

A satellite view of the Earth, showing the Gulf of Mexico, the Atlantic Ocean, and parts of North and South America, is visible on the left side of the slide. A thick red horizontal band spans across the middle of the image, containing the main title and date.

# Fourth Quarter 2016 Conference Call

January 26, 2017

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# Forward-Looking Statements

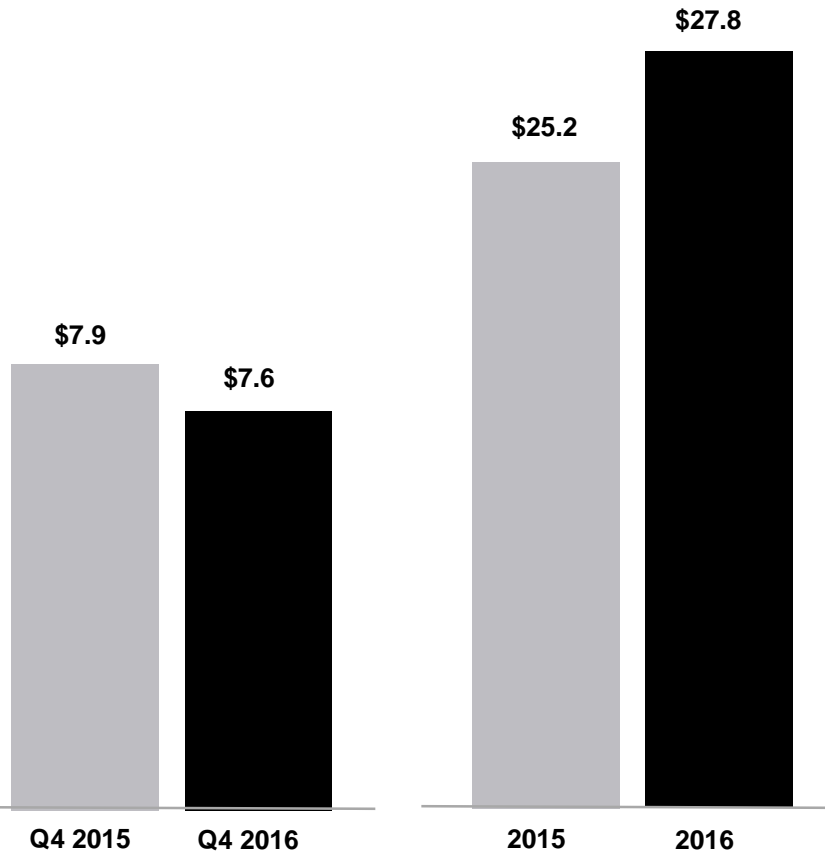
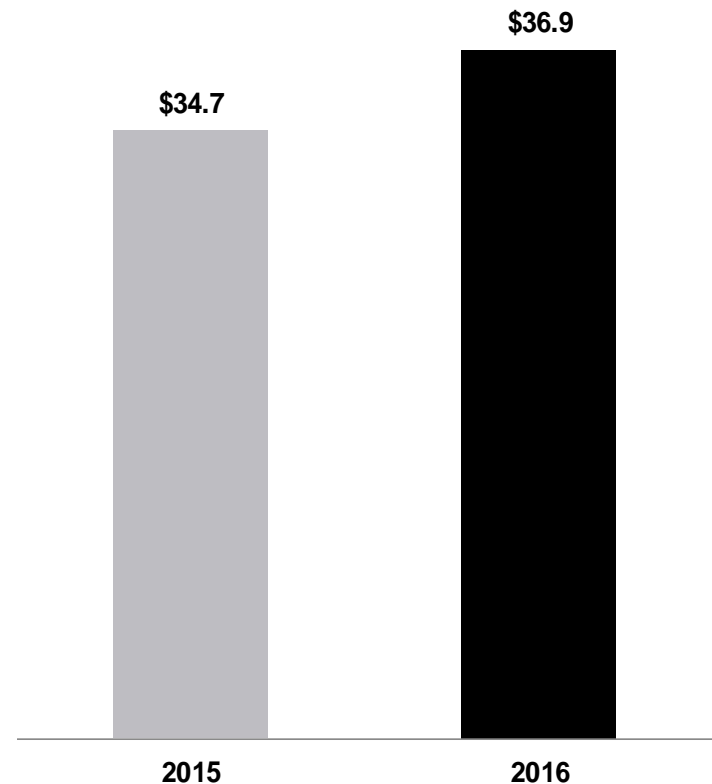
**This presentation contains forward-looking statements, including information regarding the Company's financial outlook, future plans, objectives, business prospects and anticipated financial performance. These forward-looking statements are not statements of historical facts and represent only the Company's current expectations regarding such matters. These statements inherently involve a wide range of known and unknown risks and uncertainties. The Company's actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to: the Company's dependence on the U.S. Government for a significant portion of its business and the risks associated with U.S. Government sales, including changes or shifts in defense spending due to budgetary constraints, spending cuts resulting from sequestration, a government shutdown, or otherwise, uncertain funding of programs and potential termination of contracts; difficulties in contract performance; the resolution of program terminations; the ability to procure new contracts; the risks of conducting business in foreign countries; the unpredictability of timing of international bookings; the ability to comply with extensive governmental regulation and obtain approvals, including export and import requirements such as the International Traffic in Arms Regulations and the Export Administration Regulations, anti-bribery and anti-corruption requirements including the Foreign Corrupt Practices Act, industrial cooperation agreement obligations, and procurement and other regulations; changes in government procurement practices; the impact of competition; the ability to develop products and technologies, and the impact of associated investments and costs; the ability to recruit and retain qualified personnel; the impact of potential security and cyber threats, and other disruptions; the risk that actual pension returns, discount rates or other actuarial assumptions, including the long-term return on asset assumption, are significantly different than the Company's current assumptions; the risk of cost overruns, particularly for the Company's fixed-price contracts; dependence on component availability, subcontractor and partner performance and key suppliers; risks of a negative government audit; risks associated with acquisitions, investments, dispositions, joint ventures and other business arrangements; the ability to grow in the government and commercial cybersecurity markets; risks of an impairment of goodwill or other intangible assets; the impact of financial markets and global economic conditions; the use of accounting estimates in the Company's financial statements; the outcome of contingencies and litigation matters, including government investigations; the risk of environmental liabilities; and other factors as may be detailed from time to time in the Company's public announcements and Securities and Exchange Commission filings. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this release and the attachments or to update them to reflect events or circumstances occurring after the date of this release, including any acquisitions, dispositions or other business arrangements that may be announced or closed after such date.**

