



News Release

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Northrop Grumman Reports Second Quarter 2022 Financial Results

- Awards of \$13.0 Billion, Book to Bill of 1.48
- Backlog Increases 6% to \$80 Billion During the Second Quarter
- Sales of \$8.8 Billion
- Operating Margin Rate of 10.8 Percent, Segment Operating Margin Rate¹ of 12.2 Percent
- Diluted Earnings per Share of \$6.06
- 2022 Company-Level Guidance Unchanged for Sales, EPS, and Transaction-adjusted FCF

FALLS CHURCH, Va. – July 28, 2022 – Northrop Grumman Corporation (NYSE: NOC) reported second quarter 2022 sales of \$8.8 billion, as compared with \$9.2 billion in the second quarter of 2021. Lower sales reflect continued headwinds from the macroeconomic environment, including a tight labor market and extended material lead times, which are affecting the timing of sales. Second quarter 2022 net earnings totaled \$946 million, or \$6.06 per diluted share, as compared with \$1.0 billion, or \$6.42 per diluted share, in the second quarter of 2021. Second quarter 2022 net earnings reflect solid segment margins and lower sales as well as a \$51 million, or \$0.33 per diluted share, reduction for negative returns on marketable securities related to our non-qualified benefit plans and other non-operating assets.

“Northrop Grumman's strategy to provide differentiated solutions in our customers' highest priority areas is delivering results. In the second quarter, we had outstanding bookings and backlog growth, and strong segment operating margins,” said Kathy Warden, chair, chief executive officer and president. “Demand for Northrop Grumman products and our operational performance remain strong. We are affirming our full year guidance, as we see the tight labor market, that has impacted our growth in the first half, beginning to ease in the second half of the year.”

¹ Non-GAAP measure - see definitions at the end of this earnings release.

Transaction-adjusted Net Earnings and Transaction-adjusted EPS

Year to date 2021 net earnings benefited from a gain on the sale of the company's IT services business. Excluding the gain on sale of the business, associated federal and state income tax expenses, transaction costs, as well as the make-whole premium for early debt redemption from year to date 2021 net earnings, year to date 2022 transaction-adjusted net earnings¹ decreased 10 percent and transaction-adjusted EPS¹ decreased 6 percent. Net earnings during 2022 and the second quarter of 2021 were not impacted by the sale of the company's IT services business and do not include any transaction-related adjustments. Transaction-adjusted net earnings¹ and transaction-adjusted EPS¹ are measures the company uses to compare performance to prior periods and for EPS guidance.

The table below reconciles net earnings and diluted EPS to transaction-adjusted net earnings¹ and transaction-adjusted EPS¹:

<i>\$ in millions, except per share amounts</i>	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Transaction-adjusted net earnings				
Net earnings	\$ 946	\$ 1,037	\$ 1,901	\$ 3,232
Gain on sale of business	—	—	—	(1,980)
State tax impact ²	—	—	—	160
Transaction costs	—	—	—	32
Make-whole premium	—	—	—	54
Federal tax impact of items above ³	—	—	—	614
Transaction adjustment, net of tax	\$ —	\$ —	\$ —	\$ (1,120)
Transaction-adjusted net earnings ¹	\$ 946	\$ 1,037	\$ 1,901	\$ 2,112
Transaction-adjusted per share data				
Diluted EPS	\$ 6.06	\$ 6.42	\$ 12.16	\$ 19.89
Gain on sale of business per share	—	—	—	(12.18)
State tax impact per share ²	—	—	—	0.98
Transaction costs per share	—	—	—	0.20
Make-whole premium per share	—	—	—	0.33
Federal tax impact of line items above per share ³	—	—	—	3.78
Transaction adjustment per share, net of tax	\$ —	\$ —	\$ —	\$ (6.89)
Transaction-adjusted EPS ¹	\$ 6.06	\$ 6.42	\$ 12.16	\$ 13.00

¹ Non-GAAP measure — see definitions at the end of this earnings release.

² The state tax impact includes \$62 million of incremental tax expense related to \$1.2 billion of nondeductible goodwill in the divested business.

³ The federal tax impact was calculated by applying the 21 percent federal statutory rate to the adjustment items and also includes \$250 million of incremental tax expense related to \$1.2 billion of nondeductible goodwill in the divested business.

¹ Non-GAAP measure - see definitions at the end of this earnings release.

