

ANNUAL FUNDING NOTICE
For
Avondale Industries, Inc. Pension Plan

Introduction

This notice includes important funding information about your pension plan (“the Plan”). This notice also provides a general explanation of federal rules governing the termination of single-employer defined benefit pension plans and of benefit payments guaranteed by the Pension Benefit Guaranty Corporation (PBGC), a federal agency. This information is required in the notice and is *not* an indication that Northrop Grumman has decided to terminate any of the pension plans. This notice is for the plan year beginning 1/1/2008 and ending 12/31/2008 (“Plan Year”).

Funding Target Attainment Percentage

The funding target attainment percentage of a plan is a measure of how well the plan is funded on a particular date. This percentage for a plan year is obtained by dividing the Plan’s Net Plan Assets by Plan Liabilities on the Valuation Date. In general, the higher the percentage, the better funded the plan. The Plan’s funding target attainment percentage for the Plan Year and two preceding plan years is shown in the chart below, along with a statement of the value of the Plan’s assets and liabilities for the same period.

Plan Year	2008	2007	2006
1. Valuation Date	1/1/2008	1/1/2007	1/1/2006
2. Plan Assets			
a. Total Plan Assets	\$110,902,393	Not applicable	Not applicable
b. Funding Standard Carryover Balance	\$3,353,377	Not applicable	Not applicable
c. Prefunding Balance	Not applicable	Not applicable	Not applicable
d. Net Plan Assets (a)-(b)-(c) = (d)	Not applicable	Not applicable	Not applicable
3. Plan Liabilities	\$108,154,177	Not applicable	Not applicable
4. At-Risk Liabilities	Not applicable	Not applicable	Not applicable
5. Funding Target Attainment Percentage (2a) / (3)	102.54%	Not applicable	Not applicable

Transition Data

For a brief transition period, the Plan is not required by law to report certain funding related information because such information may not exist for plan years before 2008. The plan has entered “not applicable” in the chart above to identify the information it does not have. In lieu of that information, however, the Plan is providing you with comparable information that reflects the funding status of the Plan under the law then in effect. For 2007, the Plan’s funding target attainment percentage determined under IRS transitional rules was 103.48%, the Plan’s assets were \$104,134,867, and the Plan’s liabilities were \$100,636,428. For 2006, the Plan’s funded current liability percentage was 104.28%, the Plan’s assets were \$95,851,716, and the Plan’s liabilities were \$91,921,593.

Fair Market Value of Assets

Asset values above are actuarial values, not necessarily market values. Market values tend to show a clearer picture of a plan's funded status as of a given point in time. However, because market values can fluctuate daily based on factors in the marketplace, such as changes in the stock market, pension law allows plans to use actuarial values for funding purposes. While actuarial values fluctuate less than market values, they are estimates. As of 12/31/2008, the fair market value of the Plan's assets was \$102,694,729. On this same date, the Plan's liabilities were \$113,890,262.

Participant Information

The total number of participants in the plan as of the Plan's valuation date was 8,053. Of this number, 4,714 were active participants, 1,581 were retired or separated from service and receiving benefits, and 1,758 were retired or separated from service and entitled to future benefits.

Funding & Investment Policies

The law requires that every pension plan have a procedure for establishing a funding policy to carry out the plan objectives. A funding policy relates to the level of contributions needed to pay for promised benefits. The funding policy of the Plan is to contribute at least the minimum amount required for the plan, using actuarial cost methods and assumptions acceptable under U.S. Government regulations.

Once money is contributed to the Plan, the money is invested by plan officials called fiduciaries. Specific investments are made in accordance with the Plan's investment policy. Generally speaking, an investment policy is a written statement that provides the fiduciaries that are responsible for plan investments with guidelines or general instructions concerning various types or categories of investment management decisions. The investment policy of the Plan is to invest in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long term, with the goals of (1) exceeding the assumed actuarial rate of return over the long term within reasonable and prudent levels of risk, and (2) preserving the real purchasing power of assets to meet future obligations.

In accordance with the Plan's investment policy, the Plan's assets were invested entirely in master trust investment accounts. The master trust assets were allocated among the following categories of investments, as of the end of the Plan Year. These allocations are percentages of total assets:

Asset Allocations	Percentage
1. Interest-bearing cash	9.5%
2. U.S. Government securities	11.0%
3. Corporate debt instruments	
a. Preferred	0.0%
b. All other	26.0%
4. Corporate stocks (other than employer securities)	
a. Preferred	0.1%
b. Common	16.6%

5.	Partnership/joint venture interests	24.4%
6.	Real estate (other than employer real property)	0.2%
7.	Loans (other than to participants)	0.0%
8.	Participant loans	0.0%
9.	Value of interest in 103-12 investment entities	0.0%
10.	Value of interest in registered investment companies (e.g., mutual funds)	4.4%
11.	Employer-related investments:	
	a. Employer securities	0.0%
	b. Employer real property	0.0%
12.	Buildings and other property used in plan operation	7.9%

Right to Request a Copy of the Annual Report

A pension plan is required to file with the US Department of Labor an annual report (i.e., Form 5500) containing financial and other information about the plan. Copies of the annual report are available from the US Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202-693-8673. Or you may obtain a copy of the Plan's annual report by contacting the Northrop Grumman Benefits Center (NGBC) at 1-800-894-4194.

