

NORTHROP GRUMMAN

DEFINING THE FUTURE

Northrop Grumman Corporation Q1 2007

April 24, 2007

Safe Harbor Statement

Certain statements and assumptions in these materials contain or are based on “forward-looking” information. Such “forward-looking” information includes, and is subject to, numerous assumptions, risks and uncertainties, many of which are outside Northrop Grumman’s control. The Safe Harbor Note to today’s press release and Northrop Grumman’s filings from time to time with the Securities and Exchange Commission including, without limitation, reports on Form 10K and Form 10Q, describe such economic, political and technological risk factors and other uncertainties.

CEO Highlights

- **Quarter highlights**
- **New contract awards**
- **Opportunities**
- **Guidance**

COO Highlights

- **Focus on performance**
- **Operations update**
- **Performance actions**

Sales

	(\$ Millions)			(\$ Billions)
	Q1 07	Q1 06	Change	2007E
Sales	7,344	7,093	4%	31 – 32
Information & Services	2,920	2,652	10%	12.2 – 12.6
Aerospace	2,035	2,149	(5%)	8.1 – 8.3
Electronics	1,591	1,504	6%	6.8 – 7.0
Ships	1,156	1,133	2%	5.5 – 5.7

Segment Operating Margin Rate

	<u>% of Sales</u>		Change	2007E
	Q1 07	Q1 06		
Information & Services	8.0	8.6	(60 bps)	~8
Aerospace	10.8	9.6	120 bps	~9
Electronics	11.4	11.7	(30 bps)	High-11
Ships	6.8	6.0	80 bps	Mid-8
Total Segment OM Rate*	9.3	9.2	10 bps	Low-9

*Non-GAAP measure – See Schedule 2 of press release for reconciliation

EPS—Key Components

	<u>Q1 2007</u>	<u>2007E</u>
Total Segment OM¹	9.3%	Low 9%
Unallocated Expenses	(\$32M)	(~\$90M)
Net Pension	\$33M	~\$70M
Other, net	(\$9M)	
Operating Margin	9.3%	Low 9%
Net Interest Expense	(\$82M)	(~\$285M)
Effective Tax Rate	34.4%	33-34%
EPS	\$1.10	\$4.80- 5.05

¹ Non-GAAP Metric - see reconciliation and definition on pages 11 & 12

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Cash from Operations: Q1 2007 & Q1 2006

\$ Millions	Q1 2007	Q1 2006
Net Income	387	358
Depreciation & Amortization	169	177
Non-Cash Pension/OPEB	47	119
Change in Working Capital	(384)	(774)
Deferred and Payable Income Taxes	173	101
All Other	8	(14)
Cash Used in Discontinued Operations		(82)
Cash from Operations	400	(115)
Capital Spending	(158)	(173)
Outsourcing Contract Costs	(30)	
Free Cash Flow¹	212	(288)

¹ Non-GAAP Metric - see definition on page 12

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Cash—Key Components

	<u>Q1 2007(\$M)</u>	<u>2007E (\$M)</u>
Depreciation & Amortization	169	~710
Non-Cash Pension/OPEB	47	~150
Change in Working Capital	(384)	Neutral - Improving
Cash Taxes	22	~(1,000)
Stock & Performance-based Compensation	38	~220
Cash from Operations	400	2,500 – 2,800
Capital Expenditures	158	700 - 750
Outsourcing Contract Costs	30	100 - 140
Free Cash Flow ¹	212	1,600 – 2,000

¹ Non-GAAP Metric - see definition on page 12

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2007E Outlook

- **\$31 – \$32 billion in sales**
- **Continued total operating margin expansion**
- **\$4.80 – \$5.05 earnings per share from continuing operations**
- **Cash from operations between \$2.5 and \$2.8 billion**

*Growth, Performance &
Value-Creating Cash Deployment*

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Non-GAAP Measure Reconciliation

<u>\$ in Millions</u>	<u>Q1 2007</u>
Sales	\$7,344
Segment Operating Margin Rate*	9.3%
Operating Margin Rate	9.3%
Reconciliation:	
Segment Operating Margin*	\$683
Unallocated Expenses	(32)
Net Pension Adjustment	33
Reversal of Royalty Income	(3)
Operating Margin as Reported	<u><u>\$681</u></u>

*Non-GAAP Measure - see definition on page 12

Non-GAAP Measures Definitions

Non-GAAP Financial Measures Disclosure

- Today's presentation and the accompanying web charts contain non-GAAP (Generally Accepted Accounting Principles) financial measures, as defined by SEC Regulation G and indicated by an asterisk *.
- While we believe that these non-GAAP financial measures may be useful in evaluating Northrop Grumman, this information should be considered as supplemental in nature and not as a substitute for financial information prepared in accordance with GAAP.
- Definitions are provided for the non-GAAP measures used in our presentation. Other companies may define the measures differently.

Segment Operating Margin

- Segment Operating Margin is the total earnings from each of our seven segments including royalty income and allocated pension expense recognized under government Cost Accounting Standards (CAS).
- Reconciling items to total company Operating Margin are:
 - Unallocated expenses, which include unallocated corporate, legal, environmental, state income tax, and other retiree benefits expenses.
 - Net pension expense, which includes GAAP pension expense less the CAS pension expense included in Segment Operating Margin.
 - Royalty Income reversed under the caption "Reversal of royalty income included above" and reported under the caption "Other, net."
- Management uses segment operating margin as an internal measure of financial performance of our individual business segments. This measure also may be helpful to investors in understanding period-over-period operating results separate from items that may be influenced by external market fluctuations.

Free Cash Flow

- Free Cash Flow (FCF) is the cash from operations less capital expenditures and outsourcing contract costs.

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