Consolidated Operating Results and Cash Flows

<i>\$ in millions, except per share amounts</i>	Three Months Ended June 30			Six Months Ended June 30		
	2022	2021	Change	2022	2021	Change
Sales						
Aeronautics Systems	\$ 2,534	\$ 2,913	(13%)	\$ 5,237	\$ 5,903	(11%)
Defense Systems	1,294	1,427	(9%)	2,577	2,989	(14%)
Mission Systems	2,516	2,588	(3%)	5,013	5,177	(3%)
Space Systems	2,979	2,748	8%	5,834	5,269	11%
Intersegment eliminations	(522)	(525)		(1,063)	(1,030)	
Total sales	8,801	9,151	(4%)	17,598	18,308	(4%)
Operating income						
Aeronautics Systems	258	300	(14%)	565	608	(7%)
Defense Systems	168	177	(5%)	323	354	(9%)
Mission Systems	413	408	1%	798	805	(1%)
Space Systems	310	301	3%	571	577	(1%)
Intersegment eliminations	(76)	(69)		(147)	(132)	
Segment operating income ¹	1,073	1,117	(4%)	2,110	2,212	(5%)
Segment operating margin rate ¹	12.2%	12.2%	— bps	12.0%	12.1%	(10) bps
FAS/CAS operating adjustment	(51)	18	(383%)	(97)	37	(362%)
Unallocated corporate (expense) income:						
Gain on sale of business	—	—	—%	—	1,980	NM
IT services divestiture – unallowable state taxes and transaction costs	—	—	—%	—	(192)	NM
Intangible asset amortization and PP&E step-up depreciation	(61)	(64)	(5%)	(121)	(129)	(6%)
Other unallocated corporate income (expense)	(7)	(27)	(74%)	(41)	(42)	(2%)
Unallocated corporate (expense) income	(68)	(91)	(25%)	(162)	1,617	NM
Total operating income	\$ 954	\$ 1,044	(9%)	\$ 1,851	\$ 3,866	(52%)
Operating margin rate	10.8%	11.4%	(60) bps	10.5%	21.1%	(1,060) bps
Interest expense	(131)	(136)	(4%)	(264)	(291)	(9%)
Non-operating FAS pension benefit	377	367	3%	753	734	3%
Other, net	(50)	27	(285%)	(46)	9	(611%)
Earnings before income taxes	1,150	1,302	(12%)	2,294	4,318	(47%)
Federal and foreign income tax expense	204	265	(23%)	393	1,086	(64%)
Effective income tax rate	17.7%	20.4%	(270) bps	17.1%	25.2%	(810) bps
Net earnings	\$ 946	\$ 1,037	(9%)	\$ 1,901	\$ 3,232	(41%)
Diluted earnings per share	6.06	6.42	(6%)	12.16	19.89	(39%)
Weighted-average diluted shares outstanding, in millions	156.0	161.5	(3%)	156.3	162.5	(4%)

¹ Non-GAAP measure - see definitions at the end of this earnings release.

Net cash (used in) provided by operating activities	\$ (197)	\$ 1,028	(119%)	\$ (685)	\$ 962	(171%)
Capital expenditures	(263)	(230)	14%	(507)	(435)	17%
Proceeds from sale of equipment to a customer	—	56	NM	—	56	NM
Adjusted free cash flow¹	\$ (460)	\$ 854	(154%)	\$(1,192)	\$ 583	(304%)
IT services divestiture transaction costs	—	—	—%	—	39	NM
IT services divestiture federal and state taxes	—	390	NM	—	390	NM
Transaction-adjusted free cash flow¹	\$ (460)	\$ 1,244	(137%)	\$(1,192)	\$ 1,012	(218%)

Sales

Second quarter 2022 sales decreased \$350 million due to lower sales at Aeronautics Systems, Defense Systems and Mission Systems, partially offset by 8 percent growth at Space Systems. Second quarter 2022 sales reflect continued headwinds from the macroeconomic environment, including a tight labor market and extended material lead times, which are affecting the timing of sales.

Operating Income and Margin Rate

Second quarter 2022 operating income decreased \$90 million, or 9 percent, primarily due to a \$69 million reduction in the FAS/CAS operating adjustment and lower sales. Second quarter 2022 operating margin rate declined to 10.8 percent due to the lower FAS/CAS operating adjustment, partially offset by lower unallocated corporate expense.

Segment Operating Income and Margin Rate

Second quarter 2022 segment operating income decreased \$44 million, or 4 percent due to lower sales. Second quarter 2022 segment operating margin rate was comparable to the prior year period and reflects higher operating margin rates at Mission Systems and Defense Systems, offset by lower operating margin rates at Space Systems and Aeronautics Systems.

