAR — The Year with respect to which an award of Incentive Compensation is calculated and paid.
 7. PLAN — This 2002 Incentive Compensation Plan of Northrop Grumman Corporation, as amended and restated effective January 1, 2008.
 8. SECTION 162(m) OFFICER — A Participant who is a “covered employee” as defined in Section 162(m) of the Code with respect to an award of Incentive Compensation under the Plan for a Performance Year.
-

9. YEAR — The fiscal year of Northrop Grumman Corporation.

SECTION III PARTICIPATION

1. The persons eligible to receive Incentive Compensation awards under this Plan are elected corporate officers of the rank of Vice President and above and the Presidents of those consolidated subsidiaries that the Committee determines to be significant in the overall corporate operations who are Section 162(m) Officers.

2. A “Participant” is a person granted or eligible to receive an Incentive Compensation award under this Plan.

3. Directors, as such, shall not participate in this Plan, but the fact that an elected corporate officer or subsidiary President is also a Director shall not prevent his participation.

4. The death of a Participant shall not disqualify him for an Incentive Compensation award for the Performance Year in which he dies or the preceding Performance Year. In the case of a deceased Participant, the Incentive Compensation, if any, determined for him for the Performance Year by the Committee shall be paid to his spouse, children, or legal representatives as directed by the Committee.

SECTION IV INCENTIVE COMPENSATION APPROPRIATIONS AND AWARDS

1. The amount to be appropriated to the Plan with respect to a Performance Year shall equal two and one-half percent (2.5%) of the Performance Criteria for such Performance Year. The amount appropriated to the Plan for a Performance Year based on the Performance Criteria set forth in this Paragraph 1, SECTION IV shall be referred to as the “Tentative Appropriated Incentive Compensation” for such Performance Year.

2. The amount of the Tentative Appropriated Incentive Compensation for a Performance Year may be reduced (but not increased) by the Committee, in its sole discretion, after taking into account an appraisal of individual and overall Company performance in the attainment of such predetermined financial and non-financial objectives as are selected by the Committee and set forth in writing within the first 90 days of a Performance Year, at a time when it is substantially uncertain whether a Participant will earn any amount of Incentive Compensation. The amount appropriated to the Plan for a Performance Year by the Committee under this Paragraph 2, SECTION IV shall be referred to herein as the “Appropriated Incentive Compensation” for such Performance Year. In no event shall Incentive Compensation payable to Participants for a Performance Year exceed the Appropriated Incentive Compensation under the Plan for such Performance Year. Any Tentative Appropriated Incentive Compensation for a Performance Year, which is not actually appropriated to the Plan for such Year, shall be forfeited.

3. Incentive Compensation Awards to Section 162(m) Officer:

(a) Notwithstanding any other provisions of this Plan, any Incentive Compensation award for a Performance Year under this Plan payable to a Section 162(m) Officer must satisfy the requirements of this Paragraph 3, SECTION IV. The purpose of this Paragraph 3 is to ensure compliance by the Plan with the requirements of Section 162(m) of the Code relating to performance-based

compensation. Incentive Compensation awards to Section 162(m) Officers under this Plan are subject to:

- (i) Approval of this Plan and the criteria stated in Paragraph 3(b) of this SECTION IV by the shareholders of the Company;
- (ii) The maximum amount that may be awarded to any Section 162(m) Officer under the Plan for any Performance Year as stated in Paragraph 3(b) of this SECTION IV; and
- (iii) Approval by the Committee.

(b) The maximum potential amount of Appropriated Incentive Compensation (as defined in Paragraph 2 of this SECTION IV) payable to any Participant as an Incentive Compensation award for any single Performance Year shall be limited to no more than thirty percent (30%) for the CEO and seventeen and one-half percent (17.5%) for each of the other four (4) Participants for such Performance Year.

(c) The Performance Criteria established in Paragraph 5 of SECTION II on which Incentive Compensation awards under the Plan are based shall first apply in the Performance Year 2002, but such Performance Criteria and any Incentive Compensation awards based thereon shall be conditional upon a vote of the shareholders of the Company approving the Plan and the Performance Criteria and performance goals stated herein.

(d) Prior to the payment of any Incentive Compensation awards for a Performance Year, the Committee shall make a determination and certification in writing as to whether the Section 162(m) Officers have met the Performance Criteria, performance goals, and any other material terms of the Plan for each Performance Year. The Committee may, in its sole discretion, exercise negative discretion by reducing amounts of Incentive Compensation awards to all or any of the Section 162(m) Officers from the maximum potential awards payable by application of Paragraph 3(b) of this SECTION IV. No such reduction shall increase the amount of the maximum award payable to any other Section 162(m) Officer. The Committee shall determine the amount of any reduction in a Section 162(m) Officer's Incentive Compensation award on the basis of such factors as it deems relevant, and it shall not be required to establish any allocation or weighting component with respect to the factors it considers. The Committee shall have no discretion to increase any Incentive Compensation award for a Performance Year above the amount determined by application of Paragraph 3(b) of this SECTION IV.

4. After the end of a Performance Year, in determining each Participant's Incentive Compensation award for such Year, the Committee may make a downward adjustment after considering such factors as it deems relevant, which shall include but not be limited to the following factors:

- (a) The evaluation of the Participant's performance during that Performance Year in relation to the Participant's predetermined objectives and the Participant's contribution during such Year to the success or profit of the Company.
- (b) The classification of the Participant's position, relative to the position of all Participants.

The Committee shall make the final determination of each Participant's Incentive Compensation award for a Performance Year.

SECTION V

ADMINISTRATION OF THE PLAN

The Committee shall be responsible for the administration of the Plan. The Committee shall:

1. Interpret the Plan, make any rules and regulations relating to the Plan, determine which consolidated subsidiaries are significant for the purpose of the first paragraph of SECTION III, and determine factual questions arising in connection with the Plan, after such investigation or hearing as the Committee may deem appropriate.

2. As soon as practicable after the close of each Performance Year and prior to the payment of any Incentive Compensation for such Performance Year, review the performance of each Participant and determine the amount of each Participant's individual Incentive Compensation award, if any, with respect to that Performance Year.

3. Have sole discretion in determining Incentive Compensation awards under the Plan, except that in making awards the Committee may, in its discretion, request and consider the recommendations of the Chief Executive Officer of the Company and others whom it may designate.

Any decisions made by the Committee under the provisions of this SECTION V shall be conclusive and binding on all parties concerned. Except as otherwise specifically provided in this Plan, the provisions of this Plan shall be interpreted and administered by the Committee in a manner consistent with the requirements for exemption of Incentive Compensation awards granted to Participants who are Section 162(m) Officers as "performance-based compensation" under Code Section 162(m) and regulations and other interpretations issued by the Internal Revenue Service thereunder.

SECTION VI

METHOD OF PAYMENT OF INCENTIVE COMPENSATION TO INDIVIDUALS

1. The amount of Incentive Compensation award determined for each Participant with respect to a given Performance Year shall be paid in cash or in Common Stock of the Company ("Northrop Grumman Common Stock") or partly in cash and partly in Northrop Grumman Common Stock, as the Committee may determine. Payment of an Incentive Compensation award, in cash or in Northrop Grumman Common Stock, with respect to a given Performance Year shall be made in a lump sum between February 15 and March 15 of the year following such Performance Year.

2. The Committee may impose such conditions, including forfeitures and restrictions, as the Committee believes will best serve the interests of the Company and the purposes of the Plan.

3. In making awards of Northrop Grumman Common Stock, the Committee shall first determine all Incentive Compensation awards in terms of dollars. The total dollar amount of all Incentive Compensation awards for a particular Performance Year shall not exceed the Appropriated Incentive Compensation for that Performance Year under this Plan. In the case of Section 162(m) Officers, the total dollar amount of an Incentive Compensation award for a particular Performance Year shall be no greater than the maximum potential awards payable by application of Paragraph 3(b) of SECTION IV. After fixing the total amount of each Participant's Incentive Compensation award in terms of dollars, then if some or all of the award is to be paid in Northrop Grumman Common Stock, the dollar amount of the Incentive Compensation award so to be paid shall be converted into shares of Northrop Grumman Common Stock by using the fair market value of such stock on the date of the award. "Fair market value" shall be the closing price of such stock on the New York Stock Exchange on the date of the award, or, if no sales of such stock occurred on that date, then on the last preceding date on which such sales occurred. No fractional share shall be issued.

4. If an Incentive Compensation award is paid in Northrop Grumman Common Stock, the number of shares shall be appropriately adjusted for any stock splits, stock dividends, recapitalizations or other relevant changes in capitalization effective after the date of award and prior to the date as of which the Participant becomes the record owner of the shares received in payment of the award. All such adjustments thereafter shall accrue to the Participant as the record owner of the shares.

5. Northrop Grumman Common Stock issued in payment of Incentive Compensation awards may, at the option of the Board of Directors, be either originally issued shares or treasury shares.

6. Distribution of awards shall be governed by the terms and conditions applicable to such awards, as determined by the Committee or its delegate. An award, the payment of which is to be deferred pursuant to the terms of an employment agreement, shall be paid as provided by the terms of such agreement. Awards or portions thereof deferred pursuant to the Northrop Grumman Deferred Compensation Plan, the Northrop Grumman Savings Excess Plan, or any other deferred compensation plan or deferral arrangement shall be paid as provided in such plan or arrangement.

7. The Company shall have the right to deduct from all payments under this Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.

8. No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.

9. The Committee shall have the exclusive right to interpret the provisions of this SECTION VI, to determine all questions arising under it or in connection with its administration, and to issue regulations and take actions implementing its provisions.

SECTION VII

AMENDMENT OR TERMINATION OF PLAN

The Board of Directors of the Company shall have the right to terminate or amend this Plan at any time and to discontinue further appropriations thereto, except that no amendment to the Plan shall be made without the approval of the Shareholders, which would (i) increase the amount authorized for appropriation pursuant to Section IV of this Plan, (ii) permit a member of the Committee to participate in the Plan, or (iii) modify the right of the Committee to make the appropriations or allocations set forth in this Plan.

SECTION VIII

EFFECTIVE DATE

This Plan was first effective for Performance Years commencing in 2002, and was amended and restated effective for Performance Years commencing with and following 2008. No appropriations will be made, and no Incentive Compensation shall be paid, under the Plan for Performance Years after 2001 if the Plan is not approved by the Shareholders.

SECTION IX

MISCELLANEOUS

1. Participation in the Plan shall not constitute an agreement (1) of the Participant to remain in the employ of and to render his/her services to the Company, or (2) of the Company to continue to employ

such Participant, and the Company may terminate the employment of a Participant at any time with or without cause.

2. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

3. All costs of implementing and administering the Plan shall be borne by the Company.

4. All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

5. The Plan, and any agreements hereunder, shall be governed by and construed in accordance with the laws of the state of Delaware.

**NORTHROP GRUMMAN 2006 ANNUAL INCENTIVE PLAN
AND
INCENTIVE COMPENSATION PLAN (for NON-SECTION 162(m) OFFICERS)**

As amended and restated effective January 1, 2008

SECTION I

PURPOSE

Northrop Grumman has an annual incentive program to promote the success of the Company and render its operations profitable to the maximum extent by providing incentives to key employees. Participating employees have varying degrees of impact on the overall success and performance of the Company. To facilitate the appropriate incentive level for each Participant, Northrop Grumman utilizes two incentive plans that use common financial and business performance criteria:

- The Incentive Compensation Plan (ICP)
- The Annual Incentive Plan (AIP)

SECTION II

DEFINITIONS

1. Company—Northrop Grumman Corporation and such of its subsidiaries as are consolidated in its consolidated financial statements.
2. Code—The Internal Revenue Code of 1986, as amended from time to time.
3. Committee—The Compensation and Management Development Committee of the Board of Directors of the Company.
4. Incentive Compensation—Awards payable under these plans.
5. Participant—An employee of the Company granted or eligible to receive Incentive Compensation award under one of these Plans.
6. Performance Criteria—The performance criteria is a weighted combination of various financial and non-financial factors approved by the Committee for the Performance Year.
7. Performance Year—The year with respect to which an award of Incentive Compensation is calculated and paid.
8. Plans—Collectively, the Incentive Compensation Plan (ICP); and/or the Annual Incentive Plan (AIP).
9. Plan Year—The fiscal year of Northrop Grumman Corporation.
10. Section 162(m) Officer—An employee who is a “covered employee” as defined in Section 162(m) of the Code with respect to an award of Incentive Compensation under the 2002 Incentive Compensation Plan for any Performance Year.

SECTION III

PARTICIPATION

Employees may be eligible for incentive compensation under one of the Northrop Grumman incentive plans as described below.

1. Incentive Compensation Plan (ICP):
 - a. Employees eligible to receive incentive compensation under the ICP are elected corporate officers of the rank of vice president and above and the presidents of those consolidated subsidiaries that the committee determines to be significant in the overall corporate operations that are not section 162(m) officers for the performance year. If an executive receives or is eligible to receive an

incentive compensation award under the 2002 Incentive Compensation Plan for 162(m) officers, then the executive will not be eligible and shall not receive an incentive compensation award under the ICP.

- b. Directors, as such, shall not participate in the ICP, but the fact that an elected corporate officer or subsidiary president is also a director of the Company shall not prevent participation.

2. Annual Incentive Plan (AIP):

- a. Employees eligible to receive incentive compensation awards under the AIP are appointed vice presidents, senior management, middle management and individual key contributors (employees normally in a position that customarily perform quasi-management or team leadership duties). In addition, employees may be eligible to participate in the AIP if they have specific individual goals that directly contribute to the attainment of their respective business unit's operating goals or if employees are considered "high performing" and are in a position to make measurable and significant contributions to the success of the Company.
- b. At the beginning of, or prior to, a performance year, the Company's CEO approves the number of participants eligible for participation in the AIP. Participants are then selected by their management based on an assessment of their position relative to other candidates, their performance, and their potential impact on achievement of business unit and the Company goals.
- c. Participation in the AIP during any performance year does not imply nor guarantee participation in the AIP in future years.

3. Non-Duplication of Awards

- a. A participant may not receive an incentive compensation award under more than one of the above plans for the performance year. The only exception to this is in the event that an individual is a participant in a particular plan for a portion of the performance year and then is selected to participate in one of the other plans for the remainder of that performance year. In this event, an individual may receive pro-rated awards based on the time that he/she participated in each plan.
- b. A participant will not be eligible to receive any incentive compensation award from either of these plans if the employee is a participant in the Company's 2002 Incentive Compensation Plan for 162(m) Officers.

4. Death, Disability, or Retirement

A participant may be eligible to receive a pro-rated incentive compensation award in the event of the employee's death, disability, or retirement. In the case of a deceased participant, such incentive compensation award will be paid to the participant's estate.

5. Employment Status

Except as provided in Section III 4 (see above), in order to be eligible to receive a payment from these plans, a participant must be an active employee of the Company as of December 31 of the plan year, unless an exception is approved in writing by the Company's chief human resources and administrative officer.

SECTION IV

GOAL SETTING AND PERFORMANCE CRITERIA

Goal setting and performance planning are essential elements of plan administration. This requires establishing performance criteria, such as annual goals, goal weights, and performance measures. The Committee approves the annual business and financial goals for the Company, as described below, in writing within the first 90 days of a Performance Year, at a time when it is substantially uncertain whether the Participant will earn any amount of Incentive Compensation.

1. Corporation Goals

For each performance year, until otherwise determined by the Committee, financial and non-financial objectives will be established by the Committee in its sole discretion.

2. Financial Measures

- a. The CEO's recommended goals are reviewed and amended as appropriate, and established by the Committee at its sole discretion. Measures may include, but are not limited to: cash management, cash flow, return on investment, debt reduction, revenue growth, net earnings, and return on equity.
- b. The Committee approves a performance threshold, a target level and a maximum performance level for each of the financial measures for the performance year.

3. Supplemental Goals

Supplemental goals may be either qualitative or quantitative such as, but not limited to: customer satisfaction, contract acquisition, delivery schedule, cycle-time improvement, productivity, quality, workforce diversity, and environmental management. The CEO recommends the supplemental goals based on sector goals contained in Annual Operating Plans and corporate office goals established prior to the beginning of each year. Supplemental goals have stated milestones and weights. The CEO's recommended supplemental goals are reviewed and amended as appropriate, and established by the Committee at its sole discretion.

4. Individual Goals

Each year participants develop individual goals that support achievement of the Company's business plan and the specific goals established by the Committee in the three aforementioned corporation goals. Individual goals are prepared, approved and documented. The employee's manager reviews these goals with each participant to ensure they are aggressive, coordinated and focused on attainment of Company business objectives.

SECTION V

PERFORMANCE DETERMINATION

At the end of the performance year the CEO evaluates the performance of each of the operating units and that of the overall Company against the financial and business goals established at the beginning of the performance year and submits his assessment to the Committee.

The CEO's final evaluation of performance (the "unit performance factor" or "UPF") is stated numerically and is a performance multiplier for individual incentive targets. The UPF will vary from 0.0 to a maximum as approved by the Committee.

The Committee, in its sole discretion, after taking into account its appraisal of the overall performance of the Company in the attainment of such predetermined financial and non-financial objectives, may either increase or decrease the company UPF for these plans.

SECTION VI

INCENTIVE COMPENSATION APPROPRIATIONS

1. The amount appropriated for the plans for a performance year is based on the CEO's determination of the UPF (as approved or modified by the Committee) and applied to the individual incentive targets of participants. These performance-adjusted targets are aggregated into the "Appropriated Incentive Compensation" for the performance year.
2. In no event shall incentive compensation payable to participants for a performance year exceed the appropriated incentive compensation for the plans as approved by the Committee.

3. Any appropriated incentive compensation for a performance year, which is not actually distributed to the participants as awards for such year, cannot be transferred to the following performance year.

SECTION VII INCENTIVE COMPENSATION AWARDS

1. Individual Award Factors

- a. Target award percentage—is established annually and is a percentage of annual aggregate salary that reflects the varying impact of participant's positions on business results. Generally vice presidents will have higher target award percentages than senior middle managers and so forth.
- b. Individual performance—prior to the submission of recommended incentive compensation awards, each participant will be evaluated by his management in relation to the participant's achievement of predetermined individual goals and his/her relative contribution during the performance year compared to other participants to the success or profit of the Company. This assessment of performance (the "individual performance factor" or "IPF") is stated numerically and is a performance multiplier for individual incentive targets. The IPF may range from 0 to 1.5.
- c. Both the IPF and the UPF are multipliers for the individual participant's target award percentage to determine that participant's incentive compensation award.

2. ICP Awards:

- a. The Committee shall review the CEO's recommendations and make the final determination of each individual ICP participant's incentive compensation award for the performance year.

3. AIP Awards:

- a. Prior to the payment of any incentive compensation awards for a performance year, the CEO, or his delegate, may in his sole discretion, adjust or reduce to zero recommended amounts of incentive compensation awards to all or any of the participants.
- b. The CEO or his delegate shall determine the amount of any adjustment in a participant's incentive compensation award on the basis of such factors as he deems relevant, and shall not be required to establish any allocation or weighting component with respect to the factors he considers.

