2017 SUSTAINABILITY REPORT

THE

SCIENCE

OF

CITIZENSHIP

LOCKHEED MARTIN

ABOUT THIS REPORT

This is Lockheed Martin's seventh sustainability report, published annually in April on sustainability.lockheedmartin.com. Unless otherwise noted, this report includes global data and activities for the calendar year 2017, from Lockheed Martin's corporate offices and four business segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems and Space.

GRI Index: This is our sixth year using the Global Reporting Initiative (GRI) framework, the world's most widely used sustainability reporting framework. This report has been prepared in accordance with the GRI Standards: Core option, the latest guidelines. The GRI Index is available on our sustainability website.

Assurance: DNV GL, an independent third party, assured this report, including the Lockheed Martin Sustainability Management Plan performance indicators and select GRI indicators. Verification details are in the assurance statement.

Contact us with questions or for more information:
Sustainability.lm@lmco.com

ABOUT THE COVER

CREATING A FRAMEWORK FOR INNOVATION AND GROWTH

Through industrial 3D printing, known as additive manufacturing, Lockheed Martin brings design engineers to the factory floor to produce parts, layer-by-layer, that previously could not be built. The unique characteristics of 3D printing practices can allow for gains in resource efficiency, such as rapid prototyping, less amounts of materials used, reduced inventory levels, and estimated lower greenhouse gas (GHG) emissions over the full life cycle of a part. We are studying how life cycle assessments can further identify environmental and social impacts at different points of 3D printing processes.

GRI GOLD Community — Lockheed Martin Corporation 2018

THIS IS LOCKHEED MARTIN

BUSINESS OVERVIEW

Lockheed Martin is a publicly traded global security and aerospace company. We research, design, develop, manufacture, integrate and sustain advanced technology systems, products and services, and provide management, engineering, technical, scientific, logistics, systems integration and cybersecurity services. Our mission is to solve complex challenges, advance scientific discovery and deliver innovative solutions to help our customers keep people safe.

Our primary customers are U.S. and allied government agencies. Other customers includes commercial entities in various sectors, such as energy and transportation. In 2017, we employed approximately 100,000 people worldwide and generated net sales of $51.0 billion. We are headquartered in Bethesda, Maryland, U.S. We own or operate more than 590 facilities in 50 U.S. states and have business locations in more than 50 nations and territories.

Proxy Statement   Annual Report

[1] In 2017, 69 percent of our $51.0 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 58 percent from the Department of Defense (DoD), 30 percent were from international customers (including foreign military sales contracted through the U.S. Government) and 1 percent were from U.S. commercial and other customers.
[2] Foreign military sales to governments and direct commercial sales to international customers.
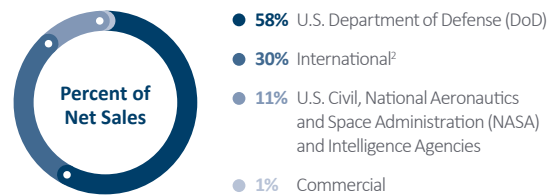[3] Includes salaries, global supply chain and other expenses.
[4] Reflects recognized income tax expense at 63.4 percent rate, inclusive of the impacts of U.S. tax reform. Excluding that impact, the effective income tax rate from continuing operations was 26.5 percent.
[5] As of December 31, 2017. Does not include contract workers, interns or employees of certain subsidiaries or joint ventures.
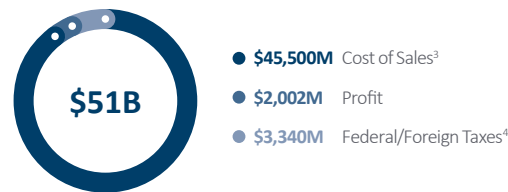[6] Local country nationals.

OUR BUSINESS IMPACT[1]

CUSTOMERS

Percent of Net Sales

- **58%** U.S. Department of Defense (DoD)
- **30%** International[2]
- **11%** U.S. Civil, National Aeronautics and Space Administration (NASA) and Intelligence Agencies
- **1%** Commercial

ECONOMIC IMPACT

$51B

- **$45,500M** Cost of Sales[3]
- **$2,002M** Profit
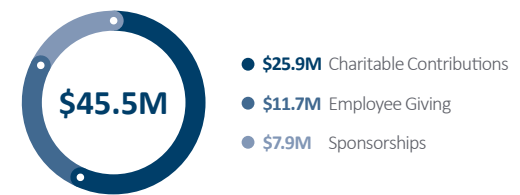- **$3,340M** Federal/Foreign Taxes[4]

HOW WE ARE ORGANIZED

We operate in four business segments: Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems (RMS) and Space, previously known as Space Systems. We organize our business segments based on the nature of the products and services offered.

Aeronautics $20.1B, 39%: Research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies.

Missiles and Fire Control $7.2B, 14%: Design and develop air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support and integration services; manned and unmanned ground vehicles; and energy management solutions.

SOCIAL IMPACT[5]

$45.5M

- **$25.9M** Charitable Contributions
- **$11.7M** Employee Giving
- **$7.9M** Sponsorships

COUNTRIES WITH 200+ EMPLOYEES

- **93,751** U.S.[5]
- **1,664** U.K.[6]
- **842** Australia
- **1,702** Poland
- **967** Canada
- **260** New Zealand

Rotary and Mission Systems $14.2B, 28%: Design, manufacture, service and support for a variety of military and commercial helicopters, ship and submarine mission and combat systems, mission systems and sensors for rotary and fixed-wing aircraft, sea and land-based missile defense systems, radar systems, the Littoral Combat Ship (LCS), simulation and training services and unmanned systems and technologies.

Space $9.5B, 19%: Research and development, design, engineering and production of satellites, strategic and defensive missile systems and space transportation systems.

NET SALES

39%	14%	28%	19%
$20.1B	$7.2B	$14.2B	$9.5B
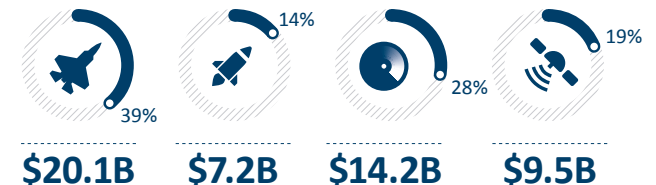
CEO LETTER

Marillyn Hewson
Chairman, President and CEO

In today's complex and dynamic world, innovation is more critical than ever for achieving our shared aspirations for sustainable progress.

At Lockheed Martin, the imperative to innovate has always been at the center of how we do business. And because of our commitment to our core values – to do what's right, respect others, and perform with excellence – we are driven to innovate with purpose and integrity in everything we do.

As we look around the world, it is clear that governments and businesses face a host of 21st century challenges.

Technology has accelerated the pace of change and made the global economy more connected than ever. With increased trade and interconnectedness, we have seen global security threats grow in their potential impact – from the cost of debilitating cyber attacks to asymmetric warfare and economic contagions. We have also seen governments and industry identify other risks, such as climate change, which demand far-sighted action and collaborative efforts to ensure effective environmental stewardship.

In light of these challenges and more, Lockheed Martin's team of scientists, engineers, and innovators is dedicated to setting clear goals to create visionary solutions to drive progress.

This report demonstrates just some of the exciting work we are doing – and how we are increasing the efficiency and reducing the environmental footprint of our business.

In this report, you can see that we continued to find ways to integrate sustainability and effective risk-management practices to inform our strategic decisions at the highest levels in 2017. And we made great strides in assessing and managing aspects of our business performance. This enabled us to determine how risks and opportunities in the corporate governance, social, and environmental realms could impact our bottom line, and more importantly, our communities and stakeholders.

Ultimately, we saw strong business performance and solid progress toward achieving our Sustainability Management Plan objectives for 2017. These results indicate the positive impact that proactively sustainable business practices have had on our success.

As we look at our strategy for growth in years to come, we consider five core areas:

Business Integrity: We cultivate a culture of ethical conduct with employees, and we conduct business with the utmost integrity.

Product Impact: We focus on continually improving the efficiency of our design and production processes in order to deliver safe, reliable, and affordable products and services to our customers.

Employee Wellbeing: We create an inclusive and engaging workplace environment that fosters a spirit of innovation and encourages high performance.

Resource Efficiency: We pioneer technologies and implement processes to mitigate risks and protect the environment.

Information Security: We secure our infrastructure and operations against cyber security attacks and expand access to these preventive technologies to our customer base.

Throughout this report, you will learn more about how each of these core areas shape the execution of sustainable practices across our enterprise. You will also see case studies that illustrate how we support our customers, provide value to our stockholders, engage our employees, strengthen our communities, and protect the environment.

As a leader in solving complex challenges, advancing scientific discoveries, and delivering innovative solutions to protect global security, we recognize the potential for us to have a positive impact and influence on the future. For this reason, we are committed to being good corporate citizens and exemplifying sustainable and ethical business practices that mirror Lockheed Martin's core values.

The results documented in this report are a credit to the 100,000 men and women of Lockheed Martin who come to work to make a difference each day. They reflect the vision, values, and sense of mission that enable our strong performance and drive future growth. And they underscore the imperative for each individual and every corporation to create the innovations and embrace the sustainable practices that will ensure a brighter tomorrow.

OUR APPROACH

OUR APPROACH
We create solutions to global challenges for a better tomorrow.

OUR SUSTAINABILITY MISSION
To foster innovation, integrity and security to protect the environment, strengthen communities and propel responsible growth.

We built and launched the WorldView 4 remote sensing satellite for DigitalGlobe. The imaging technology on board the spacecraft is so precise it can help locate remote areas around the world, enabling humanitarian aid missions to reach every community in need.

THE SCIENCE OF CITIZENSHIP

At Lockheed Martin, the Science of Citizenship means engineering solutions that enable safe, resilient, modern societies for generations to come. We apply sound science and forward thinking to improve and defend critical transportation, communication and energy infrastructure on behalf of governments and commercial entities.

As a large-scale aerospace and defense company, we are uniquely positioned to develop technology and apply systems thinking to address society's sustainability and resiliency challenges. We enable some of the smartest thinkers on the planet to deliver innovative products and services backed by unwavering ethics, strong governance and a commitment to safety and security for our stakeholders and communities.

OUR APPROACH (CONTINUED)

DEFENDING WHEN DISASTER STRIKES: Military products are often the first line of protection and relief during and after an emergency. They enable responders to clear debris, locate missing people, build temporary shelters and provide food, water and medicine to citizens.

By innovating multi-use solutions with relief capabilities, Lockheed Martin equips governments to respond quickly, efficiently and effectively to meet citizens' immediate needs and rebuild communities.

GROWING POPULATIONS IN AT-RISK AREAS

About 3.9 billion people worldwide live in urban areas. This number is expected to surpass six billion by 2045, with most growth happening in the developing world.[1]

Many of the world's largest cities are in low-lying, disaster-prone coastal areas, which amplifies risk, especially for the most vulnerable population sectors.[2]

INCREASING NATURAL DISASTERS AND ADVERSE WEATHER INCIDENTS

In 2017, earthquakes, landslides, floods and hurricanes wreaked havoc in every region of the world. Since 1970, the number of disasters worldwide has more than quadrupled to around 400 per year.

The U.S. alone has sustained 219 weather and climate disasters since 1980 where overall damages and costs reached or exceeded $1 billion. The total cost of these 219 events exceeds $1.5 trillion.[3]

LIMITED RESOURCES FOR NATURAL DISASTER RESPONSE

In 2017, the U.S. experienced the most expensive hurricane season ever.[4] There were 16 weather and climate disaster events with losses exceeding $1 billion each, resulting in the deaths of 362 people and a cumulative cost of $306.2 billion, a new U.S. annual record.[5]

LOCKHEED MARTIN PROVIDES SOLUTIONS

EXTREME WEATHER PREPAREDNESS:

We designed and built the **Geostationary Operational Environmental Satellite-S (GOES-S)** weather satellite, which will dramatically improve the speed, accuracy and detail of weather forecasts, including improved hurricane tracking and intensity forecasts and increased thunderstorm and tornado warning lead time.

OUTCOME
Enhanced climate risk modeling through better satellite data.

ADVANCED AERIAL MEDICAL CARE:

The **Sikorsky S-76D emergency medical service helicopter** provides in-flight medical services while flying in diverse environmental conditions. One of the safest and most fuel-efficient helicopters of its kind, the **S-76D** is designed to aid in medical emergencies and search-and-rescue missions.

OUTCOME
Military-grade aircraft used for medical evacuation and rescue missions.

REMOTE RELIEF AND CARGO DELIVERY:

The **C-130J** can land in remote and disaster-torn areas, delivering more than 40,000 pounds of relief aid. Its spacious cabin is equipped to stabilize and medevac 97 injured survivors to safety. The **Hybrid Airship** is designed to land on grass, sand, water or ice, delivering up to 200 tons of supplies and equipment to the most remote locations.

OUTCOME
Humanitarian relief and rescue missions reach remote, low-infrastructure areas.

CLEAN ENERGY AND GRID STABILITY:

Our advanced gasification system converts biowaste into synthetic gas, providing low-emission energy for industrial processes. Our **Grid Star™** energy storage solutions help regulate periods of peak energy demand, alleviating stress on electric grids and lowering energy costs for customers.

OUTCOME
More resilient electric grids and better integration of renewable energy leads to less outages.

RESCUE MISSIONS:

Indago 2, our five-pound unmanned aerial system (UAS), enhances search and rescue missions. It can cover up to seven miles, using infrared sensors to find high-risk individuals and people lost in low-visibility environments.

OUTCOME
Quicker response times with lower safety risks during rescue efforts.

Sources: [1] www.un.org [2] www.economist.com [3] www.ncdc.noaa.gov [4] Sullivan, B. 2017. "The Most Expensive U.S. Hurricane Season Ever: By the Numbers" Bloomberg. 26 November 2017. [5] www.ncdc.noaa.gov

OUR APPROACH (CONTINUED)

SUSTAINABLE SOLUTIONS FOR A COMPLEX AND CHANGING WORLD

MEGATRENDS SHAPING OUR ACTIONS

For the past few years, we have tracked five major trends pertinent to our operations: Global Connectivity, Geopolitical Crises, Changing Workforce, Confidence in Institutions and Climate Resiliency,

Sustainability and Our Business Model

Aerospace and defense contractors play an important role in addressing a range of challenges facing global society. Lockheed Martin is committed to solving those challenges by developing products and services that protect and strengthen systems for global cooperation and everyday societal needs.