Federal and Foreign Income Taxes

The second quarter 2022 ETR decreased to 17.7 percent from 20.4 percent in the prior year period. The second quarter 2021 ETR was impacted by a change made in tax revenue recognition on certain long term contracts, which increased taxable income in years prior to the 2017 Tax Cuts and Jobs Act at a rate above the current statutory rate.

Cash Flows

Second quarter 2022 net cash used in operating activities was \$197 million compared to net cash provided by operating activities of \$1.0 billion in the prior year period. This change reflects increases in trade working capital due, in part, to unexpected delays in the timing of customer payments near the end of the quarter, which pushed certain cash receipts into the early part of the third quarter. In the second quarter of 2022, the company made approximately \$450 million of federal tax payments related to Section 174 of the Internal Revenue Code. Beginning in 2022, Section 174 requires research and development expenditures to be amortized over five years; however, this provision is being considered for deferral by Congress. In the second quarter of 2021, the company made \$390 million of tax payments related to the IT services divestiture.

Second quarter 2022 transaction-adjusted free cash flow¹ decreased \$1.7 billion principally due to the decrease in net cash from operating activities described above.

¹ Non-GAAP measure - see definitions at the end of this earnings release.

Awards and Backlog

Second quarter and year to date 2022 net awards totaled \$13.0 billion and \$21.5 billion, respectively, and backlog totaled \$80.0 billion. Significant second quarter new awards include \$3.5 billion for F-35 at Aeronautics Systems, largely related to Lots 15-17, \$2.2 billion for restricted programs (at Aeronautics Systems, Space Systems and Mission Systems), \$2.1 billion for GEM63 solid rocket boosters, largely related to Amazon's Project Kuiper, and \$0.5 billion for Triton.

Segment Operating Results

AERONAUTICS SYSTEMS	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
<i>\$ in millions</i>	2022	2021	Change	2022	2021	Change
Sales	\$ 2,534	\$ 2,913	(13)%	\$ 5,237	\$ 5,903	(11)%
Operating income	258	300	(14)%	565	608	(7)%
Operating margin rate	10.2 %	10.3 %		10.8 %	10.3 %	

Sales

Second quarter 2022 sales decreased \$379 million, or 13 percent, due to lower volume in both Manned Aircraft and Autonomous Systems, including restricted programs, F-35, Global Hawk, and the NATO Alliance Ground Surveillance (AGS) program, as Full System Handover occurred early in the second quarter of 2022.

Operating Income

Second quarter 2022 operating income decreased \$42 million, or 14 percent, primarily due to lower sales. Operating margin rate decreased to 10.2 percent from 10.3 percent primarily due to lower net EAC adjustments, principally associated with restricted work and close-out of an international program, partially offset by a \$38 million gain on a property sale.

DEFENSE SYSTEMS	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
<i>\$ in millions</i>	2022	2021	Change	2022	2021	Change
Sales	\$ 1,294	\$ 1,427	(9)%	\$ 2,577	\$ 2,989	(14)%
Operating income	168	177	(5)%	323	354	(9)%
Operating margin rate	13.0 %	12.4 %		12.5 %	11.8 %	

Sales

Second quarter 2022 sales decreased \$133 million, or 9 percent, primarily due to completion of a Joint Services support program, lower scope on an international training program, and wind down of the UKAWACS and JSTARS programs.

Operating Income

Second quarter 2022 operating income decreased \$9 million, or 5 percent, due to lower sales, partially offset by a higher operating margin rate. Operating margin rate increased to 13.0 percent from 12.4 percent primarily due to improved performance in Battle Management and Missile Systems.

¹ Non-GAAP measure - see definitions at the end of this earnings release.

MISSION SYSTEMS

<i>\$ in millions</i>	Three Months Ended June 30		%	Six Months Ended June 30		%
	2022	2021		Change	2022	
Sales	\$ 2,516	\$ 2,588	(3)%	\$ 5,013	\$ 5,177	(3)%
Operating income	413	408	1 %	798	805	(1)%
Operating margin rate	16.4 %	15.8 %		15.9 %	15.5 %	

Sales

Second quarter 2022 sales decreased \$72 million, or 3 percent, primarily due to lower volume on Navigation, Targeting and Survivability programs, the Joint Counter Radio-Controlled Improvised Explosive Device Electronic Warfare (JCREW) program, and airborne radar programs. These decreases were partially offset by an increase in restricted sales in the Networked Information Solutions business area and higher volume on Ground/Air Task-Oriented Radar (G/ATOR) and Surface Electronic Warfare Improvement Program (SEWIP).