SECTION VIII ADMINISTRATION OF THE PLANS

1. ICP: The Committee shall be responsible for the administration of the Plan. The Committee shall:

- a. Interpret the ICP, make any rules and regulations relating to that plan, determine which consolidated subsidiaries are significant for the purpose of the first paragraph of SECTION III, and determine factual questions arising in connection with the ICP, after such investigation or hearing as the Committee may deem appropriate.
- b. As soon as feasible after the close of each performance year and prior to the payment of any incentive compensation for such performance year, review the performance of each participant and determine the amount of each participant's individual incentive compensation award, if any, with respect to that performance year.
- c. Have sole discretion in determining incentive compensation awards under the ICP, except that in making awards the Committee may, in its discretion, request and consider the recommendations of the CEO and others whom it may designate.
- d. Any decisions made by the Committee under the provisions of this SECTION VIII, as well as any interpretations of the ICP by the Committee, shall be conclusive and binding on all parties concerned.

2. AIP: The CEO shall be responsible for the administration of this plan. The CEO shall:
- a. Interpret the AIP, make any rules and regulations relating to the plan, and determine factual questions arising in connection with the AIP.
 - b. As soon as feasible after the close of each performance year and prior to the payment of any incentive compensation for such performance year, review the recommended awards of selected participants, as determined by the CEO, to determine if the award is appropriate with respect to that performance year, making any adjustments as he deems necessary and approving each such award.
 - c. Review and approve the total incentive compensation award expenditure of each sector and the Company overall.
 - d. Any decisions made by the CEO under the provisions of this Section VIII, as well as any interpretation of the AIP by the CEO, shall be conclusive and binding on all parties concerned.

SECTION IX
METHOD OF PAYMENT OF INCENTIVE
COMPENSATION TO INDIVIDUALS

1. ICP Payments

- a. The amount of incentive compensation award determined for each participant with respect to a given performance year shall be paid in cash or in common stock of the Company ("Northrop Grumman common stock") or partly in cash and partly in Northrop Grumman common stock, as the Committee may determine. Subject to any applicable deferred compensation election to the contrary, payment of the Incentive Compensation award with respect to a given Performance Year shall be made in a lump sum payment between February 15 and March 15 of the year following such Performance Year.
- b. The Committee may impose such conditions, including forfeitures and restrictions, as the Committee believes will best serve the interests of the Company and the purposes of the ICP.
- c. In making awards of Northrop Grumman common stock, the Committee shall first determine all incentive compensation awards in terms of dollars. The total dollar amount of all incentive compensation awards for a particular year shall not exceed the appropriated incentive compensation for that performance year under the ICP. After fixing the total amount of each Participant's incentive compensation award in terms of dollars, then if some or all of the award is to be paid in Northrop Grumman common stock, the dollar amount of the incentive compensation award so to be paid shall be converted into shares of Northrop Grumman common stock by using the fair market value of such stock on the date of the award. "Fair market value" shall be the closing price of such stock on the New York Stock Exchange on the date of the award, or, if no sales of such stock occurred on that date, then on the last preceding date on which such sales occurred. No fractional share shall be issued.
- d. If an incentive compensation award is paid in Northrop Grumman common stock, the number of shares shall be appropriately adjusted for any stock splits, stock dividends, re-capitalization or other relevant changes in capitalization effective after the date of award and prior to the date as of which the participant becomes the record owner of the shares received in payment of the award. All such adjustments thereafter shall accrue to the participant as the record owner of the shares.
- e. Northrop Grumman common stock issued in payment of incentive compensation awards may, at the option of the Board of Directors, be either originally issued shares or treasury shares.
- f. Distribution of awards shall be governed by the terms and conditions applicable to such awards, as determined by the Committee or its delegate. An award, the payment of which is to be deferred pursuant to the terms of an employment agreement, shall be paid as provided by the terms of such agreement. Awards or portions thereof deferred pursuant to the Northrop Grumman Deferred

Compensation Plan, the Northrop Grumman Savings Excess Plan, or any other deferred compensation plan or deferral arrangement shall be paid as provided in such plan or arrangement.

- g. The Company shall have the right to deduct from all payments under the ICP any federal, state, or local taxes required by law to be withheld with respect to such payments.
- h. No participant or any other party claiming an interest in amounts earned under the ICP shall have any interests whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the ICP, such right shall be equivalent to that of an unsecured general creditor of the Company. Awards payable under the plan shall be payable in shares or from the general assets of Northrop Grumman, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards.

2. AIP Payments

- a. The amount of incentive compensation award determined for each participant with respect to a given performance year shall be paid in cash between February 15 and March 15 of the year following that performance year.
- b. The Company shall have the right to deduct from all payments under this plan any federal, state, or local taxes required by law to be withheld with respect to such payments.
- c. No participant or any other party claiming an interest in amounts earned under the AIP shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the plan, such right shall be equivalent to that of an unsecured general creditor of the Company. Awards payable under the AIP shall be payable in shares or from the general assets of Northrop Grumman, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards.

SECTION X

AMENDMENT OR TERMINATION OF PLANS

The Committee shall have the right to terminate or amend these plans at any time and to discontinue further appropriations to the plans.

Without limiting the generality of the preceding paragraph, the Committee reserves the right to adjust performance measures, the applicable performance goals and performance results with respect to either or both of the plans to the extent the Committee determines such adjustment is reasonably necessary or advisable to preserve the intended incentives and benefits under the plans to reflect (1) any change in capitalization, any corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation, (2) any change in accounting policies or practices, or (3) the effects of any special charges to earnings, or (4) any other similar special circumstances.

SECTION XI

EFFECTIVE DATE

These plans were first effective for performance years commencing with 2006, and were amended and restated effective for performance years commencing with and following 2008 and shall stay in effect until amended, modified or terminated by the Committee. The provisions of these plans, together with those of the 2002 Incentive Compensation Plan for Section 162(m) Officers, shall supersede and replace those of prior plan documents.

SECTION XII

MISCELLANEOUS

- 1. Participation in any plan shall not constitute an agreement of the participant to remain in the employ of

and to render his/her services to the Company, or of the Company to continue to employ such participant, and the Company may terminate the employment of a participant at any time with or without cause.

2. In the event any provision of the plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the plans, and the plans shall be construed and enforced as if the illegal or invalid provision had not been included.
3. All costs of implementing and administering the plans shall be borne by the Company.
4. All obligations of the Company under the plans shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.
5. The plans and any agreements hereunder, shall be governed by and construed in accordance with the laws of the state of Delaware.
6. The rights of a participant or any other person to any payment or other benefits under either of the plans may not be assigned, transferred, pledged, or encumbered except by will or the laws of descent or distribution.

Neither of the plans constitutes a contract. Neither of the plans confers upon any person any right to receive a bonus or any other payment or benefit. There is no commitment or obligation on the part of Northrop Grumman (or any affiliate) to continue any bonus plan (similar to the plans or otherwise) in any particular year.

NORTHROP GRUMMAN
SAVINGS EXCESS PLAN

(Amended and Restated Effective as of January 1, 2005)

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INTRODUCTION

The Northrop Grumman Savings Excess Plan (the “Plan”) is hereby amended and restated effective as of January 1, 2005, except as otherwise provided.

Northrop Grumman Corporation (the “Company”) established this Plan for participants in the Northrop Grumman Savings Plan who exceed the limits under sections 401(a)(17) or 415(c) of the Internal Revenue Code. This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the “Code”) and official guidance issued thereunder (except with respect to amounts covered by Appendix B), and (2) to be “a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

The Plan was originally effective January 1, 2004. It was amended effective as of December 10, 2004 to merge two similar plans, the Northrop Grumman Benefits Equalization Plan and the Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan, into the Plan. It also was amended effective April 29, 2005 to merge the BDM International, Inc. 1997 Executive Deferred Compensation Plan into the Plan. An amendment effective April 27, 2006 established identical membership for the Plan’s Administrative Committee and the Administrative Committee for the Northrop Grumman Deferred Compensation Plan.

ARTICLE I
DEFINITIONS

1.1 Definitions

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

- (a) "Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.
- (b) "Administrative Committee" means the committee in charge of Plan administration, as described in Article VII.
- (c) "Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).
- (d) "Basic Contributions" shall have the same meaning as that term is defined in the NGSP.
- (e) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.

(1) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.

(2) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.

No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative

Committee and the Company. Effective January 1, 2007, a Participant will automatically revoke a designation of a spouse as primary beneficiary upon the dissolution of their marriage.

(3) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company.

(4) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

(f) "Board" shall mean the Board of Directors of the Company.

(g) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(h) "Committees" shall mean the Committees appointed as provided in Article VII.

(i) "Company" shall mean Northrop Grumman Corporation and any successor.

(j) "Company Contributions" shall mean contributions by the Company to a Participant's Account.

(k) "Compensation" shall be Compensation as defined by Section 5.01 of the NGSP. However, any payment authorized by the Compensation and Management Development Committee that is (1) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Plan (AIP) for a given year and (2) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, shall not be treated as Compensation.

(l) "Disability" or "Disabled" shall mean the Participant's inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

(m) "Eligible Employee" shall mean any Employee who meets the following conditions:

- (1) he or she is eligible to participate in the NGSP;
- (2) he or she is classified by the Affiliated Companies as an Employee and not as an independent contractor; and
- (3) he or she meets any additional eligibility criteria set by the Administrative Committee.

Additional eligibility criteria established by the Administrative Committee may include specifying classifications of Employees who are eligible to participate and the date as of which various groups of Employees will be eligible to participate. This includes, for example, Administrative Committee authority to delay eligibility for employees of newly acquired companies who become Employees.

(n) "Employee" shall mean any common law employee of the Affiliated Companies who is classified as an employee by the Affiliated Companies.

(o) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

(p) "Investment Committee" means the committee in charge of investment aspects of the Plan, as described in Article VII.

(q) "Key Employee" means an employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company's or an Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

(r) "NGSP" means the Northrop Grumman Savings Plan.

(s) "Open Enrollment Period" means the period designated by the Administrative Committee for electing deferrals for the following Plan Year.

(t) "Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II.

(u) "Payment Date" shall mean:

(1) for distributions upon early termination under Section B.1(a), a date after the end of the month in which termination of employment occurs; and

(2) for distributions after Retirement, Disability or death under Section B.1(b), a date after the end of the month in which occurs Retirement, the determination of Disability by the Administrative Committee, or the notification of the Administrative Committee of the Participant's death (or later qualification of the Beneficiary or Beneficiaries), as applicable.

The exact date in each case will be determined by the Administrative Committee to allow time for administrative processing.

(v) "Plan" shall be the Northrop Grumman Savings Excess Plan.

(w) "Plan Year" shall be the calendar year.

(x) "Retirement" shall mean termination of employment with the Affiliated Companies after reaching age 55.

(y) "Separation from Service" or "Separates from Service" or "Separating from Service" means a "separation from service" within the meaning of Code section 409A.

ARTICLE II
PARTICIPATION

2.1 In General

- (a) An Eligible Employee may become a Participant by complying with the procedures established by the Administrative Committee for enrolling in the Plan.
- (b) Anyone who becomes an Eligible Employee will be entitled to become a Participant during an Open Enrollment Period.
- (c) An individual will cease to be a Participant when he or she no longer has a positive balance to his or her Account under the Plan.

2.2 Disputes as to Employment Status

- (a) Because there may be disputes about an individual's proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.
- (b) The Affiliated Companies will make the initial determination of an individual's employment status.
 - (1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an "Eligible Employee" and he or she will not be entitled to participate in the Plan.
 - (2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary of the plan and enrollment forms or other actions are taken indicating that he or she may participate.
- (c) Disputes may arise as to an individual's employment status. As part of the resolution of the dispute, an individual's status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees.

ARTICLE III
DEFERRAL ELECTIONS

3.1 Elections to Defer Compensation

(a) Timing. A Participant may elect to defer Compensation earned in a Plan Year by filing an election in the Open Enrollment Period for the Plan Year. An election to participate for a Plan Year is irrevocable.

(b) Election Rules. A Participant's election may be made in writing, electronically, or as otherwise specified by the Administrative Committee. Such election shall specify the Participant's rate of deferral for contributions to the Plan. The maximum deferral rate for any year is the maximum percentage of Compensation that the Participant may defer under the NGSP, without regard to the limits of Code section 401(a)(17). All elections must be made in accordance with the rules, procedures and forms provided by the Administrative Committee. The Administrative Committee may change the rules, procedures and forms from time to time and without prior notice to Participants.

(c) Cancellation of Election. If a Participant becomes disabled (as defined under Code Section 409A) during a Plan Year, his deferral election for such Plan Year shall be cancelled.

3.2 Contribution Amounts

(a) Participant Contributions. A Participant may contribute under the Plan the product of his or her elected rate of deferral under this Plan and the amount by which his or her Compensation exceeds the Code section 401(a)(17) limit.

(b) Company Contributions. The Company will make Company Contributions to a Participant's Account as provided in (1). In addition, the Company will make a Company Contribution under (2) below if the conditions in that paragraph apply.

(1) In General. The Company will make a Company Contribution equal to the matching contribution rate for which the Participant is eligible under the NGSP for the Plan Year multiplied by the amount of the Participant's contributions under subsection (a).

(2) Make-Up Contributions for Contribution Limitation. If a Participant's Basic Contributions under the NGSP for a Plan Year are limited by the Code section 415(c) contribution limit before the Participant's Basic Contributions under the NGSP are limited by the Code section 401(a)(17) compensation limit, the Company will make a Company Contribution equal to the amount of matching contributions for which the Participant would have been eligible under the NGSP were Code section 415(c) not applied, reduced by the actual amount of matching contributions made for the Plan Year under the NGSP. This paragraph applies only if the Participant reaches the Code section 401(a)(17) compensation limit and only to the extent that contributions are based upon Participant compensation up to that limit.

Paragraph (1) above applies to contributions based on compensation exceeding the section 401(a)(17) limit.

3.3 Crediting of Deferrals.

Amounts deferred by a Participant under the Plan shall be credited to the Participant's Account as soon as practicable after the amounts would have otherwise been paid to the Participant.

3.4 Investment Elections

(a) The Investment Committee will establish a number of different investment funds or other investment options for the Plan. The Investment Committee may change the funds or other investment options from time to time, without prior notice to Participants.

(b) Participants may elect how their future contributions and existing Account balances will be deemed invested in the various investment funds and may change their elections from time to time. If a Participant does not elect how future contributions will be deemed invested, contributions will be deemed invested according to the Participant's investment election for contributions under the NGSP. If a Participant elected one or more investment options under the NGSP that are not available under this Plan, the portion of the Participant's contribution that would have been deemed invested in those options will be deemed invested on a pro-rata basis in the investment funds that the Participant elected that are available under this Plan.

(c) Selections of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may prescribe rules that may include, among other matters, limitations on the amounts that may be transferred and procedures for electing transfers.

(2) The Administrative Committee may prescribe valuation rules for purposes of investment elections and transfers. Such rules may, in the Administrative Committee's discretion, use averaging methods to determine values and accrue estimated expenses. The Administrative Committee may change the methods it uses for valuation from time to time.

(3) The Administrative Committee may prescribe the periods and frequency with which Participants may change deemed investment elections and make transfers.

(4) The Administrative Committee may change its rules and procedures from time to time and without prior notice to Participants.

3.5 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of their contributions due to poor investment performance.

ARTICLE IV

ACCOUNTS

4.1 Accounts

The Administrative Committee shall establish and maintain a recordkeeping Account for each Participant under the Plan.

4.2 Valuation of Accounts

The valuation of Participants' recordkeeping Accounts will reflect earnings, losses, expenses and distributions, and will be made in accordance with the rules and procedures of the Administrative Committee.

(a) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(b) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(c) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

4.3 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies that it may use in meeting its obligations under the Plan. Any trust set up will be a rabbi trust and any assets placed in the trust shall continue for all purposes to be part of the general assets of the Company and shall be available to its general creditors in the event of the Company's bankruptcy or insolvency.

ARTICLE V
VESTING AND FORFEITURES

5.1 In General

A Participant's interest in his or her Account will be nonforfeitable.

5.2 Exceptions

The following exceptions apply to the vesting rule:

- (a) Forfeitures on account of a lost payee. See Section 6.4.
- (b) Forfeitures under an escheat law.
- (c) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (d) Expenses charged to a Participant's Account.
- (e) Investment losses.

ARTICLE VI
DISTRIBUTIONS

6.1 Distribution Rules

(a) Separate Distribution Election. A Participant must make a separate distribution election for each year's contributions beginning with the 2005 deferral election. A Participant generally makes a distribution election at the same time the Participant makes the deferral election, i.e., during the Open Enrollment Period.

(b) Distribution Upon Separation. A Participant may elect on a deferral form to have the portion of his Account related to amounts deferred under the deferral form and Company contributions for the same year (and earnings thereon) distributed in a lump sum or in quarterly or annual installments over a period of up to 15 years. Lump sum payments under the Plan will be made in the month following the Participant's Separation from Service. Installment payments shall commence in the March, June, September or December next following the month of Separation from Service. If a Participant does not make a distribution election and his Account balance exceeds \$50,000 and the Participant is age 55 or older, the Participant will receive quarterly installments over a 10-year period. Otherwise, a Participant not making an election will receive a lump sum payment. Notwithstanding the foregoing, if the Participant's Account balance is \$50,000 or less at the time the Participant Separates from Service, the full Account balance shall be distributed in a lump sum payment in the month following the Participant's Separation from Service.

Notwithstanding the timing rules in the foregoing paragraph, distributions may not be made to a Key Employee upon a Separation from Service before the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee). Any payments that would otherwise be made during this period of delay shall be accumulated and paid six months after the date payments would have commenced absent the six month delay.

(c) Changes in Form of Distribution. A Participant may make up to two subsequent elections to change the form of a distribution for a deferred amount for any year's sub-account. Such an election, however, shall be effective only if the following conditions are satisfied:

- (1) The election may not take effect until at least twelve (12) months after the date on which the election is made; and
- (2) The distribution will be made exactly five (5) years from the date the distribution would have otherwise been made.

(d) Effect of Taxation. If Plan benefits are includible in the income of a Participant under Code section 409A prior to actual receipt of the benefits, the Administrative Committee shall immediately distribute the benefits found to be so includible to the Participant.

(e) Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Committee's reasonable anticipation of one or more of the following events:

- (1) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (2) The making of the payment would violate Federal securities laws or other applicable law;
- (3) provided, that any payment delayed pursuant to this Section 6.1(e) shall be paid in accordance with Code section 409A.

6.2 Pre-2005 Deferrals.

Notwithstanding the foregoing, Appendix B governs the distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Code section 409A. Thus, Section 6.1 does not apply to pre-2005 deferrals.