Government agencies are our primary customers. They use our solutions to help manage risks associated with geopolitical conflicts, economic and environmental challenges and critical infrastructure security. For example, our satellites provide enhanced weather forecasting that improves climate monitoring, ecosystems management and emergency preparedness. Our manned and unmanned vehicles reduce accidents and improve the safety and efficiency of humanitarian aid missions. We work with government and industry clients to stabilize energy grids in physical and cyber domains to give growing populations better access to reliable, cleaner energy.

Sustainability is a key element of our business model for innovation and growth. It allows us to operate efficiently and exceed customer needs, which are important aspects of our long-term business planning. Sustainable thinking permeates wide-ranging strategies in areas such as technology research and development, talent management, facilities operations and supply chain management. Connecting sustainability priorities to our business model is how we continue to grow as a global innovation leader and perform with excellence.

GLOBAL CONNECTIVITY

Growing connectivity among people and markets is swiftly increasing the exchange of information and ideas. The world is creating data faster than ever before, with experts predicting a tenfold rise to 163 zettabytes by 2025. Nearly 20 percent of this data will be critical to people's daily lives and almost 10 percent of that portion will be hypercritical, meaning it could directly impact users' health and wellbeing.[1]

HOW BIG IS A ZETTABYTE?

1T GIGABYTES

163 ZETTABYTES

1 ZETTABYTE

1B TERABYTES = 1M PETABYTES = 1K EXABYTES

This phenomenon, coupled with rapidly accelerating network connectivity, calls for organizations to secure, analyze and use data in responsible, transformative ways. To protect data from threats, we engineer solutions such as the Cyber Kill Chain®, which protects our data and our customers' data from attacks and heightens our understanding of adversaries' tactics and techniques.

The infrastructure supporting connectivity has expanded to include a vast network of digital systems moving data instantaneously around the world. Lockheed Martin satellites power many of these connected systems, allowing better national security, faster relief efforts and everyday conveniences – personal devices like global positioning system (GPS) navigation and mobile communications.

Lockheed Martin Solutions:

• In 2018, we will launch GPS III, the most powerful GPS satellite ever built. The technology we are adding to GPS III will provide new capabilities to our military, enhanced accuracy and resiliency and enable greater user connectivity with a new internationally-shared navigation satellite civil signal.

• Satellites enable the Internet of Things (IoT), physical objects that connect to the Internet and each other for improved efficiency, safety and data-driven decision-making. We enhanced our LM2100 satellite platform to accommodate the rapidly expanding IoT footprint and customers' connectivity demands.

[1] *Source: Data Age 2025: The Evolution of Data to Life-Critical, by David Reinsel, John Gantz and John Rydning, IDC, April 2017.*
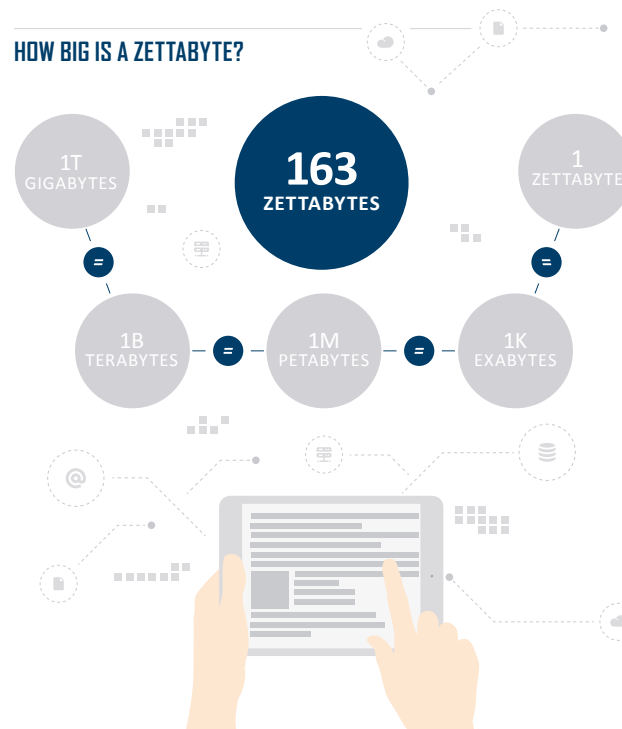
OUR APPROACH (CONTINUED)

GEOPOLITICAL CRISES

Economic stress, resource shortages, terrorism and other adverse events can threaten the prosperity and security of nations worldwide. When disaster strikes, governments must quickly remedy infrastructure damage and address humanitarian needs, which can be difficult in remote areas, rugged terrain or harsh conditions. We help our customers overcome these challenges with space-based, air, land and sea products.

Lockheed Martin Solutions:

- In the midst of an international conflict, our Universal Communications Platform enables military personnel to quickly set up mobile command centers and coordinate with multiple agencies and relief organizations using one infrastructure.

- Our Terminal High Altitude Area Defense (THAAD) is one of the most advanced missile defense systems in the world. Its ability to intercept mid- and short-range missiles protects high-value infrastructure and citizens' lives.

CHANGING WORKFORCE

Several dynamics are reshaping the way companies manage their workforces. Workers are aging, younger generations have different job expectations, there's a shortage of science, technology, engineering and math (STEM) skills, and workers are becoming a mix of full-time employees, contractors and freelancers. Autonomous systems, artificial intelligence (AI), robotics and manufacturing automation present another challenge: how to balance human and machine labor for the highest productivity, efficiency, innovation and social good.

Lockheed Martin Solutions:

- We partnered with Discovery Education to expand the Generation Beyond curriculum for students and educators, exposing thousands of students to STEM education and space exploration opportunities.

- We combine human expertise and AI systems though our FORTIS™ exoskeleton to boost users' power, speed and mobility. FORTIS analyzes and replicates individual walk patterns, learning where to give the user additional torque, power and mobility to carry heavy loads quickly with minimal effort. This technology can help manufacturing employees perform repetitive tool operations on the factory floor, reduce injuries and lessen fatigue.

CONFIDENCE IN INSTITUTIONS

According to a 28-country survey published in 2017, the average level of trust in business, media, government and non-governmental organizations (NGOs) is below 50 percent. Citizens do not trust institutions to operate morally, yet they do expect companies to improve social and economic conditions where they operate. As the world's largest defense contractor, we embrace our role to uphold high ethical standards in our operations and product designs. We partner with customers, academia, suppliers and other stakeholders on ethical issues arising from the proliferation of big data, AI and augmented reality.

Lockheed Martin Solutions:

- Through our award-winning ethics program, we train our leaders and suppliers to continually evaluate and uphold ethical standards.

- We help our suppliers strengthen their ethics controls and business conduct compliance activities. We accepted the Defense Industry Initiative's Model Supplier Code as equal to our own, leading to a commonly accepted industry standard code of conduct.

CLIMATE RESILIENCY

Many governments are contending with strains on natural resources and energy systems, along with the need to pursue sustainable development. We partner with business and government customers on climate adaptation

and mitigation measures including energy management, energy storage and renewable energy production. In North America, Lockheed Martin enables utilities to manage and reduce electric load during peak usage times and maintain grid stability as they integrate more diverse energy sources. Internationally, we install waste-to-energy and tidal energy solutions for customers at varying scales.

Lockheed Martin Solutions:

- Lockheed Martin is pioneering new technology for the National Aeronautics and Space Administration (NASA) to help scientists better understand the planet's carbon cycle and vegetation health. The Geostationary Carbon Cycle Observatory (GeoCARB) mission, which launches in 2022, will examine infrared wavelengths to measure carbon dioxide, carbon monoxide and methane in the earth's atmosphere, and solar induced fluorescence, a measure of vegetation health.

- The AR1500 tidal energy turbine, designed by Lockheed Martin, was deployed by Atlantis Resources Limited off the coast of Scotland. The 1.5 megawatt (MW) turbine is part of the My Gen project, the largest planned tidal energy project in the world. Atlantis aims to deploy nearly 270 turbines with a total capacity of about 400 MW of energy, enough to power 175,000 homes.

270
TIDAL TURBINES GENERATE CAPACITY OF 400 MW

175k
HOUSES
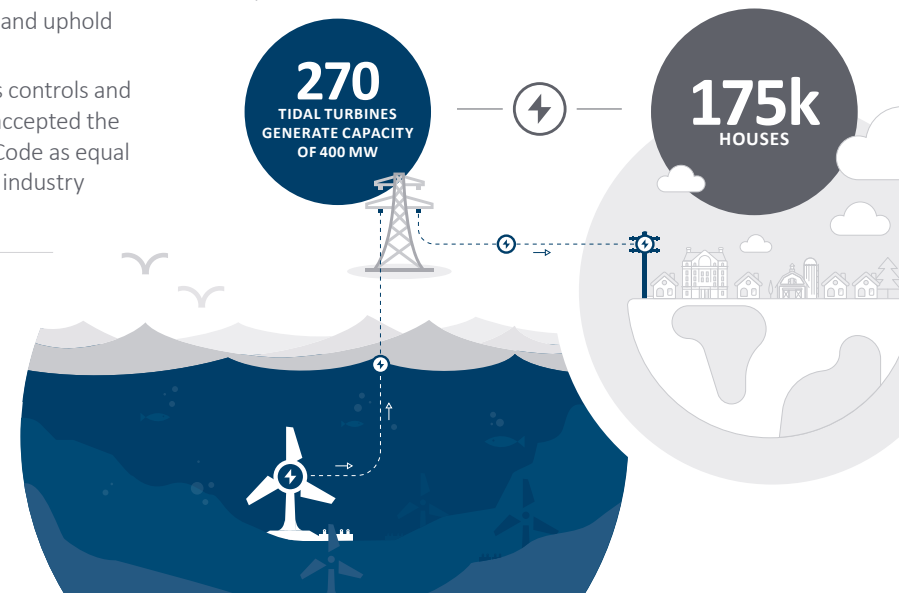
PARTNERS IN CITIZENSHIP

ENGAGING WITH TRUST, TRANSPARENCY AND ACCOUNTABILITY

Our stakeholders are our customers, employees, investors, suppliers, community leaders and organizations that partner with us to implement sustainable business practices. To make sure our sustainability agenda and priorities are relevant and meaningful to society, we ask stakeholders for feedback through our core issues assessments and ongoing topic-specific outreach.

Formal and informal stakeholder engagement is an integral part of our business. It allows us to learn, have candid conversations about the challenges we face and understand how we can be better partners. Talking to people from diverse organizations and regions often reveals new insights into how we can further evolve and integrate our sustainability strategy for positive impact on our business, our constituents and society.
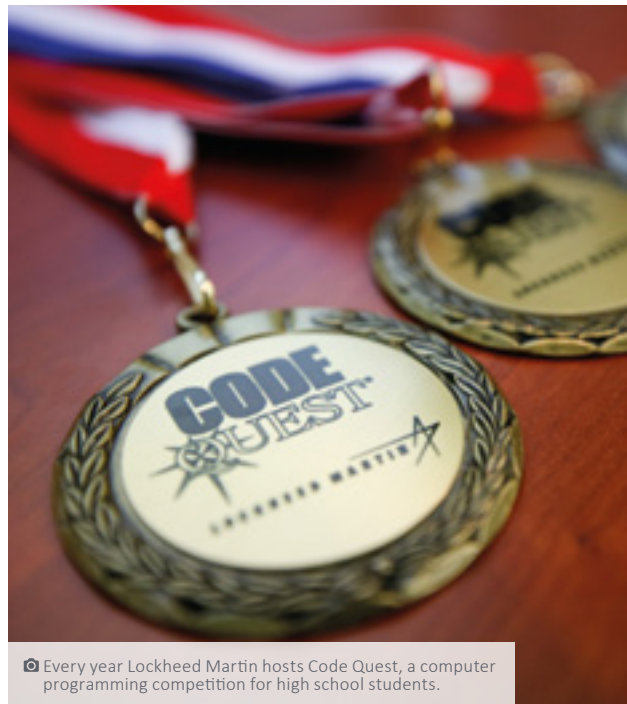
📷 Every year Lockheed Martin hosts Code Quest, a computer programming competition for high school students.

OUR VALUED STAKEHOLDERS

Who they are	How we engage them
ACADEMIC INSTITUTIONS ▶	We partner with top-tier universities, including minority serving institutions (MSIs), on research and development of next-generation technologies, talent recruitment initiatives and programs to promote STEM careers.
CUSTOMERS ▶	We conduct focus groups and meetings with governments and corporations which use our products and services to get feedback on how we can improve our product efficiency and tailor our portfolio to address global needs.
EMPLOYEES ▶	We regularly solicit feedback from employees at all levels and business segments to gauge our performance on key sustainability issues ranging from diversity and inclusion to resource efficiency and business integrity.
INVESTORS ▶	Recently, ⧉investors have been asking many corporations, including us, to demonstrate how our company addresses societal and environmental issues. We communicate with them directly and through our sustainability reporting to respond to questions and concerns.
NON-GOVERNMENTAL ORGANIZATIONS (NGOS) ▶	We ask for feedback from membership organizations and philanthropic program partners to ensure our ethical controls are effective and our sustainability strategy has meaningful community impact.
SUPPLIERS ▶	We educate and provide resources to our suppliers on how to build, sustain and expand business relationships with Lockheed Martin. We help our partners establish strong ethics programs that reinforce anti-corruption measures and reflect our corporate values.

LEADING WITH INTEGRITY

> Sustainability provides a framework for innovation and growth. Lockheed Martin challenges its engineers and business partners to improve the resiliency of our enterprise and create technologies that master the science of citizenship.

Leo S. Mackay, Jr.
Senior Vice President
Internal Audit, Ethics and Sustainability

[1] *Effective immediately following the 2018 Annual Meeting, the Nominating and Corporate Governance Committee and the Ethics and Sustainability Committee will be consolidated into one committee under the name Nominating and Corporate Governance Committee. The committee restructuring is aimed at making meetings more efficient, eliminating redundancies and providing more time for discussion. The consolidation of the committees will not result in any less coverage of items within the jurisdiction of either of the two committees.*

THE VALUE OF GOOD GOVERNANCE

Sound governance ensures we consistently lead with integrity, are transparent in our decision-making and exhibit our values in all of our actions. This includes how we manage and monitor the economic, social and environmental impacts we generate. We purposefully integrate sustainability into core business decisions. We have leadership councils in several areas that periodically evaluate our sustainability activities, including:

- Production operations
- Risk and compliance
- Environmental, health and safety
- Supply chain

Our primary government customers have high expectations for transparency in areas such as small business procurement, workforce planning and risk management. We meet and exceed their compliance measures in our company policies and procedures for several business practices including business conduct, anti-corruption controls and data security. We voluntarily execute strategies to reduce GHG emissions, increase water and energy efficiency, implement diversity and inclusion initiatives and set industry standards in ethics and supply chain.

