



FISCAL 2017 FOURTH QUARTER RECONCILIATION OF NON-GAAP FINANCIAL MEASURES AND REGULATION G DISCLOSURES

To supplement our condensed consolidated financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP), we provide additional financial measures that exclude or include amounts, or are subject to adjustments, so as to be different from the most directly comparable financial measures calculated and presented in accordance with GAAP. Harris management believes that these non-GAAP financial measures, when considered together with the GAAP financial measures, provide information that is useful to investors in understanding period-over-period operating results separate and apart from items that may, or could, have a disproportionately positive or negative impact on results in any particular period. Harris management also believes that these non-GAAP financial measures enhance the ability of investors to analyze Harris' business trends and to understand Harris' performance. In addition, Harris may utilize non-GAAP financial measures as guides in its forecasting, budgeting, and long-term planning processes and to measure operating performance for some management compensation purposes. Any analysis of non-GAAP financial measures should be used only in conjunction with results presented in accordance with GAAP. A reconciliation of these non-GAAP financial measures with the most directly comparable financial measures calculated in accordance with GAAP follows:

Adjusted Free Cash Flow

(\$ in millions)

	FY17-Q4
Net cash provided by operating activities	\$ 80
Adjustment for voluntary contribution to qualified pension plans	400
Adjusted net cash provided by operating activities	480
Less net capital expenditures (1)	(40)
Adjusted free cash flow	\$ 440

- (1) Reflects additions of property, plant and equipment, net of proceeds from sale of property, plant and equipment

Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



Operating Income and Margin

(\$ in millions)

	FY17-Q4	FY16-Q4 (A)	FY17	FY16 (A)
GAAP income from continuing operations	\$ 166	\$ 142	\$ 638	\$ 611
Income taxes	68	75	267	273
Net interest expense	41	43	170	181
Non-operating income	-	(10)	(2)	(10)
GAAP operating income	275	250	1,073	1,055
Net liability reduction for certain post-employment benefit plans	-	-	-	(101)
Integration, restructuring and other charges	20	28	58	122
Segment restructuring and other charges	-	6	-	32
Non-GAAP operating income	<u>\$ 295</u>	<u>\$ 284</u>	<u>\$ 1,131</u>	<u>\$ 1,108</u>
Revenue from product sales and services	\$ 1,542	\$ 1,533	\$ 5,900	\$ 5,992 (B)
GAAP operating income as a % of Revenue	17.8%	16.3%	18.2%	17.6%
Non-GAAP operating income as a % of Revenue	19.1%	18.5%	19.2%	18.5%

(A) Certain amounts adjusted to reflect current period presentation of Harris CapRock Communications and government IT services businesses as discontinued operations

(B) FY16 revenue includes Aerostructures divested in FY16-Q4. Aerostructure revenue in FY16 was \$60M

FY16 Segment Operating Income and Margin

(\$ in millions)

	Communication Systems (B)	Electronic Systems (B)
Revenue	\$ 1,864	\$ 2,233 (C)
GAAP operating income	\$ 522	\$ 430
Non-GAAP adjustments (A)	20	12
Non-GAAP operating income	<u>\$ 542</u>	<u>\$ 442</u>
<i>GAAP operating margin</i>	<i>28.0%</i>	<i>19.3%</i>
<i>Non-GAAP operating margin</i>	<i>29.1%</i>	<i>19.8%</i>

(A) Adjustments relate to restructuring and other charges

(B) Certain amounts adjusted to reflect current period presentation of Harris CapRock Communications and government IT services businesses as discontinued operations

(C) FY16 revenue includes Aerostructures divested in FY16-Q4. Aerostructure revenue in FY16 was \$60M

CHQ Expense ⁽¹⁾

(\$ in millions)

	<u>FY17</u>
GAAP CHQ expense	\$ (114)
Exelis Inc. acquisition-related and other charges	<u>58</u>
Non-GAAP CHQ expense	<u><u>\$ (56)</u></u>

(1) Excluding amortization of intangible assets from Exelis Inc. acquisition

Effective Tax Rate

(\$ in millions)

	FY17		
	GAAP	Non-GAAP adjustments	Non-GAAP
Income from continuing operations before income taxes	\$ 905	\$ 58 (1)	\$ 963
Income taxes	(267)	(7)	(274)
<i>Effective tax rate</i>	29.5%	12.1%	28.5%

(1) Adjustments relate to restructuring and other charges