6.3 Payments Not Received At Death

In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check that has been issued by the Plan. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

6.4 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required payment date, the amount allocated to the Participant's Account shall be forfeited. If, after such forfeiture and prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period.

6.5 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

ARTICLE VII
ADMINISTRATION

7.1 Committees

(a) Effective April 27, 2006, the Administrative Committee shall be comprised of the individuals (in their corporate capacity) who are members of the Administrative Committee for Northrop Grumman Deferred Compensation Plan. If no such Administrative Committee exists, the members of the Administrative Committee for the Plan shall be individuals holding the following positions within the Company (as such titles may be modified from time to time), or their successors in office: the Corporate Vice President and Chief Human Resources and Administration Officer; the Corporate Vice President, Controller and Chief Accounting Officer; the Vice President, Taxation; the Vice President, Trust Administration and Investments; the Vice President, Compensation, Benefits and HRIS; and the Corporate Director, Benefits Administration and Services. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Corporate Vice President and Chief Human Resources and Administration Officer.

(b) Prior to April 27, 2006, the Administrative Committee shall be comprised of the individuals appointed by the Compensation and Management Development Committee of the Board (the "Compensation Committee").

(c) An Investment Committee (referred to together with the Administrative Committee as, the "Committees"), comprised of one or more persons, shall be appointed by and serve at the pleasure of the Board (or its delegate). The number of members comprising the Investment Committee shall be determined by the Board, which may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

7.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any determination of action of a Committee may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members of the Committee then in office. A member of a Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of each Committee designated by the Chairman may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

The Compensation Committee shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The Administrative Committee shall conduct its business

according to the provisions of this Article and the rules contained in the current edition of Robert's Rules of Order or such other rules of order the Administrative Committee may deem appropriate. The Administrative Committee shall hold meetings from time to time in any convenient location.

7.3 Powers and Duties of the Administrative Committee

The Administrative Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan and make all factual determinations;
- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;
- (c) To maintain all records that may be necessary for the administration of the Plan;
- (d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;
- (e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;
- (f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);
- (g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and
- (h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

7.4 Powers and Duties of the Investment Committee

The Investment Committee shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To select types of investment and the actual investments against which earnings and losses will be measured;
- (b) To oversee any rabbi trust; and

(c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

7.5 Construction and Interpretation

The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, to make factual determinations and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or Beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

7.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the Compensation of all Participants, their death or other events that cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

7.7 Committee Compensation, Expenses and Indemnity

(a) The members of the Committees shall serve without compensation for their services hereunder.

(b) The Committees are authorized to employ such accounting, consultants or legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

7.8 Disputes

(a) Claims

A person who believes that he or she is being denied a benefit to which he or she is entitled under this Plan (hereinafter referred to as "Claimant") must file a written request for such benefit with the Administrative Committee, setting forth his or her claim.

(b) Claim Decision

Upon receipt of a claim, the Administrative Committee shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. The Administrative Committee may, however, extend the reply period for an additional ninety (90) days for special circumstances.

If the claim is denied in whole or in part, the Administrative Committee shall inform the Claimant in writing, using language calculated to be understood by the Claimant, setting forth: (1) the specific reason or reasons for such denial; (2) specific references to pertinent provisions of this Plan on which such denial is based; (3) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; and (4) an explanation of the procedure for review of the denied or partially denied claim set forth below, including the Claimant's right to bring a civil action under ERISA section 502(a) following an adverse benefit determination on review.

(c) Request For Review

Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Administrative Committee review the initial claim determination. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Administrative Committee. If the Claimant does not request a review within such sixty (60) day period, he or she shall be barred and estopped from challenging the initial determination.

(d) Review of Decision

Within sixty (60) days after the Administrative Committee's receipt of a request for review, after considering all materials presented by the Claimant, the Administrative Committee will inform the Participant in writing of its decision, in a manner calculated to be understood by the Claimant. If special circumstances require that the sixty (60) day time period be extended, the Administrative Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review. If the claim is denied on review, the decision shall set forth: (1) the specific reason or reasons for the adverse determination; (2) specific reference to pertinent Plan provisions on which the adverse determination is based; (3) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and (4) a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain the information about such procedures, as well as a statement of the claimant's right to bring an action under ERISA section 502(a)

(e) Limitation on Claims

No action may be brought in court on a claim for benefits under this Plan after the later of:

(1) Six months after the claim arose, or

(2) Six months after the decision on appeal under this Section (or six months after the expiration of the time to take an appeal if no appeal is taken).

ARTICLE VIII
MISCELLANEOUS

8.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

8.2 Restriction Against Assignment

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 5.2 will not be treated as violations of this Section.

(c) Notwithstanding the foregoing, all or a portion of a Participant's Account balance may be paid to another person as specified in a domestic relations order that the Administrative Committee determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

(1) issued pursuant to a State's domestic relations law;

(2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;

(3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and

(4) meets such other requirements established by the Administrative Committee.

The Administrative Committee shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Administrative Committee may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

8.3 Restriction Against Double Payment

If a court orders an assignment of benefits despite Section 8.2, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

8.4 Withholding

There shall be deducted from each payment made under the Plan or any other Compensation payable to the Participant (or Beneficiary) all taxes, which are required to be withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

8.5 Amendment, Modification, Suspension or Termination

The Administrative Committee may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination may reduce a Participant's Account balance below its dollar value immediately prior to the amendment. The preceding sentence is not intended to protect Participants against investment losses. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and at the time described in Article VI, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

Notwithstanding the foregoing, no amendment of the Plan shall apply to amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to amounts that are "grandfathered" and exempt from the requirements of Code section 409A.

8.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

8.7 Receipt and Release

Any payment to a payee in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan, the Committees and the Affiliated Companies. The Administrative Committee may require such payee, as a condition precedent to such payment, to execute a receipt and release to such effect.

8.8 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

8.9 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan, any trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

8.10 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora L. Catsavas
Vice President, Compensation, Benefits and HRIS

APPENDIX A – 2005 TRANSITION RELIEF

The following provisions apply only during 2005, pursuant to transition relief granted in IRS Notice 2005-1:

A.1 Cash-Out

Participants Separating from Service during 2005 for any reason before age 55 will receive an immediate lump sum distribution of their Account balances. Other Participants Separating from Service in 2005 will receive payments in accordance with their prior elections.

A.2 Elections

During the Plan's open enrollment period in June 2005 Participants may fully or partially cancel 2005 deferral elections and receive in 2005 a refund of amounts previously deferred in 2005.

In addition, individuals working in Company facilities impacted by Hurricane Katrina may stop or reduce 2005 elective contributions to the Plan at any time during 2005. All payments under this Section A.2 will be made before the end of calendar year 2005.

A.3 Key Employees

Key Employees Separating from Service on or after July 1, 2005, with distributions subject to Code section 409A and scheduled for payment in 2006 within six months of Separation from Service, may choose I or II below, subject to III:

- I. Delay the distributions described above for six months from the date of Separation from Service. The delayed payments will be paid as a single sum with interest at the end of the six month period, with the remaining payments resuming as scheduled.
- II. Accelerate the distributions described above into a payment in 2005 without interest adjustments.
- III. Key Employees must elect I or II during 2005.

APPENDIX B – DISTRIBUTION RULES FOR PRE-2005 AMOUNTS

Distribution of amounts earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) are exempt from the requirements of Code section 409A and shall be made in accordance with the Plan terms as in effect on December 31, 2004 and as summarized in the following provisions.

B.1 Distribution of Contributions

(a) Distributions Upon Early Termination.

(1) Voluntary Termination. If a Participant voluntarily terminates employment with the Affiliated Companies before age 55 or Disability, distribution of his or her Account will be made in a lump sum on the Participant's Payment Date.

(2) Involuntary Termination. If a Participant involuntarily terminates employment with the Affiliated Companies before age 55, distribution of his or her Account will generally be made in quarterly or annual installments over a fixed number of whole years not to exceed 15 years, commencing on the Participant's Payment Date, in accordance with the Participant's original election on his or her deferral election form. Payment will be made in a lump sum if the Participant had originally elected a lump sum, if the Account balance is \$50,000 or less, or if the Administrative Committee so specifies.

(b) Distribution After Retirement, Disability or Death. In the case of a Participant who separates from service with the Affiliated Companies on account of Retirement, Disability or death and has an Account balance of more than \$50,000, the Account shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 10 years commencing on the Participant's Payment Date unless an optional form of benefit has been specified pursuant to Section B.1(b)(1).

(1) An optional form of benefit may be elected by the Participant, on the form provided by Administrative Committee, during his or her initial election period from among those listed below:

(A) A lump sum distribution on the Participant's Payment Date.

(B) Quarterly installments over a period of at least 1 and no more than 15 years beginning on the Participant's Payment Date.

(C) Annual installments over a period of at least 2 and no more than 15 years beginning on the Participant's Payment Date.

(2) A Participant from time to time may modify the form of benefit that he or she has previously elected. Upon his or her separation from service, the most recently elected form of distribution submitted at least 12 months prior to separation will govern. If no such election exists, distributions will be paid under the 10-year installment method.

B1

(3) In the case of a Participant who terminates employment with the Affiliated Companies on account of Retirement, Disability or death with an Account balance of \$50,000 or less, the Account shall be paid to the Participant in a lump sum distribution on the Participant's Payment Date.

(4) In general, upon the Participant's death, payment of any remaining Account balance will be made to the Beneficiary in a lump sum on the Payment Date. But the Beneficiary will receive any remaining installments (starting on the Payment Date) if the Participant was receiving installments, or if the Participant died on or after age 55 with an Account balance over \$50,000 and with an effective installment payout election in place. In such cases, the Beneficiary may still elect a lump sum payment of the remaining Account balance, but only with the Administrative Committee's consent.

(5) In the event that this Plan is terminated, the amounts allocated to a Participant's Account shall be distributed to the Participant or, in the event of his or her death, to his or her Beneficiary in a lump sum.

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APPENDIX C – MERGED PLANS

C.1 Plan Mergers

(a) Merged Plans. As of their respective effective dates, the plans listed in (c)(the “Merged Plans”) are merged into this Plan. All amounts from those plans that were merged into this Plan are held in their corresponding Accounts.

(b) Accounts. Effective as of the dates below, Accounts are established for individuals who, before the merger, had account balances under the merged plans. These individuals will not accrue benefits under this Plan unless they become Participants by virtue of being hired into a covered position with an Affiliated Company, but they will be considered Participants for purposes of the merged accounts. The balance credited to the Participant’s merged plan account will, effective as of the date provided in the table below, be invested in accordance with the terms of this Plan. Except as provided in section C.2 below, amounts merged into this Plan from the merged plans are governed by the terms of this Plan.

(c) Table.

<u>Name of Merged Plans</u>	<u>Merger Effective Dates</u>	<u>Merged Account Names</u>
Northrop Grumman Benefits Equalization Plan	December 10, 2004	NG BEP Account
Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan	December 10, 2004	S & MS Deferred Compensation Account
BDM International, Inc. 1997 Executive Deferred Compensation Plan (“BDM Plan”)	April 29, 2005	BDM Account

C.2 Merged Plans – General Rule

(a) NG BEP Account and S & MS Deferred Compensation Account. Distributions from Participants’ NG BEP and S & MS Deferred Compensation Accounts are made under the provisions of Appendix B, except as provided in this Section.

(1) Amounts in the Participant’s NG BEP Account and the S & MS Deferred Compensation Account shall be paid out in accordance with elections made under the Merged Plans.

(2) The Participant's "Payment Date" for amounts in the NG BEP Account and the S & MS Deferred Compensation Account shall be deemed to be the end of January following the Participant's termination of employment.

(3) The reference to \$50,000 in the provisions of Appendix B shall be deemed to be \$5,000 with respect to amounts in the NG BEP Account and the S & MS Deferred Compensation Account.

(4) The Administrative Committee shall assume the rights and responsibilities of the Directors/Committee with respect to determining whether a Participant's NG BEP Account may be paid out in the event of hardship or in a form other than the automatic form of payment.

(5) The Administrative Committee shall assume the rights and responsibilities of the Committee or Special Committee with respect to determining whether a Participant's S & MS Deferred Compensation Account may be paid out in the event of hardship or in a form other than the automatic form of payment.

(6) For purposes of determining the time of payment of a Participant's NG BEP Account, a Participant's employment will not be deemed to have terminated following the Participant's layoff until the earlier of the end of the twelve-month period following layoff (without a return to employment with the Affiliated Companies) or the date on which the Participant retires under any pension plan maintained by the Affiliated Companies.

(7) A Participant's S & MS Deferred Compensation Account shall be paid to the Participant no later than the January 5 next preceding the Participant's 80th birthday.

(8) In no event will payments of amounts in the Participant's NG BEP Account and the S & MS Deferred Compensation Account be accelerated or deferred beyond the payment schedule provided under the Merged Plans.

(b) BDM Account. Distributions of a Participant's vested BDM Account balance shall be made in accordance with this Section C.2(b), and Article VI shall not apply to such distributions. A Participant shall be vested in his BDM Account balance in accordance with the vesting provisions of the BDM Plan.

(1) Timing of Payment: A Participant's vested BDM Account balance shall be distributed in accordance with elections made under the BDM Plan. For those Participants who have not commenced distributions as of April 29, 2005, payments from the BDM Account will commence at the time designated on his or her BDM enrollment and election form, unless extended prior to such date. However, if such a Participant did not elect a fixed date (or elect the earlier of a fixed date or termination of employment), his or her vested BDM Account balance will be paid as soon as administratively practicable following termination of employment in the form designated under Section C.2(b)(2) below.

(2) Form of Payment: A Participant's vested BDM Account balance shall be paid in cash or in-kind, as elected by the Participant, as permitted by the Administrative Committee. The vested BDM Account balance will be paid in (i) a lump sum, (ii) five (5) or ten

(10) substantially equal annual installments (adjusted for gains and losses), or (iii) a combination thereof, as selected by the Participant (or Beneficiary) prior to the date on which amounts are first payable to the Participant (or Beneficiary) under Section C.2(b)(1) above. If the Participant fails to designate properly the manner of payment, such payment will be made in a lump sum.

(3) Death Benefits: If a Participant dies before commencement of payment of his BDM Account balance, the entire Account balance will be paid at the times provided in Section C.2(b)(2) above to his or her Beneficiary. If a Participant dies after commencement but before he or she has received all payments from his vested BDM Account balance, the remaining installments shall be paid annually to the Beneficiary. For purposes of this Section C.2(b), a Participant's Beneficiary, unless subsequently changed, will be the designated beneficiary(ies) under the BDM Plan or if none, the Participant's spouse, if then living, but otherwise the Participant's then living descendants, if any, per stirpes, but, if none, the Participant's estate.

(4) Hardship Withdrawal: A Participant may apply for a distribution of all or any part of his or her vested BDM Account balance, to the extent necessary to alleviate the Participant's financial hardship (which financial hardship may be considered to include any taxes due because of the distribution). A "financial hardship" shall be determined by the Administrative Committee and shall mean (i) a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Code section 152(a)) of the Participant, (ii) loss of the Participant's property due to casualty, or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

(5) Lost Participant: In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within three years following the payment date under Section C.2(b)(1) above, the amount allocated to the Participant's BDM Account shall be forfeited. If, after such forfeiture and prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period. In lieu of such a forfeiture, the Administrative Committee has the discretion to direct distribution of the vested BDM Account balance to any one or more or all of the Participant's next of kin, and in the proportions as the Administrative Committee determines.

(6) Committee Rules: All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

(7) Payment Schedule: In no event will payments of amounts in the Participant's BDM Account be accelerated or deferred beyond the payment schedule provided under the BDM Plan.

(8) Application to Trustee: BDM International, Inc. set aside amounts in a grantor trust to assist it in meeting its obligations under the BDM Plan. Notwithstanding Section C.2(b)(6) above and the claims procedures provided in Section 7.8, a Participant may

make application for payment of benefits under this Section C.2(b) directly to the trustee of such trust.

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LITTON INDUSTRIES, INC. RESTORATION PLAN 2
Amended and Restated Effective as of January 1, 2005

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INTRODUCTION

The Litton Industries, Inc. Restoration Plan 2 (the "Plan"), is hereby amended and restated effective as of January 1, 2005. This restatement amends the Plan as originally effective April 3, 2001 to address the requirements of Code section 409A and certain other changes.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

ARTICLE I

Definitions

The terms in this Article have the following meanings when capitalized:

- 1.01 Active Participant. This term is defined in Section 3.04(a).
- 1.02 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may also include other entities.
- 1.03 Avondale Plan. The Avondale Industries, Inc. Non-Represented Employees' Pension Plan.
- 1.04 Board of Directors. The Board of Directors of Northrop Grumman Corporation.
- 1.05 Code. The Internal Revenue Code of 1986, as amended.
- 1.06 Company. Litton Industries, Inc.
- 1.07 ERISA. The Employee Retirement Income Security Act of 1974, as amended.

- 1.08 FSSP. The Northrop Grumman Financial Security and Savings Program.
- 1.09 Grandfathered Amounts. Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.
- 1.10 Key Employee. An employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company’s or an Affiliated Company’s stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which Participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.
- 1.11 Ingalls Salaried Plan. The Ingalls Shipbuilding, Inc. Salaried Employees’ Retirement Plan.
- 1.12 Participant. Any employee of the Company who is eligible for benefits under a particular Program and has not received full payment under the Program. However, no employees of the Component Technologies Sector or Premier America Credit Union may be Participants.
- 1.13 Payment Date. The 1st of the month coincident with or following the later of (a) the date the Participant attains age 55, or (b) the date the Participant Separates from Service.
- 1.14 Pension Plan and Pension Plans. Any of the following:
- (a) The Northrop Grumman Retirement Plan
 - (b) The Northrop Grumman Retirement Plan—Rolling Meadows Site

- (c) The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
- (d) The Northrop Grumman Electronics Systems — Space Division Salaried Employees' Pension Plan (effective as of the Aerojet Closing Date)
- (e) The Northrop Grumman Electronics Systems — Space Division Union Employees' Pension Plan (effective as of the Aerojet Closing Date)

“Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.

1.15 Plan. The Litton Industries, Inc. Restoration Plan 2.

1.16 Plan Year. A 12-month period ending on December 31.

1.17 Program. One of the eligibility and benefit structures described in the Appendices.

1.18 Retirement Plan and Retirement Plans.

- (a) For periods after April 3, 2001 and before July 1, 2003, the FSSP, Retirement Plan “B,” and the Ingalls Salaried Plan. Appendix A provides the Program for this period.
- (b) For periods after June 30, 2003, Retirement Plan “B,” the Avondale Plan, and the Ingalls Salaried Plan. Appendix B provides the Program for this period.