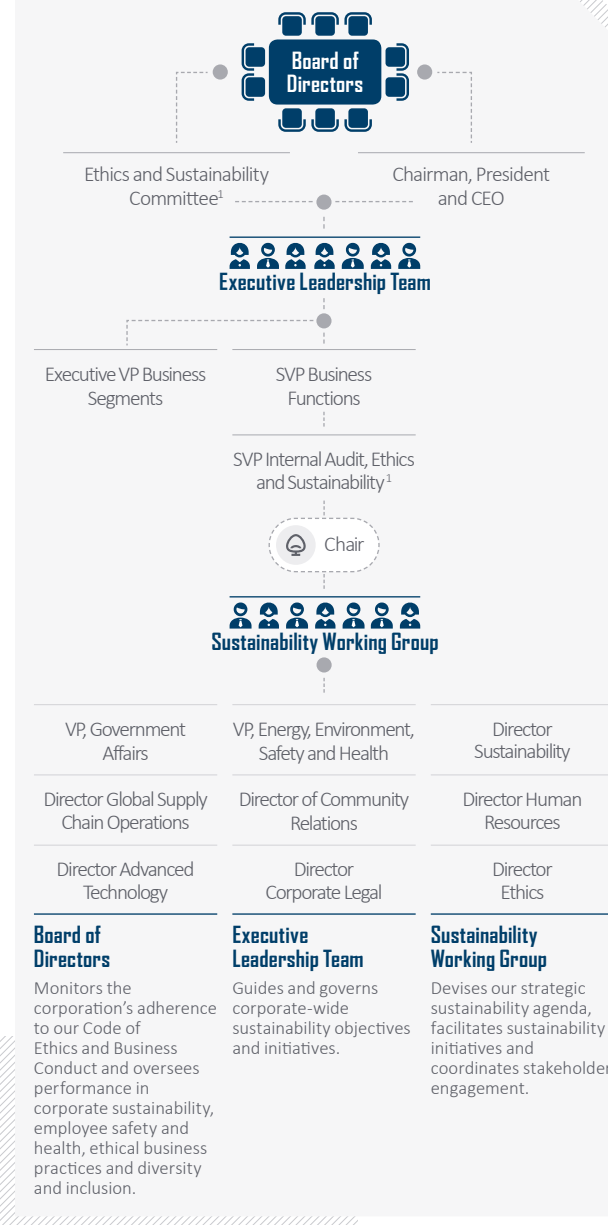### Sustainability Governance at Lockheed Martin

Our formal sustainability governance structure includes our Board of Directors, executive leadership team and key functional leaders who implement sustainability initiatives in our operations. Our lead sustainability executive is a Senior Vice President (SVP), signaling this role's importance to Lockheed Martin and reinforcing our commitment to create value for customers, stakeholders, employees and communities. In addition to overseeing sustainability and enterprise risk, our SVP of Internal Audit, Ethics and Sustainability participates in internal governance of philanthropic grantmaking and corporate venture capital investments.

📣 HIGHLIGHTS

Our corporate sustainability policy guides integration across the business.

🔗 Read our policy guidelines

Our Sustainability Governance Structure

Board of Directors

Ethics and Sustainability Committee[1]   Chairman, President and CEO

Executive Leadership Team

Executive VP Business Segments   SVP Business Functions

SVP Internal Audit, Ethics and Sustainability[1]

Chair

Sustainability Working Group

VP, Government Affairs	VP, Energy, Environment, Safety and Health	Director Sustainability
Director Global Supply Chain Operations	Director of Community Relations	Director Human Resources
Director Advanced Technology	Director Corporate Legal	Director Ethics

Board of Directors
Monitors the corporation's adherence to our Code of Ethics and Business Conduct and oversees performance in corporate sustainability, employee safety and health, ethical business practices and diversity and inclusion.

Executive Leadership Team
Guides and governs corporate-wide sustainability objectives and initiatives.

Sustainability Working Group
Devises our strategic sustainability agenda, facilitates sustainability initiatives and coordinates stakeholder engagement.

AN INTEGRATED APPROACH

OBJECTIVE

Our sustainability strategy aligns stakeholder priorities with our corporation's environmental, social and governance (ESG) impacts. We take a formal, structured approach to determine our most relevant sustainability issues, objectives and performance measures. We regularly track and disclose progress against our objectives, reassess our issues and repeat the cycle.

A MORE COORDINATED APPROACH TO SUSTAINABILITY AND ENTERPRISE RISK

We see sustainability as a way to augment how we manage risks and opportunities based on long-term outcomes. In 2017, we placed sustainability and enterprise risk management (ERM) under one department to align their business relevancy and broaden each program's impact. This department is managed by our SVP, Internal Audit, Ethics and Sustainability. Because of this strategic alignment, our risk assessments explicitly probe sustainability factors, our sustainability goals tracking informs risk mitigation plans more efficiently and our overall reporting is better able to disclose relevant ESG topics. Our risk assessments and sustainability performance inform scenario planning exercises by management teams, enhance business strategy elements such as human capital and manufacturing, and bolster our comprehensive risk controls, such as corporate policies and internal audits.

These benefits extend to the rest of our business. Our Employee Wellbeing core issue emphasizes talent recruitment and talent development, two factors essential to identifying critical skills and helping employees reach their full potential. In alignment with our Information Security core issue, we educate and direct suppliers to resources to strengthen their abilities to counter data security and privacy threats, which are integral to our buying decisions. We teach small and disadvantaged businesses how to increase operational efficiency, secure contracts and manage ethics and sustainability impacts as stressed in our Business Integrity core issue.

REFRESHED PERFORMANCE MEASURES

In 2015, we conducted a core issues assessment see graphic that identified five core sustainability issues and 26 performance measures for our Sustainability Management Plan (SMP). Twelve of the 26 measures had 2017 end dates, with others expiring in 2020.

In late 2017, we implemented a comprehensive, inclusive process to evaluate refreshing all measures ending that year. We held internal stakeholder workshops with nearly a dozen teams; evaluated feedback from institutional investors and ESG research firms; referenced enterprise risk mitigation plans; and examined frameworks such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the Committee of Sponsoring Organizations of the Threadway Commission (COSO).
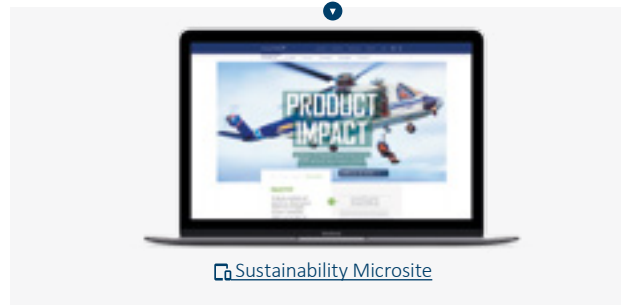
We encountered two challenges during this process: 1) finding performance measures applicable enterprise-wide rather than to one particular business segment and 2) establishing forward-thinking measures that do not compromise proprietary data if publicly disclosed. Our teams worked through these issues and identified several measures with 2020 end dates that are both meaningful and appropriately transparent.

We will begin reporting these measures in our 2018 report when full-year performance data are available.

OUR FOCUSED AGENDA

LOCKHEED MARTIN SUSTAINABILITY CORE ISSUES AND FACTORS

In 2015, we identified five core sustainability issues which are detailed throughout this report. Each core issue has Tier 1 factors—areas in which our business can have significant impact. We seek to accelerate performance related to our Tier 1 factors by setting goals with completion dates between 2017 and 2020. Tier 2 factors are important issues our stakeholders would like us to address. Although we do not have specific target dates for Tier 2 factors, we communicate our progress, management processes and core issues assessment details on our sustainability website.

[Sustainability Microsite](#)

Product Impact aligns our customers' needs, our product portfolio and global trends.

Tier 1

Global Infrastructure Needs
Total Cost of Ownership
Product Safety
Counterfeit Parts Prevention

Tier 2

Product Eco-Innovation

Resource Efficiency harmonizes business resiliency and accelerates carbon reduction through improved energy and water management, materials conservation and increased renewable energy use.

Tier 1

Energy and Carbon Management

Tier 2

Remediation
Hazardous Materials and Chemicals Management

Business Integrity calls for responsible leadership, integrity and ethical conduct in all aspects of our business.

Tier 1

Ethical Governance and Leadership
Anti-Bribery and Corruption Controls
Supplier Conduct
Responsible Sales

Tier 2
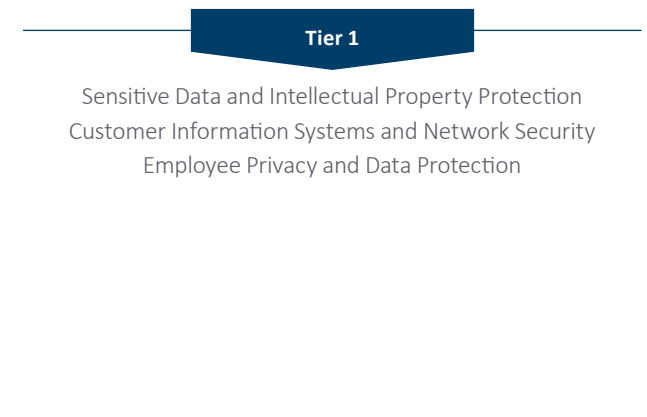
Human and Labor Rights
Supplier Diversity
Conflict Minerals

Employee Wellbeing reflects our support for people throughout the employee journey and fosters a high-performance, inclusive workplace.

Tier 1

Workplace Safety and Wellness
Talent Development
Talent Recruitment
Diversity and Inclusion

Tier 2

Science, Technology, Engineering
and Math (STEM) Education

Information Security emphasizes management and measurement of employee and customer data privacy and security.

Tier 1

Sensitive Data and Intellectual Property Protection
Customer Information Systems and Network Security
Employee Privacy and Data Protection

RELEVANT ISSUES, STRATEGIC PRIORITIES

We focus on five core sustainability issues and objectives. Each issue and how we manage it is detailed in the corresponding chapters of this report. We have evolved our five core issues in the following ways:

BUSINESS INTEGRITY

Advancing standards and controls for ethical business conduct that strengthen customer relationships, supplier partnerships and workplace integrity.

PRODUCT IMPACT

Delivering optimal life-cycle value by engineering innovative solutions for resilient energy, global security, telecommunications and other critical infrastructure.

EMPLOYEE WELLBEING

Creating a high-performance, inclusive workplace culture that engages employees and creates rewarding career paths for our current and future workforce.

RESOURCE EFFICIENCY

Increasing business resiliency and accelerating carbon reduction through improved energy and water management, materials conservation and increased renewable energy use.

INFORMATION SECURITY

Minimizing likelihood and impact of our security incidents on our business operations and customer missions and protecting business-sensitive, customer and personal information from external and internal threats.

PRODUCT IMPACT

INNOVATING ENERGY, SECURITY AND TELECOMMUNICATIONS INFRASTRUCTURE

BUSINESS INTEGRITY

ADVANCING ETHICAL CONDUCT

EMPLOYEE WELLBEING

FOSTERING A HIGH-PERFORMANCE, INCLUSIVE WORKPLACE

INFORMATION SECURITY

SECURING DATA FOR OUR OPERATIONS AND CUSTOMERS

RESOURCE EFFICIENCY

OPTIMIZING OUR ENERGY, WATER AND MATERIAL USAGE

A PURPOSEFUL SUSTAINABILITY MANAGEMENT PLAN

Our core issues, factors and goals create a clear roadmap for our sustainability activities and keep us focused on our priorities.

This dashboard summarizes our goals and timelines; details on our challenges and progress are in the core issues chapters. We also report against GRI Standards indicators in our online GRI Index.

PROGRESS KEY   ◉ Goal in progress   ● Goal met

BUSINESS INTEGRITY

FACTOR	GOALS	TARGET DATE	PROGRESS
Anti-Bribery and Corruption Controls	• Decrease violations of our consultant payment policy.	2017	●
	• Decrease violations of our customer hospitality policy.	2017	●
Supplier Conduct	• Increase participation in our virtual ethics supplier mentoring program.	2017	●
Responsible Sales	• Track the rate of improperly licensed exports of hardware or technical data under U.S. export regulations.	2017	●
Ethical Governance and Leadership	• Decrease rate of allegations of misconduct by leaders compared to overall workforce.	2020	◉
	• Increase employees' perceptions of ethical behavior in leaders.	2020	◉

PRODUCT IMPACT

FACTOR	GOALS	TARGET DATE	PROGRESS
Product Safety	• Track and report product failure or nonconformance due to manufacturing processes.	2017	●
Counterfeit Parts Prevention	• Maintain or reduce instances of counterfeit parts in delivered systems confirmed as our responsibility.	2017	●
Product Total Cost of Ownership	• Add criteria to fully identify cost drivers early in product design cycle within each business segment's proposal planning and proposal review processes.	2020	◉
	• Generate $1 billion in product life-cycle cost reductions, resulting in lower resource consumption and impacts on health and the environment.	2020	◉
Global Infrastructure Needs	• Achieve $4 billion in product sales with direct, measurable benefits to energy and advanced infrastructure resiliency.	2020	◉

EMPLOYEE WELLBEING

FACTOR	GOALS	TARGET DATE	PROGRESS
Workplace Safety and Wellness	• Achieve or outperform day away, recordable and severity case rate goals.	2017	●
Talent Development	• Maintain a lower voluntary attrition rate among top-performing salaried employees compared to those with lower performance.	2017	●
	• Increase succession planning for senior executives.	2020	◉
Diversity and Inclusion	• Develop the best workforce for our customers by increasing representation of women, minorities, veterans and people with disabilities.	2020	◉
	• Increase employee participation in company-sponsored diversity events, employee resource groups (ERGs) and leadership associations.	2020	◉
Talent Recruitment	• Achieve intern conversion rate of greater than, or equal to, 50 percent.	2020	◉

RESOURCE EFFICIENCY

FACTOR	GOALS	TARGET DATE	PROGRESS
Energy and Carbon Management	• Increase annual renewable energy consumption.	2017	●
	• Reduce energy use by 25 percent, scope 1 and 2 carbon emissions by 35 percent and water use by 30 percent.	2020	◉
	• Increase square footage of facilities with green building certifications.	2020	◉
	• Help energy customers reduce carbon emissions by at least twice the carbon impact of our business operations.	2020	◉

INFORMATION SECURITY

FACTOR	GOALS	TARGET DATE	PROGRESS
Customer Information Systems and Network Security AND Sensitive Data and Intellectual Property Protection	• Monitor employee cybersecurity engagement to counter malicious email threats and monitor number of vulnerabilities per device on core IT networks.	2017	●
	• Monitor data loss incidents that occur within core IT networks for business operations.	2017	●
	• We track another proprietary goal to improve data security.	2020	◉
Employee Privacy and Data Protection	• Achieve desired thresholds for identifying vulnerabilities to personal information exposure in our information technology (IT) systems.	2017	●

BUSINESS INTEGRITY

Space Based Infrared System (SBIRS) will be the latest satellite to enhance our military's ability to detect missile launches. SBIRS also detects other phenomena, such as wildfires, volcanic eruptions and space debris.