Summary of Rules Governing Termination of Single-Employer Plans

Employers can end a pension plan through a process called "plan termination." There are two ways an employer can terminate its pension plan. The employer can end the plan in a "standard termination" but only after showing the PBGC that the plan has enough money to pay all benefits owed to participants. The plan must either purchase an annuity from an insurance company (which will provide you with lifetime benefits when you retire) or, if your plan allows, issue one lump-sum payment that covers your entire benefit. Before purchasing your annuity, your plan administrator must give you advance notice that identifies the insurance company (or companies) that your employer may select to provide the annuity. The PBGC's guarantee ends when your employer purchases your annuity or gives you the lump-sum payment.

If the plan is not fully-funded, the employer may apply for a distress termination if the employer is in financial distress. To do so, however, the employer must prove to a bankruptcy court or to the PBGC that the employer cannot remain in business unless the plan is terminated. If the application is granted, the PBGC will take over the plan as trustee and pay plan benefits, up to the legal limits, using plan assets and PBGC guarantee funds.

Under certain circumstances, the PBGC may take action on its own to end a pension plan. Most terminations initiated by the PBGC occur when the PBGC determines that plan termination is needed to protect the interests of plan participants or of the PBGC insurance program. The PBGC can do so if, for example, a plan does not have enough money to pay benefits currently due.

Benefit Payments Guaranteed by the PBGC

If a single-employer pension plan terminates without enough money to pay all benefits, the PBGC will take over the plan and pay pension benefits through its insurance program. Most participants and beneficiaries receive all of the pension benefits they would have received under their plan, but some people may lose certain benefits that are not guaranteed.

The PBGC pays pension benefits up to certain maximum limits. The maximum guaranteed benefit is \$4,500.00 per month, or \$54,000.00 per year, payable in the form of a straight life annuity, for a 65-year-old person in a plan that terminates in 2009. The maximum benefit may be reduced for an individual who is younger than age 65. The maximum benefit will also be reduced when a benefit is provided to a survivor of a plan participant.

The PBGC guarantees “basic benefits” earned before a plan is terminated, which includes:

- pension benefits at normal retirement age;
- most early retirement benefits;
- annuity benefits for survivors of plan participants; and
- disability benefits for a disability that occurred before the date the plan terminated.

The PBGC does not guarantee certain types of benefits:

- The PBGC does not guarantee benefits for which you do not have a vested right when a plan terminates, usually because you have not worked enough years for the company.
- The PBGC does not guarantee benefits for which you have not met all age, service, or other requirements at the time the plan terminates.
- Benefit increases and new benefits that have been in place for less than one year are not guaranteed. Those that have been in place for less than five years are only partly guaranteed.
- Early retirement payments that are greater than payments at normal retirement age may not be guaranteed. For example, a supplemental benefit that stops when you become eligible for Social Security may not be guaranteed.
- Benefits other than pension benefits, such as health insurance, life insurance, death benefits, vacation pay, or severance pay, are not guaranteed.
- The PBGC generally does not pay lump sums exceeding \$5,000.

Even if certain benefits are not guaranteed, participants and beneficiaries still may receive some of those benefits from the PBGC depending on how much money the terminated plan has and how much the PBGC collects from the employer.

Where to Get More Information

If you have any questions about the information in the Notice, please call the Northrop Grumman Benefits Center (NGBC) at 1-800-894-4194. If you are calling from outside the United States, please call 718-354-1338. Benefits services representatives are available to assist you Monday through Friday from 9:00 a.m. to 6:00 p.m. Eastern time, excluding holidays. If you are hearing impaired, you will need to use a relay service through your TTY/TDD service provider.

For identification purposes, the official plan number is 003 and the plan sponsor's employer identification number or "EIN" is 94-3041767. For more information about the PBGC and benefit guarantees, go to PBGC's website, www.pbgc.gov, or call PBGC toll-free at 1-800-400-7242 (TTY/TDD users may call the Federal relay service toll free at 1-800-877-8339 and ask to be connected to 1-800-400-7242).