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Statement From Northrop Grumman On U.S. Air Force Aerial Refueling Tanker Program

WASHINGTON, D.C. – March 8, 2010 – The following is a statement from Wes Bush, Chief Executive Officer and President of Northrop Grumman Corporation (NYSE:NOC), concerning the U.S. Air Force aerial refueling tanker program.

“After a comprehensive analysis of the final RFP, Northrop Grumman has determined that it will not submit a bid to the Department of Defense for the KC-X program. We reached this conclusion based on the structure of the source selection methodology defined in the RFP, which clearly favors Boeing’s smaller refueling tanker and does not provide adequate value recognition of the added capability of a larger tanker, precluding us from any competitive opportunity.

“Northrop Grumman fully respects the Department’s responsibility to determine the military requirements for the new tanker. In the previous competition, Northrop Grumman was selected by the Air Force as offering the most capable tanker for the warfighter at the best value for the taxpayer. However, the Northrop Grumman and EADS team is very disappointed that the revised source selection methodology now dramatically favors Boeing’s smaller refueling tanker. We agree that the fundamental military requirements for the new tanker have not changed since the last competition, but the Department’s new evaluation methodology now clearly favors the smaller tanker.

“We continue to believe that Northrop Grumman’s tanker represents the best value for the military and taxpayer – a belief supported by the selection of the A330 tanker design over the Boeing design in the last five consecutive tanker competitions around the globe. Regrettably, this means that the U.S. Air Force will be operating a less capable tanker than many of our Allies in this vital mission area.

“Our prior selection by the Air Force, our firm belief that we provide the best value offering, and the hard work and commitment of the many individuals and communities on our team over many years made this a difficult decision for our company. But we have a fiduciary responsibility to our shareholders to prudently invest our corporate resources, as do our more than 200 tanker team suppliers across the United States. Investing further resources to submit a bid would not be acting responsibly.

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“We have decided that Northrop Grumman will not protest. While we feel we have substantial grounds to support a GAO or court ruling to overturn this revised source selection process, America’s service men and women have been forced to wait too long for new tankers. We feel a deep responsibility to their safety and to their ability to fulfill the missions our nation calls upon them to perform. Taking actions that would further delay the introduction of this urgent capability would also not be acting responsibly.

“We recognize that our decision likely creates a sole-source outcome for Boeing. We call on the Department to keep in mind the economic conclusions of the prior round of bidding as it takes actions to protect the taxpayer when defining the sole-source procurement contract. In the previous round, the Air Force, through a rigorous assessment of our proposal, determined that it would pay a unit flyaway cost of approximately \$184 million per tanker for the first 68 tankers, including the non-recurring development costs. With the Department’s decision to procure a much smaller, less capable design, the taxpayer should certainly expect the bill to be much less.”

Northrop Grumman Corporation is a leading global security company whose 120,000 employees provide innovative systems, products, and solutions in aerospace, electronics, information systems, shipbuilding and technical services to government and commercial customers worldwide.

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