Find out more about this innovation on: www.lockheedmartin.com

BUSINESS INTEGRITY OVERVIEW

OBJECTIVE

To advance standards and controls for ethical business conduct that strengthen customer relationships, supplier partnerships and workplace integrity.

IMPORTANCE

We have applied rigorous systems thinking to our ethics programming for decades, which is why industry advocacy groups, customers and non-governmental organizations (NGOs) have long recognized us as a global leader in business ethics. Embedding ethics into our governance and leadership has helped us instill a culture of integrity throughout our operations and business dealings. It also makes us a reliable and worthy partner to customers, who trust us to develop and protect the critical infrastructure underpinning society. Our Code of Conduct dictates we do what's right for our employees, suppliers, customers and people who use our technology.

CHALLENGE

As we expand our international footprint, we conduct more business in new regions and employ more people outside the U.S. Our Code of Ethics and Business Conduct applies to all employees in all locations. The challenge is ensuring our comprehensive ethics and compliance program accounts for country-specific operational procedures and cultural norms that might affect how employees and partners interpret our message. We strive to respect diverse thinking and practices without compromising our high ethical standards.

Tier 1

Ethical Governance and Leadership
Anti-Bribery and Corruption Controls
Supplier Conduct
Responsible Sales

Tier 2

Human and Labor Rights
Supplier Diversity
Conflict Minerals

THE SCIENCE

We apply proven methodologies and innovative training techniques to cultivate ethical thinking among our employees and develop resources and tools to advance integrity across our industry.

OF CITIZENSHIP

Conducting business with the utmost integrity engenders trust and fosters a resilient value chain and a high-performing, transparent work environment. This not only attracts more customers and helps us retain the best talent, it reduces risk and ensures that the safety of societies and citizens will not be subverted by corruption.

ETHICAL GOVERNANCE AND LEADERSHIP

OBJECTIVE

Efforts to maintain consistent, transparent and high ethical standards and practices across our business.

MANAGEMENT

Ethical governance and leadership are critical to every corporation's reputation, profitability, talent recruitment and stakeholder relations. Lockheed Martin's ethics program requires our employees to act according to our core values: Do What's Right, Respect Others and Perform with Excellence. We expect employees to speak up without fear of retaliation when they see potential misconduct and empower them to resolve any ethical issues that may arise. This ethical culture starts with our leaders, who provide guidance and resources to help employees address their concerns.

Our Code of Ethics and Business Conduct (Code of Conduct), strong policies, ongoing ethics and compliance training and transparent reporting processes support our ethical culture. Every year, all active employees participate in live, values-based ethics awareness training (EAT) sessions conducted by their leaders. Our SVP, Internal Audit, Ethics and Sustainability

oversees our corporate-wide ethics and sustainability programs, including mandatory ethics and compliance training. This position reports to the CEO and Board of Directors for high-level accountability.

✅ GOALS

Decrease rate of allegations of misconduct by leaders compared to the overall workforce.

Progress: The rate of allegations of misconduct by leaders decreased by 3.3 percent, from 44.8 percent in 2016 to 41.5 percent in 2017.

Improve employees' perceptions of ethical behavior among leaders.

Progress: Our 2017 employee survey established a new baseline of 89 percent favorability in response to the question related to perceived ethical conduct among leaders. Lockheed Martin results outperform IBM's global benchmark of 83 percent favorability.

📢 HIGHLIGHTS

To engage employees and business partners around the world, we publish our Code of Conduct in English and 14 other languages on our external website. In 2017, we updated the Code to reflect changes in internal policies and make the resource more user-friendly for employees by clarifying the language and enhancing the attached reference materials.

We use investigation subject and reporting party feedback to improve our ethics investigations processes

🔗 Investigation Feedback Scores Chart

CASE STUDY
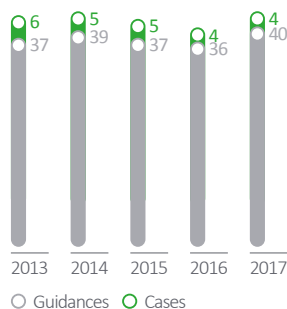## STRONG ETHICAL LEADERSHIP AND CULTURE

WHAT WE DID

In 2017, we engaged IBM to administer our annual employee engagement survey, which we redesigned to better measure our performance on critical behavioral and business attributes of our workplace culture. The survey gave employees the opportunity to confidentially share feedback to spark open, honest discussions that will drive organizational improvement and empower our leaders to take positive action. The survey measured key elements of business strategy execution, including leadership effectiveness, agility and innovation, employee experience and diversity and inclusion. We asked employees four questions about sustainability and gauged their desire to do more to improve the company's environmental impact. Fifteen questions assessed employees' perceptions of ethical behavior by company leaders and measured employees' comfort levels with reporting misconduct and seeking guidance. On seven of eight questions with global comparison data, Lockheed Martin significantly exceeded benchmark scores for perceived ethical leadership and culture (see chart below).

WHY IT MATTERS

Redesigning our survey allowed us to leverage global benchmarking data to analyze employee responses and better contextualize the results. We learned more about employees' perspectives and are taking action to address feedback and drive greater employee engagement. We gave leaders personalized, data-based reports and trained them to use their results to improve team communication and enhance their employees' experiences at Lockheed Martin.
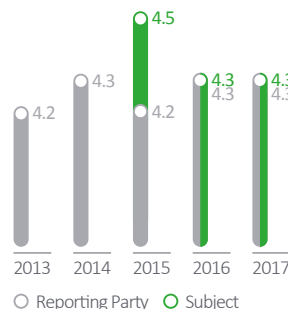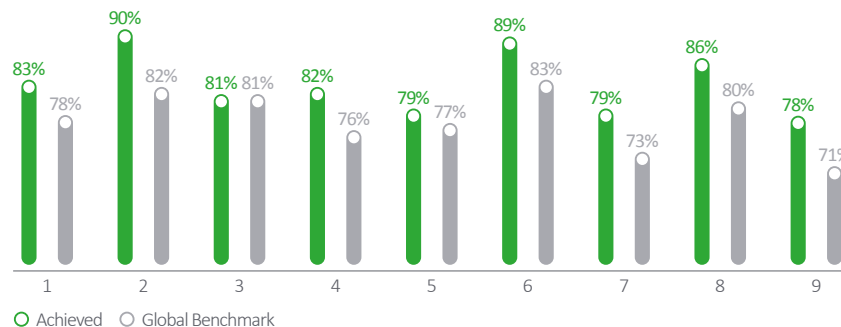
Ethics Contacts
(per 1,000 employees)

	2013	2014	2015	2016	2017
Cases	6	5	5	4	4
Guidances	37	39	37	36	40

○ Guidances ○ Cases

Investigation Feedback Scores
(Satisfaction is scored on a five-point scale)

	2013	2014	2015	2016	2017
Reporting Party	4.2	4.3	4.2	4.3	4.3
Subject			4.5	4.3	4.3

○ Reporting Party ○ Subject

IBM Benchmarking Data – Ethical Culture Survey Results

	1	2	3	4	5	6	7	8	9
Achieved	83%	90%	81%	82%	79%	89%	79%	86%	78%
Global Benchmark	78%	82%	81%	76%	77%	83%	73%	80%	71%

○ Achieved ○ Global Benchmark

1. *Overall composite Ethics Index score.*
2. *I do not feel pressure to compromise ethical or compliance standards to get my work done.*
3. *Unethical behavior is not tolerated at Lockheed Martin.*
4. *My manager treats employees fairly.*
5. *My manager keeps his/her commitments.*
6. *My manager supports and practices high standards of ethical conduct.*
7. *I can report unethical practices without fear of retaliation.*
8. *I am comfortable raising concerns about compliance or ethics with my manager.*
9. *My manager creates an environment of openness and trust.*

ANTI-BRIBERY AND CORRUPTION CONTROLS

OBJECTIVE
Efforts to prevent bribery and corruption among employees, suppliers and contractors.

MANAGEMENT
The high standards in our Code of Ethics and Business Conduct apply to all employees, Board members, consultants, contract laborers and other agents acting on Lockheed Martin's behalf, in every situation. Proper business conduct is not simply legal compliance to us; it is the way we operate. As our business expands and evolves, we try to mitigate the risk of bribery or corruption involving our company and stakeholders, which requires us to review customer demands, supply chain vulnerabilities and local cultural considerations. Our Legal, Ethics and Human Resources departments ensure that in all operations, we adhere to our Code of Conduct and corporate policies, which are, in many cases, more stringent than U.S. and other national laws.

For the 24th year in a row, 100 percent of active Lockheed Martin employees completed their required business conduct compliance training (BCCT). We assign BCCT courses by job function, role and level to educate employees on the laws and standards of conduct that apply specifically to their jobs, including, but not limited to, domestic and international anti-corruption laws. When possible, we use interactive training techniques to illustrate real-world examples of ethical gray areas and workplace processes.

📷 Soundproof antenna test chamber in our Advanced Technology Laboratory in Camden, NJ.

✔ GOAL

Decrease violations of our consultant payment and customer hospitality policies.

Progress: In 2017, no payments were made to consultants that were not in compliance with our internal policy, consistent with our 2016 results. In 2017, there were five instances where hospitality or business courtesies (all of de minimis value) were not in compliance with our internal policy, compared to 11 instances in 2016. Employees who did not follow the correct approval procedure received training on the policy and guidelines.

CASE STUDY
ZERO-TOLERANCE CORRUPTION POLICY

WHAT WE DID
A few years ago, one of our annual anti-corruption due diligence processes required a time-intensive, manual data review of employees' compliance with our policy on gifts, hospitality and other business courtesies. Over the last three years, our Internal Audit and Legal teams developed and implemented data analytics software to automatically detect more than two dozen "red flags" for noncompliance with this policy. The software connects to internal databases to analyze charitable contributions, employee awards, employee expense reports, employee bankcards and other transactions. In 2017, we replaced our manual process with the automated one. We updated our analytics and visualization technology and completed a full review of existing red flags and associated thresholds. We will launch a 2.0 version of the software in 2018.

WHY THIS MATTERS
Our business is subject to numerous anti-corruption and bribery laws and regulations prohibiting lavish or extravagant hospitality intended to improperly influence government officials. Our data analytics software improved the accuracy and speed of our oversight of compliant practices and helped ensure our anti-bribery and corruption performance consistently evolves to adhere to best practices.

Corruption erodes business relationships and public trust, which is why our due diligence processes are integral to our long-term success. Corruption ruins reputations, creates unfair competition, distorts markets, stifles economic growth and weakens government at all levels. No country, company or community is immune to the consequences of corruption, which is why we continue to innovate to reinforce our zero tolerance policy.

SUPPLIER CONDUCT

OBJECTIVE

Helping suppliers strengthen management and disclosure on ethical, labor, human rights and environmental issues.

MANAGEMENT

We see business value in maximizing transparency into where and how products are made, which requires due diligence and strong partnerships across the value chain. Managing finite natural resources, ethical business conduct, data protection and other supply chain risks is vital to product quality and profitability. We engage our suppliers to share best practices, validate their regulatory compliance and improve business management practices. We reference our Supplier Code of Conduct in all purchase orders to ensure active suppliers understand our expectations for their environmental, social and ethical performance. The Supplier Code is available in English and eight other languages on our ⬚ external supplier website.

Our Ethics department mentors small business suppliers and provides online resources to help them build effective ethics programs. Our Global Supply Chain Organization (GSCO) engages with all suppliers to build their business capacity and improve collaborative processes. We do this through supplier conferences and programs like our Supplier Mentoring Program, Supplier Training Excellence Program (STEP) and the Department of Defense (DoD) Mentor-Protégé Program (MPP). Our GSCO director is a member of the Sustainability Working Group and Supply Chain Council, which establish the strategic agenda for supply chain activities in all business segments and govern supply chain decisions and policies.

☑ GOAL

Increase participation by small business suppliers in our ethics supplier mentoring program.

Progress: In 2017, 10 companies participated in our one-on-one mentoring program and 266 companies participated in our online webinar series, compared to seven and 48 companies, respectively, in 2016. Seventy-seven percent of companies that participated in our ethics webinar series are Lockheed Martin suppliers.

📣 HIGHLIGHTS

**Supplier Sustainability Voluntary Assessment results.**

We surveyed suppliers who represent 48 percent of our supply chain spend; 77 percent of respondents were small businesses.

Our Global Emergency Operations Center (GEOC) monitors, analyzes and communicates information on threats and events that could impact the safety and security of our personnel, facilities and business operations. In 2017, we expanded our GEOC services to monitor select suppliers. In the first month of the pilot, the GEOC analyzed more than 800,000 threats with the potential to impact approximately 5,000 supplier locations in 43 countries.

📷 The SLS-Orion Suppliers conference.

Our diverse supply chain:

52% small businesses

25% service providers

13% distributors

93% U.S.-based

45% manufacturers
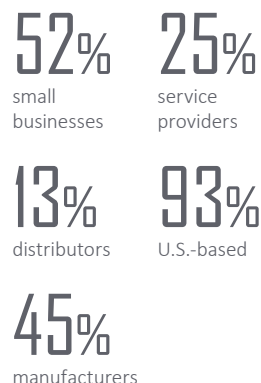
CASE STUDY
STRENGTHENING CYBERSECURITY

WHAT WE DID

New regulations for U.S. defense contractors requires all suppliers who handle sensitive data to have cybersecurity systems that meet stringent and standardized requirements. We issued two cybersecurity questionnaires to all affected suppliers to determine if they already complied with the new requirements or had plans in place to do so by the deadline. We launched a communications campaign to tell suppliers how the new policy defines their roles and responsibilities. The campaign included a Small Business Twitter Chat to discuss challenges, resources and emerging cybersecurity vulnerabilities. We are now updating our procurement policies to include internal risk assessments and mitigation plans for suppliers who have not yet complied with the regulation.