# Fourth Quarter and Full-Year 2016 Highlights

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- Strong bookings of \$7.6 billion in the quarter and a record \$27.8 billion for the year; book-to-bill ratio of 1.21 for the quarter and 1.16 for the year
- Fourth quarter net sales of \$6.2 billion; full-year net sales of \$24.1 billion, up 3.5 percent for the year
- Fourth quarter EPS from continuing operations of \$1.84; full-year EPS from continuing operations of \$7.44
- Strong operating cash flow from continuing operations of \$1.1 billion in the quarter and \$2.9 billion for the year, including a \$500 million pretax discretionary pension plan contribution in the fourth quarter

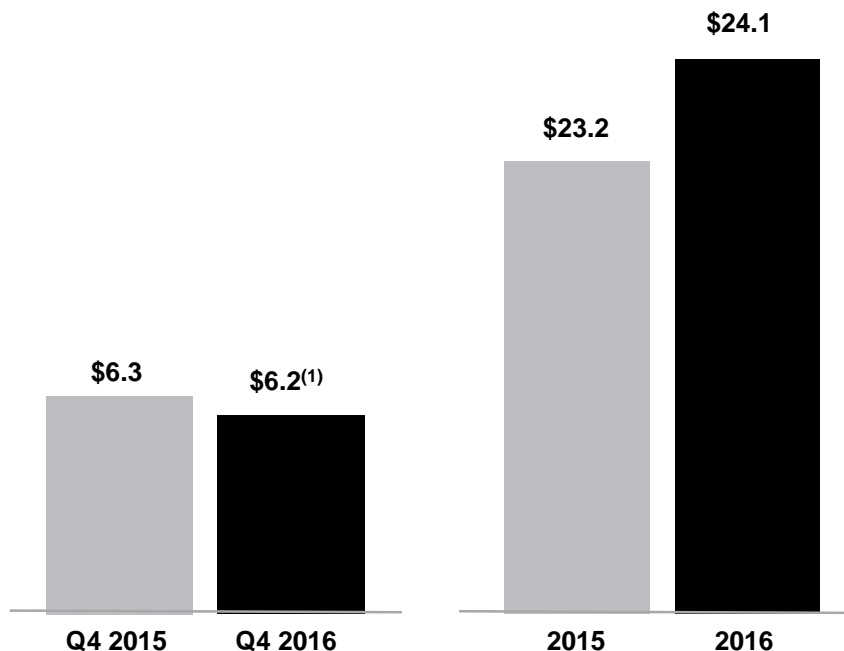
# Total Company Bookings and Backlog

**Bookings (\$B)****Backlog for Period Ending (\$B)**

**Record bookings of \$27.8 billion in 2016; backlog up 6 percent**

# Total Company Net Sales

Net Sales (\$B)



Fourth Quarter Net Sales (\$M)

	Q4 2015	Q4 2016 <sup>(1)</sup>	% Change
IDS	\$1,558	\$1,406	-10%
IIS	1,537	1,518	-1%
MS	1,879	1,895	1%
SAS	1,576	1,612	2%
Forcepoint™	133	143	8%
Eliminations	(331)	(323)	NM
<b>Total Business Segment</b>	<b>\$6,352</b>	<b>\$6,251</b>	<b>-2%</b>
Deferred Revenue Adjustment	(\$24)	(\$13)	NM
<b>Total</b>	<b>\$6,328</b>	<b>\$6,238</b>	<b>-1%</b>

Full-Year Net Sales (\$M)

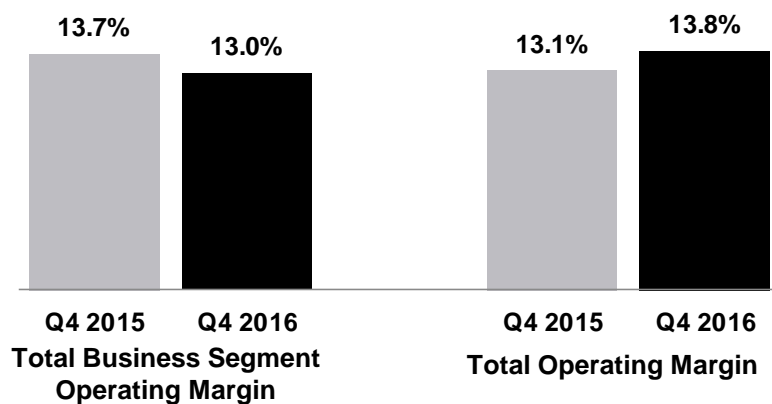
	2015	2016	% Change
IDS	\$5,847	\$5,476	-6%
IIS	6,111	6,194	1%
MS	6,556	7,071	8%
SAS	5,796	6,199	7%
Forcepoint	328	566	NM
Eliminations	(1,330)	(1,360)	NM
<b>Total Business Segment</b>	<b>\$23,308</b>	<b>\$24,146</b>	<b>4%</b>
Deferred Revenue Adjustment	(\$61)	(\$77)	NM
<b>Total</b>	<b>\$23,247</b>	<b>\$24,069</b>	<b>4%</b>

NM = Not Meaningful

(1) Fourth quarter 2016 had 4 fewer work days than the fourth quarter 2015.

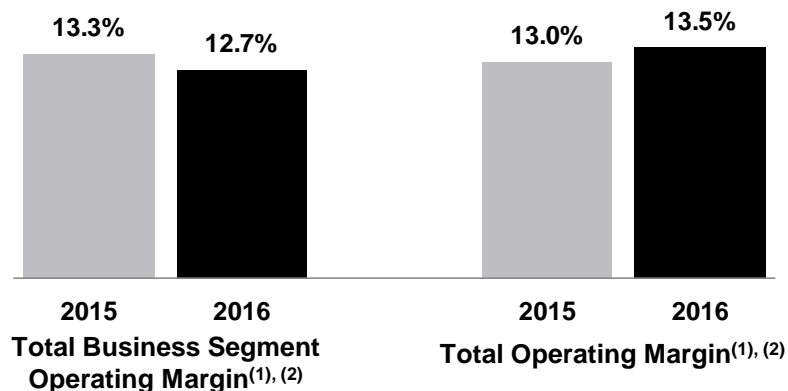
**Solid full-year sales growth in 2016**