1.19 Retirement Plan “B.” This term refers to the benefit structure described in the plan document entitled Northrop Grumman Retirement Plan “B” or one of its predecessor plans. It does not include any benefit structures described in other plan documents, even if part of the legal plan named Northrop Grumman Retirement Plan “B” (for example, Northrop Grumman Retirement Plan “A,” the Ingalls Salaried Plan, and the Avondale Plan).

1.20 Separation from Service or Separates from Service. A “separation from service” within the meaning of Code section 409A.

1.21 Termination of Employment. Complete termination of employment with the Affiliated Companies.

- (a) If a Participant ceases to perform services for one Affiliated Company to begin performing services for another, he or she will not have a Termination of Employment.
- (b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spun off.

ARTICLE II

General Provisions

- 2.01 In General. The Plan contains two different benefit Programs, which are described in Appendices A and B. Appendices A and B provide the eligibility conditions and the amount of benefits payable under the Programs.
- (a) See Appendix A for the Program that applies to benefits earned for services performed after April 3, 2001 and before July 1, 2003.
 - (b) See Appendix B for the Program that applies to benefits earned for services performed after June 30, 2003.
- 2.02 Forms and Times of Benefit Payments. Unless a Program provides rules concerning the form and timing of benefit payments, the Company will determine the form and timing of benefit payments in its sole discretion, except where a lump sum election under Article III applies.

For payments made to supplement those of a particular tax-qualified retirement or savings plan, the Company will only select among the options available under that plan, using the same actuarial adjustments used in that plan, except in cases of lump sums.

Whenever the present value of the amount payable under the Plan does not exceed \$10,000, it will be paid in the form of a single lump sum as of the first of the month following Termination of Employment. The lump sum will be calculated using the factors and methodology described in Section 3.07 below. (See Section 2.03 for the rule that applies as of January 1, 2008.)

No payments will commence under this Plan until a Participant's Termination of Employment, even if benefits have commenced under a Retirement Plan for Participants over age 70 ^{1/2}.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix C and Appendix D for the rules that apply to other benefits earned under the Plan.

2.03 Mandatory Cashout. Notwithstanding any other provision in the Plan, Participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

- (a) Post-2007 Terminations. Participants who have a Termination of Employment after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of Termination of Employment (without interest), if such present value is below the Code section 402(g) limit in effect at the Termination of Employment.
- (b) Pre-2008 Terminations. Participants who had a Termination of Employment before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Northrop Grumman Pension Plan shall be used.

2.04 Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

- (a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be

based on the factors or basis in effect under this Plan on October 3, 2004.

- (b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

- 2.05 Beneficiaries and Spouses. The Participant may designate a beneficiary if the Company selects a form of payment that includes a survivor benefit. The Participant may change this designation at any time before benefits commence. A beneficiary designation must be in writing and will be effective only when received by the Company.

The beneficiary of a Participant who is married on the date his or her benefits are scheduled to commence will be the Participant's spouse unless some other beneficiary is named with spousal consent. To be effective, spousal consent must be submitted in writing before benefits commence and must be witnessed by a Plan representative or notary public. Spousal consent is not necessary if the Company determines that there is no spouse or that the spouse cannot be found.

With respect to Programs designed to supplement tax-qualified retirement or savings plans, the Participant's spouse will be the spouse as determined under the underlying tax-qualified plan.

Otherwise, the Company has full discretionary authority to determine the identity of the Participant's spouse.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix C and Appendix D for the rules that apply to other benefits earned under the Plan.

- 2.06 Amendment and Plan Termination. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not a Participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to the Grandfathered Amounts.

The Company may, in its sole discretion, seek reimbursement from the Company's tax-qualified plans to the extent this Plan pays tax-qualified plan benefits to which Participants were entitled or became entitled under the tax-qualified plans.

- 2.07 Not an Employment Agreement. Nothing contained in this Plan gives any Participant the right to be retained in the service of the Company, nor does it interfere with the right of the Company to discharge or otherwise deal with Participants without regard to the existence of this Plan.
- 2.08 Assignment of Benefits. A Participant, surviving spouse or beneficiary may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to legal process or to attachment or garnishment by a Participant's creditors.
- 2.09 Nonduplication of Benefits. This Section applies if, despite Section 2.08, the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due a Participant or

beneficiary under this Plan will be reduced by the actuarial value of the payments made to another person or entity with respect to that Participant or beneficiary.

The actuarial value of lump sums will be determined using the factors and methodology described in Section 3.07 below. In all other cases, actuarial value will be determined using the actuarial assumptions in the underlying Retirement Plan.

In dividing a Participant's benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased actuarial cost to the Company.

- 2.10 Funding. Participants have the status of general unsecured creditors of the Company, and the Plan constitutes a mere promise by the Company to pay benefits in the future. The Company may, but need not, fund benefits under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. The Company and Participants intend that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.

Any funding of benefits under this Plan will be in the Company's sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.

- 2.11 Construction. The Company has full discretionary authority to determine eligibility and to construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions.
- 2.12 Governing Law. This Plan is governed by the law of the State of California, except to the extent superseded by federal law.

- 2.13 Actions By Company. The Company's powers under the Plan will be exercised by written resolution of the Board of Directors or its delegate. The Board may by written resolution delegate any of the Company's powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.
- 2.14 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.
- 2.15 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.

ARTICLE III

Lump Sum Election

This Article only applies with respect to Grandfathered Amounts. See Appendix C and Appendix D for the distribution rules that apply to other benefits earned under the Plan.

- 3.01 In General. This Article provides the rules under which Participants may elect to receive their Plan benefits in a lump sum. Except as provided in Section 3.07, this Article does not apply to Active Participants (as defined in Section 3.04) whose benefits are automatically payable in lump sum form under Article II.

This Article will not apply if a particular Program so provides.

- 3.02 Retirees Election. Participants and Participants' beneficiaries already receiving monthly benefits under the Plan at its inception will be given a one-time opportunity to elect a lump sum payout of future benefit payments.
- (a) The election must be made within a 45-day period determined by the Company. Within its discretion, the Company may delay the commencement of the 45-day period in instances where the Company is unable to timely communicate with a particular payee.
 - (b) The determination as to whether a payee is already receiving monthly benefits will be made at the beginning of the 45-day period.
 - (c) An election to take a lump sum must be accompanied by a waiver of the existing retiree medical benefits by those Participants (and their covered spouses or surviving spouses) entitled either to have such benefits entirely paid for by the Company or to receive such benefits as a result of their classification as an employee under Executive Class Code II.

Following the waiver, waiving Participants (and covered spouses or surviving spouses) will be entitled to the coverage offered to employees who are eligible for Senior Executive Retirement Insurance Benefits in effect as of July 1, 1993. The cost charged to the retirees for this coverage will be determined as if the retiree had been employed 20 or more years by the Company.

- (d) If the person receiving payments as of the beginning of the 45-day period dies before electing a lump sum, his or her beneficiary, if any, may not elect a lump sum.
- (e) Elections to receive a lump sum (and waivers under (c)) must be made in writing and must include spousal consent if the payee (whether the Participant or beneficiary) is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.
- (f) An election (with spousal consent, where required) to receive the lump sum made at any time during the 45-day period will be irrevocable. If no proper election has been made by the end of the 45-day period, payments will continue unchanged in the monthly form that previously applied.

3.03 Retirees Lump Sum. If a retired Participant or beneficiary makes a valid election under Section 3.02 within the 45-day period, monthly payments will continue in the previously applicable form for 12 months (assuming the payees live that long).

- (a) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum to the Participant, if alive, or, if not, to the beneficiary under the previously applicable form of payment.
- (b) No lump sum payment will be made if:

- (1) The Participant is receiving monthly benefit payments in a form that does not provide for survivor benefits and the Participant dies before the lump sum payment is due.
- (2) The Participant is receiving monthly benefit payments in a form that does provide for survivor benefits, but the Participant and beneficiary die before the lump sum payment is due.
- (c) The following rules apply where payment is being made in the form of a 10-year certain and continuous life annuity option:
 - (1) If the Participant is deceased at the commencement of the 45-day election period, the surviving beneficiary may not make the election if there are less than 13 months left in the 10-year certain period.
 - (2) If the Participant elects the lump sum and dies before the first of the 13th month and:
 - (A) if the 10-year certain period has already ended, all monthly payments will cease at the Participant's death and no lump sum will be paid;
 - (B) if the 10-year certain period ends after the Participant's death and before the beginning of the 13th month, monthly payments will end at the end of the 10-year certain period and no lump sum will be paid; and
 - (C) if the 10-year certain period ends after the beginning of the 13th month, monthly payments will continue through the 12th month, and a lump sum equal to the present value of the remaining benefit payments will be paid as of the first of the 13th month.

3.04 Actives Election. Active Participants may elect to have their benefits paid in the form of a single lump sum under this Section.

- (a) A Participant is an Active Participant if he or she is still employed by the Affiliated Companies on or after the beginning of the initial 45-day period referred to in Section 3.02.
- (b) An election to take a lump sum may be made at any time during the 60-day period before Termination of Employment and covers both—
 - (1) Benefits payable to the Participant during his or her lifetime, and
 - (2) Survivor benefits (if any) payable to the Participant's beneficiary, including preretirement death benefits (if any) payable to the Participant's spouse.
- (c) An election does not become effective until the earlier of:
 - (1) the Participant's Termination of Employment, or
 - (2) the Participant's death.

A Participant's election may be revoked before it is effective.

A Participant's election will never take effect if the Participant does not have a Termination of Employment within 60 days after making the election.

- (d) An election may only be made once. It cannot be made again if it fails to become effective after 60 days or is revoked before becoming effective.
- (e) No election can be made after a Participant's Termination of Employment.

- (f) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits that may be due the spouse.
- (g) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or notary public.

3.05 Actives Lump Sum—Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04 has a Termination of Employment after he or she is entitled to commence benefits under the Retirement Plans, payments will be made in accordance with this Section.

- (a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:
 - (1) for a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant's life and ceasing upon the Participant's death should he or she die before the 12 months elapse, or
 - (2) for a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form—
 - (A) with the survivor benefit equal to 50% of the Participant's benefit;
 - (B) with the Participant's spouse as the survivor annuitant;
 - (C) determined by using the contingent annuitant option factors used to convert straight life annuities to 50% joint and survivor annuities under the Northrop Grumman Retirement Plan "B"; and

- (D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.
 - (b) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.
 - (c) No lump sum payment will be made if:
 - (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
 - (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.
 - (d) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
 - (1) the Participant dies after making a valid lump sum election but before commencement of any benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.
- 3.06 Actives Lump Sum—Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04 has a Termination of Employment before he or she is entitled to

commence benefits under the Retirement Plans, payments will be made in accordance with this Section.

- (a) No monthly benefit payments will be made.
- (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant's Termination of Employment.
- (c) A lump sum will be payable to a Participant's spouse as of the first of the month following the date of the Participant's death, if:
 - (1) the Participant dies after making a valid lump sum election but before commencing benefits under this Plan;
 - (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
 - (3) the spouse survives to the first of the month following the date of the Participant's death.
- (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.

3.07 Calculation of Lump Sum. The factors to be used in calculating the lump sum are as follows:

Interest: Whichever of the following two rates that produces the smaller lump sum:

- (1) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company's annual report to shareholders for the year end immediately preceding the date of distribution, or

- (2) the applicable interest rate that would be used to calculate a lump sum value for the benefit under the Retirement Plans.

Mortality: The applicable mortality table that would be used to calculate a lump sum value for the benefit under the Retirement Plans.

Increase in Section 415 Limit: 4% per year.

Age: Age rounded to the nearest month on the date the lump sum is payable.

The annuity to be converted to a lump sum will be the remaining annuity currently payable to the Participant or his or her beneficiary at the time the lump sum is due.

For example, assume a Participant is receiving benefit payments in the form of a 50% joint and survivor annuity.

If the Participant and the survivor annuitant are both still alive when the lump sum payment is due, the present value calculation will be based on the remaining benefits that would be paid to both the Participant and the survivor in the annuity form.

If only the survivor is alive, the calculation will be based solely on the remaining 50% survivor benefits that would be paid to the survivor.

If only the Participant is alive, the calculation will be based solely on the remaining benefits that would be paid to the Participant.

In the case of a Participant who dies before commencing benefits under this Plan so that only a preretirement surviving spouse benefit (if any) is payable, the lump sum will be based solely on the value of the preretirement surviving spouse benefit.

3.08 Spousal Consent. Spousal consent for the elections described above is not necessary if the Company determines that there is no spouse or the spouse cannot be located.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas
Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS
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APPENDIX A

Litton Restoration Program — Post April 3, 2001 through June 30, 2003

- A.01 Purpose. The purpose of this Program is simply to restore to employees of the Company the benefits they lose under the Retirement Plans as a result of the compensation limit in Code section 401(a)(17) and/or the limit on deferrals in Code section 402(g), or any successor provisions. This Appendix applies to benefits earned for service performed after April 3, 2001 and before July 1, 2003.
- A.02 Definitions. The following terms have the meanings below for purposes of this Appendix.
- (a) Annual Compensation. Compensation paid during the calendar year, subject to the following:
- (1) For compensation paid before July 1, 2003, Annual Compensation means “Compensation” as defined in the FSSP.
 - (2) For compensation paid after June 30, 2003, Annual Compensation means “Compensation” as defined in the Northrop Grumman Savings Plan (NGSP) for participants who transfer to that plan only in the year of transfer.
 - (3) Compensation does not include retention bonuses paid as a result of the acquisition of Litton Industries, Inc. by Northrop Grumman Corporation.
 - (4) Compensation does not include amounts paid for service performed before January 1, 2001 or after December 31, 2003.
 - (5) Transfers. For anyone who transferred from the FSSP to the NGSP before 2003, the rule under (1) applies to pre-transfer periods, and the rules under (2) apply to periods after the transfer.

(b) Annuity Equivalent. “Annuity Equivalent” determined in the same manner as the prior version of this Program.

A.03 Eligibility. An employee of the Company or one of its subsidiaries is eligible to receive a benefit under this Program if he or she:

- (a) retires on or after May 1, 2001;
- (b) has vested in benefits under one or more of the Retirement Plans that are reduced because of the application of Code section 401(a)(17) and/or Code section 402(g); and
- (c) is not eligible to receive a benefit under the Northrop Corporation Supplemental Retirement Income Program for Senior Executives, the Litton Industries, Inc. Restoration Plan, or any other plan or program that bars an employee from participation in this Program.
- (d) Has deposited the maximum amount of pretax Employee Deposits under the FSSP, including the Basic Contributions under the NGSP in a transfer year (excluding any age 50 catch-up contributions).

A.04 Amount of Benefit.

- (a) General. The benefit payable under this Program with respect to a Participant who commences benefits during his or her lifetime is intended to make up for the retirement benefit, if any, that would have been payable to the Participant under the terms of a Retirement Plan, but for the restrictions of Code sections 401(a)(17) and/or 402(g), or any successor section as those limits are described by the applicable Retirement Plan.
- (b) Benefit Formula. The benefit payable under this Program with respect to a Participant who commences benefits during his or her lifetime equals the sum of all of his or her annual Part I Excess Benefits and annual Part II

Excess Benefits for each year in which the individual was a Participant.

- (c) Part I Excess Benefit. A Participant's annual Part I Excess Benefit equals (4), where:
- (1) equals the Participant's Annual Compensation multiplied by 4%;
 - (2) equals the actual amount of the Participant's pretax Employee Deposits under the FSSP or Tax-Deferred Contributions under the NGSP for the Plan Year (as limited by Code sections 401(a)(17) and/or 402(g));
 - (3) equals (1) minus (2); and
 - (4) equals 85% of (3), minus the Annuity Equivalent of (3).
- (d) Part II Excess Benefit. A Participant's annual Part II Excess Benefit equals (4), where:
- (1) equals the Participant's Annual Compensation multiplied by 6%;
 - (2) equals the actual amount of the Participant's Matched Deposits under the FSSP and Basic Contributions under the NGSP for the Plan Year (as limited by Code sections 401(a)(17) and/or 402(g));
 - (3) equals (1) minus (2);
 - (4) equals the Annuity Equivalent of 50% of (3).
- (e) Partial Year 2003. Subsections (c) and (d) above are modified as provided in this subsection for Participants who are eligible for an accrual under this Program in Plan Year 2003.

- (1) The benefit will be calculated based on a full year of Annual Compensation.
 - (2) The total benefit in subsections (c) and (d) above are offset by the benefit amount earned from July 1, 2003 to December 31, 2003 under Appendix B.
 - (f) Vested Benefits. Benefits under this Program will only be paid to supplement benefit payments actually made from a Retirement Plan. If benefits are not payable under a Retirement Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Program with respect to such Retirement Plan.
 - (g) No duplication of benefits. In any year in which a Participant earns benefits in two or more qualified defined benefit plans, the benefits from this plan will be reduced for any restoration plan benefits paid from the other defined benefit plan.
- A.05 Preretirement Surviving Spouse Benefit. Preretirement surviving spouse benefits will be payable under this Program on behalf of a Participant if such Participant's surviving spouse is eligible for benefits payable from a Retirement Plan. The amount of the preretirement surviving spouse benefit is the amount under A.04, adjusted as follows:
- (a) Death on or After Normal Retirement Age. The Participant's surviving spouse will receive a 100% survivor annuity calculated assuming the employee commenced receiving normal retirement benefits the day before death.
 - (b) Death on or After Early Retirement Age, But Before Normal Retirement Age. The Participant's surviving spouse will receive a 100% survivor annuity calculated assuming the employee commenced receiving early retirement benefits the day before death.
 - (c) Death Before Early Retirement Age. The Participant's surviving spouse will receive a 100% survivor annuity

calculated assuming the employee terminated employment and survived to normal (or early) retirement age and commenced receiving a joint and survivor annuity.

No benefit will be payable under this Program with respect to a spouse after the death of that spouse.

A.06 Plan Termination. No further benefits may be earned under this Program with respect to a particular Retirement Plan after the termination of such Retirement Plan.

A.07 Retirement Plan Benefits. For purposes of this Appendix, the term “Retirement Plan Benefits” generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Retirement Plan. However, this Program is only intended to remedy pension reductions caused by the operation of section 401(a)(17) and/or 402(g) and not reductions caused for any other reason. In those instances where pension benefits are reduced for some other reason, the term “Retirement Plan Benefits” shall be deemed to mean the benefits that actually would have been payable but for such other reason.

Examples of such other reasons include, but are not limited to, the following:

- (a) A reduction in pension benefits as a result of a distress termination (as described in ERISA § 4041(c) or any comparable successor provision of law) of a Retirement Plan. In such a case, the Retirement Plan Benefits will be deemed to refer to the payments that would have been made from the Retirement Plan had it terminated on a fully funded basis as a standard termination (as described in ERISA § 4041(b) or any comparable successor provision of law).
- (b) A reduction of accrued benefits as permitted under Code section 412(c)(8), as amended, or any comparable successor provision of law.

- (c) A reduction of pension benefits as a result of payment of all or a portion of a Participant's benefits to a third party on behalf of or with respect to a Participant.