WHY THIS MATTERS

Failure to protect sensitive federal information can affect the U.S. government's ability to carry out its missions and operations, including those related to critical infrastructure and public safety. While our own security systems for sensitive customer data exceed compliance, we need our suppliers to comply with relevant standards and be resilient to cyber threats. Our communications campaign reduced the percentage of suppliers with unknown status by 90 percent, showing us who to target with further communications and resources. Our Small Business Twitter Chat had 2.6 million viewers, all of whom received resources and answers to frequently asked questions.

RESPONSIBLE SALES

OBJECTIVE

Efforts to ensure sales are conducted ethically and fairly, with careful consideration for export controls and trade policies, products' intended use and impact on civilian needs.

MANAGEMENT

All of our sales — domestic, international, commercial and governmental — are subject to our Code of Ethics and Business Conduct and all applicable U.S. and foreign laws and regulations, including those related to anti-corruption, import-export control, taxation, repatriation of earnings, exchange controls and the anti-boycott provisions of the U.S. Export Administration Act. We have procedures to mitigate corruption risks in all international and domestic dealings.

Our corporate policy, Compliance with Anti-Corruption Laws, sets forth requirements for conducting risk-based, anti-corruption due diligence before entering into proposed relationships with third parties including consultants and offset brokers, distributors, resellers, joint venture partners, teammates, suppliers and potential merger and acquisition counterparties. We require international consultants to undergo training on our Code of Ethics and Business Conduct and associated business conduct and anti-corruption policies.

We require suppliers conducting business in countries with Transparency International Corruption Perception Index (CPI) ratings below 50 to undergo additional screening before we begin contracting. This underscores our commitment to our Code of Conduct and anti-corruption laws of the countries in which we do business, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. We would rather walk away from business than risk violating these anti-corruption laws and our corporate values.

CASE STUDY
ROBUST INTERNATIONAL BUSINESS COMPLIANCE

WHAT WE DID

In 2017, we updated our corporate policies related to training, evaluating and working with business consultants in the U.S. and other countries. The updates strengthen the policy by clarifying contract requirements, defining terms and refining procedures for administering consultants hired for subsidiaries and joint ventures. For example, we require business-and region-specific risk assessments for all consultants, which may be subject to audits. All audits will, at minimum, review compliance with applicable anti-corruption requirement and review payments and consultant actions for compliance with the original contract.

WHY THIS MATTERS

We engage with consultants working outside the U.S. for, or on behalf of, Lockheed Martin. These individuals work with our business development teams to help facilitate sales, cultivate business relationships with non-U.S. customers and suppliers and help acclimate our sales teams to regional customs and procedures. Given their duties and locations, we take steps to ensure our international consultants consistently operate within our policies and execute contract terms without exception. Creating tailored risk assessments and audit plans is critical to maintaining a robust compliance program for our international business.

GOAL

Reduce the rate of improperly licensed exports of hardware or technical data under U.S. export regulations.

Progress: We do not disclose performance data deemed competitive and proprietary information.

📷 F-35 Lightning II is flown by several countries.

PRODUCT IMPACT

The Sikorsky S-92 helicopter has performed more than 91,000 search and rescue missions worldwide.

Find out more about this innovation on: www.lockheedmartin.com

PRODUCT IMPACT OVERVIEW

OBJECTIVE

To deliver optimal life-cycle value by engineering innovative solutions for resilient energy, global security, telecommunications and other critical infrastructure.

IMPORTANCE

By leveraging our employees' unique talents and experiences, we can deliver innovative, affordable solutions and unparalleled customer value. Our scientists, engineers and information technology professionals develop a broad portfolio of products and solutions for national defense, cybersecurity, logistics and energy. This portfolio supports the global advanced infrastructure needed for national security and citizen services and to strengthen critical systems at scale. Customers measure our value through product quality, cost and reliability. We build safety, resource efficiency and other dimensions of sustainability into each phase of the product life-cycle, from design to delivery. By recognizing the nexus between customer needs and sustainability and anticipating future trends and challenges, we design generation-after-next solutions that deliver greater value to our customers and society in terms of product impact and total cost of ownership.

CHALLENGE

The wide scope of our product portfolio requires constant vigilance on product durability and overall quality during intended use. It is challenging to yield the full environmental and social life-cycle value of our technologies and materials while providing the most commercially viable products, but we expect this to increase in importance to customers in the future. It will continue to affect our ability to forecast total cost of ownership for commercial and government customers.

Tier 1

Global Infrastructure Needs
Total Cost of Ownership
Product Safety
Counterfeit Parts Prevention

Tier 2

Product Eco-Innovation

THE SCIENCE

As a systems integrator, we continually improve the efficiency and functionality of our products and services – designing, implementing and bringing together technologies and software for our customers.

OF CITIZENSHIP

Our focus on performance and sustainability delivers safe, reliable, affordable products that support our customers' missions of national security, citizen services and sustainable development.

GLOBAL INFRASTRUCTURE NEEDS

OBJECTIVE

Bringing innovative products to market to help scale the advanced infrastructure required for sustainable development, future climate resiliency and national security efforts, and deliver reliable and secure energy, communications, logistics and systems that protect human health.

MANAGEMENT

Our company size and strategic partnerships allow us to scale our solutions regionally and nationally, creating global solutions at affordable prices to contribute to sustainable development. We periodically assess key global security priorities by country and strike partnerships with public and private sector research laboratories. We participate in stakeholder dialog on global infrastructure resiliency. At the World Economic Forum, the Global Grand Challenges Summit, the Business Roundtable and peer learning programs, we discuss global sustainability issues, challenges and opportunities with leading industry and government representatives. We use the input to develop technology suited to our stated mission: to solve complex challenges, advance scientific discovery and deliver innovative solutions to help our customers keep people safe. Several of these solutions lie in our energy portfolio, Lockheed Martin (LM) Energy, which delivers a comprehensive portfolio to help customers generate renewable, clean energy; store and distribute power more efficiently; and harness nuclear energy sources more safely.

We pay close attention to shifts in U.S. national security policy, listen to feedback on how our equipment is used on forward-operating military bases and explore how entrepreneurial technologists can disrupt conventional approaches to engineered solutions. LM Ventures makes strategic investments in early-stage companies developing disruptive, promising technologies related to our core businesses and new opportunities we want to pursue. Investing in technology through LM Ventures helps our business stay agile enough to provide solutions in a fast changing world. Our Senior Vice President of Internal Audit, Ethics and Sustainability is a member of the LM Ventures board, scoping emerging disruptive technologies related to our sustainability goals.

☑ GOAL

Achieve $4 billion in annual product sales with direct, measurable benefits to energy and advanced infrastructure resiliency.

Progress: In 2017, product sales that benefit energy and infrastructure resiliency totaled $2.1 billion towards a 2020 goal to annually exceed $4 billion.

CASE STUDY
ENERGY STORAGE POWERS PROGRESS

WHAT WE DID

The amount of electricity that can be generated in short timeframes is relatively fixed, but demand fluctuates widely, based on population density and weather. Lockheed Martin's GridStar™ energy storage systems are designed to make the electric grid more efficient, cost-effective, clean, stable, secure and responsive.

In 2017, we delivered GridStar Lithium energy storage systems for a variety of projects. These include projects that reduce electricity costs for commercial and industrial users, and those that enable solar energy to be stored and used at times of day when the utility needs it most. One project, an 8.5 megawatt hour (MWh) energy storage system in Ontario, Canada, is anticipated to reduce electricity costs on the industrial load it addresses by 15-30 percent per year. We are also developing our GridStar Flow systems, slated for external deployment in 2019. GridStar Flow systems feature Lockheed Martin's proprietary flow battery that offers flexible, durable, long-duration energy storage for utility-scale projects.

WHY THIS MATTERS

Energy storage systems can lower electricity costs, improve electric grid stability, reduce electric grid congestion during peak demand times and integrate intermittent renewable energy. By 2050, the world's population will increase by two billion people and energy demand will double. Energy Storage: Tracking the Technologies. GridStar solutions help energy providers respond to these growing needs by improving electric grid efficiency, resiliency and security and using the earth's resources more responsibly. Growing renewable energy generation varies with solar and wind conditions, which can challenge the electric grid as more renewable energy is deployed globally. GridStar energy storage can help integrate renewable wind and solar energy by storing energy until it is needed. These flexible technologies help utilities defer or offset costly infrastructure investments.

📷 GridStar Lithium energy storage system next to solar panels.

TOTAL COST OF OWNERSHIP

OBJECTIVE

Making our products more affordable by improving product quality, efficiency and performance, increasing resiliency and providing services to extend their useful lives.

MANAGEMENT

About 85 percent of the life-cycle cost of products in our sector is decided during the design phase. Design changes become significantly more expensive the later they occur in the life-cycle. Product design is what determines how the product will operate and what fuel and maintenance will be required. To reduce the total cost of ownership for our customers, we design sustainable features into our aircraft in the early stages of product development, such as reduced fuel requirements and low-cost, low-maintenance components for less expensive operation and maintenance. We use additive manufacturing techniques to reduce process time and costs. We try to understand the cost impact of every decision by applying proven systems engineering approaches.

We invest significantly in our Design for Affordability initiative to reduce total product life-cycle costs while preserving and even enhancing mission capabilities. Our goal is to help customers meet their long-term visions and constrain total cost of ownership.

LOCKHEED MARTIN—SERIES SATELLITE FAMILY

LM 50

LM 400

LM 1000

LM 2100

CASE STUDY
NEW SATELLITE SOLUTIONS SPEED PRODUCTION AND REDUCE COST

WHAT WE DID

In 2017, we introduced a family of versatile satellite solutions that, for the first time, share hundreds of standardized components to shorten time to market, reduce cost and increase reliability. The Lockheed Martin Space portfolio has 400 common parts, which drives millions in cost savings. The LM 400 is a class of satellite that demonstrates these advantages with a 20-30 percent price reduction thanks in part to investments in common components. As a result, we can build and launch an LM 400 faster than any of our legacy platforms of that size, in as little as 24-30 months. Making our small satellites more capable means we provide customers with lighter, less expensive launch options.

One of our goals was to pack more capabilities into smaller satellites, which we achieved partly by reducing component weights and increasing power. The new portfolio offers compact, scalable nanosatellites; small, more maneuverable models; a mid-size platform with room for more payloads; and a high-power vehicle capable of hemisphere-wide coverage at 22,000 miles away. The largest capacity satellite has 26 improvements for better power, flexibility and producibility. The new family incorporates dozens of major enhancements and technologies, such as virtual design prototyping and 3-D printing. Adding new capabilities to proven satellite solutions gives customers upgraded products that will be the gateway for space technology and future science and commercial exploration.

WHY THIS MATTERS

Our defense, scientific and commercial customers use satellites for advanced global positioning systems (GPS), weather forecasting, surveillance, communications and other applications critical to society. Their missions and needs change constantly, requiring a mix of orbit altitudes, small and large satellites and reconfigurable payloads to keep up with demands well after launch. By offering one satellite family, fully integrated with trusted components and end-to-end capabilities for every mission, we can meet our customers' current needs and respond to future performance expectations faster and more efficiently. Reducing unique components reduces production cost and delivery time. Shared components will continue to grow as our engineers design for commonality and advanced manufacturing in future generations of satellites.
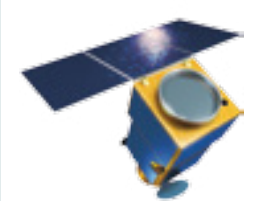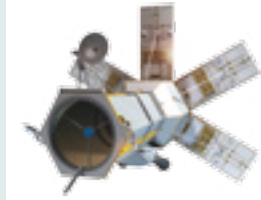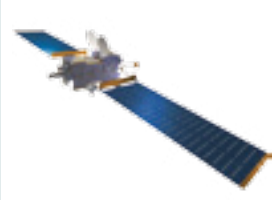
GOALS

Add design-to-cost (DTC) analysis criteria to each business segment's proposal planning and proposal review processes.

Progress: We deployed several DTC training modules to business and product development teams and further integrated DTC into senior review criteria.

Generate $1 billion in life-cycle cost reductions from products, resulting in decreased resource consumption and impacts on human health and the environment.

Progress: We conducted life-cycle assessment case studies on three products, identifying cost savings of $574 million versus business-as-usual scenarios.

We track another goal to improve total cost of ownership, but we do not disclose performance data we deem competitive and proprietary.

PRODUCT SAFETY

OBJECTIVE

Advancing rigorous safety and quality controls throughout design and manufacturing processes to ensure the use of our products and services does not pose uncontrolled or unacceptable risks to customers, employees, suppliers or the general public.

MANAGEMENT

Product safety depends on our commitment to quality and safety in our design and engineering principles, development and testing practices and sustainment processes. We account for human factors during product use to ensure our safety measures are realistic and relevant to customers. Our Quality, Mission Success and System Safety policy requires each business segment to have an independent quality assurance function reporting to their senior executive, and a quality management system (QMS) that meets or exceeds ISO 9001 standards. Our Aeronautics and Space business segments achieved certification in the International Aerospace Quality Group's AS9100D, a high standard for quality management. We require all suppliers to have a QMS that meets our requirements and we verify supplier quality through program-specific processes.

CASE STUDY

ADVANCING THE SAFETY AND EFFICIENCY OF AUTONOMOUS TECHNOLOGY

WHAT WE DID

In 2017, we opened the Lockheed Martin Autonomous Systems Facility in Littleton, Colorado, to advance our technology in military and everyday applications. The lab builds solutions such as the Squad Mission Support System, used to transport army packs and equipment, provide a mobile power source for troops in the field and support a variety of tasks including casualty evacuations. Also in 2017, the U.S. Defense Advanced Research Projects Agency (DARPA) awarded Sikorsky a contract for the third phase of development of the Aircrew Labor In-Cockpit Automation System (ALIAS), a drop-in, kit-based system that provides advanced automation and system intelligence to aircraft. The technology will reduce pilot workload and improve safety and reliability in low-visibility areas and difficult-to-navigate airspace.

WHY THIS MATTERS

Autonomous technology is entering almost every arena from consumer goods to military assets. According to a recent International Data Corporation Report, global revenues on cognitive and artificial intelligence (AI) technology – key aspects of autonomous systems – is forecast to reach $12.5 billion by 2018, up 59 percent year-over-year. Lockheed Martin has been involved in unmanned and autonomous systems on land, air and sea for five decades. Similarly, the Sikorsky MATRIX™ Technology is one of the most advanced autonomous systems intelligence programs in the world. Built with advanced sensors and coded to learn from each mission, autonomy can help users dynamically plan missions, execute tasks and adjust to environmental factors in the field. Our autonomous technologies improve the safety and efficiency of humanitarian aid, first response and other civil, commercial and military operations. Large optionally-piloted aircraft can perform cargo deliveries and fly in low-visibility spaces, keeping pilots and crew safe and freeing them to do high-value activities such as data analysis and weapons management.