# Total Company Operating Margins – Q4



	Q4 2015	Q4 2016	Change
IDS	18.0%	15.6%	(240) bps
IIS	7.2%	8.0%	80 bps
MS	13.7%	13.7%	0 bps
SAS	15.2%	14.3%	(90) bps
Forcepoint	8.3%	7.7%	(60) bps
Eliminations	(\$29M)	(\$32M)	(\$3M)
<b>Total Business Segment Operating Margin</b>	<b>13.7%</b>	<b>13.0%</b>	<b>(70) bps</b>
Deferred Revenue Adjustment	(\$24M)	(\$13M)	\$11M
Amortization of Acquired Intangibles	(\$35M)	(\$30M)	\$5M
FAS/CAS Adjustment	\$44M	\$117M	\$73M
Corporate	(\$28M)	(\$22M)	\$6M
<b>Total Operating Margin</b>	<b>13.1%</b>	<b>13.8%</b>	<b>70 bps</b>

# Total Company Operating Margins – Full-year

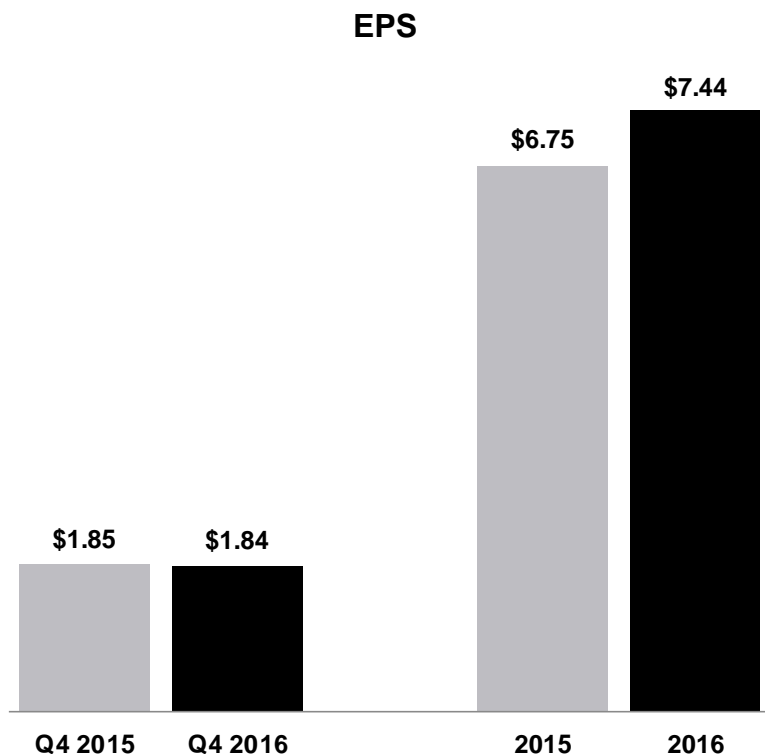


	2015	2016	Change
IDS <sup>(1)</sup>	14.8%	17.3%	250 bps
IIS <sup>(2)</sup>	10.6%	7.5%	(310) bps
MS	13.2%	13.0%	(20) bps
SAS	14.3%	13.2%	(110) bps
Forcepoint	9.1%	9.0%	(10) bps
Eliminations	(\$140M)	(\$141M)	(\$1M)
<b>Total Business Segment Operating Margin<sup>(1), (2)</sup></b>	<b>13.3%</b>	<b>12.7%</b>	<b>(60) bps</b>
Deferred Revenue Adjustment	(\$61M)	(\$77M)	(\$16M)
Amortization of Acquired Intangibles	(\$107M)	(\$121M)	(\$14M)
FAS/CAS Adjustment	\$185M	\$435M	\$250M
Corporate	(\$101M)	(\$57M)	\$44M
<b>Total Operating Margin<sup>(1), (2)</sup></b>	<b>13.0%</b>	<b>13.5%</b>	<b>50 bps</b>

(1) 2016 operating margin includes the \$158 million tax-free gain from the second quarter ThalesRaytheonSystems (TRS) transaction.

(2) 2015 operating margin includes the favorable \$181 million impact from the first quarter eBorders settlement.