APPENDIX B

Litton Cash Balance Restoration Program

- B.01 Purpose. The purpose of this Program is simply to restore to employees of the Company the benefits they lose under Retirement Plan “B” and the Avondale Plan after June 30, 2003 as a result of the compensation limit in Code section 401(a)(17) and/or the benefit limit in Code section 415(b), or any successor provisions.
- B.02 Eligibility. An employee of the Company is eligible to receive a benefit under this Program if he or she:
- (a) retires on or after July 1, 2003;
 - (b) has vested in benefits under Retirement Plan “B,” the Ingalls Salaried Plan, or the Avondale Plan that are reduced because of the application of Code section 401(a)(17) and/or Code section 415(b); and
 - (c) is not eligible to receive a benefit under the Northrop Corporation Supplemental Retirement Income Program for Senior Executives or any other plan or program which bars an employee from participation in this Program.
- B.03 Amount of Benefit. The benefit payable under this Program with respect to a Participant who commences benefits during his or her lifetime will equal the retirement benefit, if any, that would have been payable to the Participant under the terms of a Retirement Plan, but for the restrictions of Code section 401(a)(17) and/or Code section 415(b) (or any successor sections) as those limits are described by the applicable Retirement Plan. “Compensation” is defined by the pension plans and includes the amount that would have been counted under the Qualified plans except that it was deferred under The Northrop Grumman Deferred Compensation plan.

Benefits under this Program will only be paid to supplement benefit payments actually made from Retirement Plan “B” or the Avondale Plan. If benefits are not payable under Retirement

Plan “B” or the Avondale Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Program with respect to those plans.

- B.04 Preretirement Survivor Benefit. Preretirement survivor benefits will be payable under this Program on behalf of a Participant if the Participant’s beneficiary is eligible for benefits payable from Retirement Plan “B” or the Avondale Plan. The benefit payable will be the amount that would have been payable under the Retirement Plan but for the restrictions of section 401(a)(17) (or any successor section), as that limit is described in the applicable Retirement Plan.

The benefit payable under this Program will be paid in a lump sum to nonspouse beneficiaries and in either a lump sum or single life annuity to spouse beneficiaries. Notwithstanding the foregoing, the timing and form of the payment of benefits described in this Section that relate to amounts other than Grandfathered Amounts shall be determined in accordance with Appendix C and Appendix D.

The benefit payable under this Program will be reduced by the combined amounts of the Retirement Plan Benefits and the Northrop Grumman Corporation ERISA Supplemental Plan 1 benefits attributable to the applicable Retirement Plan.

No benefit will be payable under this Program with respect to a spouse after the death of that spouse.

- B.05 Plan Termination. No further benefits may be earned under this Program with respect to a particular Retirement Plan after the termination of the Retirement Plan.

- B.06 Retirement Plan Benefits. For purposes of this Appendix, the term “Retirement Plan Benefits” generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Retirement Plan. However, this Program is only intended to remedy pension reductions caused by the operation of section 401(a)(17) and not reductions caused for any other reason. Where pension benefits are reduced for some other reason, the term “Retirement Plan

Benefits” shall be deemed to mean the benefits that actually would have been payable but for such other reason.

Examples of such other reasons include, but are not limited to, the following:

- (a) A reduction in pension benefits as a result of a distress termination (as described in ERISA § 4041(c) or any comparable successor provision of law) of a Retirement Plan. In such a case, the Retirement Plan Benefits will be deemed to refer to the payments that would have been made from the Retirement Plan had it terminated on a fully funded basis as a standard termination (as described in ERISA § 4041(b) or any comparable successor provision of law).
- (b) A reduction of accrued benefits as permitted under Code section 412(c)(8), as amended, or any comparable successor provision of law.
- (c) A reduction of pension benefits as a result of payment of all or a portion of a Participant’s benefits to a third party on behalf of or with respect to a Participant.
- (d) No duplication of benefits. If the participant is eligible for restoration plan benefits another Excess plan for the same period of service, the benefit under this plan will be reduced accordingly to prevent a duplication of benefits.

APPENDIX C

2005-2007 Transition Rules

This Appendix C provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

- C.01 Election. Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the Participant's selected benefit commencement date.
- C.02 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Participants commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Participant.
- (a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee's date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions

accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.

- (b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:
- (i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a Participant must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;
 - (ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and
 - (iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan's procedures for calculating lump sums as of December 31, 2004.

C.03 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Participant's benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Participant's benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

APPENDIX D

Post 2007 Distribution of 409A Amounts

The provisions of this Appendix D shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Articles II and III, and Appendix C addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

- D.01 Time of Distribution. Subject to the special rules provided in this Appendix D, distributions to a Participant of his vested retirement benefit shall commence as of the Payment Date.
- D.02 Special Rule for Key Employees. If a Participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the Participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Participant's death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).
- D.03 Forms of Distribution. Subject to the special rules provided in this Appendix D, a Participant's vested retirement benefit shall be distributed in the form of a single life annuity. However, a Participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:
- (a) 50% joint and survivor annuity
 - (b) 75% joint and survivor annuity
 - (c) 100% joint and survivor annuity.

If a Participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

D.04 Death. If a married Participant dies before the Payment Date, a death benefit will be payable to the Participant's spouse commencing 90 days after the Participant's death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a Participant's vested retirement benefit based on a 100% joint and survivor annuity determined on the Participant's date of death. This benefit is also payable to a Participant's domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

D.05 Actuarial Assumptions. Except as provided in Section D.06, all forms of payment under this Appendix D shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

D.06 Accelerated Lump Sum Payouts.

- (a) Post-2007 Separations. Notwithstanding the provisions of this Appendix D, for Participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first

of the month coincident with or following the date of his Separation from Service, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section D.02, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Participant's Separation from Service.

- (b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix D, for Participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a Participant's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Participant attains age 55, is less than or equal to \$25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Participant attains age 55, but no earlier than January 1, 2008.
- (c) Conflicts of Interest. The present value of a Participant's vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.
- (d) Present Value Calculation. The conversion of a Participant's retirement benefit into a lump sum payment and the present value calculations under this Section D.06 shall be based on the GATT assumptions in effect under the Northrop Grumman Pension Plan, and will be based on the Participant's immediate benefit if the Participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit

amount the Participant will be eligible to receive at age 55.

- D.07 Effect of Early Taxation. If the Participant's benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Participant.
- D.08 Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Company's reasonable anticipation of one or more of the following events:
- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
 - (b) The making of the payment would violate Federal securities laws or other applicable law;
- provided, that any payment delayed pursuant to this Section D.08 shall be paid in accordance with Code section 409A.
- D.09 Special Tax Distribution. On the date a Participant's retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Participant's portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will reduce the Participant's future benefit payments under the Plan. This reduction shall be calculated using GATT assumptions in effect under the Northrop Grumman Pension Plan and a cost of living adjustment of 4%.

LITTON INDUSTRIES, INC.
RESTORATION PLAN
(Amended and Restated Effective as of January 1, 2005)

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The Litton Industries, Inc. Restoration Plan (the “Plan”) became effective January 1, 1987 and is hereby amended and restated effective as of January 1, 2005. This restatement is intended to address the requirements of Code section 409A and certain other changes.

Section 1 — General

- 1.1 Purpose — The purpose of the Plan is to provide, on an unfunded basis, the aggregate amount of Annual Benefits earned by the Affected Employees of the Participating Divisions and Subsidiaries of Litton Industries, Inc., a Delaware corporation, and any unit thereof, enumerated in Section 2 and hereinafter referred to collectively as the “Company”. The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.
- 1.2 Coverage
 - A. Unless otherwise provided, the provisions of the Plan shall apply to any Affected Employee who incurs a Termination of Employment on or after January 1, 1989.
 - B. Any subsequent amendment to this Plan shall apply only to an Affected Employee who incurs a Termination of Employment on or after the effective date of said amendment, unless said amendment provides otherwise.

Section 2 — Participating Divisions and Subsidiaries

- 2.1 Participating Division or Subsidiary — The Participating Divisions and Subsidiaries and their respective participation dates are listed in Appendix 1 attached hereto. When the name or status of a Participating Division or Subsidiary is changed, the change shall be effective for Plan purposes.

Section 3 — Definitions

As used in the Plan, the following terms shall have the meanings defined below.

- 3.1 Actuarial Equivalent — Except as otherwise provided by the next sentence, the definition of such term under the Litton Industries, Inc. Retirement Plan “B”, as amended. On or after a Change of Control, an Affected Employee’s benefit, a Spouse’s benefit, or a Beneficiary’s benefit, shall be computed using the actuarial factors set forth in Appendix A hereof.
- 3.2 Affected Employee — An Affected Employee, for any particular Plan Year, is an individual employed as a common law employee by the Company (except that an individual who is a participant under the Litton Supplemental Retirement Plan, as amended, for such Plan Year shall, notwithstanding any other provision of the Plan, be deemed to have a Retirement Account Restricted Amount of zero for such Plan Year) 8%

of whose Annual Compensation for that particular Plan Year exceeds the maximum amount of elective deferrals available to such Affected Employee to a Code section 401(k) plan for such Plan Year and who was a participant in the Litton Financial Security and Savings Program, as amended from time to time, (the "FSSP") for such Plan Year and who contributed his legally permissible maximum amount to the FSSP for such Plan Year.

- 3.3 Affiliate Company or Affiliated Companies — Each company fifty percent (50%) or more of whose voting stock is owned directly or indirectly by Litton Industries, Inc., its successors or assigns, and which company is not a participating division or subsidiary of the Plan.
- 3.4 Annual Benefit — The portion of the total annual retirement benefit that an Affected Employee is entitled to with respect to a particular Plan Year, determined in accordance with Section 6.1, Section 6.2, or Section 6.3, whichever is applicable.
- 3.5 Annual Benefit Statement — The statement given to an Affected Employee for each Plan Year such Affected Employee is entitled to an Annual Benefit under the Plan. All such Annual Benefit Statements shall be in the form prescribed by the Plan Administrator.
- 3.6 Annual Compensation — An Affected Employees wages paid or deferred by the Company (limited, however, to wages paid or deferred by the Company on or after the date the Participating Division or Subsidiary by which the Affected Employee is employed became a Participating Division or Subsidiary), as determined under section 3121 of the Code without regard to the dollar limitation of section 3121(a)(1) of the Code, excluding therefrom any amount so paid which represents (a) reimbursed expenses, (b) wages not paid in cash, (c) cash received pursuant to the exercise of a stock appreciation right, or (d) certain other wage items as may be agreed to from time to time between the Company and one or more Affected Employees.
- Wages deferred by an Affected Employee shall be treated as Annual Compensation only for the Plan Year of deferral and not for the Plan Year of actual payment.
- 3.7 Beneficiary means the Spouse of an Affected Employee or, if there is no surviving Spouse at the time of the Affected Employee's death or if the Spouse has previously given written consent, such other person(s) designated by the Affected Employee on a form provided by the Plan Administrator to receive any payment or payments becoming due to a Beneficiary under the Plan. Such designation may be changed from time to time, except that a designated Beneficiary may not be changed after the commencement of retirement benefits. Any spousal consent required hereunder shall be invalid unless signed by the Spouse and witnessed by the Plan Administrator, his representative or a notary public.
- 3.8 Board — The Board of Directors of Litton Industries, Inc., a Delaware corporation.
- 3.9 Break in Service Period — The definition of such term under the Litton Industries, Inc. Retirement Plan "B", as amended from time to time.

3.10 Change in Control shall mean —

- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of either (1) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of Directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this Section 3.10(a), the following acquisitions of stock shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (1), (2) and (3) of Section 3.10(c); or
- (b) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a Director subsequent to the date hereof whose election, or nomination subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of a least a majority of the Directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- (c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless following such Business Combination, (1) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly more than sixty percent (60%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no person

(excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, thirty percent (30%) or more of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (3) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

- (d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3.11 Code — The Internal Revenue Code of 1986, as amended.

3.12 Committee shall mean —

- (a) The Compensation and Selection Committee of the Board.
- (b) Notwithstanding Section 3.12(a), upon a Change of Control, the Committee shall mean exclusively the “special administrators.” The “special administrators” shall be the individuals who constituted the Committee immediately prior to the Change of Control. The “special administrators” shall constitute the Committee until the last day of the eighteenth month following the month in which the Change of Control occurred. The “special administrators” shall have all rights and authority reserved to the Committee under this Plan.
- (c) If a “special administrator” dies, becomes disabled, or resigns as “special administrator” during the period that the “special administrators” constitute the Committee, the remaining “special administrator(s)” shall continue to serve as the Committee without interruption. A successor “special administrator” shall be required only if there are less than three (3) remaining “special administrators.” If a successor “special administrator” is required, the successor shall be the individual who, at that time, (1) is not already a “special administrator,” and (2) is not a Participant or currently an employee of the Company, and (3) was the member of the Board immediately prior to the Change of Control with the longest period of service on the Board, and (4) agrees to serve as a “special administrator.”
- (d) If a successor “special administrator” is required and there are no individuals remaining who satisfy the criteria described in Section 3.12(c), then a successor “special administrator” shall either be appointed by the Trustee or, in the Trustee’s discretion, the Trustee shall submit the selection of the “special administrator(s)” to an arbitrator, the costs of which shall be borne fully by the Company, to be decided in accordance with the American Arbitration Association Commercial Arbitration Rules then in effect. If at any time, there are no remaining “special

administrators,” the Trustee shall act as the “special administrator” until the successor(s) is selected.

- 3.13 Coverage Date — January 1, 1987, or the date an employee of the Company first becomes an Affected Employee, if later.
- 3.14 Designated Foreign Corporation — An entity: (a) created under the laws of a country other than the United States; (b) of which a majority of the voting shares are owned directly or indirectly by Litton Industries, Inc.; and (c) with respect to which the Company has entered into an agreement under section 3121(l) of the Code, and has satisfied the provisions of section 406 of the Code.
- 3.15 Director — shall mean a member of the Board of Directors of Litton Industries, Inc.
- 3.16 Grandfathered Amount — Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.
- 3.17 Interest — The amount of interest (based on a stated rate of interest, compounded annually, as determined by the Board or its delegate) with respect to the Retirement Account and Savings Account Restricted Amounts of all Affected Employees for a particular Plan Year with such rate of interest to be fixed for all of such Restricted Amounts and to commence on the first day of the Plan Year succeeding such particular Plan Year and to continue for all Plan Years thereafter; but such interest shall cease with respect to the Retirement Account and Savings Account Restricted Amounts of any particular Affected Employee upon the later of: (i) the last day of the month such Affected Employee is projected to attain his Normal Retirement Date for purposes of determining the amount of such Affected Employee’s annual retirement benefit pursuant to Section 6.1; or (ii) if such Affected Employee attains Retirement after his Normal Retirement Date, the last day of the month such Affected Employee attains Retirement.
- 3.18 Key Employee — An employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of Litton or the Affiliated Companies (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if Litton’s or an Affiliated Company’s stock is publicly traded on an established securities market or otherwise. Litton shall determine in accordance with a uniform Litton policy which employees are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year. For purposes of this Section only, “Affiliated Company” means Litton and any other entity related to Litton under the rules of Code section 414. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.
- 3.19 Litton — Litton Industries, Inc. or any successor thereto.

- 3.20 Mandatory Contribution shall mean, as of a Change of Control, an amount equal to the excess of “A” over “B,” where —
- (a) “A” is one hundred twenty percent (120%) of the present value of all vested benefits under the Plan determined under the factors set forth in Appendix A; and
 - (b) “B” is the current value of the Trust as determined by the Trustee on the business day immediately preceding the day that a Mandatory Contribution is paid to the Trustee.
- 3.21 Payment Date — The 1st of the month coincident with or following the later of (a) the date the Affected Employee attains age 55, or (b) the date the Affected Employee Separates from Service.
- 3.22 Pension Plan and Pension Plans — Any of the following:
- (a) The Northrop Grumman Retirement Plan
 - (b) The Northrop Grumman Retirement Plan—Rolling Meadows Site
 - (c) The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
 - (d) The Northrop Grumman Electronics Systems — Space Division Salaried Employees’ Pension Plan (effective as of the Aerojet Closing Date)
 - (e) The Northrop Grumman Electronics Systems — Space Division Union Employees’ Pension Plan (effective as of the Aerojet Closing Date)
- “Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.
- 3.23 Plan — Litton Industries, Inc. Restoration Plan.
- 3.24 Plan Administrator — The person appointed to administer the Plan pursuant to Section 12.
- 3.25 Plan Year — January 1, 1987 to December 31, 1987 and each calendar year thereafter.
- 3.26 Restricted Amount — As applied for any particular Plan Year to a particular Affected Employee, the Restricted Amount of such Affected Employee shall be the amount, if any, by which 8% of such Affected Employee’s Annual Compensation for the particular Plan Year under consideration exceeds the maximum amount of elective deferrals available to such Affected Employee to a Code section 401(k) plan for such Plan Year.
- 3.27 Retirement — An Affected Employee who incurs a Termination of Employment attains Retirement under the Plan when he is eligible to and elects to receive his annual

retirement benefit under the Plan except that any Affected Employee who continues to be employed by the Company after his Normal Retirement Date shall attain Retirement immediately upon his Termination of Employment.

- 3.28 Retirement Account Restricted Amount — As applied for any particular Plan Year to a particular Affected Employee, the Retirement Account Restricted Amount, if any, shall be that portion of such Affected Employee's Restricted Amount for such Plan Year which is equal to the excess, if any, of 4% of such Affected Employee's Annual Compensation for such Plan Year over 4% of such Affected Employee's Annual Compensation for such Plan Year where such Annual Compensation is limited to the annual compensation limit prescribed under Code section 401(a)(17) for such Plan Year.
- 3.29 Savings Account Restricted Amount — As applied for any particular Plan Year to a particular Affected Employee, the Savings Account Restricted Amount of such Affected Employee shall equal one-half of the excess of 8% of such Affected Employee's Annual Compensation for such Plan Year over 4% of such Affected Employee's Annual Compensation for such Plan Year where such Annual Compensation is limited to the Annual Compensation limit prescribed under Code section 401(a)(17) for such Plan Year.
- 3.30 Separation from Service or Separates from Service — A "separation from service" within the meaning of Code section 409A.
- 3.31 Spouse — A person who has been married to the Affected Employee throughout the one-year period ending on the earlier of the date the Affected Employee's annual retirement benefit commences under the Plan, or the date of the Affected Employee's death.
- 3.32 Termination of Employment — When an Affected Employee is discharged or quits from the Company; but such term shall not include an authorized leave of absence from the Company.
- 3.33 Trust shall mean the Litton Industries, Inc., Restoration Plan Trust, as amended from time to time.
- 3.34 Trust Agreement shall mean the terms of the agreement entered into between Litton Industries, Inc., and the Trustee that establish the Trust.
- 3.35 Trustee shall mean the trustee of the Trust.
- 3.36 Year(s) of Service — The definition of such term under the Litton Industries, Inc. Retirement Plan "B", as amended.