Operating Income

Second quarter 2022 operating income increased \$5 million, or 1 percent, due to a higher operating margin rate. Operating margin rate increased to 16.4 percent from 15.8 percent principally due to a \$33 million benefit recognized in connection with a contract-related legal matter, partially offset by lower net EAC adjustments at Maritime/Land Systems and Sensors.

SPACE SYSTEMS

<i>\$ in millions</i>	Three Months Ended June 30		%	Six Months Ended June 30		%
	2022	2021		Change	2022	
Sales	\$ 2,979	\$ 2,748	8 %	\$ 5,834	\$ 5,269	11 %
Operating income	310	301	3 %	571	577	(1)%
Operating margin rate	10.4 %	11.0 %		9.8 %	11.0 %	

Sales

Second quarter 2022 sales increased \$231 million, or 8 percent, primarily due to higher sales in the Launch & Strategic Missiles business area due to ramp-up on development programs, including a \$123 million increase on the Next Generation Interceptor (NGI) program and a \$95 million increase on the Ground Based Strategic Deterrent (GBSD) program. Sales in the Space business area were comparable with the prior year period and reflect higher volume on restricted programs and the Space Development Agency (SDA) Tranche 1 Transport Layer (T1TL) program, partially offset by lower volume on the James Webb Space Telescope after its successful launch in December 2021.

Operating Income

Second quarter 2022 operating income increased \$9 million, or 3 percent, due to higher sales, partially offset by a lower operating margin rate. Operating margin rate decreased to 10.4 percent from 11.0 percent primarily due to higher volume on early-stage development programs, such as NGI and GBSD.

¹ Non-GAAP measure - see definitions at the end of this earnings release.

Guidance

Financial guidance, as well as outlook, trends, expectations and other forward looking statements provided by the company for 2022 and beyond, reflect the company's judgment based on the information available to the company at the time of this release. The company's 2022 financial guidance and outlook beyond 2022 reflect what the company currently anticipates will be the impacts on the company from the global COVID-19 pandemic (including related effects on the broader economic environment), based on what the company understands today and what the company has experienced to date. However, the company cannot predict how the pandemic will evolve or what impact it will continue to have, including the potential impact of another variant of COVID-19, another surge of cases, or a prolonged recovery period, and there can be no assurance that the company's underlying assumptions are correct. As discussed more fully in the company's Form 10-K and in the recent Form 10-Q, and among other factors, disruptions to the company's operations or those of its customers, supply chain and logistics challenges, effects on the labor market and our workforce, including labor shortages, vaccine mandates and other evolving government requirements, additional liabilities, disruptions in the financial markets and inflation, impacts on programs or payments, and changes in our customers' priorities, resources and requirements, relating to the global COVID-19 pandemic, today and as it may evolve, can be expected to affect the company's ability to achieve guidance or meet expectations. In addition, global events, such as the conflict in Ukraine, inflation, and the government budget, appropriations and procurement priorities and processes can impact our customers, programs and financial results. These events, priorities and processes, including the timing of appropriations and the occurrence of an extended continuing resolution and/or prolonged government shutdown, as well as a breach of the debt ceiling, extraordinary measures taken in connection with a breach, changes in support for our programs, or changes in federal corporate tax or securities laws and regulations, can impact the company's ability to achieve guidance or meet expectations.

2022 Guidance		
<i>(\$ in millions, except per share amounts)</i>	As of 4/28/2022	As of 7/28/2022
Sales	~36,200 — ~36,600	36,200 — 36,600
Segment operating margin %¹	11.7 — 11.9	11.7 — 11.9
Total net FAS/CAS pension adjustment ²	~1,310	~1,310
Unallocated corporate expense		
Intangible asset amortization & PP&E step-up depreciation	~240	~240
Other items	~270	~210
Operating margin %	9.8 — 10.0	9.8 — 10.0
Interest expense	~540	~530
Effective tax rate %	~17.0	~17.0
Weighted average diluted shares outstanding	~155	~155
Transaction-adjusted EPS^{1,3}	24.50 — 25.10	24.50 — 25.10
Transaction-adjusted free cash flow¹ assuming section 174 tax deferral	~2,500 — ~2,800	2,500 — 2,800
Transaction-adjusted free cash flow¹ based on current tax law	~1,500 — ~1,800	1,500 — 1,800