# Earnings Per Share from Continuing Operations



EPS (\$)	Fourth Quarter	Full-Year
<b>EPS from Continuing Operations 2015</b>	<b>\$1.85</b>	<b>\$6.75</b>
Operations	(0.13)	0.09
Reduced share count	0.04	0.17
FAS/CAS Adjustment	0.16	0.56
Stock compensation accounting standard <sup>(1)</sup>	-	0.16
Q2 2016 TRS transaction	-	0.53
2015 eBorders settlement	(0.02)	(0.47)
Q2 2015 tax settlement	-	(0.29)
Tax rate <sup>(2)</sup>	(0.09)	(0.09)
Other items, net	0.03	0.03
<b>EPS from Continuing Operations 2016</b>	<b>\$1.84</b>	<b>\$7.44</b>

(1) Tax benefit associated with the accounting standard for stock compensation adopted in Q1 2016.

(2) Includes \$0.02 tax-related impact for the fourth quarter discretionary pension plan contribution (2016: \$0.04 vs. 2015: \$0.02).



# 2017 Financial Outlook

	2016 Actuals		2017
	As Reported	New Rev Rec <sup>(1)</sup>	Outlook <sup>(1)</sup>
<b>Net Sales (\$B)</b>	<b>24.1</b>	<b>24.1</b>	<b>24.8 - 25.3</b>
<b>Deferred Revenue Adjustment (\$M)<sup>(2)</sup></b>	<b>(77)</b>	<b>(77)</b>	<b>(33)</b>
<b>Amortization of Acquired Intangibles (\$M)<sup>(2)</sup></b>	<b>(121)</b>	<b>(121)</b>	<b>(127)</b>
<b>FAS/CAS Adjustment (\$M)</b>	<b>435</b>	<b>435</b>	<b>428</b>
<b>Interest Expense, Net (\$M)</b>	<b>(216)</b>	<b>(216)</b>	<b>(216) - (221)</b>
<b>Diluted Shares (M)</b>	<b>297</b>	<b>297</b>	<b>291 - 293</b>
<b>Effective Tax Rate</b>	<b>28.3%</b>	<b>28.3%</b>	<b>~31.5%</b>
<b>EPS from Continuing Operations<sup>(3)</sup></b>	<b>\$7.44</b>	<b>\$7.55</b>	<b>\$7.20 - \$7.35</b>
<b>Operating Cash Flow from Cont. Ops. (\$B)</b>	<b>2.9</b>	<b>2.9</b>	<b>2.8 - 3.1</b>

(1) Effective January 1, 2017, the Company adopted the new revenue recognition standard, Accounting Standards Update 2014-09. The 2016 Actuals - New Rev Rec and the 2017 Outlook above reflect this change.

(2) Deferred Revenue Adjustment and Amortization of Intangibles represent the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value and the amortization of acquired intangible assets, respectively, for all of the business segments.

(3) 2016 EPS from Continuing Operations included the \$0.53 tax-free gain for the second quarter TRS transaction.

# 2017 Effective Tax Rate

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<b>2016 Effective Tax Rate</b>	<b>28.3%</b>
2016 TRS transaction	1.8%
Stock Compensation Impact	0.8%
Other	0.6%
<b>2017 Effective Tax Rate</b>	<hr/> <b>~31.5%</b>

# 2017 Financial Outlook: By Business

	2016 Actuals - As Reported		2016 Actuals - New Rev Rec <sup>(1)</sup>		2017 Outlook <sup>(1)</sup>	
	Net Sales (\$B)	Operating Margins (%)	Net Sales (\$B)	Operating Margins (%)	Net Sales (\$B)	Operating Margins (%)
<b>IDS</b>	5.5	17.3% <sup>(2)</sup>	5.5	17.6% <sup>(2)</sup>	5.7 - 5.9	15.5 - 15.7%
<b>IIS</b>	6.2	7.5%	6.2	7.6%	5.9 - 6.1	7.4 - 7.6%
<b>MS</b>	7.1	13.0%	7.1	13.0%	7.5 - 7.7	13.1 - 13.3%
<b>SAS</b>	6.2	13.2%	6.2	13.1%	6.3 - 6.5	13.1 - 13.3%
<b>Forcepoint</b>	0.6	9.0%	0.6	15.4%	0.6	10.0 - 11.0%
<b>Eliminations</b>	(1.4)	(141M)	(1.4)	(142M)	(1.4) - (1.5)	(\$145M) - (\$150M)
<b>Total business segment</b>	<b>24.1</b>	<b>12.7%<sup>(2)</sup></b>	<b>24.2</b>	<b>12.9%<sup>(2)</sup></b>	<b>24.8 - 25.3</b>	<b>12.4 - 12.6%</b>
<b>Deferred Revenue Adjustment</b>	(0.1)	(77M)	(0.1)	(77M)	(33M)	(33M)
<b>Amortization of Acquired Intangibles</b>	-	(121M)	-	(121M)	-	(127M)
<b>FAS/CAS Adjustment</b>	-	435M	-	435M	-	428M
<b>Corporate</b>	-	(57M)	-	(57M)	-	(\$80M) - (\$85M)
<b>Total</b>	<b>24.1</b>	<b>13.5%<sup>(2)</sup></b>	<b>24.1</b>	<b>13.7%<sup>(2)</sup></b>	<b>24.8 - 25.3</b>	<b>13.2 - 13.4%</b>