Section 4 — Participation

- 4.1 Participation — Effective January 1, 1987, each Affected Employee of the Company shall be a participant in the Plan.

Section 5 — Retirement Dates

- 5.1 Normal Retirement Date — An Affected Employee's sixty-fifth (65th) birthday.
- 5.2 Early Retirement Date — The date that an eligible Affected Employee elects to retire and receive an early retirement benefit prior to his Normal Retirement Date. Except as otherwise provided in the following sentence with respect to the surviving Spouse of a deceased Affected Employee, an Affected Employee may not elect to receive an early retirement benefit unless he is age fifty-five (55) or older and has at least five (5) Years of Service. In the case of determining whether a Pre-Retirement Spouse benefit is payable in accordance with Section 7.1 of the Plan, the Early Retirement Date of the deceased Affected Employee shall be the date on which such Affected Employee would have attained age fifty-five (55) or older had he lived.
- 5.3 Disability Retirement Date — The date that an eligible Affected Employee elects to retire and receive a disability retirement benefit prior to his Normal Retirement Date. An Affected Employee may not elect to receive a disability retirement benefit unless he is an Affected Employee who becomes totally and permanently disabled while employed by the Company and who has attained age fifty-five (55). An Affected Employee shall be deemed totally and permanently disabled for the purpose of the Plan only when he will be in the opinion of a qualified physician permanently, continuously and wholly prevented by bodily injuries or disease for life from engaging in any occupation or employment for wage or profit, as long as he is also entitled to disability benefits under the Federal Social Security Act.

Section 6 — Amount of Retirement Income

- 6.1 Normal Retirement Benefit
- (a) Any person who was an Affected Employee with respect to one or more Plan Years and who attains Retirement on or after his Normal Retirement Date shall be entitled to receive an annual retirement benefit which will be equal to (i) multiplied by (ii), wherein: (i) is equal to the aggregate amount of such Affected Employee's Annual Benefit amounts with respect to all Plan Years during which such Affected Employee was an Affected Employee, with each such amount being computed for each such Plan Year in accordance with paragraphs (b)(1) and (2) below; and, wherein (ii) is equal to the vested percentage of such Affected Employee, determined in accordance with Section 6.4, in his annual retirement benefit.
- (b) (1) For any particular Plan Year, an Affected Employee's Annual Benefit attributable to his Retirement Account Restricted Amount, if any, for such Plan Year shall be equal to eighty-five percent (85%) of the Retirement Account Restricted Amount of such Affected Employee for such Plan Year

reduced by [[the sum of (i) plus (ii)] multiplied by (iii)], wherein: (i) is equal to the Retirement Account Restricted Amount of such Affected Employee for such Plan Year; wherein (ii) is equal to the amount of Interest with respect of (i) above; and, wherein (iii) is equal to either:

(a) the Actuarial Equivalent factor, for such Plan Year, applicable under the Litton Industries, Inc. Retirement Plan "B", as amended, with respect to such Affected Employee's projected age at his Normal Retirement Date; or
(b) if such Affected Employee attains Retirement after his Normal Retirement Date, the Actuarial Equivalent factor, for such Plan Year, under the Litton Industries, Inc. Retirement Plan "B", as amended, with respect to such Affected Employee's age when he attains Retirement.

- (2) For any particular Plan Year, an Affected Employee's Annual Benefit attributable to his Savings Account Restricted Amount shall be equal to [[the sum of (i) plus (ii)] multiplied by (iii)], wherein: (i) is equal to the Savings Account Restricted Amount of such Affected Employee for such Plan Year; wherein (ii) is equal to the amount of Interest with respect to (i) above; and, wherein (iii) is equal to either: (a) the Actuarial Equivalent factor, for such Plan Year, applicable under the Litton Industries, Inc. Retirement Plan "B", as amended, with respect to such Affected Employee's projected age at his Normal Retirement Date; or (b) if such Affected Employee attains Retirement after his Normal Retirement Date, the Actuarial Equivalent factor, for such Plan Year, under the Litton Industries, Inc. Retirement Plan "B", as amended, with respect to such Affected Employee's age when he attains Retirement.

- 6.2 Early Retirement Benefit — At his Early Retirement Date an Affected Employee who attains Retirement, or his surviving Spouse if a benefit is payable pursuant to Section 7.1 of the Plan, shall be entitled to an annual early retirement benefit which will be equal to the annual retirement benefit amount calculated pursuant to Section 6.1(b)(1) and (2) above for such Affected Employee reduced by one-half percent (1/2%) for each full month by which his Early Retirement Date precedes (i) his Normal Retirement Date, or (ii) attainment of age sixty-two (62) for any Affected Employee who incurred a Termination of Employment on or after January 1, 1997 and who has attained both age fifty-five (55) or more at such time and who has at least seven (7) Years of Service (five (5) Years of Service for any Affected Employee whose annual retirement benefit commences on or after January 1, 1999) at such time.
- 6.3 Disability Retirement Benefit - At his Disability Retirement Date an Affected Employee who attains Retirement shall be entitled to an annual disability benefit which will be equal to the normal benefit amount calculated pursuant to Section 6.1(b)(1) and (2) above for such Affected Employee reduced by one-half percent (1/2%) for each full month by which his Disability Retirement Date precedes his Normal Retirement Date.

- 6.4 Vesting Schedule — An Affected Employee shall be vested in his annual retirement benefit under the Plan according to the Company purchased retirement benefit vesting schedule under the Litton Industries, Inc. Retirement Plan “B”, as amended from time to time, except that: (i) for purposes of this Plan only, on the Disability Retirement Date of any Affected Employee, such Affected Employee shall become one hundred percent (100%) vested in his annual disability retirement benefit, notwithstanding his actual number of Year(s) of Service; and (ii) for purposes of this Plan only, if an Affected Employee should die prior to incurring a Termination of Employment, such Affected Employee’s Spouse, if any, shall become one hundred percent (100%) vested in his annual retirement benefit, notwithstanding such Affected Employee’s actual number of Year(s) of Service at the time of his death.
- 6.5 Initial and Subsequent Payment Dates — An Affected Employee’s annual retirement benefit shall be payable in twelve (12) equal monthly installments commencing effective the first of the month following the month the Affected Employee attains Retirement and the first payment shall be made no later than sixty (60) days following the end of the Plan Year in which the Affected Employee attains Retirement, except that no payment shall be made until the date that an Affected Employee files with the Company a request for payment of an annual retirement benefit on a form prescribed by the Plan Administrator.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

Section 7 — Death Benefits

- 7.1 Pre-Retirement Spouse Benefit — If a married Affected Employee dies after becoming either wholly or partially vested under this Plan and before commencing to receive an annual retirement benefit, his surviving spouse shall be entitled to receive an annual benefit, commencing on the first day of the month following the later of the date of death of the Affected Employee or the date the Affected Employee would have attained his Early Retirement Date, and terminating with the last monthly payment preceding the surviving Spouse’s death. In the case of an Affected Employee who dies before commencing to receive an annual retirement benefit, but after he has attained his Early Retirement Date, the amount of annual benefit to which such Affected Employee’s surviving Spouse shall be entitled shall be equal to the amount which would have been payable to the surviving Spouse had the Affected Employee commenced receiving an annual retirement benefit pursuant to Section 6.1 or Section 6.2, whichever is applicable, on the day before his death, in the form of a joint and survivor income annuity computed in accordance with Section 9.1. In the case of an Affected Employee who dies before commencing to receive an annual retirement benefit and before he has attained his Early Retirement Date, the amount of such annual benefit to which such Affected Employee’s surviving Spouse shall be entitled shall be equal to the amount which would have been payable had the Affected Employee incurred a Termination of Employment on the date of his death, (or the date of his actual Termination of Employment, if earlier) survived to his Normal Retirement Date under Section 5.1 or to his Early Retirement Date under Section

5.2, if applicable, and commenced receiving his annual retirement benefit in the form of a joint and survivor income annuity computed in accordance with Section 9.1 on his Normal Retirement Date or his Early Retirement Date, whichever is applicable, and died immediately thereafter.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

- 7.2 Death After Retirement — Upon the death of an Affected Employee after he has attained Retirement, his surviving Spouse shall be entitled to an annual benefit determined in accordance with Section 9.1.

Section 8 — Termination of Employment

- 8.1 Rights of Affected Employees - In the event that an Affected Employee incurs a Termination of Employment, any part of his accrued benefit which is not then vested in accordance with Section 6.4 shall be forfeited. Such amount forfeited shall not be restored unless such Affected Employee is reemployed by the Company and has not incurred a Break in Service Period prior to such reemployment by the Company.
- 8.2 Transfer of Employment — If an Affected Employee transfers from a category of employment covered by the Plan to a category of employment not covered by the Plan with Litton Industries, Inc., with any Affiliate Company or Designated Foreign Corporation, said Affected Employee shall be deemed not to have incurred a Termination of Employment.

Section 9 — Forms of Retirement Income

- 9.1 Joint and Survivor Income Annuity — The annual retirement benefit of an Affected Employee who is married at the time he attains Retirement shall be payable to the Affected Employee in twelve (12) equal monthly payments commencing with the first calendar month after the Affected Employee attains Retirement for his life, and shall continue to be payable monthly to his surviving Spouse, following the death of the Affected Employee, for the life of the surviving Spouse. Payments will cease with the last payment made prior to the date of the death of the surviving Spouse. Such annual retirement benefit shall be the Actuarial Equivalent of a straight life annuity computed in accordance with Section 6.1, Section 6.2, or Section 6.3, whichever is applicable, payable for the life of the Affected Employee. Any such survivor benefit shall be equal to one hundred percent (100%) of the annual retirement benefit payable during the joint lives of the Affected Employee and his surviving Spouse.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

- 9.2 Straight Life Annuity — If an Affected Employee does not have a Spouse at the time he attains Retirement, his annual retirement benefit will be payable in the form of a straight life annuity for the life of the Affected Employee and shall be payable in twelve (12) equal monthly payments commencing with the first calendar month after the Affected Employee attains Retirement. Payments will cease with the last payment made prior to the date of death of the Affected Employee. The amount of the annual retirement benefit will be computed in accordance with Section 6.1, Section 6.2, or Section 6.3, whichever is applicable.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

- 9.3 Spousal Death Within Two Years After Retirement — Notwithstanding Section 9.1, if the Spouse of an Affected Employee who is married at the time he attains Retirement and after he commences to receive an annual retirement benefit pursuant to Section 9.1 should predecease such Affected Employee not more than two (2) years after he commences to receive a retirement benefit under Section 9.1, such annual retirement benefit shall, commencing with the first retirement benefit payment payable as of the first day of the calendar month after the calendar month during which the death of his Spouse occurred, be converted to an annual retirement benefit computed pursuant to Section 9.2 in an annual amount equal to the amount of the annual retirement benefit the Affected Employee would have received at the time of and based on his age at the date of his Retirement.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

9.4 Annuity Options

An Affected Employee may elect in writing to the Plan Administrator, within the ninety (90) day period prior to his commencement of benefits, to be paid in an optional form of annuity other than that provided under Section 9.1 or 9.2 above. With respect to an Affected Employee who is married at the time he attains Retirement, in no event shall an election of any such optional benefit form be effective unless it is made in connection with the express written consent of his Spouse in a form and manner satisfactory to the Plan Administrator.

- (a) A married Affected Employee may elect, with the consent of his Spouse, a life annuity pursuant to Section 9.1.
- (b) (i) A married Affected Employee may elect, with the consent of his Spouse an optional form of joint and surviving spousal annuity which is the Actuarial Equivalent of the annuity provided for under Section 9.2 but which provides a reduced monthly benefit to the Affected Employee for his life,

and, upon his death, an annuity for the life of his surviving Spouse in a monthly amount equal to one of the following: fifty percent (50%) or seventy-five percent (75%) of the amount payable to the Affected Employee during his life.

- (ii) This annuity option is available only to an Affected Employee who is married to a Spouse within the meaning of Section 3.26.
- (c) “Ten-Year Certain and Continuous Annuity” means an annuity that is the Actuarial Equivalent of the normal form of annuity that provides a reduced monthly benefit to the Affected Employee for life. Upon his death, if he has not received one hundred twenty (120) monthly payments, a monthly benefit, equal to that payable to the Affected Employee during his life, shall be paid to his designated Beneficiary until the number of monthly payments received by the Affected Employee and his designated Beneficiary equals one hundred and twenty (120). The designated Beneficiary may elect an additional Beneficiary to receive any monthly payment then still owing in the event of the death of the first Beneficiary prior to the number of monthly payments equaling one hundred and twenty. If there is ever a circumstance where no Beneficiary is alive for purposes of receiving payments pursuant to this Subsection 9.4(c) of the Plan then the estate of the last named Beneficiary may elect to receive the then Actuarial Equivalent, determined in accordance with Subsection 6.05(c) of the Litton Industries, Inc. Retirement Plan “B”, of any remaining payments in a lump sum amount which will be payable by the Plan as soon as practicable thereafter.
- (d) “Contingent Annuitant Annuity” means an annuity that is the Actuarial Equivalent of the form of annuity provided under Section 9.2 which provides a reduced monthly benefit to the Affected Employee for life, and, upon his death, an annuity for the life of his designated Beneficiary in a monthly amount equal to one of the following: fifty percent (50%), seventy-five percent (75%), or one hundred percent (100%) of the amount payable to the Affected Employee during his life.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

9.5 Mandatory Cashout. Notwithstanding any other provisions in the Plan, Affected Employees with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

- (a) Post-2007 Terminations. Affected Employees who have a complete termination of employment with the Affiliated Companies after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of such termination (without interest), if such present value is below the Code section 402(g) limit in effect at the termination.

- (b) Pre-2008 Terminations. Affected Employees who had a complete termination of employment with the Affiliated Companies before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For this purpose, "Affiliated Companies" shall mean Litton and any other entity related to Litton under the rules of Code section 414. The Affiliated Companies include Northrop Grumman Corporation and its 80%-owned subsidiaries and may include other entities as well.

9.6 Optional Payment Forms. Affected Employees with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

- (a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.
- (b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factor

Section 10 — Miscellaneous

- 10.1 Receipt and Release for Payments — Any payment to any Affected Employee, his surviving Spouse or to his legal representative or to any committee appointed for such Affected Employee or surviving Spouse in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of such benefit claim under the Plan. As a condition precedent to the payment, such Affected Employee, surviving Spouse, legal representative or committee may be required to execute a receipt and release therefor in such form as shall be determined by the Plan Administrator.
- 10.2 Dispute as to Benefit Payments — Upon written notice to the Plan Administrator that there is a dispute as to the proper recipient of any benefits not yet distributed under the Plan, the Plan Administrator may in his sole discretion enter into any arrangement necessary to prevent the benefits from being paid to the wrong party until the dispute shall have been determined by a court of competent jurisdiction or settled by the claimants concerned.

- 10.3 No Contract of Employment — Nothing herein contained shall be construed as giving any Affected Employee the right to be retained in the service of the Company, nor upon dismissal or upon his voluntary Termination of Employment, to have any right or interest in this Plan other than as provided herein.
- 10.4 Commutation of Benefit — If the amount of the annual retirement benefit payable hereunder to any Affected Employee or his surviving Spouse is less than five thousand dollars (\$5,000) per year, payment of the Actuarial Equivalent of such payments may be made in a lump sum in full settlement of all sums payable hereunder. (See Section 9.5 for the rule that applies as of January 1, 2008).

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

Section 11 — Amendment or Discontinuance

- 11.1 Amendment of Plan — Litton may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not an Affected Employee has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of an Affected Employee's accrued benefit under the Plan as of the date of such amendment or termination.
- No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to the Grandfathered Amounts.
- 11.2 Freezing Plan Benefits — The Company intends and expects to continue the Plan indefinitely, but necessarily reserves the right at any time to discontinue, in whole or part, future benefits under the Plan. No Affected Employee shall have any rights to benefits beyond the freeze date. Solely for purposes of computing the Affected Employee's vesting under Section 6.4, Year(s) of Service, if any, with the Company after the freeze date shall be taken into account.
- 11.3 Termination of Plan - The Company intends and expects to continue the Plan indefinitely, but necessarily reserves the right at any time or times to terminate the Plan (including the partial termination of the Plan). If the Plan is so terminated and is not continued by a successor employer or merged into another plan of the Company or a successor employer, each Affected Employee who is employed by the Company at such time shall be vested one hundred percent (100%) in his annual retirement benefit, notwithstanding the actual number of his Year(s) of Service.

- 11.4 Merger or Consolidation — In the event of any merger or consolidation of the Plan with, any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Affected Employees of this Plan, each Affected Employee shall (if either this Plan or the other Plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer (if the Plan had then terminated).

Section 12 — Plan Administration

12.1 Plan Administrator

- (a) General — Except as otherwise provided by Section 13.6, a Plan Administrator appointed by and serving at the pleasure of the Board of the Company shall be responsible for the supervision and control of the operation and administration of the Plan. The Plan Administrator shall not have the right to alter or change any terms of the Plan, such right being retained solely by the Board of the Company.
- (b) Specific Powers and Duties — The Plan Administrator shall have all powers and duties, express and implied, necessary to carry out the supervision and control of the Plan, as provided above, which shall include, but not by way of limitation, the following:
1. To interpret the Plan and to decide any and all matters arising hereunder; including the right to remedy possible ambiguities, inconsistencies or omissions; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all Affected Employees similarly situated;
 2. To compute the amount of retirement benefit which shall be payable to any Affected Employee, Spouse, or Beneficiary in accordance with the provisions of the Plan;
 3. To authorize payments under the Plan; and
 4. To establish a claims procedure to provide each Affected Employee or Beneficiary a full and fair review of any denial, in whole or part, of a claim for benefits.

Section 13 — Change of Control Provisions

- 13.1 Change of Control — On or after a Change of Control, no additional Affected Employees shall be provided benefits under the Plan.

13.2 Eligibility for Retirement Benefits

- (a) Change of Control — Except as otherwise provided by Section 13.2(e) below, as of a Change of Control, an Affected Employee shall be fully vested in his or her benefit in accordance with Section 13.3 and there shall be a waiver of any condition concerning eligibility for payment of an Annual Benefit that requires (1) the filing of any election, (2) the attainment of a specified age, (3) an agreement not to engage in competitive activities with the Company, (4) satisfaction of any other terms or conditions or the application of any benefit reductions otherwise provided, and (5) termination of employment with the Company in order to begin receiving an Annual Benefit.
- (b) Benefits Accrued After a Change of Control — The provisions of Section 13.2(d) above shall apply to any benefits accrued by an Affected Employee after a Change of Control except that the waiver of the conditions of having to file an appropriate election and to incur a termination of employment with the Company shall not apply with respect to any benefits accrued by an Affected Employee after a Change of Control.