2022 Sector Guidance				
	As of 4/28/2022		As of 7/28/2022	
	Sales (\$B)	OM Rate %	Sales (\$B)	OM Rate %
Aeronautics Systems	Mid to High \$10	~10%	Mid to High \$10	Low 10%
Defense Systems	Mid to High \$5	High 11%	Mid \$5	~12%
Mission Systems	Mid \$10	Low 15%	Mid \$10	Mid 15%
Space Systems	Mid to High \$11	Low 10%	High \$11	~10%
Eliminations	Low (\$2)	Mid to High 12%	Low (\$2)	~13%

1 Non-GAAP measure - see definitions at the end of this earnings release.

2 Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes \$170 million of expected CAS pension expense and \$370 million of FAS pension service expense, both of which are reflected in operating income. Non-operating FAS pension benefit of \$1,510 million is reflected below operating income, and the total net FAS/CAS pension adjustment is \$1,310 million.

3 As usual, financial guidance does not include any future gains or losses associated with changes in valuations of the company's marketable securities related to our non-qualified benefit plans and other non-operating assets.

About Northrop Grumman

Northrop Grumman will webcast its earnings conference call at 9:00 a.m. Eastern Time on July 28, 2022. A live audio broadcast of the conference call will be available on the investor relations page of the company's website at www.northropgrumman.com.

Northrop Grumman is a technology company, focused on global security and human discovery. Our pioneering solutions equip our customers with capabilities they need to connect, advance and protect the U.S. and its allies. Driven by a shared purpose to solve our customers' toughest problems, our 90,000 employees define possible every day.

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Forward-Looking Statements

This earnings release and the information we are incorporating by reference, and statements to be made on the earnings conference call, contain or may contain statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "will," "expect," "anticipate," "intend," "may," "could," "should," "plan," "project," "forecast," "believe," "estimate," "guidance," "outlook," "trends," "goals" and similar expressions generally identify these forward-looking statements.

Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and/or cash flows. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, those identified and discussed more fully in the section entitled "Risk Factors" in the Form 10-K for the year ended December 31, 2021 and from time to time in our other filings with the Securities and Exchange Commission (SEC). These risks and uncertainties are amplified by the global COVID-19 pandemic and the related effects on the broader economic environment, which have caused and will continue to cause significant challenges, instability and uncertainty. They include:

Industry and Economic Risks

- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations for our programs, and U.S. government funding and program support more broadly, including related to hostilities and other global events
- the use of estimates when accounting for our contracts and the effect of contract cost growth and/or changes in estimated contract revenues and costs, including as a result of labor shortages and/or inflationary pressures
- increased competition within our markets and bid protests

Legal and Regulatory Risks

- investigations, claims, disputes, enforcement actions, litigation and/or other legal proceedings

- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate and the impact on our reputation and our ability to do business
- changes in procurement and other laws, SEC and other regulations, contract terms and practices applicable to our industry, findings by the U.S. government as to our compliance with such requirements, and changes in our customers' business practices globally
- environmental matters, including unforeseen environmental costs and government and third party claims
- unanticipated changes in our tax provisions or exposure to additional tax liabilities

Business and Operational Risks

- impacts of the COVID-19 pandemic (or future health epidemics, pandemics or similar outbreaks), including potential new variants, case surges or prolonged recovery periods, their effects on the broader environment, and varying related government requirements, on: our business, our ability to maintain a qualified and productive workforce, work slowdowns or stoppages, labor shortages, supply chain and logistics challenges, costs we cannot recover and liabilities for which we are not compensated, performance challenges (including cost and schedule), government funding, changes in government acquisition priorities and processes, government payment rules and practices, insurance challenges, and potential impacts on access to capital, the markets and the fair value of our assets
- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners, and changes in related regulations
- our ability to attract and retain a qualified workforce with the required security clearances and requisite skills to meet our performance obligations
- the performance and viability of our subcontractors and suppliers and the availability and pricing of raw materials and components
- climate change, its impacts on our company, our operations and our stakeholders (employees, suppliers, customers, shareholders and regulators), and changes in laws, regulations and priorities related to greenhouse gas emissions and other climate change related concerns
- our exposure to additional risks as a result of our international business, including risks related to geopolitical and economic factors, suppliers, laws and regulations
- our ability to meet performance obligations under our contracts, including obligations that require innovative design capabilities, are technologically complex, require certain manufacturing expertise or are dependent on factors not wholly within our control
- natural disasters
- products and services we provide related to hazardous and high risk operations, including the production and use of such products, which subject us to various environmental, regulatory, financial, reputational and other risks
- our ability appropriately to exploit and/or protect intellectual property rights
- our ability to develop new products and technologies and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers

General and Other Risk Factors

- the adequacy and availability of our insurance coverage, customer indemnifications or other liability protections
- the future investment performance of plan assets, gains or losses associated with changes in valuation of marketable securities related to our non-qualified benefit plans, changes in actuarial assumptions associated with our pension and other postretirement benefit plans and legislative or other regulatory actions impacting our pension and postretirement benefit obligations
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets

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

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

SCHEDULE 1

NORTHROP GRUMMAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Unaudited)

<i>\$ in millions, except per share amounts</i>	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Sales				
Product	\$ 6,779	\$ 7,193	\$ 13,620	\$ 14,215
Service	2,022	1,958	3,978	4,093
Total sales	8,801	9,151	17,598	18,308
Operating costs and expenses				
Product	5,281	5,620	10,661	11,310
Service	1,561	1,488	3,105	3,215
General and administrative expenses	1,005	999	1,981	1,897
Total operating costs and expenses	7,847	8,107	15,747	16,422
Gain on sale of business	—	—	—	1,980
Operating income	954	1,044	1,851	3,866
Other (expense) income				
Interest expense	(131)	(136)	(264)	(291)
Non-operating FAS pension benefit	377	367	753	734
Other, net	(50)	27	(46)	9
Earnings before income taxes	1,150	1,302	2,294	4,318
Federal and foreign income tax expense	204	265	393	1,086
Net earnings	\$ 946	\$ 1,037	\$ 1,901	\$ 3,232
Basic earnings per share	\$ 6.09	\$ 6.44	\$ 12.21	\$ 19.95
Weighted-average common shares outstanding, in millions	155.4	161.0	155.7	162.0
Diluted earnings per share	\$ 6.06	\$ 6.42	\$ 12.16	\$ 19.89
Weighted-average diluted shares outstanding, in millions	156.0	161.5	156.3	162.5
Net earnings (from above)	\$ 946	\$ 1,037	\$ 1,901	\$ 3,232
Other comprehensive loss, net of tax				
Change in unamortized prior service credit	—	(2)	(1)	(4)
Change in cumulative translation adjustment and other, net	(13)	1	(15)	—
Other comprehensive loss, net of tax	(13)	(1)	(16)	(4)
Comprehensive income	\$ 933	\$ 1,036	\$ 1,885	\$ 3,228

SCHEDULE 2

NORTHROP GRUMMAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

<i>\$ in millions, except par value</i>	June 30, 2022	December 31, 2021
Assets		
Cash and cash equivalents	\$ 1,169	\$ 3,530
Accounts receivable, net	2,387	1,467
Unbilled receivables, net	6,211	5,492
Inventoried costs, net	909	811
Prepaid expenses and other current assets	961	1,126
Total current assets	11,637	12,426
Property, plant and equipment, net of accumulated depreciation of \$7,099 for 2022 and \$6,819 for 2021	8,125	7,894
Operating lease right-of-use assets	1,669	1,655
Goodwill	17,518	17,515
Intangible assets, net	483	578
Deferred tax assets	239	200
Other non-current assets	2,243	2,311
Total assets	\$ 41,914	\$ 42,579
Liabilities		
Trade accounts payable	\$ 2,098	\$ 2,197
Accrued employee compensation	1,741	1,993
Advance payments and billings in excess of costs incurred	2,734	3,026
Other current liabilities	2,403	2,314
Total current liabilities	8,976	9,530
Long-term debt, net of current portion of \$14 for 2022 and \$6 for 2021	12,834	12,777
Pension and other postretirement benefit plan liabilities	2,692	3,269
Operating lease liabilities	1,654	1,590
Deferred tax liabilities	131	490
Other non-current liabilities	1,976	1,997
Total liabilities	28,263	29,653
Shareholders' equity		
Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2022—154,876,753 and 2021—156,284,423	155	156
Paid-in capital	—	—
Retained earnings	13,655	12,913
Accumulated other comprehensive loss	(159)	(143)
Total shareholders' equity	13,651	12,926
Total liabilities and shareholders' equity	\$ 41,914	\$ 42,579