SARA, the Sikorsky MATRIX test helicopter, tests our autonomous capabilities.

✓ GOAL

Track and report product failure or non-conformance due to manufacturing processes.

Progress: We do not disclose performance data we deem competitive and proprietary. We track measures specific to each of our lines of business that indicate the quality of our manufacturing processes.

COUNTERFEIT PARTS PREVENTION

OBJECTIVE
Efforts to prevent counterfeit parts from entering the company's supply chain and potentially affecting product quality, safety and performance.

MANAGEMENT
A 2012 U.S. Senate investigation identified approximately 1,800 instances of suspect counterfeit parts in the overall U.S. defense industry supply chain from 2009 to 2011. While that number has since decreased, we never want to see a counterfeit part in our products. The Government-Industry Data Exchange Program (GIDEP) is an information-sharing network between the federal government and industry participants. Manufacturers can originate GIDEP notices when they suspect parts are counterfeit. We participate in GIDEP through reporting and reviewing.

To further manage counterfeit risk, we use quality control processes to detect and mitigate suspected or confirmed counterfeit parts and promptly disclose them to the government and customer. The Corporate Counterfeits Avoidance Working Group manages our corporate policy on counterfeits prevention. It is made up of quality assurance and supply chain experts from each business segment and corporate function. Our policy states that all business segments must apply a risk-based approach to prevent, detect and mitigate counterfeit work. They administer a counterfeit work prevention training course that includes supply chain, quality, manufacturing and engineering education. The training builds awareness of counterfeits and teaches strategies to prevent, detect and mitigate them from entering our products.
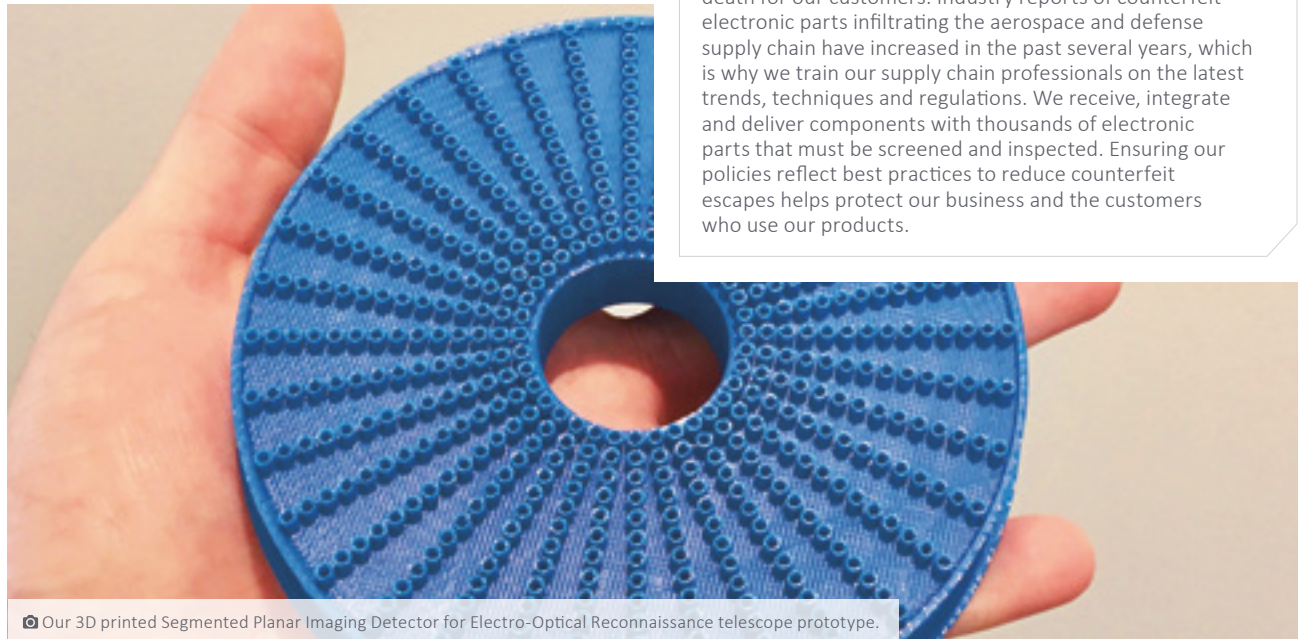
Lockheed Martin is an industry leader in counterfeit avoidance and we focus on continuous supply chain improvement and compliance. We collaborate with the Aerospace Industry Association and SAE International's G19 Counterfeit Electronic Parts Committee to develop common strategies and standards to reduce the risk of counterfeit parts. One of our employee leaders serves as chairman for the Counterfeit Avoidance Accreditation Program, a program to which Lockheed Martin subscribes.

☑ GOAL
Maintain or reduce instances of counterfeit parts before customer delivery and confirmed as our responsibility.

Progress: In 2017, one instance of suspected counterfeit materials escaped to end customers. After receiving a GIDEP alert, our Aeronautics business segment investigated and identified one suspected counterfeit incident. We documented the occurrence of the suspect component and notified the government customer. There was no impact to aircraft performance and no hazard to personnel or equipment.

CASE STUDY
PROTECTING OUR SUPPLY CHAIN FROM COUNTERFEIT PARTS

WHAT WE DID
In 2017, we updated our corporate-wide policy in response to the latest Defense Federal Acquisition Regulation Supplement conditions on counterfeit parts prevention. We now require each of our business segments to use a data-driven, risk-based counterfeit prevention process appropriate to their products and services. We provided additional guidance to our supply chain professionals on how to minimize counterfeits risk in electronics by procuring from a tiered category of suppliers. We will update our training for supply chain professionals to account for the new regulations in 2018. We used supplier conferences and our online resources to educate suppliers on the risk of counterfeit components. We also provided suppliers with our counterfeits parts prevention training module and training video.

WHY THIS MATTERS
In our line of work, this can potentially lead to product malfunction, which could cause personal injury and even death for our customers. Industry reports of counterfeit electronic parts infiltrating the aerospace and defense supply chain have increased in the past several years, which is why we train our supply chain professionals on the latest trends, techniques and regulations. We receive, integrate and deliver components with thousands of electronic parts that must be screened and inspected. Ensuring our policies reflect best practices to reduce counterfeit escapes helps protect our business and the customers who use our products.

📷 Our 3D printed Segmented Planar Imaging Detector for Electro-Optical Reconnaissance telescope prototype.

EMPLOYEE WELLBEING

Lockheed Martin donated $1.6 million in support of 2017 hurricane relief efforts. We also delivered more than 82,000 pounds of critical supplies to Puerto Rico in our LM-100J aircraft.

Find out more about this innovation on: www.lockheedmartin.com

EMPLOYEE WELLBEING OVERVIEW

OBJECTIVE

To create a high-performance, inclusive workplace culture that engages employees and creates rewarding career paths for our current and future workforce.

IMPORTANCE

A key to Lockheed Martin's success is enabling employees to apply their passion for purposeful innovation. This helps us attract and retain diverse talent who want to do meaningful work, and enhances our competitiveness as a next-generation technology company and employer of choice. We prioritize talent recruitment, talent development, workplace safety and diversity and inclusion to address changing workforce needs, meet customer needs and innovate for the future.

CHALLENGE

Because employees are our greatest asset, it is in our best interest to invest in all aspects of the employee experience. We recruit talent based on skill, diversity and program needs. The new world of work accelerates the demand for digital-based skills in a short amount of time, and we have pivoted our human resources priorities to meet the need. Our challenge is to provide business intelligence tools, skills development and targeted recruitment strategies to keep us and our employees ahead of evolving workforce trends.

Tier 1

Workplace Safety and Wellness
Talent Development
Talent Recruitment
Diversity and Inclusion

Tier 2

Science, Technology, Engineering and Math (STEM) Education

THE SCIENCE

Future space travel, autonomous machines and national defense arsenals rely on the scientists and technologists we hire to push the boundaries of their fields. We motivate employees through our development and inclusion programs, wellbeing and benefits programs and our mission to innovate a better future.

OF CITIZENSHIP

Talented, resilient and engaged employees drive performance and innovation. Our employees generate wide-ranging societal solutions to complex global challenges.

WORKPLACE SAFETY AND WELLNESS

OBJECTIVE

Efforts to manage work activities such as manufacturing and hazardous substances use with effective engineering controls and ergonomics to ensure a safe and healthy workforce and workplace.

MANAGEMENT

The corporate-wide Environment, Safety and Health (ESH) Leadership Council governs our workplace safety and health management strategy. Members meet at least quarterly to update and monitor our ESH Management System performance and review strategy. We invest in health and safety initiatives such as our beyond-compliance Target Zero program, which helps ensure safe work conditions, promotes workforce resiliency and enhances business value.

In 2017, we reinforced our leaders' commitment to proactively model safe behavior and engage employees on safety and health, underscoring our culture of safety and wellbeing. As an example, we encourage leaders to initiate conversations with their teams about safety and conduct routine safety floor checks. We hosted learning events during National Safety Month in June and engage with leaders on safety topics throughout the year. Our risk-based management approach promotes targeted safety interventions, addresses prioritized workplace risks and hazards and develops preventive processes to keep employees and contractors safe.

We build employee health and wellness awareness, emphasizing preventive care and support for impacted groups. We combine employee medical benefits coverage with other health-related programs, resources and amenities including on-site flu shots, medical centers, walking paths and healthy food services at several Lockheed Martin locations. Employees and their families have access to virtual benefits including a physical activity program, financial wellness resources and an employee assistance program. We motivate employees to make sustainable healthy lifestyle changes to build resilience and expand their capacity to perform.

GOAL

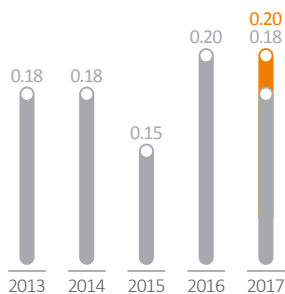Achieve or outperform day away, recordable and severity case rate goals.

Progress: In 2017, our day away rate was 0.18, our recordable injury rate was 1.08 and our severity case rate was 5.58, all of which outperformed our annual goals.
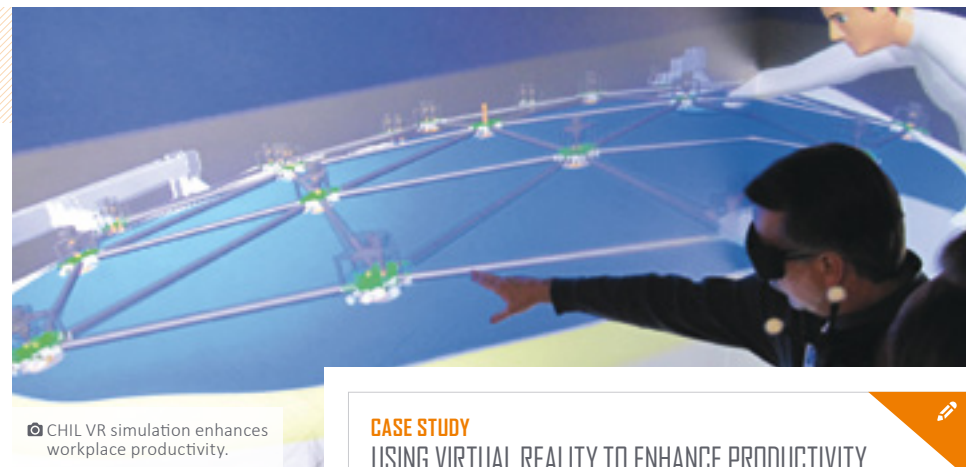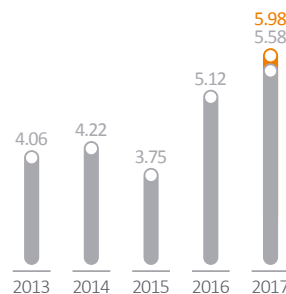

CHIL VR simulation enhances workplace productivity.
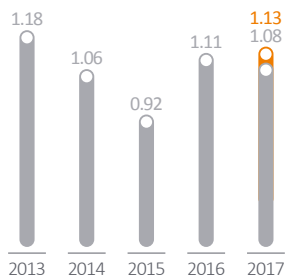
Workplace Safety Results[1]

Day Away Case Rate
2013: 0.18 | 2014: 0.18 | 2015: 0.15 | 2016: 0.20 | 2017: Goal 0.20, Achieved 0.18

Severity (Lost Days) Rate
2013: 4.06 | 2014: 4.22 | 2015: 3.75 | 2016: 5.12 | 2017: Goal 5.98, Achieved 5.58

Recordable Rate
2013: 1.18 | 2014: 1.06 | 2015: 0.92 | 2016: 1.11 | 2017: Goal 1.13, Achieved 1.08

○ Goal   ○ Achieved

[1] Our annual goals are set based on a two percent improvement over the average of our previous three years of performance. Metrics are reported by calendar year, and include all U.S. Lockheed Martin facilities which represent 93 percent of all Lockheed Martin employees. International employees and those operating in-theater (war zones) are not included in this data. Data is adjusted to reflect business changes: data from 2013-2015 includes former business segment Information Systems & Global Solutions (IS&GS); data beginning 2016 includes Sikorsky and excludes IS&GS. Each rate is calculated per 100 employees, working 40 hours per week for 50 weeks per year.

CASE STUDY
USING VIRTUAL REALITY TO ENHANCE PRODUCTIVITY

WHAT WE DID

Lockheed Martin's Collaborative Human Immersive Laboratory (CHIL) in Denver, Colorado, is one of the largest virtual reality (VR) laboratories of its kind. There, our product design and manufacturing teams test and validate products and manufacturing processes virtually before they physically design or build product components, tools and manufacturing equipment.

Among the CHIL teams' goals are to reduce operator fatigue and discomfort and maximize productivity by modeling the construction of ergonomically sound manufacturing equipment. Previously, engineers used existing modeling software and computer-simulated avatars positioned to represent human actions and postures. The avatar dimensions were accurate, but the simulations relied solely on engineers' assumptions and gave no feedback on whether actions caused fatigue, discomfort or difficulty. In 2017, CHIL engineers improved the simulations with motion tracking technology found in inexpensive commercial VR and gaming products. Using a VR headset, two handheld controllers and three body trackers, the team performed real-time ergonomics studies on people in a virtual build environment, letting them become full-body avatars and carry out the actions themselves.