13.3 Vesting — Change of Control — Upon a Change of Control and thereafter, an Affected Employee shall be vested in his or her Annual Benefit regardless of his or her years of Year(s) of Service or age.

13.4 Benefit Forms after April 2, 2001 — This Section applies to benefits paid under this Plan after April 3, 2001. It applies to a Participant's entire Plan benefit, regardless of when it accrued.

- (a) Affected Employees who had Attained Retirement as of April 3, 2001. For any Affected Employee (or beneficiary of an Affected Employee) who had attained Retirement as of April 3, 2001, benefit payments under this Plan will continue to be paid in the benefit form described in (1) below, unless he or she elects otherwise under (2) below.
 - (1) Default Form. Unless otherwise elected under (2), a Participant described in (a) will continue to receive his or her Plan benefits in the form in which they were being paid as of April 2, 2001.
 - (2) Alternative Form. A Participant described in (a) may receive his or her Plan benefits in a lump sum if he or she timely elects to do so in a manner prescribed by the Plan Administrator and subject to the Plan Administrator's discretion to pay the benefit in another form.
- (b) Active Affected Employees as of April 3, 2001 Who Terminate Before October 1, 2003. For any Affected Employee who was accruing a benefit under the Plan as of April 3, 2001 and terminates employment with the Northrop Grumman Corporation controlled group before October 1, 2003, Plan benefits accrued before

April 3, 2001 are payable in the benefit form described in (1) below, unless he or she elects otherwise under (2) below. Plan benefits accrued after April 2, 2001 are payable only under (1) for Affected Employees described in this subsection.

- (1) Default Form. Unless otherwise elected under (2), an Affected Employee described in (b) will receive his or her Plan benefits in a lump sum.
- (2) Alternative Form. An Affected Employee described in (b) may receive his or her Plan benefits in a benefit form described in Section 9 if he or she timely elects to do so in a manner prescribed by the Plan Administrator.
- (c) Active Affected Employees as of April 3, 2001 Who Have a Termination of Employment After September 30, 2003. For any Affected Employee who was actively accruing a Plan benefit as of April 3, 2001 and who terminates employment with the Northrop Grumman Corporation controlled group after September 30, 2003, Plan benefits accrued after April 2, 2001 are payable under Section 9.1 or 9.2, whichever applies, unless the Participant timely elects, in accordance with the Plan Administrator's rules, to receive Plan benefits in another form described in Section 9 or one of the forms provided in the Litton Industries, Inc. Restoration Plan 2. Plan benefits accrued before April 3, 2001 are payable in the benefit form described in (b)(1), unless he or she elects otherwise under (b)(2).

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

13.5 Payments to Trust

- (a) Mandatory Contribution — Upon a Change of Control, the Company shall make Mandatory Contributions to the Trustee by wire transfer in immediately available funds of United States dollars. A Mandatory Contribution shall be made as soon as possible upon the Change of Control, but in no event more than ten days from the date of the Change of Control. In addition, a Mandatory Contribution shall be made every six months thereafter, provided that the calculation of the Mandatory Contribution on the sixth-month date yields a positive dollar amount. Mandatory Contributions shall continue to be required semi-annually until all Annual Benefits have been paid to all Affected Employees and Beneficiaries. The Company shall immediately notify the Committee in writing when payment of the Mandatory Contribution is made to the Trustee.
- (b) Continuing Obligation of Company — Subsequent to the payment of a Mandatory Contribution, Affected Employees, retired Affected Employees and, to the extent they are entitled to benefit payments, their Beneficiaries shall be paid benefits under the Plan from the Trust pursuant to the Trust Agreement, but in no event shall the making of a Mandatory Contribution relieve the Company of its obligation under this Plan.

13.6 Administrative Procedures — These Administrative Procedures only take effect upon and after Change of Control. In all other cases, the Administrative Procedures of Section 12 of the Plan shall be those used.

- (a) Notice of Denial — If the Committee determines that any person who had submitted a claim for payment of benefits under the Plan is not eligible for payment of benefits or, if applicable, is not eligible for payment of benefits in the form requested, then the Committee shall, within a reasonable period of time, but no later than 90 days after receipt of the written claim, notify the claimant of the denial of the claim. Such notice of denial: (1) shall be in writing; (2) shall be written in a manner calculated to be understood by the claimant; and (3) shall contain (A) the specific reason or reasons for denial of claim; (B) a specific reference to the pertinent Plan provisions or administrative rules and regulations upon which the denial is based; (C) a description of any additional material or information necessary for the claimant to perfect the claim; and (D) an explanation of the Plan's appeal procedures.
- (b) Review Procedures — Within 90 days of the receipt by the claimant of the written notice of denial of the claim, or if the claim has not been granted or denied within 120 days of the claimant's original claim, the claimant may file a written request with the Board that it conduct a full and fair review of the denial of the claimant's claim for benefits. The claimant's written request must include a statement of the grounds on which the claimant appeals the original claim denial. The Board shall deliver to the claimant a written decision on the claim promptly, but not later than 60 days after the receipt of the claimant's request for review, except that if there are special circumstances that require an extension of time for processing, the 60-day period shall be extended to 120 days, in which case written notice of the extension shall be furnished to the claimant prior to the end of the 60-day period.

13.7 Enforcement

- (a) Right to Enforce — The Company's obligations under the Plan may be enforced by the filing of an action by any Affected Employee or by any Affected Employee's Spouse, Beneficiary, or personal representative.
- (b) Attorneys Fees and Costs — If, on or after a Change of Control, any claimant is denied a claim for benefits under the Plan, and the claimant requests a review under the procedures described in Section 13.6(b), or files a claim in a court of law or any other tribunal to enforce any obligation of the Company under this Plan, which is based on a failure to administer the Plan in accordance with its terms, including the requirement that the Company make a Mandatory Contribution to the Trust, the Company shall pay such claimant all attorneys fees and costs incurred in connection with the claim, regardless of the outcome of the claim, provided that the claim is not frivolous. All attorneys fees and costs under this Section 13.7(b) shall be paid by the Company as they are incurred by the claimant,

but no later than thirty (30) days from the date that the claimant submits a bill or other statement to the Company.

- (c) Interest — If any claimant prevails in a review procedure described in Section 13.7(b), or if a claimant prevails in an action in a court of law or any other tribunal to enforce the payment of benefits under the Plan, the Company shall pay interest to the claimant on any unpaid benefits accruing from the date that benefit payments should have commenced and continuing until the date that such owed and unpaid benefits are paid to the claimant in full. For purposes of the preceding sentence, interest shall accrue at an annual rate equal to one percent, plus the prime rate reported by the Wall Street Journal.

* * *

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 21st day of December, 2007.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora L. Catsavas

Debora L. Catsavas
Vice President, Compensation,
Benefits and HRIS

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Appendix 1 — Participating Divisions and Subsidiaries

- 1.1 The Participating Divisions and Subsidiaries which comprise the Company and their respective participating dates are as described in Section 1.3.
- 1.2 When the name or status of a Participating Division or Subsidiary is changed, the change shall be deemed to have been made automatically in the Plan.

1.3 Participating Division and Subsidiaries Participating Date

Litton Industries Inc.	
Corporate Office	January 1, 1987
Erie Marine	January 1, 1987
Ingalls Shipbuilding, Inc. Salaried Employees	January 1, 1987
Litton Italia, S.P.A.	January 1, 1987
Litton International Development Corporation	
Data Command Systems	January 1, 1987
Litton Worldwide Services	
Aero Products Division	January 1, 1987
Litton Korea, Ltd.	
All U.S. Employees	January 1, 1987
Litton Precision Products International — U.K.	
All U.S. Employees	January 1, 1987
Litton Systems, Inc.	
Advanced Circuitry	January 1, 1987
Aero Products	January 1, 1987
Airtron Division	January 1, 1987
Amecom Division	January 1, 1987
Clifton Encoder	January 1, 1987
Clifton Instruments & Life Support	
Non-Union	January 1, 1987
Union	May 1, 1987
Clifton Precision	January 1, 1987
Data Systems	January 1, 1987
Electronic Devices	January 1, 1987
Guidance and Control Systems Division	January 1, 1987
Kester Solder	January 1, 1987
Laser Systems	January 1, 1987

Litton Computer Services	
Woodland Hills, Mountain View,	January 1, 1987
Reston	
Lexington	August 3, 1987
Poly-Scientific	January 1, 1987
Potentiometer	January 1, 1987
Systems Administration	January 1, 1987
VEAM	January 1, 1987
Winchester Electronics	January 1, 1987
Winchester/USECO	January 1, 1987
Litton Industrial Automation Systems, Inc.	
Automated Guided Vehicles	January 1, 1987
Automated Systems, Hebron, Kentucky	January 1, 1987
Diamond & CBN Products	January 1, 1987
Engineered Systems	January 1, 1987
Industrial Automation Systems	January 1, 1987
Integrated Automation	September 30, 1987
Integrated Systems, Florence, Kentucky	January 1, 1987
Kimball Systems	January 1, 1987
Lamb Technicon	July 1, 1987
Litton Industrial Services, Inc.	January 1, 1987
Lucas Machine	January 1, 1987
New Britain Machine	January 1, 1987
Process Conveyor	January 1, 1987
Software Systems	January 1, 1987
Unit Handling Systems/Conveyor Systems	January 1, 1987

APPENDIX A
LITTON INDUSTRIES INC.
 ASSUMPTIONS TO CALCULATE
 THE PRESENT VALUE OF REMAINING RESTORATION PLAN BENEFITS

ITEM	PAYMENT ASSUMPTIONS	OTHER REQUIRED DATA
Age at Retirement (for accrued benefits)	Current Age	
Mortality (Post-retirement only)	83 GAM (Unisex)	
Present Value Interest Rate	See Note 1	Calculation Date
Retirement Age	Earliest ages to receive unreduced benefits	
Form of Payment	Single Life Annuity/Lump Sum	For retirees with other than Life Annuity: Spouse DOB; J&S %; 10-Year certain data (commencement date)
Interest Rate of Annuity Equivalent	See Note 1	Litton Industries, Inc. Retirement Plan "B", Interest Rate, Qualified Plan J & S Factor Tables, LRP and FSSP Annuity Equivalent factors.

FORMULA	Retirement Account Restoration Plan Benefit plus the Savings Account Restoration Plan Benefit both multiplied by the Present Value Factor
WHERE	Part I Restoration Plan Benefit equals 85% multiplied by the Retirement Account Restricted Amount minus (Retirement Account Annuity Equivalent Factor for age at Retirement multiplied by the Retirement Account Restricted Amount with Interest) Savings Account Annuity Equivalent Factor for age at Retirement multiplied by the Savings Account Restricted Amount with Interest. Present Value Factor equals Deferred to Retirement Age Actuarial Factor Based on the Present Value Interest Rate and the Form of Payment Specified Above.

Note 1: For benefits payable as a lump sum, the interest rate shall be the average yield on non-callable, coupon 10-Year AAA California Municipal Bonds offered to retail investors by Bonds Online (<http://www.bonds-online.com>) as of 1p.m. EST immediately after the completion of the Change of Control. For benefits payable as an annuity, the interest rate shall be the discount rate used for funding purposes by the Litton Industries, Inc. Retirement Plan "B" as of the Change of Control Date.

APPENDIX B — 2005-2007 TRANSITION RULES

This Appendix B provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Affected Employees with benefit commencement dates after January 1, 2005 and before January 1, 2008.

- B.01 Election. Affected Employees scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Affected Employees electing optional forms of benefits under this provision will commence payments on the Affected Employee's selected benefit commencement date.
- B.02 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Affected Employees commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Affected Employee.
- (a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee's date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.
 - (b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:
 - (i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, an Affected Employee must be an elected or appointed officer of Litton and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;
 - (ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and
 - (iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan's procedures for calculating lump sums as of December 31, 2004.
- B.03 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the

later of: (a) the Affected Employee's benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Affected Employee's benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

**APPENDIX C — POST 2007
DISTRIBUTION OF 409A AMOUNTS**

The provisions of this Appendix C shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Sections 6-10 and Appendix B addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

- C.01 Time of Distribution. Subject to the special rules provided in this Appendix C, distributions to an Affected Employee of his vested retirement benefit shall commence as of the Payment Date.
- C.02 Special Rule for Key Employees. If an Affected Employee is a Key Employee and age 55 or older at his Separation from Service, distributions to the Affected Employee shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Affected Employee's death). Amounts otherwise payable to the Affected Employee during such period of delay shall be accumulated and paid on the first day of the seventh month following the Affected Employee's Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).
- C.03 Forms of Distribution. Subject to the special rules provided in this Appendix C, an Affected Employee's vested retirement benefit shall be distributed in the form of a single life annuity. However, an Affected Employee may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:
- (a) 50% joint and survivor annuity
 - (b) 75% joint and survivor annuity
 - (c) 100% joint and survivor annuity.

If an Affected Employee is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if Litton determines that there is no spouse or that the spouse cannot be found.

- C.04 Death. If a married Affected Employee dies before the Payment Date, a death benefit will be payable to the Affected Employee's spouse commencing 90 days after the Affected Employee's death. The death benefit will be a single life annuity in an amount equal to the survivor portion of an Affected Employee's vested retirement benefit based on a 100% joint and survivor annuity determined on the Affected Employee's date of death. This

benefit is also payable to an Affected Employee's domestic partner who is properly registered with Litton in accordance with procedures established by Litton.

C.05 Actuarial Assumptions. Except as provided in Section C.06, all forms of payment under this Appendix C shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

C.06 Accelerated Lump Sum Payouts.

- (a) Post-2007 Separations. Notwithstanding the provisions of this Appendix C, for Affected Employees who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of an Affected Employee's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to \$25,000, such benefit amount shall be distributed to the Affected Employee (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section C.02, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Affected Employee's Separation from Service.
- (b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix C, for Affected Employees who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of an Affected Employee's retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Affected Employee attains age 55, is less than or equal to \$25,000, such benefit amount shall be distributed to the Affected Employee (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Affected Employee attains age 55, but no earlier than January 1, 2008.
- (c) Conflicts of Interest. The present value of an Affected Employee's vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.
- (d) Present Value Calculation. The conversion of an Affected Employee's retirement benefit into a lump sum payment and the present value calculations under this Section C.06 shall be based on the GATT assumptions in effect under the

Northrop Grumman Pension Plan, and will be based on the Affected Employee's immediate benefit if the Affected Employee is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Affected Employee will be eligible to receive at age 55.

- C.07 Effect of Early Taxation. If the Affected Employee's benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Affected Employee.
- C.08 Permitted Delays. Notwithstanding the foregoing, any payment to an Affected Employee under the Plan shall be delayed upon Litton's reasonable anticipation of one or more of the following events:
- (a) Litton's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
 - (b) The making of the payment would violate Federal securities laws or other applicable law;
- provided, that any payment delayed pursuant to this Section C.08 shall be paid in accordance with Code section 409A.
- C.09 Special Tax Distribution. On the date an Affected Employee's retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Affected Employee's portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will reduce the Affected Employee's future benefit payments under the Plan. This reduction shall be calculated using GATT assumptions in effect under the Northrop Grumman Pension Plan and a cost of living adjustment of 4%.

Appendix Regarding Acquisition Of Litton Industries, Inc.

1. **In General.** This Appendix provides special rules concerning the acquisition by Northrop Grumman Corporation of Litton Industries, Inc. (the “Litton Acquisition”).
 - (a) **Purpose.** This Appendix prevents employees of the Northrop Grumman Group from receiving coverage or any credit for service or compensation under this Plan until the Plan and this Appendix are explicitly amended to provide otherwise.
 - (b) **General Override.** The provisions of this Appendix override any contrary provisions elsewhere in the documents governing the Plan, except to the extent prohibited by change-in-control provisions.
 - (c) **Definitions.** For purposes of this Appendix:
 - (1) The term “**Northrop Grumman Group**” generally means Northrop Grumman Corporation and any entity affiliated with it under sections 414(b), (c), (m) or (o) of the Internal Revenue Code.
 - (A) With reference to periods before the Litton Acquisition Date, the term “Northrop Grumman Group” means the entire affiliated group.
 - (B) With reference to periods after the Litton Acquisition Date, the term “Northrop Grumman Group” means the entire affiliated group, but not including Litton Industries, Inc. (and any successor entity) and its subsidiaries.
 - (2) The term “**Litton Acquisition Date**” means the date on which Northrop Grumman Corporation purchased a majority interest in the shares of Litton Industries, Inc. pursuant to the exchange offer filed with the Securities and Exchange Commission on Form S-4.
2. **Acquisition of Litton Industries, Inc.** Effective as of the Litton Acquisition Date, Litton Industries, Inc. was acquired and became a subsidiary of Northrop Grumman Corporation.
3. **Plan Sponsor.** As of the Litton Acquisition Date, Northrop Grumman Corporation adopted and became the sponsor of the Plan.
4. **Corporate Authority.** During the period on and after the Litton Acquisition Date, all Plan references to the Board of Directors of Litton Industries, Inc. will instead be deemed to refer to the Board of Directors of Northrop Grumman Corporation.
5. **Amendment and Termination Authority.** As of the Litton Acquisition Date:

- (a) Northrop Grumman Corporation through its Board of Directors will have sole authority to amend the Plan in its discretion. This authority may be delegated and redelegated.
- (b) Northrop Grumman Corporation will have sole authority to terminate the Plan.
- 6. Coverage. No individuals who were employees of the Northrop Grumman Group immediately before the Litton Acquisition Date may participate in this Plan. No individuals who became employees of the Northrop Grumman Group after the Litton Acquisition Date may participate in this Plan.
- 7. Service With the Northrop Grumman Group. Service with the Northrop Grumman Group before or after the Litton Acquisition Date will not be counted as service for any purpose.
- 8. Compensation. No compensation for services performed for the Northrop Grumman Group will be treated as compensation under this Plan.
- 9. Nonduplication. Employees are not covered by this Plan for any Plan Year or portion of a Plan Year if they are actively participating under a similar plan of the Northrop Grumman Group.
 - (a) Solely for purposes of this section, employees are active participants in another plan if they are generally eligible to make or receive contributions or accrue benefits under the plan, or would be, but for limits in the plan.
 - (b) If an employee could be covered by two plans, both of which include this provision (or a similar provision), the plan administrators will resolve the discrepancy to allow eligibility for one plan or another but not both.
- 10. Termination of Employment. No termination of employment will be deemed to occur as a result of the Litton Acquisition, any corporate reorganization incident to the Litton Acquisition, any later liquidation of Litton Industries, Inc. (or any successor entity) or its subsidiaries or any transfer of assets or liabilities between members of the group consisting of Northrop Grumman Corporation and its subsidiaries.
 - (a) Similarly, there will be no “separation from service” or “severance from service” or event described by a similar term.
 - (b) The provisions of this Section are not intended to modify any service-counting provisions in the Plan, to extend service credits when they would not otherwise be given, nor to override Section 7 above.