SCHEDULE 3

NORTHROP GRUMMAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<i>\$ in millions</i>	Six Months Ended June 30	
	2022	2021
Operating activities		
Net earnings	\$ 1,901	\$ 3,232
Adjustments to reconcile to net cash (used in) provided by operating activities:		
Depreciation and amortization	633	594
Stock-based compensation	42	40
Deferred income taxes	(399)	(121)
Gain on sale of business	—	(1,980)
Net periodic pension and OPB income	(597)	(546)
Pension and OPB contributions	(71)	(74)
Changes in assets and liabilities:		
Accounts receivable, net	(920)	(453)
Unbilled receivables, net	(719)	(312)
Inventoried costs, net	(98)	(104)
Prepaid expenses and other assets	114	26
Accounts payable and other liabilities	(724)	(202)
Income taxes payable, net	86	881
Other, net	67	(19)
Net cash (used in) provided by operating activities	(685)	962
Investing activities		
Divestiture of IT services business	—	3,400
Capital expenditures	(507)	(435)
Proceeds from sale of equipment to a customer	—	56
Other, net	39	1
Net cash (used in) provided by investing activities	(468)	3,022
Financing activities		
Payments of long-term debt	—	(2,236)
Payments to credit facilities	—	—
Common stock repurchases	(640)	(2,143)
Cash dividends paid	(519)	(486)
Payments of employee taxes withheld from share-based awards	(48)	(31)
Other, net	(1)	(54)
Net cash used in financing activities	(1,208)	(4,950)
Decrease in cash and cash equivalents	(2,361)	(966)
Cash and cash equivalents, beginning of year	3,530	4,907
Cash and cash equivalents, end of period	\$ 1,169	\$ 3,941

SCHEDULE 4

NORTHROP GRUMMAN CORPORATION
ORGANIC SALES¹
(Unaudited)

<i>\$ in millions</i>	Six Months Ended June 30						Organic sales¹ % change
	2022			2021			
	Sales	IT services sales	Organic sales ¹	Sales	IT services sales	Organic sales ¹	
Aeronautics Systems	\$ 5,237	\$ —	\$ 5,237	\$ 5,903	\$ —	\$ 5,903	(11)%
Defense Systems	2,577	—	2,577	2,989	(106)	2,883	(11)%
Mission Systems	5,013	—	5,013	5,177	(42)	5,135	(2)%
Space Systems	5,834	—	5,834	5,269	(16)	5,253	11 %
Intersegment eliminations	(1,063)	—	(1,063)	(1,030)	2	(1,028)	
Total	\$ 17,598	\$ —	\$ 17,598	\$ 18,308	\$ (162)	\$ 18,146	(3)%

¹ Non-GAAP measure — see definitions at the end of this earnings release.

SCHEDULE 5

NORTHROP GRUMMAN CORPORATION
TOTAL BACKLOG
(Unaudited)

<i>\$ in millions</i>	June 30, 2022			December 31, 2021	% Change in 2022
	Funded ¹	Unfunded	Total Backlog ²	Total Backlog ²	
Aeronautics Systems	\$ 9,466	\$ 10,482	\$ 19,948	\$ 18,277	9 %
Defense Systems	5,522	826	6,348	6,349	— %
Mission Systems	10,557	4,224	14,781	14,306	3 %
Space Systems	8,850	30,054	38,904	37,114	5 %
Total backlog	\$ 34,395	\$ 45,586	\$ 79,981	\$ 76,046	5 %

¹ Funded backlog represents firm orders for which funding is authorized and appropriated.

² Total backlog excludes unexercised contract options and indefinite delivery, indefinite quantity (IDIQ) contracts until the time the option or IDIQ task order is exercised or awarded.

SCHEDULE 6

NORTHROP GRUMMAN CORPORATION
SUPPLEMENTAL PER SHARE INFORMATION
(Unaudited)

<i>\$ in millions, except per share amounts</i>	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Per share impact of total net FAS/CAS pension adjustment				
FAS/CAS operating adjustment	\$ (51)	\$ 18	\$ (97)	\$ 37
Non-operating FAS pension benefit	377	367	753	734
Total net FAS/CAS pension adjustment	326	385	656	771
Tax effect ¹	(82)	(97)	(165)	(194)
After-tax impact	\$ 244	\$ 288	\$ 491	\$ 577
Weighted-average diluted shares outstanding, in millions	156.0	161.5	156.3	162.5
Per share impact	\$ 1.56	\$ 1.78	\$ 3.14	\$ 3.55
Per share impact of intangible asset amortization and PP&E step-up depreciation				
Intangible asset amortization and PP&E step-up depreciation	\$ (61)	\$ (64)	\$ (121)	\$ (129)
Tax effect ¹	15	16	30	32
After-tax impact	\$ (46)	\$ (48)	\$ (91)	\$ (97)
Weighted-average diluted shares outstanding, in millions	156.0	161.5	156.3	162.5
Per share impact	\$ (0.29)	\$ (0.30)	\$ (0.58)	\$ (0.60)

¹ Based on a 21% federal statutory tax rate and a 5.25% blended state tax rate.