WHY THIS MATTERS

Feedback from people physically performing movements in a virtual environment made ergonomics studies more beneficial to our simulation engineers, design engineers and program managers. The solution is scalable and easily deployed to other sites, eliminating the need for employees to travel to the CHIL for simulations. The new method creates higher quality environments and can be easily streamlined into computer aided design (CAD) workflows. Simpler modeling reduced avatar positioning time from 20 minutes to one minute, reducing engineering labor by 95 percent. By reducing labor, software and travel costs, we avoid an estimated $483,000 for every 10 projects.

TALENT DEVELOPMENT

OBJECTIVE

Efforts to ensure all employees have the knowledge, skills and work assignments to achieve performance goals in a dynamic business environment.

MANAGEMENT

We provide in-person, virtual and self-paced learning opportunities to equip our workforce with leadership and technical skills to advance critical infrastructure in a changing world. Our program management curriculum educates 800 to 1,000 managers and team members each year on corporate and business segment management skills. The Program Management Talent Initiative (PMTI) cultivates underrepresented candidates who have executive leadership potential. We track current and alumni PMTI participants' career paths to give qualified diverse talent opportunities to become executives in our key customer programs.

Lockheed Martin employees participate in an internal technology workshop.

GOALS

Maintain a lower voluntary attrition rate among top-performing salaried employees compared to those with lower performance.

Progress: We achieved a lower attrition rate among top performing employees compared to lower-performing employees in 2017.

Increase succession planning for senior executives.

Progress: In 2017, we enhanced capabilities in managing succession plans and talent development initiatives.

HIGHLIGHTS

2017 Continuous Learning Statistics:

3,568

employees participated in the tuition reimbursement program

516

early career leaders participated in the Leadership Development Conference

2,405

leaders participated in enterprise Leadership Development Programs (LDPs)

1,589

employees attended enterprise functional training programs (Finance, Capture, Corporate Strategy, Program Management); 775 participants in Program Management alone

CASE STUDY
DEVELOPING LEADERSHIP TALENT

WHAT WE DID

In 2017, we designed a pilot for our latest talent development program, Lead and Innovate for Tomorrow (LIFT). In this accelerated learning program, 28 high-potential, mid-level managers hone key leadership skills and behaviors over 15 months. The program emphasizes long-term business resiliency, scenario planning, flexibility and other skills to prepare managers to lead in a complex, changing world. Our executives identified LIFT pilot participants based on their readiness for accelerated career paths. LIFT includes six learning workshops, project work, peer coaching and direct leader engagement. We will perform pre- and post-program assessments to determine impact, duplicability and business relevancy. The program's unique nature encourages whole leader development to prepare them to be flexible amid rapid change, stay focused and take care of themselves so they can be there for others.

WHY THIS MATTERS

Given accelerating generational shifts, globalization and changing technology affecting today's workforce, implementing new talent development strategies is critical. Talent development programs like LIFT help us with succession planning for business continuity and resiliency. It is one way we can close the gap between executive leadership demands and our mid-level managers' readiness to lead at the strategic level. Our LIFT cohorts represent future leaders who will go on to set the course of our business. By bolstering their skills now, we position ourselves to meet future global challenges head-on.

TALENT RECRUITMENT

OBJECTIVE

Efforts to recruit employees with relevant skills and invest in a talent pool of future employees.

MANAGEMENT

We want Lockheed Martin to be the employer of choice for the best scientists, engineers and technologists. We also want to build a robust talent pipeline across all roles and teams. Our recruitment strategy covers our experienced professional, hourly, college and critical skill segments. With this multi-pronged strategy, we can meet our current and future talent needs.

College recruitment and intern hiring are integral to building a pipeline of future talent. In 2017, we updated our recruiting strategy to account for evolving market factors, including leveraging new, innovative channels to attract diverse talent. We focus on internships, early talent identification, outlying educational programs, co-ops, apprenticeships and pre-apprenticeships across the corporation to support our customers' evolving needs.

CASE STUDY
INVESTING IN A SKILLED LABOR FORCE

WHAT WE DID

In December 2016, our Missiles and Fire Control (MFC) business segment initiated a multi-year partnership with Valencia State College in Orlando, Florida, to develop advanced manufacturing talent. Our Machine Equipment Grant allows students to train on the additive manufacturing equipment we use in our facilities. We recruit skilled assemblers, machinists, welders and heating, ventilation and air conditioning (HVAC) technicians who graduate from this advanced program.

WHY THIS MATTERS

We require a skilled labor force to bring our advanced solutions to market. Just as we invest heavily in the engineers who design and develop our products, we must invest in technicians to assemble and manufacture them. Our additive manufacturing technology and stringent quality standards cut down on production time, costs and quality issues, allowing us to deliver reliable products and technology. Historically, finding local manufacturing talent trained in our way of production has been difficult. By investing in a technician pipeline, we build a deep pool of employees skilled in advanced manufacturing. As of 2017, we have hired 30 skilled manufacturing employees from the Valencia State program, of whom 66 percent are minorities, 33 percent are women and 20 percent are veterans.

✔ GOAL

Achieve an intern conversion rate of greater than, or equal to, 50 percent.

Progress: During the 2017 academic year, we hired 54.7 percent of our former interns, exceeding our intern conversion rate goal.

📷 Employees assembling the forward bay cover for the Orion spacecraft.

DIVERSITY AND INCLUSION

OBJECTIVE

Efforts to create a workplace where all employees are treated fairly, inclusively and without discrimination, where a range of nationalities and cultures is represented and where there are equal professional opportunities regardless of gender, race, age or ability.

MANAGEMENT

Diversity encompasses employee characteristics derived from birth, life experiences and decisions. Our diversity initiatives create a workplace where all employees feel welcome, respected, engaged and encouraged to bring their full selves to work to drive business success. We treat employees fairly, inclusively and without discrimination; we ensure a range of nationalities and cultures is represented; and we offer equal professional opportunities to all employees, regardless of gender, race, age or ability.

Lockheed Martin CEO Marillyn Hewson leads the Executive Inclusion Council (EIC), a team of senior leaders championing our diversity and inclusion efforts. Supported by the EIC, key initiatives include diversity and inclusion education and expanded Employee Resource Groups (ERGs). The Global Diversity and Inclusion team conducts focus groups and surveys across the corporation to get stakeholder feedback on our inclusion initiatives. The EIC closely examines feedback and executes plans to enhance and advance these efforts.

GOALS

Develop the best workforce for our customers by increasing representation of women, minorities, veterans and people with disabilities.

Progress: In 2017, we increased representation of minorities by 4.2 percent and of people with disabilities by 14 percent, but we saw a slight decline in our representation of women (-1.3 percent) and veterans (-0.1 percent) compared to 2016 workforce demographics. Our employee population grew from about 97,000 in 2016 to 100,000 in 2017.

Increase employee participation in company-sponsored diversity events, ERGs and leadership associations.

Progress: We saw an average increase of 34 percent participation in seven of eight minority leadership associations. We held more than 1,300 ERG events across the corporation with 44,000+ attendees.

HIGHLIGHTS

We publish an annual Global Diversity and Inclusion Report highlighting our vision for a workplace culture where diverse talents and perspectives power innovative solutions for our customers and drive business success.

Lockheed Martin actively engages K-12 and college students through STEM outreach.

CASE STUDY
A DIVERSE WORKFORCE FUELS OUR FUTURE

WHAT WE DID

Building on our recently launched Minority Serving Institution (MSI) Strategy to address labor market challenges and create a more robust pipeline of diverse talent, we executed a new engagement strategy and expanded our academic research support. MSIs, which include historically black colleges and universities (HBCUs) and Hispanic-serving institutions (HSIs), are rich, often untapped sources of STEM talent, research capabilities and technology expertise. Since 2014, we have implemented STEM education and recruiting initiatives at 23 MSIs and funded programs supporting student achievement, teacher development and gender and ethnic diversity. In 2017, we engaged many MSI alumni and received commitments from 20 executives to advocate for their assigned MSIs.

Part of our strategy is to engage MSIs in subcontracting, technology transfer and cooperative education opportunities, allowing our scientists and engineers to advance new technology while supporting the institution's research priorities. In 2017, we selected three MSIs to work with us on programs such as the Orion deep-space exploration capsule we are building for the National Aeronautics and Space Administration (NASA). We awarded each school a five-year contract of up to $5 million to offer students the opportunity to design, produce and test real-world components. The students are engaged in manufacturing and analysis processes, allowing them to contribute to cutting-edge technology. Initiatives like this help fill the need for diverse STEM talent in the market and help us attract and prepare MSI students for careers in technology.

WHY THIS MATTERS

African-Americans, Hispanics, Native Americans and Alaskan natives represent 31 percent of the U.S. population, yet they hold just 11 percent of science and engineering jobs Women, Minorities and Persons with Disabilities in Science and Engineering Report released January 31, 2017. Many face obstacles early on, such as lower-tier public schools, lower participation in college STEM programs and lack of access to technology. Through our MSI strategy, we expose minority students and faculty to stimulating career opportunities, showcase our culture of innovation and identify talent for current and future Lockheed Martin roles. These initiatives help us attract and retain the best science and engineering minds while enabling people to apply their passion for purposeful innovation and give us the benefits of a diverse workforce.
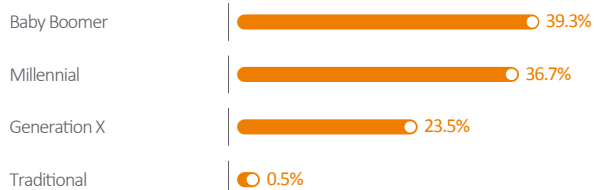
DIVERSITY AND INCLUSION
(CONTINUED)

DIVERSITY AND INCLUSION MISSION

Diversity and inclusion are the foundation of our culture, and reflect our values of doing what's right, respecting others and performing with excellence. By leveraging our employees' unique talents and experiences, we deliver innovative, affordable solutions and unparalleled customer value.
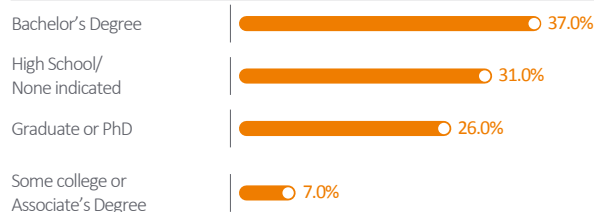
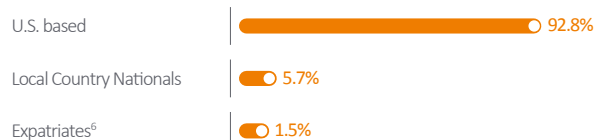## Workforce Profile 2017[1]

● All employees

Generation[2]

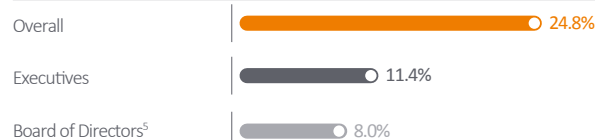|	
Baby Boomer	39.3%
Millennial	36.7%
Generation X	23.5%
Traditional	0.5%

Education[2]

Bachelor's Degree	37.0%
High School/None indicated	31.0%
Graduate or PhD	26.0%
Some college or Associate's Degree	7.0%

Region

U.S. based	92.8%
Local Country Nationals	5.7%
Expatriates[6]	1.5%

Company Demographics 2017[2]

● Overall   ● Executives   ● Board of Directors

Women

Overall	22.5%
Executives	20.2%
Board of Directors[3]	33.3%

Minorities[4]

Overall	24.8%
Executives	11.4%
Board of Directors[5]	8.0%

Veterans[4]

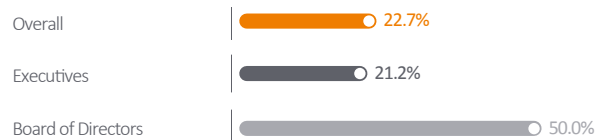|	
Overall	22.7%
Executives	21.2%
Board of Directors	50.0%

Lockheed Martin employees participate in bridge building contest for Engineers Week.

[1] Excludes casual and contract workers, interns and employees of certain subsidiaries. Sikorsky data are included for U.S. employees only. As of 12/31/2017.
[2] Based on U.S. population.
[3] Rosalind Brewer and Anne Stevens resigned in October 2017 and November 2017, respectively.
[4] Excludes local country nationals.
[5] Rosalind Brewer resigned in October 2017.
[6] Expatriates are people temporarily residing in a country other than that of their citizenship.

RESOURCE EFFICIENCY

Nearly 270 398-MW AR1500 tidal turbines will provide renewable energy to more than 175,000 homes in the U.K.

Find out more about this innovation on: www.lockheedmartin.com
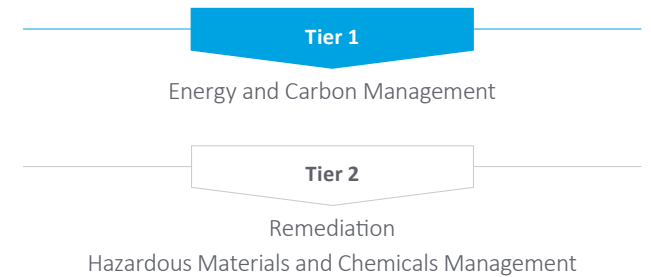
RESOURCE EFFICIENCY OVERVIEW

OBJECTIVE

To increase business resiliency and accelerate carbon reduction through improved energy and water management, materials conservation and increased renewable energy use.

IMPORTANCE

Our life-cycle-based assessments show our operations' biggest environmental opportunities are to reduce energy use and greenhouse gas (GHG) emissions. Our largest overall GHG challenge is our products' environmental footprint during the customer-use phase, which represents nearly 70 percent of our impact. As we create solutions for sustainable energy consumption and production, we have a responsibility to operate our own facilities in the same vein. This is why we reduce our operational footprint, resulting in industry-leading outcomes.

CHALLENGE

As we grow our business, we require more energy for our operations. We implement energy and water efficiency improvements to meet our ambitious targets. While we can retrofit some of our facilities with energy- and water-efficient technology, older legacy sites need millions of dollars in upgrades. We lease some of these sites; others are government-owned facilities we manage on behalf of our customers. In these cases, we have limited control over efficiency projects, which poses both operational and financial challenges.

Tier 1

Energy and Carbon Management

Tier 2

Remediation
Hazardous Materials and Chemicals Management

THE SCIENCE

We lead by example in helping our customers achieve sustainability goals. We go beyond compliance to reduce our operations' environmental impact through facility upgrades, technology adoption and process improvements.

OF CITIZENSHIP

We work to mitigate our impact on the planet's finite resources by aligning with and exceeding government, industry and societal expectations for environmental stewardship.