Appendix Regarding Investment Matters

1. In General. This Appendix gives responsibility for investment and trust matters (other than trustee duties) in connection with the Plan to an Investment Committee, as described below. The provisions of this Appendix override any contrary provision elsewhere in the documents governing the Plan, unless prohibited by change-in-control provisions or collective bargaining agreements.
2. Investment Fiduciary. The named fiduciary for investment and trust matters (other than trustee duties) is the Investment Committee.
3. The Investment Committee. The Investment Committee shall consist of not less than three persons appointed from time to time by the Board of Directors described in (a) (for purposes of this Appendix, the “Board”) or its delegate.
 - (a) The “Board” for purposes of this Appendix means the Board of Directors with any power to amend the Plan. If a corporation rather than a Board of Directors has the power to amend, then “Board” refers to the Board of Directors of that corporation.
 - (b) The members of the Investment Committee shall elect one of their members as Chairman and shall appoint a Secretary and such other officers as the Investment Committee may deem necessary.
 - (c) The Investment Committee may employ such advisors, including investment advisors, as it may require in carrying out the provisions hereof.
 - (d) Except as otherwise provided in these resolutions, each member of the Investment Committee shall continue in office until the expiration of three years from the date of his or her latest appointment or reappointment to the Committee. A member may be reappointed annually.
 - (e) If at the end of his or her latest three year term, a member is not reappointed, he or she will continue to serve until the date his or her successor is appointed.
 - (f) A member may resign at any time by delivering a written resignation to the Corporate Secretary of Northrop Grumman Corporation and to the Secretary of the Investment Committee.
 - (g) A member may be removed by the Board at any time for any reason.
4. Alternate Members. The Board may from time to time appoint one or more persons as alternate members of the Investment Committee to serve in the absence of members of the Investment Committee, in the manner hereinafter stated, with the same effect as if they were members.
 - (a) The Chairman of the Investment Committee, in his or her discretion, shall designate which of the alternate members shall attend any particular meeting of

the Investment Committee for the purpose of obtaining a quorum or full attendance as the Chairman may elect.

- (b) Each alternate member shall have all the rights, powers and obligations of a member in respect to the business of meetings which he or she so attends.

5. Actions by the Committee. A majority in number of the members of the Investment Committee at the time in office, represented at a meeting by members or alternate members or both, shall constitute a quorum for the transaction of business. Any determination or action of the Investment Committee, including allocations and delegations of responsibilities, may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members then in office.

6. Investment Responsibilities.

- (a) The Investment Committee, in its capacity as named fiduciary for investment matters, may, in its discretion, appoint one or more investment managers who shall have, until terminated by the Investment Committee, the power to manage, acquire and dispose of all or any part of the assets of the Plans allocated to an investment manager by the Investment Committee.
- (b) The Investment Committee shall have the power to hire and terminate trustees.
- (c) The Investment Committee shall periodically review and evaluate the investment performance of each trustee and investment manager and shall advise the Board of such review and evaluation.
- (d) In the event that investment powers are divided among two or more trustees or investment managers, the Investment Committee shall formulate investment policies for such trustees and investment managers to diversify the investments of the Plans so as to minimize the risk of large losses, unless under the circumstances it is prudent not to do so.
- (e) The Investment Committee shall establish a funding policy and method to carry out the Plan's objectives. This procedure is to enable the Plan's fiduciaries to determine the Plan's short- and long-term financial needs and to communicate these requirements to the appropriate persons.

7. Liability and Indemnity.

- (a) No Investment Committee member who has a fiduciary responsibility, or to whom such responsibility is allocated, as provided in these resolutions, by appointment or otherwise, shall be liable for any act or omission or investment policy of any other fiduciary except as provided in Section 405 of Employee Retirement Income Security Act of 1974.

- (b) To the extent permitted by law, Northrop Grumman Corporation shall indemnify and hold harmless members of the Board and the Investment Committee and employees of Northrop Grumman Corporation or its subsidiaries who act for the Investment Committee, as well as former members and former employees, with respect to their investment responsibilities.

Appendix Regarding Plan Administration

1. In General. This Appendix gives responsibility for plan administration (other than investment and trust matters) to an Administrative Committee, as described below. The provisions of this Appendix override any contrary provision elsewhere in the documents governing the Plan, except to the extent prohibited by change-in-control provisions or collective bargaining agreements.
2. Plan Administrator. The general administration of the Plan is the responsibility of the Administrative Committee. The Committee is the plan administrator, and the Committee and each of its members are named fiduciaries. Committee members and all other Plan fiduciaries may serve in more than one fiduciary capacity with respect to the Plan.
3. The Administrative Committee. The Administrative Committee consists of at least three members appointed by the Board of Directors described in (a) (for purposes of this Appendix, the “Board”) or its delegate. The members of the Committee shall serve without compensation for such service, unless otherwise determined by the Board.
 - (a) The “Board” for purposes of this Appendix means the Board of Directors with any power to amend the Plan. If a corporation rather than a Board of Directors has the power to amend, then “Board” refers to the Board of Directors of that corporation.
 - (b) Except as otherwise provided in this Appendix, each member of the Committee shall continue in office until the expiration of 3 years from the date of his or her latest appointment or reappointment to the Committee. A member may be reappointed.
 - (c) If at the end of his or her latest term as a member of the Committee, a member is not reappointed, he or she will continue to serve on the Committee until the date his or her successor is appointed.
 - (d) A member may be removed by the Board at any time and for any reason.
4. Resignation of Committee Members. A member of the Administrative Committee may resign at any time by delivering a written resignation to the Secretary of the corporation and to the Secretary of the Committee. The member’s resignation will be effective as of the date of delivery or, if later, the date specified in the notice of resignation.
5. Conduct of Business. The Administrative Committee shall elect a Chairman from among its members and a Secretary who may or may not be a member. The Committee shall conduct its business according to the provisions of this Appendix and shall hold meetings from time to time in any convenient location.
6. Quorum. A majority of all of the members of the Administrative Committee constitutes a quorum and has power to act for the entire Committee.

7. Voting. All actions taken by the Administrative Committee shall be by majority vote of the members attending a meeting, whether physically present or through remote communications. In addition, actions may be taken by written consent of a majority of the Committee members without a meeting. The agreement or disagreement of any member may be by means of any form of written or oral communications.
8. Records and Reports of the Committee. The Administrative Committee shall keep such written records as it shall deem necessary or proper, which records shall be open to inspection by the Board.
9. Powers of the Committee. The Administrative Committee shall have all powers necessary or incident to its office as plan administrator. Such powers include, but are not limited to, full discretionary authority to:
 - (a) prescribe rules for the operation of the Plan;
 - (b) determine eligibility;
 - (c) comply with the requirements of reporting and disclosure under ERISA and any other applicable law, and to prepare and distribute other communications to participants (and, if applicable, beneficiaries) as a part of Plan operations;
 - (d) prescribe forms to facilitate the operation of the Plan;
 - (e) secure government approvals for the Plan (if applicable);
 - (f) construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions, and to determine the facts underlying any claim for benefits;
 - (g) determine the amount of benefits, and authorize payments from the trust;
 - (h) maintain records;
 - (i) litigate, settle claims, and respond to and comply with court proceedings and orders on the Plan's behalf;
 - (j) enter into contracts on the Plan's behalf;
 - (k) employ counsel and others to render advice about any responsibility that the Committee has under the Plan;
 - (l) exercise all other powers given to the plan administrator under other provisions of the Plan.
10. Allocation or Delegation of Duties and Responsibilities. The Administrative Committee and the Board may:
 - (a) Employ agents to carry out nonfiduciary responsibilities;

- (b) Employ agents to carry out fiduciary responsibilities (other than trustee responsibilities as defined in section 405(c)(3) of ERISA) under the rules of section 11 of this Appendix;
 - (c) Consult with counsel, who may be counsel to Northrop Grumman Corporation;
 - (d) Provide for the allocation of fiduciary responsibilities (other than trustee responsibilities as defined in section 405(c)(3) of ERISA) among their members under the rules of section 11 of this Appendix; and
 - (e) In particular, designate one or more officers as having responsibility for designing and implementing administrative procedures for the Plan.
11. Procedure for the Allocation or Delegation of Fiduciary Duties. The rules of this section of the Appendix are as follows:
- (a) Any allocation or delegation of fiduciary responsibilities must be approved by majority vote of the members of the Administrative Committee, in a resolution approved by the majority.
 - (b) The vote cast by each member of the Administrative Committee for or against the adoption of such resolution must be recorded and made a part of the written record of the proceedings.
 - (c) Any delegation or allocation of fiduciary responsibilities may be changed or ended only under the rules of (a) and (b) of this section of the Appendix.
12. Expenses of the Plan. All reasonable and proper expenses of administration of the Plan including counsel fees will be paid by the employers participating in the Plan.
13. Indemnification. Northrop Grumman Corporation agrees to indemnify and reimburse, to the fullest extent permitted by law, members and former members of the Board; members and former members of the Administrative Committee; employees and former employees of Northrop Grumman Corporation or its subsidiaries who act (or acted) for the Committee, Northrop Grumman Corporation or another employer participating in the Plan for any and all expenses, liabilities, or losses arising out of any act or omission relating to the rendition of services for or the management and administration of the Plan, except in instances of gross misconduct.
14. Extensions of Time Periods. For good cause shown, the Administrative Committee may extend any period set forth in the Plan for taking any action required of any participant or beneficiary to the extent permitted by law.
15. Claims Procedures. No benefits will be paid under the Plan unless a proper claim is submitted to the Administrative Committee. The Committee will meet periodically to review applications for benefits submitted to it. The procedures for claim denials and for seeking review of a denial or partial denial of a claim for benefits are described in this section of the Appendix.

- (a) Notification to claimant of decision. Notice of decision on any claim for benefits shall be furnished to the claimant within 90 days after receipt of the claim by the Committee. A claimant may deem his or her claim to be denied for purposes of further review described below in the event a decision is not furnished to the claimant within such 90-day period.
- (b) Content of notice. Every claimant who is denied a claim for benefits in whole or in part shall receive a written notice setting forth in a manner calculated to be understood by the claimant:
 - (1) The specific reason or reasons for the denial;
 - (2) Specific reference to pertinent Plan provisions on which the denial is based;
 - (3) A description of any additional material or information necessary for the claimant to perfect the claim, and an explanation of why such material or information is necessary; and
 - (4) Appropriate information as to the steps to be taken if the participant or beneficiary wishes to submit his or her claim for review including the time limits set forth in subsections (e) and (f).
- (c) Review procedure. A claimant whose claim has been denied in whole or in part, or his or her duly authorized representative, may:
 - (1) Request a review of the denied claim upon written application to the Committee setting forth:
 - (A) All of the grounds upon which his or her request for review is based and any facts in support of his or her request, and
 - (B) Any issues or comments which the applicant deems pertinent to his or her application; and
 - (2) Review pertinent documents.
- (d) Hearings. In appropriate cases, the Committee may provide for a hearing to be conducted with respect to the review of any claim. In such event, the Committee shall give notice of such hearing to the claimant affected, as well as the procedures for the hearing, such as the length of the hearing, whether witnesses may be presented, whether cross-examination will be allowed, and any other matters which the Committee considers pertinent.
- (e) Time For Seeking Review. A claimant may seek review of a denied claim within 65 days after receipt by the claimant of written notification of the denial or partial denial of the claim. Under extraordinary circumstances, the Plan may extend this time period.

- (f) Decision on review.
 - (1) A decision by the Committee shall be made promptly, and shall not ordinarily be made later than 60 days after the Committee's receipt of a request for review.
 - (2) The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan or other documents governing the Plan on which the decision is based.
 - (3) The decision on review shall be furnished to the claimant within the appropriate time described in paragraph (1) of this subsection. If the decision on review is not furnished within such time, the claim shall be deemed denied on review.
 - (4) The decision of the Committee on any application for benefits shall be final and conclusive upon all persons if supported by substantial evidence in the record.
- (g) Disclosure of Claim Procedures. All Plan participants shall be given a description of the claims procedures, which shall include a description of the time limits set forth in subsections (a), (e) and (f), within a reasonable time after commencing participation in the Plan.
- (h) Delegation. The Committee may delegate its responsibilities under this subsection to a subcommittee, individual, or other person.
- 16. Qualified Domestic Relations Orders. The Administrative Committee shall establish procedures for handling domestic relations orders.
- 17. Amendments. The Administrative Committee may amend the Plan through written resolution to make the changes identified in subsection (a). Any amendments must be made in accordance with the rules of subsections (b), (c) and (d).
 - (a) The Committee may amend the Plan:
 - (1) to the extent necessary to keep the Plan in compliance with law;
 - (2) to make clarifying changes;
 - (3) to correct drafting errors;
 - (4) to otherwise conform the Plan documents to the company's intent;
 - (5) to change the participation and eligibility provisions;

- (6) to change plan definitions, formulas or employee transfer rules;
 - (7) with respect to administrative, procedural and technical matters including benefit calculation procedures, distribution elections and timing, other elections, waivers, notices, and other ministerial matters; and
 - (8) with respect to management of funds.
- (b) Before adopting any Plan amendment, the Committee must obtain:
- (1) a cost analysis of the proposed amendment;
 - (2) a legal opinion that the amendment does not violate ERISA or other applicable legal requirements;
 - (3) a tax opinion that the amendment will not result in the Plan's disqualification;
 - (4) approval of the amendment from the Corporate Vice President and Chief Financial Officer of Northrop Grumman Corporation; and
 - (5) approval of the amendment from the Corporate Vice President and Chief Human Resources and Administrative Officer of Northrop Grumman Corporation.
- (c) The Committee must refer to the Board for approval any amendments that:
- (1) will result in an increase in costs on an annual basis in excess of \$5,000,000; or
 - (2) will result in a decrease in costs on an annual basis in excess of \$5,000,000.
- (d) The Committee's amendment authority may not be delegated.
- (e) Nothing in this section 17 of the Appendix is intended to modify the amendment authority of any company, board or directors, officer or other committee.

NORTHROP GRUMMAN CORPORATION

EXHIBIT 21

NORTHROP GRUMMAN CORPORATION SUBSIDIARIES

Address for all subsidiaries is:
c/o NORTHROP GRUMMAN CORPORATION
Office of the Secretary
1840 Century Park East
Los Angeles, California 90067

Name of Subsidiary	Jurisdiction of Incorporation	Ownership Percentage
Northrop Grumman Systems Corporation (formerly Northrop Grumman Corporation)	Delaware	100%
Newport News Shipbuilding and Dry Dock Company	Virginia	100%
Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.)	Ohio	100%

The company has additional operating subsidiaries, which considered in the aggregate or as a single subsidiary, do not constitute a significant subsidiary.

All above listed subsidiaries have been consolidated in the company's consolidated financial statements.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 033-59815, 033-59853, 333-03959, 333-68003, 333-67266, 333-61936, 333-100179, 333-107734, 333-121104, 333-125120 and 333-127317 on Form S-8; Registration Statement Nos. 333-78251, 333-85633 and 333-77056 on Form S-3; and Registration Statement Nos. 333-40862, 333-54800 and 333-83672 on Form S-4 of our reports dated February 20, 2008, relating to the financial statements and financial statement schedule (which report expresses an unqualified opinion and includes an explanatory paragraph regarding Northrop Grumman Corporation's adoption of new accounting standards) of Northrop Grumman Corporation and the effectiveness of Northrop Grumman Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Northrop Grumman Corporation for the year ended December 31, 2007.

/s/ Deloitte & Touche LLP
Los Angeles, California
February 20, 2008

POWER OF ATTORNEY IN CONNECTION WITH THE 2007 ANNUAL REPORT ON FORM 10-K

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned directors and officers of NORTHROP GRUMMAN CORPORATION, a Delaware corporation, does hereby appoint W. BURKS TERRY and STEPHEN D. YSLAS, and each of them as his or her agents and attorneys-in-fact (the "Agents"), in his or her respective name and in the capacity or capacities indicated below, to execute and/or file the Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the "Report") under the Securities Exchange Act of 1934, as amended (the "Act"), and any one or more amendments to any part of the Report that may be required to be filed under the Act (including the financial statements, schedules and all exhibits and other documents filed therewith or constituting a part thereof) and to any part or all of any amendment(s) to the Report, whether executed and filed by the undersigned or by any of the Agents. Further, each of the undersigned does hereby authorize and direct the Agents to take any and all actions and execute and file any and all documents with the Securities and Exchange Commission (the "Commission"), which they deem necessary or advisable to comply with the Act and the rules and regulations or orders of the Commission adopted or issued pursuant thereto, to the end that the Report shall be properly filed under the Act. Finally, each of the undersigned does hereby ratify each and every act and documents which the Agents may take, execute or file pursuant thereto with the same force and effect as though such action had been taken or such document had been executed or filed by the undersigned, respectively.

This Power of Attorney shall remain in full force and effect until revoked or superseded by written notice filed with the Commission.

IN WITNESS THEREOF, each of the undersigned has subscribed these presents this 20th day of February 2008.

/s/ Ronald D. Sugar Ronald D. Sugar	Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ Lewis W. Coleman Lewis W. Coleman	Director
/s/ Vic Fazio Vic Fazio	Director
/s/ Donald E. Felsing Donald E. Felsing	Director
/s/ Stephen E. Frank Stephen E. Frank	Director
/s/ Philip Frost Phillip Frost	Director
/s/ Charles R. Larson Charles R. Larson	Director
/s/ Richard B. Myers Richard B. Myers	Director

/s/ Philip A. Odeen	Director
Philip A. Odeen	
/s/ Aulana L. Peters	Director
Aulana L. Peters	
/s/ Kevin W. Sharer	Director
Kevin W. Sharer	
/s/ James F. Palmer	Corporate Vice President and Chief Financial Officer (Principal Financial Officer)
James F. Palmer	
/s/ Kenneth N. Heintz	Corporate Vice President, Controller and Chief Accounting Officer
Kenneth N. Heintz	(Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-15(e)/15d-15(e) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald D. Sugar, certify that:

1. I have reviewed this report on Form 10-K of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the company’s most recent fiscal quarter (the company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: February 20, 2008

/s/ Ronald D. Sugar

Ronald D. Sugar
Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULE 13a-15(e)/15d-15(e) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James F. Palmer, certify that:

1. I have reviewed this report on Form 10-K of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the company’s most recent fiscal quarter (the company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: February 20, 2008

/s/ James F. Palmer

James F. Palmer
Corporate Vice President and Chief Financial
Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Northrop Grumman Corporation (the “company”) on Form 10-K for the year ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ronald D. Sugar, Chairman and Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-15(e)/15d-15(e) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: February 20, 2008

/s/ Ronald D. Sugar

Ronald D. Sugar
Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Northrop Grumman Corporation (the “company”) on Form 10-K for the year ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James F. Palmer, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-15(e)/15d-15(e) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: February 20, 2008

/s/ **James F. Palmer**

James F. Palmer
Corporate Vice President and Chief Financial
Officer