Non-GAAP Financial Measures Disclosure: This earnings release contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by SEC Regulation G and indicated by a footnote in the text of the release. Definitions for the non-GAAP measures are provided below and reconciliations are provided in the body of the release, except that reconciliations of forward-looking non-GAAP measures are not provided because the company is unable to provide such reconciliations without unreasonable effort due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of certain items, including, but not limited to, the impact of any mark-to-market pension adjustment. Other companies may define these measures differently or may utilize different non-GAAP measures.

Transaction-adjusted net earnings: Net earnings excluding impacts related to the company's IT services divestiture, including the gain on sale of the business, associated federal and state income tax expenses, transaction costs, and the make-whole premium for early debt redemption, as well as MTM benefit (expense) and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance by presenting the company's operating results before the non-operational impact of divestiture activity and pension and OPB actuarial gains and losses. This measure is also consistent with how management views the underlying performance of the business as the impact of the IT services divestiture and MTM accounting is not considered in management's assessment of the company's operating performance or in its determination of incentive compensation awards. Transaction-adjusted net earnings is reconciled in the "Transaction-adjusted Net Earnings and Transaction-adjusted EPS" table within the body of this release.

Transaction-adjusted EPS: Diluted earnings per share excluding the per share impacts related to the company's IT services divestiture, including the gain on sale of the business, associated federal and state income tax expenses, transaction costs, and the make-whole premium for early debt redemption, as well as MTM benefit (expense) and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance per share by presenting the company's diluted earnings per share results before the non-operational impact of the IT services divestiture and pension and OPB actuarial gains and losses. Transaction-adjusted EPS is reconciled in the "Transaction-adjusted Net Earnings and Transaction-adjusted EPS" table within the body of this release.

Organic sales: Total sales excluding sales attributable to the company's IT services divestiture. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying sales growth as well as in providing an understanding of our ongoing business and future sales trends by presenting the company's sales before the impact of divestiture activity. Organic sales is reconciled in Schedule 4 of this release.

Segment operating income and segment operating margin rate: Segment operating income, as reconciled in the "Consolidated Operating Results and Cash Flows" table within the body of this release, and segment operating margin rate (segment operating income divided by sales) reflect the combined operating income of our four segments less the operating income associated with intersegment sales. Segment operating income includes pension expense allocated to our sectors under FAR and CAS and excludes FAS pension service expense and unallocated corporate items. These measures may be useful to investors and other users of our financial statements as supplemental measures in evaluating the financial performance and operational trends of our sectors. These measures should not be considered in isolation or as alternatives to operating results presented in accordance with GAAP.

Adjusted free cash flow: Net cash provided by or used in operating activities, less capital expenditures, plus proceeds from the sale of equipment to a customer (not otherwise included in net cash provided by or used in operating activities) and the after-tax impact of discretionary pension contributions. Adjusted free cash flow includes proceeds from the sale of equipment to a customer as

such proceeds were generated in a customer sales transaction. It also includes the after-tax impact of discretionary pension contributions for consistency and comparability of financial performance. This measure may not be defined and calculated by other companies in the same manner. We use adjusted free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This non-GAAP measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating cash flows presented in accordance with GAAP. Adjusted free cash flow is reconciled in the “Consolidated Operating Results and Cash Flows” table within the body of this release.

Transaction-adjusted free cash flow: Net cash provided by or used in operating activities less capital expenditures, plus proceeds from the sale of equipment to a customer (not otherwise included in net cash provided by or used in operating activities), the after-tax impact of discretionary pension contributions and cash paid for federal and state taxes and transaction costs associated with the IT services divestiture. Transaction-adjusted free cash flow includes proceeds from the sale of equipment to a customer as such proceeds were generated in a customer sales transaction. It also includes the after-tax impact of discretionary pension contributions and cash paid for federal and state taxes and transaction costs associated with the IT services divestiture for consistency and comparability of financial performance. This measure may not be defined and calculated by other companies in the same manner. We use transaction-adjusted free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This non-GAAP measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating cash flows presented in accordance with GAAP. Transaction-adjusted free cash flow is reconciled in the “Consolidated Operating Results and Cash Flows” table within the body of this release.

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