Amounts may not add due to rounding.

(1) Effective January 1, 2017, the Company adopted the new revenue recognition standard, Accounting Standards Update 2014-09. The 2016 Actuals - New Rev Rec and the 2017 Outlook above reflect this change.

(2) 2016 operating margin includes the \$158 million tax-free gain from the second quarter ThalesRaytheonSystems (TRS) transaction.

# 2017 Financial Outlook

	Outlook	
	Q1 2017	2017
Sales (\$M)	5,725 - 5,850	24,800 - 25,300
EPS	\$1.51 - \$1.55	\$7.20 - \$7.35
Operating Cash Flow from Continuing Operations (\$M)	0 - 100	2,800 - 3,100

# Pension Impact

\$ Millions	Current Projections*			
	2016 Actual	2017	2018	2019
<b>P&amp;L Impact</b>				
FAS Expense	(\$1,089)	(\$1,302)	(\$1,292)	(\$1,131)
CAS Recovery	(\$1,524)	(\$1,730)	(\$1,754)	(\$1,773)
FAS/CAS Adjustment	\$435	\$428	\$462	\$642
<b><u>Gross Funding Before CAS Recovery</u></b>				
Gross Funding Required	(\$170)	(\$777)	(\$1,025)	(\$1,001)
Discretionary Contribution	(\$500)	\$0	\$0	\$0
<b>Total Contribution</b>	<b>(\$670)</b>	<b>(\$777)</b>	<b>(\$1,025)</b>	<b>(\$1,001)</b>

\* Current projections for 2017 – 2019 are strictly based on an average FAS discount rate of 4.4% for all years and an actual return on assets of 6% for the year ending December 31, 2016, an assumed return on assets of 7.5% for all other years and no changes to any other actuarial assumptions or regulatory requirements. CAS recovery and funding requirements are based on the discount rates under the Bipartisan Budget Act of 2015, which are approximately 5.8% for 2017, 5.6% for 2018 and 5.4% for 2019.

Actual results will vary for 2017 – 2019 based upon actual returns, changes in actuarial assumptions, market conditions in effect at the time and other census data and regulatory requirements applicable for each year. Projections include pension and PRB.

A 25 basis point change from our current average U.S. Plan discount rate of 4.4% would impact the FAS/CAS Adjustment in 2018 by \$70M-\$80M.

Actual 2018 results are also dependent on factors other than discount rate as of 12/31/2017, including but not limited to, 2017 asset returns, demographic experience and the long-term return on asset (ROA) assumption.

# Acquisition Accounting Adjustments Outlook<sup>(1)</sup>

<b>(\$M)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Deferred Revenue Adjustment</b>	<b>\$33</b>	<b>\$11</b>	<b>\$2</b>
<b>Amortization of Acquired Intangibles<sup>(2)</sup></b>	<b>\$127</b>	<b>\$118</b>	<b>\$102</b>
<b>Total Acquisition Accounting Adjustments</b>	<b>\$160</b>	<b>\$129</b>	<b>\$104</b>

*(1) Deferred revenue adjustment and amortization of acquired intangibles represent the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value and the amortization of acquired intangible assets, respectively, for all business segments.*

*(2) Amortization of acquired intangible assets is based on the pattern in which economic benefits of intangible assets are being utilized.*

# Appendix

# Workdays in Fiscal Reporting Calendar

	Q1	Q2	Q3	Q4
2017	64	64	62	58
2016	65	64	63	57
Increase / (decrease)	(1)	0	(1)	1

	Q1	Q2	Q3	Q4
2016	65	64	63	57
2015	61	64	63	61
Increase / (decrease)	4	0	0	(4)