

ANNUAL FINANCIAL HIGHLIGHTS

(Dollars and shares in millions, except per-share and employee amounts)

2016 IN REVIEW

- Outstanding operating performance:
 - Revenue of \$31.4 billion, marked by growth in our defense business.
 - Record-high operating earnings of \$4.3 billion and operating margin of 13.7 percent increased 3.1 percent and 40 basis points, respectively, from 2015.
 - Return on sales reached a new high of 9.8 percent, an increase of 40 basis points over 2015.
 - \$9.87 of earnings from continuing operations per diluted share increased 8.7 percent from 2015 to the highest level in our history.
- 14.2 million outstanding shares repurchased for \$2 billion and \$911 paid in cash dividends, returning approximately 160 percent of our free cash from operations to shareholders.
- Return on invested capital (ROIC) of 18.1 percent, 70 basis points higher than 2015.
- Robust backlog, including several significant contract awards received in 2016, providing stability well into the future.

	2016	2015	2014	2013	2012
Summary of Operations					
Revenue	\$ 31,353	\$ 31,469	\$ 30,852	\$ 30,930	\$30,992
Operating earnings	4,309	4,178	3,889	3,689	765
Operating margin	13.7%	13.3%	12.6%	11.9%	2.5%
Interest, net	(91)	(83)	(86)	(86)	(156)
Provision for income tax, net	1,169	1,137	1,129	1,125	854
Earnings (loss) from continuing operations	3,062	2,965	2,673	2,486	(381)
Return on sales (a)	9.8%	9.4%	8.7%	8.0%	(1.2)%
Discontinued operations, net of tax	(107)	—	(140)	(129)	49
Net earnings (loss)	2,955	2,965	2,533	2,357	(332)
Diluted earnings (loss) per share:					
Continuing operations (b)	9.87	9.08	7.83	7.03	(1.08)
Net earnings (loss) (b)	9.52	9.08	7.42	6.67	(0.94)
Cash Flows					
Net cash provided by operating activities	\$ 2,198	\$ 2,607	\$ 3,828	\$ 3,159	\$ 2,645
Net cash (used) provided by investing activities	(426)	200	(1,102)	(363)	(642)
Net cash used by financing activities	(2,169)	(4,367)	(3,675)	(773)	(1,421)
Net cash (used) provided by discontinued operations	(54)	(43)	36	(18)	65
Cash dividends declared per common share	3.04	2.76	2.48	2.24	2.04
Financial Position					
Cash and equivalents	\$ 2,334	\$ 2,785	\$ 4,388	\$ 5,301	\$ 3,296
Total assets	32,872	31,997	35,337	35,473	34,285
Short- and long-term debt	3,888	3,399	3,893	3,888	3,884
Shareholders' equity	10,976	10,738	11,829	14,501	11,390
Debt-to-equity (c)	35.4%	31.7%	32.9%	26.8%	34.1%
Book value per share (d)	36.29	34.31	35.61	41.03	32.20
Other Information					
Free cash flow from operations (e)	\$ 1,806	\$ 2,038	\$ 3,307	\$ 2,723	\$ 2,209
Return on invested capital (f)	18.1%	17.4%	15.1%	14.1%	8.4%
Funded backlog	49,369	51,783	52,929	38,284	44,376
Total backlog	59,800	66,120	72,410	45,885	51,132
Shares outstanding	302.4	313.0	332.2	353.4	353.7
Weighted average shares outstanding:					
Basic	304.7	321.3	335.2	350.7	353.3
Diluted	310.4	326.7	341.3	353.5	353.3
Employees	98,800	99,900	99,500	96,000	92,200

Note: Prior period information has been restated to reflect the reclassification of certain items in accordance with Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which we adopted in 2016 as discussed in Note A to the Consolidated Financial Statements in Item 8.

- (a) Return on sales is calculated as earnings (loss) from continuing operations divided by revenue.
- (b) 2012 amounts exclude the dilutive effect of stock options and restricted stock as it was antidilutive.
- (c) Debt-to-equity ratio is calculated as total debt divided by total equity as of year end.
- (d) Book value per share is calculated as total equity divided by total outstanding shares as of year end.
- (e) See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a reconciliation of net cash provided by operating activities to free cash flow from operations, a non-GAAP management metric.
- (f) See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for the calculation of return on invested capital (ROIC), a non-GAAP management metric. 2012 ROIC was adjusted for a \$2 billion goodwill impairment and associated \$199 tax benefit.