



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

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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:

## Operating Income and Margin

(\$ in millions)

	FY16-Q2	FY17-Q2
GAAP income from continuing operations	\$ 197	\$ 168
Income taxes	85	76
Net interest expense	46	43
Non-operating income	-	(1)
GAAP operating income	328	286
Net liability reduction for certain post-employment benefit plans	(101)	-
Integration and other Exelis Inc. acquisition-related costs	46	13
Charges for restructuring and other items	26	-
Non-GAAP operating income	\$ 299	\$ 299
Revenue from product sales and services	\$ 1,748	\$ 1,700
<i>Non-GAAP operating income as a % of Revenue</i>	17.1%	17.6%

## Communication Systems Segment - Operating Margin

(\$ in millions)

	<u>FY16-Q2</u>	<u>FY17-Q2</u>
Revenue from product sales and services	\$ 489	\$ 413
Cost of product sales and services	(264)	(209)
Engineering, selling and administrative expenses	<u>(104)</u>	<u>(83)</u>
GAAP operating income	121	121
<i>GAAP operating income as a % of Revenue</i>	24.7%	29.3%
Charges for restructuring and other items	17	-
Non-GAAP operating income	<u>\$ 138</u>	<u>\$ 121</u>
<i>Non-GAAP operating income as a % of Revenue</i>	28.2%	29.3%

## Electronic Systems - Operating Margin

(\$ in millions)

	<u>FY16-Q2</u>	<u>FY17-Q2</u>
Revenue from product sales and services	\$ 381	\$ 384
Cost of product sales and services	(278)	(268)
Engineering, selling and administrative expenses	<u>(40)</u>	<u>(37)</u>
GAAP operating income	63	79
<i>GAAP operating income as a % of Revenue</i>	16.5%	20.6%
Charges for restructuring and other items	6	-
Non-GAAP operating income	<u>\$ 69</u>	<u>\$ 79</u>
<i>Non-GAAP operating income as a % of Revenue</i>	<u>18.1%</u>	<u>20.6%</u>

## Critical Networks - Operating Margin

(\$ in millions)

	FY16-Q2	FY17-Q2
Revenue from product sales and services	\$ 446	\$ 454
Cost of product sales and services	(345)	(340)
Engineering, selling and administrative expenses	(38)	(39)
GAAP operating income	<u>63</u>	<u>75</u>
<i>GAAP operating income as a % of Revenue</i>	14.1%	16.5%
Charges for restructuring and other items	3	-
Non-GAAP operating income	<u>\$ 66</u>	<u>\$ 75</u>
<i>Non-GAAP operating income as a % of Revenue</i>	14.8%	16.5%

# Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



## Segment Operating Margin - Unaudited Resegmented FY16

(\$ in millions)

	Communication Systems	Space & Intelligence Systems	Electronic Systems	
Revenue	\$ 1,864	\$ 1,899	\$ 2,233	(1)
GAAP operating income	\$ 530	\$ 294	\$ 445	
<i>GAAP operating income as a % of Revenue</i>	28.4%	15.5%	19.9%	
Charges for restructuring and other items	20	-	10	
Non-GAAP operating income	<u>\$ 550</u>	<u>\$ 294</u>	<u>\$ 455</u>	
<i>Non-GAAP operating income as a % of Revenue</i>	29.5%	15.5%	20.4%	

(1) Electronic Systems revenue adjusted to include retained air traffic management business from our former Critical Networks segment

# Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



## Communication Systems Operating Income - FY16-Q1 through FY17-Q2

(\$ in millions)

	<u>FY16-Q1</u>	<u>FY16-Q2</u>	<u>FY16-Q3</u>	<u>FY16-Q4</u>	<u>FY16</u>	<u>FY17-Q1</u>	<u>FY17-Q2</u>
GAAP operating income	\$ 138	\$ 121	\$ 154	\$ 117	\$ 530	\$ 119	\$ 121
Charges for restructuring and other items	-	17	-	3	20	-	-
Non-GAAP operating income	<u>\$ 138</u>	<u>\$ 138</u>	<u>\$ 154</u>	<u>\$ 120</u>	<u>\$ 550</u>	<u>\$ 119</u>	<u>\$ 121</u>



# Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



## Electronic Systems Operating Income - FY16-Q1 through FY17-Q2

(\$ in millions)

	<u>FY16-Q1</u>	<u>FY16-Q2</u>	<u>FY16-Q3</u>	<u>FY16-Q4</u>	<u>FY16</u>	<u>FY17-Q1</u>	<u>FY17-Q2</u>
GAAP operating income (1)	\$ 103	\$ 105	\$ 112	\$ 125	\$ 445	\$ 115	\$ 130
Charges for restructuring and other items	-	6	-	4	10	-	-
Non-GAAP operating income	<u>\$ 103</u>	<u>\$ 111</u>	<u>\$ 112</u>	<u>\$ 129</u>	<u>\$ 455</u>	<u>\$ 115</u>	<u>\$ 130</u>

(1) Reclassified to include retained air traffic management business from our former Critical Networks segment

# Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



## Unallocated Corporate Expenses - FY16-Q1 through FY17-Q2

(\$ in millions)

	FY16-Q1	FY16-Q2	FY16-Q3	FY16-Q4	FY16	FY17-Q1	FY17-Q2
GAAP unallocated corporate expenses	\$ (42)	\$ 47	\$ (43)	\$ (41)	\$ (79)	\$ (34)	\$ (27)
Net liability reduction for certain post-employment benefit plans	-	(101)	-	-	(101)	-	-
Integration and other Exelis Inc. acquisition related costs	23	46	23	23	115	17	13
Charges for restructuring and other items	-	-	2	3	5	-	-
Non-GAAP unallocated corporate expenses	<u>\$ (19)</u>	<u>\$ (8)</u>	<u>\$ (18)</u>	<u>\$ (15)</u>	<u>\$ (60)</u>	<u>\$ (17)</u>	<u>\$ (14)</u>

# Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



## Earnings Per Share FY16-Q1 through FY17-Q2

	<u>FY16-Q1</u>	<u>FY16-Q2</u>	<u>FY16-Q3</u>	<u>FY16-Q4</u>	<u>FY16</u>	<u>FY17-Q1</u>	<u>FY17-Q2</u>
GAAP EPS	\$ 1.02	\$ 1.49	\$ 1.24	\$ 1.13	\$ 4.87	\$ 1.18	\$ 1.26
Non-GAAP adjustments	0.12 (1)	(0.15) (2)	0.10 (1)	0.17 (3)	0.25 (4)	0.12 (1)	0.08 (1)
Non-GAAP EPS	<u>\$ 1.14</u>	<u>\$ 1.34</u>	<u>\$ 1.34</u>	<u>\$ 1.30</u>	<u>\$ 5.12</u>	<u>\$ 1.30</u>	<u>\$ 1.34</u>

- (1) Adjustment for integration and other Exelis Inc. acquisition-related charges, net of income taxes
- (2) Adjustments for a net liability reduction for certain post-employment benefit plans (\$101 million pre-tax), integration and other Exelis Inc. acquisition-related costs (\$46 million pre-tax) and charges for restructuring and other items (\$23 million pre-tax)
- (3) Adjustments for gain on sale of business, net (\$10 million pre-tax), integration and other Exelis Inc. acquisition-related charges (\$23 million pre-tax) and charges for restructuring and other items (\$2 million pre-tax)
- (4) Adjustments for a net liability reduction for certain post-employment benefit plans (\$101 million pre-tax), integration and other Exelis Inc. acquisition-related costs (\$115 million pre-tax), charges for restructuring and other items (\$34 million pre-tax) and a gain on sale of business, net (\$10 million pre-tax)