

Performance-Based Benefit FAQs (For most U.S.-based Employees)

This version of FAQs supersedes any previous versions.

2020 was the final year for the Performance-Based Benefit (PBB) annual incentive program for most U.S.-based employees. The PBB had two primary objectives: To reward employees for the Company's success and to support their ability to enhance and accumulate funds for their retirement.

Most U.S.-based employees as of Dec. 31, 2020 are eligible to receive the PBB for the 2020 Company performance period¹, as long as they were hired before Oct. 1, 2020 and all other eligibility criteria is met. Employees who were eligible for the Northrop Grumman Annual Incentive Plan (AIP) during 2020 or were eligible for the NGIS Annual Bonus Plan (ABP) as of Dec. 31, 2019 are not eligible for the PBB for the 2020 performance year. (Generally, if you were eligible for the NGIS ABP at the end of 2019, you remained eligible for that annual incentive plan in 2020.) Employees covered by a heritage NGIS collective bargaining agreement are also not eligible for the PBB.

The 2020 PBB is scheduled to be paid before the end of the first quarter of 2021. Most U.S.-based employees will receive the benefit on a before-tax basis to their 401(k) accounts.

Employees outside of the U.S. will receive a communication to inform them of how and when the 2020 PBB benefit will be made.

General

1. What was the target benefit amount for 2020?

The target benefit amount for the 2020 performance year was \$800. Performance above targets could result in a higher benefit, with a maximum of \$1,000 per eligible employee.

2. What performance metrics were used to determine the actual amount contributed to employees' retirement accounts?

For the 2020 performance year, three company-wide performance metrics were used to measure the amount of this benefit: segment operating income growth, quality and safety. These three metrics aligned to performance for our shareholders, customers and employees, and were among the nine metrics reported in the company's quarterly performance scorecard. These measures reflect our collective efforts to become a more agile and efficient organization and, in turn, create value for our customers, employees and shareholders.

3. What if I don't want the benefit deposited into my 401(k) account?

For most U.S.-based employees, there is no alternative way to receive this benefit unless the contribution causes you to hit the IRS Code Section 415 limit of the performance period year. (Section 415 measures *total annual* contributions to your 401(k) account: your before-tax, after-tax and Roth 401(k) contributions, plus Northrop Grumman's contributions.) In this case, the benefit will be paid to a nonqualified plan if eligible or included in your paycheck if not eligible for a nonqualified plan.

¹ The calendar year during which the Company's performance is measured against established Company performance metrics is referred to as the "Company performance period."

4. Will the contribution count toward the annual limit that the Internal Revenue Service imposes for employee before-tax/Roth contributions to my 401(k) account?

No. IRS Code Section 402(g) limit applies to the amount of contributions (before-tax and Roth) an *employee* – not the employer – may make each calendar year. The IRS 402(g) limit for 2020 was \$19,500 (if you were under age 50) or \$26,000 (\$19,500 + \$6,500 in catch-up contributions if you were age 50 or older.)

5. Will the contribution count toward the annual limit that the Internal Revenue Service imposes on all (employee and employer) contributions to my 401(k) account?

Yes. The contribution will count towards the IRS Code Section 415 limit of the performance period year. Section 415 measures *total* contributions to your 401(k) account: your before-tax, after-tax and Roth 401(k) contributions, plus Northrop Grumman's contributions. The benefit that will be paid in 2021 is for performance period 2020 and will be applied to the 2020 limit. The IRS 415 limit for 2020 is 100 percent of annual pay or \$57,000, whichever is less (if you are under age 50) or 100 percent of annual pay or \$63,500 (\$57,000 + \$6,500 in catch-up contributions if you are age 50 or older), whichever is less.

If the PBB contribution causes you to hit the IRS Code Section 415 limit of the performance period year, the benefit will be paid to a nonqualified plan if eligible or included in your paycheck if not eligible for a nonqualified plan.

Eligibility

6. Who is eligible to receive the 2020 PBB?

Most U.S.-based employees as of Dec. 31, 2020 are eligible to receive the contribution, as long as they were hired before Oct. 1, 2020.

For example, you will receive the contribution in the first quarter of 2021 if:

- The Company achieves its performance metrics,
- You were hired before Oct. 1, 2020, and
- You were employed in an eligible status* as of Dec. 31, 2020

The contribution amount will not be pro-rated for partial-year employment.

* Defined as all employees (including those on an approved leave of absence) without regard to hours worked. However, interns, employees in a casual or on-call status, employees covered under a heritage NGIS collective bargaining agreement, and employees who are eligible for the Northrop Grumman Annual Incentive Plan (AIP) during the Company performance period or were eligible for the NGIS Annual Bonus Plan (ABP) as of Dec. 31, 2019 are not eligible for the PBB contribution. (If you were eligible for the NGIS ABP at the end of 2019, you remain eligible for that annual incentive plan in 2020.)

