

LEIDOS HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash Flow Hedges

The Company has interest rate swap agreements to hedge the cash flows of a portion of its variable rate senior secured term loans (the "Variable Rate Loans"). The objective of these instruments is to reduce variability in the forecasted interest payments of the Company's Variable Rate Loans, which is based on the LIBOR rate. Under the terms of the interest rate swap agreements, the Company will receive monthly variable interest payments based on the one-month LIBOR rate and will pay interest at a fixed rate. In February 2018, the Company entered into interest rate swap agreements to hedge the cash flows of an additional \$250 million of its Variable Rate Loans. The interest rate swap agreements on \$1.1 billion of the Company's Variable Rate Loans had a maturity date of December 2021 and a fixed interest rate of 1.08%. The interest rate swap agreements on \$300 million and \$250 million of the Company's Variable Rate Loans both had a maturity date of August 2022 and fixed interest rates of 1.66% and 2.59%, respectively. The counterparties to these agreements are financial institutions.

In September 2018, the Company terminated its existing interest rate swaps. The net derivative gain of \$60 million related to the discontinued cash flow hedge remained within accumulated other comprehensive loss and is being reclassified into earnings over the remaining life of the original hedge as the hedged variable rate debt impacts earnings.

Additionally, in September 2018, the Company entered into new interest rate swap agreements to hedge the cash flows of \$1.5 billion of the Company's Variable Rate Loans. These interest rate swap agreements have a maturity date of August 2025 and a fixed interest rate of 3.00%.

The interest rate swap transactions were accounted for as cash flow hedges. The gain (loss) on the swap is reported as a component of other comprehensive income (loss) and is reclassified into earnings when the interest payments on the underlying hedged items impact earnings. A qualitative assessment of hedge effectiveness is performed on a quarterly basis, unless facts and circumstances indicate the hedge may no longer be highly effective.

The effect of the Company's cash flow hedges on other comprehensive (loss) income and earnings for the periods presented was as follows:

	Year Ended		
	January 3, 2020	December 28, 2018	December 29, 2017
	(in millions)		
Total interest expense, net presented in the consolidated statements of income in which the effects of cash flow hedges are recorded	\$ 133	\$ 138	\$ 140
Amount recognized in other comprehensive (loss) income	\$ (55)	\$ (7)	\$ 10
Amount reclassified from accumulated other comprehensive loss to interest expense, net	(7)	(6)	—

The Company expects to reclassify gains of \$1 million from accumulated other comprehensive loss into earnings during the next 12 months.