7. If I transferred to a different Sector, will that impact my PBB eligibility?

Generally, you remain eligible for the same annual incentive plan for the 2020 performance year that you were eligible for as of Dec. 31, 2019, even if you transfer to another Sector, or within a Sector, in 2020, as long as all other eligibility criteria is met. This includes the Annual Incentive Plan (AIP), Performance-based Benefit (PBB), as well as the NGIS Annual Bonus Plan (ABP). Exception: If you are covered by a heritage NGIS collective bargaining agreement (and not eligible for the PBB or ABP)

and transfer to a non-represented position or another Sector, you become eligible for the PBB and will receive a prorated PBB benefit.

8. What if my employment status changed from “casual” (or another ineligible status) to an eligible status (as defined in FAQ #6) after Oct. 1, am I eligible to receive the contribution?

As long as you are in an eligible status and otherwise eligible as of Dec. 31, 2020, you can receive the 2020 PBB contribution.

9. How will my retirement impact my eligibility to receive the contribution in 2021 for 2020?

Your eligibility for the contribution will depend on when you terminate employment from the company.

Here are some examples:

Example	Do I Receive the Contribution for 2020?
I terminated employment before Dec. 31, 2020.	No
I am terminating employment on or after January 1, 2021.	Yes
How will the contribution be made if I have already taken a distribution of my 401(k) account?	The contribution will still be made to your 401(k) account. However, if the PBB contribution causes you to hit the IRS Code Section 415 limit of the performance period year, the benefit will be paid to a nonqualified plan, if eligible, or included in your paycheck.

10. Will my performance category impact the benefit contribution?

No. Your individual performance category is determined by your manager and is not used to determine the benefit contribution. It is the Company’s performance measured against established criteria that will determine the amount of the benefit contribution.

11. Will employees who receive bonuses be eligible to receive this Company performance-based contribution to retirement accounts?

Employees who are eligible for the NGIS Annual Bonus Plan (APB) as of Dec. 31, 2019 or the Northrop Grumman Annual Incentive Plan (AIP) during the Company performance period are not eligible for the PBB. Employees who receive other bonuses, such as the Employee Incentive Plan (EIP), are eligible to receive the performance-based benefit.

12. Will employees covered by the Service Contract Act be eligible?

Yes, assuming other eligibility requirements are met (see FAQ #6), the benefit applies to employees regardless of whether they are covered by the Service Contract Act.

Administration – How it Works

13. When will the contribution be made?

The 2020 PBB contributions will post to eligible employees’ 401(k) accounts before the end of the first quarter of 2021, assuming Company performance metrics are met..

14. How will the contribution be made?

The employer contribution will be made to eligible U.S. employees' 401(k) accounts and will be invested in a separate money source according to your investment allocations for employer contributions. However, if the PBB contribution causes you to hit the IRS Code Section 415 limit of the performance period year, the benefit will be paid to a nonqualified plan if eligible or included in your paycheck if not eligible for a nonqualified plan.

15. What if I do not currently have a 401(k) account?

If an eligible U.S.-based employee does not already have a 401(k) account, one will be established before the first contribution is made. Additional information will be provided at that time.

16. Can the performance-based contribution be withdrawn or distributed to me?

If you are a participant in the Northrop Grumman Savings Plan, the contribution will be available for loans and withdrawals as permitted by the plan terms. Participants in all other 401(k) plans should review their plans' rules for information.

17. Is the performance-based contribution subject to any vesting requirement of the 401(k) plan?

As long as you've already met the 401(k) plan's vesting requirement, you have a non-forfeitable right to your 401(k) account, including this new contribution. Otherwise, the performance-based contribution will vest according to the 401(k) plan's vesting rules for company matching contributions.

18. If I am an eligible employee for part of the calendar year, will I get the full amount contributed to my retirement account?

If you meet the eligibility requirements (as defined in FAQ #6), contributions will not be pro-rated. Exception: If you are covered by a heritage NGIS collective bargaining agreement and become eligible for the PBB because you transfer out of your heritage NGIS represented position, your PBB benefit will be prorated.

19. Is the performance-based contribution considered as taxable income?

This contribution will be made as a before-tax contribution to your 401(k) account – as such, it will not be treated as income in the year received. However, at the time you take a distribution of your 401(k) account, it will be taxed as ordinary income.

Note: If the PBB contribution causes you to hit the IRS Code Section 415 limit of the performance period year, the benefit will be paid to a nonqualified plan if eligible or included in your paycheck and considered taxable income in the year it is paid if not eligible for a nonqualified plan.

These FAQs do not contain details of all aspects of the Savings Plan. It is not an official plan document, and neither the plan documents nor these FAQs constitute an implied or express contract of employment. The official plan text and trust agreement govern the operation of the Savings Plan and payment of all benefits. In the event of any ambiguity in or omission from these FAQs, or any conflict between these FAQs and the official plan text and trust agreement, the official plan text and trust agreement govern.