ENERGY AND CARBON MANAGEMENT

OBJECTIVE

Managing energy use and GHG emissions associated with company operations, including efforts to promote energy and water efficiency, use renewable energy and offset emissions.

MANAGEMENT

Our operational carbon emissions primarily come from energy use and call for a combined management approach. Our Go Green program reduces carbon emissions from our facilities through energy efficiency and renewable energy, and reduces facility water use. Each year, teams of energy experts across the corporation evaluate potential energy and water savings projects. Based on their findings, we invest millions of dollars to improve our facilities' efficiency. We take these measures to propel responsible growth and contribute to a more sustainable future for our employees, communities and shareholders.

In the U.S., we use a significant amount of water to generate electricity, creating a vital link between water usage and energy reliability. In 2017, reduced electricity consumption in our facilities indirectly saved more than 6.9 billion gallons of water compared to 2010.[1]

Our goal is to reduce environmental, operational and cost risks in our business practices and facility processes. Our Environment, Safety and Health (ESH) Leadership Council and Facilities Leadership Team set strategic direction and goals for energy management and procurement to drive efficiency, avoid costs and reduce carbon emissions in our many facilities and operations. The Ethics and Sustainability Committee[2] of our Board of Directors reviews all ESH performance and strategic proposals. When possible, we pilot energy-saving products at our facilities to reduce energy consumption and showcase the value of renewable energy solutions. Our management system is company-wide and aligns with globally recognized standards such as ISO 14001.

☑ GOALS

By 2020, reduce energy use by 25 percent, scope 1 and 2 carbon emissions by 35 percent and water use by 30 percent.
Progress: Since 2010, we have reduced energy use by 23 percent, carbon emissions by 33 percent and water use by 22 percent.

Increase square footage of facilities with green building certifications.
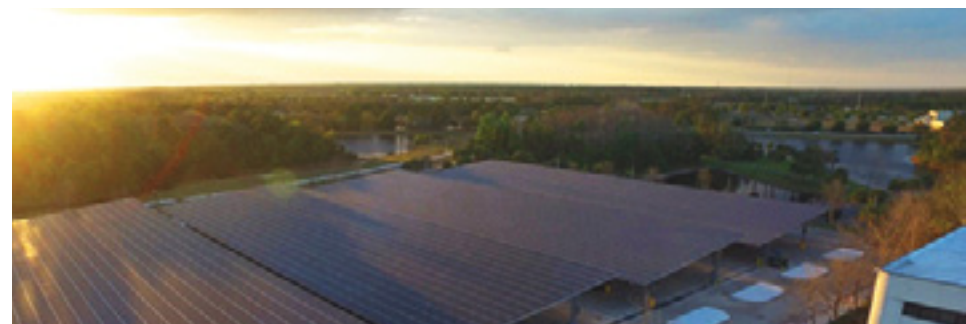**Progress:** In 2017, we operated 19 Leadership in Energy and Environmental Design (LEED), one Building Research Establishment Environmental Assessment Methodology (BREEAM) and eight Energy Star-certified buildings totaling 2.4 million square feet of green buildings, an increase of two percent over our adjusted 2016 total.

Increase annual renewable energy consumption.
Progress: In 2017, we consumed 303,746 megawatt hours (MWh) of clean energy, comprising 294,567 MWh of renewable energy certificates (RECs) and 9,178 MWh of on-site energy generation. In 2016, we consumed 300,000 MWh of renewable energy.

Help our energy customers reduce their carbon emissions by at least twice the carbon impact of our business operations.
Progress: In 2017, Lockheed Martin Energy enabled carbon emissions savings of 1.3 million metric tonnes of carbon dioxide equivalent ($MtCO_2e$) for our customers, compared to our operational emissions, net of RECs, of 844,373 $MtCO_2e$.

📢 HIGHLIGHTS

$34m

We avoided $34 million in annual energy and water costs compared to 2010.

Since 2008, we have installed 11 on-site renewable energy systems, including 10 solar systems and one biomass facility for a total of 6.7 MW of capacity.

[1]   Water savings are calculated using the United States Geological Survey's "Estimated Use of Water in the United States in 2010" average thermoelectric power water usage rate of 19 gallons per kilowatt hour, assuming Lockheed Martin's thermoelectric supply is approximately 76 percent of total electricity purchased, which is derived from Energy Information Administration data on total electricity produced in the U.S. These figures are calculated against cumulative savings from the Go Green baseline year of 2010.

[2]   As of the April 2018 Board of Directors meeting, this governing body will be referred to as the Nominating and Corporate Governance Committee. The committee restructuring is aimed at making meetings more efficient, eliminating redundancies and providing more time for discussion. The consolidation of the committees will not result in any less coverage items within the jurisdiction of either of the two committees.

📷 Solar Carport in Orlando, Florida.

CASE STUDY
ORLANDO SOLAR CARPORT

WHAT WE DID

To expand our on-site renewable energy footprint, which includes 10 solar installations totaling nearly six megawatts (MW) of capacity, we completed our first solar carport at our Orlando, Florida facility in 2015. Since coming online, the carport has consistently met energy production projections, prompting us to build a similar structure for one of our facilities in Orlando, Florida. In 2017, we again partnered with Advanced Green Technologies on a 2MW, 145,379-square-foot carport featuring 6,688 solar panels supported by 450 tons of steel and 80,200 bolts. Besides constructing the solar array, focusing on water and energy efficiency helped our Orlando E-8 building apply for LEED Silver certification, which will add to Lockheed Martin's green building footprint.

WHY THIS MATTERS

In addition to providing shelter for 592 vehicles, the solar carport is expected to produce 3.41 million kilowatt hours (kWh) of electricity and save approximately $370,000 in energy costs annually. Electricity generated each year by the solar carport could power 381 homes and offset 2,270 tons of carbon dioxide. By working with trusted partners, we fast-tracked the project and completed the solar carport on time and under budget and further reduced our Orlando facility's carbon emissions. Initiatives like this positively impact our operational budget and contribute to our firm's goal to be environmentally responsible.
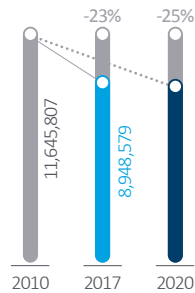
ENERGY AND CARBON MANAGEMENT (CONTINUED)

Operations Goals and Progress[1]

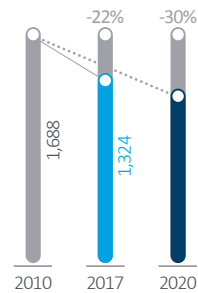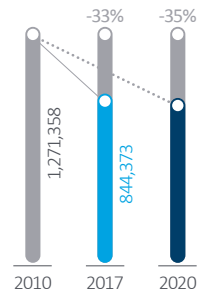○ 2010 Baseline ○ 2017 Result ● 2020 Goal

Energy[3]
MMBTU

2010	2017	2020
11,645,807	-23% 8,948,579	-25%

Water[5]
Million gallon

2010	2017	2020
1,688	-22% 1,324	-30%

Carbon Emissions[3,4]
MTCO₂e

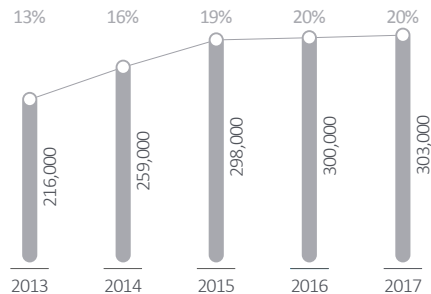| 2010	2017	2020
1,271,358	-33% 844,373	-35%

Renewable Power[2]

○ Percent of electricity by Renewable Energy Credits (RECs) and renewable energy use

Green Power
MWh

2013	2014	2015	2016	2017
13%	16%	19%	20%	20%
216,000	259,000	298,000	300,000	303,000

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[1] Reflects performance from November 2016 through October 2017. In 2017, we recalculated our 2010 baseline to include RMS Sikorsky and exclude a former Information Systems & Global Solutions (IS&GS) business segment.

[2] As reported to the Environmental Protection Agency (EPA) Green Power Partnership, percent of green power is calculated as renewable electricity divided by the total electricity consumed. Includes unbundled RECs, an off-site power purchase agreement and on-site renewable generation.

[3] 2017 carbon and energy data is reported for our largest active 81 facilities in the United States, United Kingdom, Poland, Canada, Australia and Mexico.

[4] Reflects Scope 1 and 2 emissions plus an estimate for leased facility space where we do not collect actual data. Reflects unbundled RECs, an off-site power purchase agreement and on-site renewable generation.

[5] 2017 water data is reported for our largest 56 facilities in the United States and Poland.

📢 HIGHLIGHTS

We implemented more than 70 energy efficiency and carbon reduction projects in 2017 including HVAC, lighting, building control systems, building envelope, renewable energy, and retro-commissioning.

-55 million kWh
annual energy reduction of over

$4 million
in recurring annual cost avoidance.

10+ HVAC
related projects were completed in 2017, resulting in approximately 12 million kWh of annual energy usage reduction and over $600,000 in recurring annual cost avoidance.

≈12 million kWh
of annual energy usage reduction.

$600,000+
in recurring annual cost avoidance.

≈40 lighting projects
were completed in 2017.

-11 million kWh
in annual energy usage reduction and over $1.5 million in recurring annual cost avoidance.

≈10
building management systems projects were completed in 2017, resulting in over

-9 million kWh
of annual energy usage reduction.

≈$300,000
in recurring annual cost avoidance.

950+ meters
were used across 52 sites to help manage and track energy demand and consumption.

Our latest results outperform a science-based threshold to stabilize atmospheric carbon emissions. Using the 🔗 Center for Sustainable Organizations' Context-Based Carbon Metric methodology, we produce less than our calculated threshold of emissions based on our contribution to gross domestic product (GDP).

🔗 See the results on our website.

INFORMATION SECURITY

As an affordable, high-performance, lightweight, multi-function system, the Electro-Optical Targeting System (EOTS) provides precision air-to-air and air-to-surface targeting capability in a compact package through a high speed fiber-optic interface.

Find out more about this innovation on: www.lockheedmartin.com

INFORMATION SECURITY OVERVIEW

OBJECTIVE

To minimize the likelihood and impact of cybersecurity incidents on our business operations and customer missions and protect business-sensitive, customer and personal information from external and internal threats.

IMPORTANCE

The world is increasingly connected through, and reliant on, digital infrastructure to support business, enhance production and drive innovation. Global information system security is critical to smoothly functioning, stable societies and affects governments, militaries, energy grids, communications systems and public health systems.

Our information technology (IT) systems are routinely threatened by a variety of bad actors, including advanced persistent threats, hacktivists and cyber criminals. Adversaries often target our suppliers and employees to gain access to our systems, which hold sensitive information. With thousands of our scientists and engineers developing cutting-edge technologies, protecting employee information, intellectual property and customer-sensitive data is essential to our business and mission success.

CHALLENGE

Cyberspace and digital capabilities are fundamental to the growth and security of commerce, society and governments throughout the world. Even as we have increased our products' and services' cyber capabilities, cyber threats continue to grow in sophistication and complexity. Our cyber defenses, counterintelligence and incident mitigation capabilities must continually evolve to manage risks to our own and our customers' sensitive information and ensure our environments and systems are cyber-resilient against today's adversaries.

Tier 1

Sensitive Data and Intellectual Property Protection
Customer Information Systems and Network Security
Employee Privacy and Data Protection

THE SCIENCE

We rely on security thought leaders, talented cyber analysts, cutting-edge technology, employee vigilance and innovative processes to defend against advanced cybersecurity threats across our value chain.

OF CITIZENSHIP

Securing operations and infrastructure for ourselves, our customers and our supply chain strengthens the stability and resilience of the hyper-connected society we seek to protect.

INFORMATION SECURITY OVERVIEW

"

Look past the 0s and 1s of any cyber threat and you'll find a person behind it. Understanding their intent, capabilities and tactics is the foundation to building resilient defenses and to effectively manage enterprise risk. At Lockheed Martin, we do this through Intelligence Driven Defense®; our methodology that turns the tables on the adversaries. It includes a seven-step process to identify the sequence of events an attacker must take, and shifts the cyber advantage to the defender.

Eric M. Hutchins,
Chief Intelligence Analyst

WE PROVIDE PLATFORMS, SOLUTIONS AND SUPPORT TO:

100,000
employees

3.3 MILLION
IP addresses

300+
customers

16,000
suppliers

145,000
managed user desktops

500+
facilities in over 50 countries

PLATFORM RESILIENCY

By engineering security throughout our products' lifecycle, we effectively cyber-harden them for operational use. This involves making assessments and applying cyber models to help customers defend their networks, mitigate threats, protect their platforms, and continuously assess their systems.

ENHANCED DATA INTEGRITY

Lockheed Martin is the first U.S. defense contractor to incorporate Keyless Signature Infrastructure into its processes. This technology, through the use of blockchain cryptography, guarantees the integrity and provenance of any piece of digital data.

CYBERSECURITY TRAINING

Immersive, hands-on training based on Intelligence Driven Defense accelerates the development of cyber analysts with industry leading concepts and practices.

CYBER IS IN EVERYTHING WE DO

CYBER SIMULATION SERVICES

Lockheed Martin conducts realistic cybersecurity testing, evaluation and training to prepare for any situation.

ADVANCED ANALYTICS

Using machine learning and artificial intelligence, Lockheed Martin can analyze intrusion detection logs, support digital forensics analysis, and similar big-data collection efforts at massive scale.

SENSITIVE DATA AND INTELLECTUAL PROPERTY PROTECTION

OBJECTIVE

Efforts to protect company and supplier proprietary information to reduce the likelihood of data fraud, loss, sabotage and theft.

MANAGEMENT

Corporate Information Security (CIS) and the Corporate Security Office manage Lockheed Martin's computer network defense system to continuously build our resilience against an ever-expanding ecosystem of cyber risks and external threats, including nation-state threats. CIS collaborates with our Chief Security Officer and Counterintelligence Operations and Corporate Investigations (CO&CI) team to address risks associated with insider threats, including developing data-driven initiatives to improve our ability to prevent, detect, respond to and mitigate insider threats focused on sensitive data extraction. The Classified Business and Security Committee of our Board of Directors reviews procedures and new techniques for maintaining data and information security for our customers' and our business operations.

Our supply chain, which provides substantial value to our own and our customers' missions, is one of our information security priorities. CIS collaborates with our supply chain and program management organizations to enhance supply chain cyber risk mitigation strategies. This includes working with suppliers who handle the most sensitive Lockheed Martin information to increase their awareness of cyber threats and enhance their cyber defense capabilities.

Lockheed Martin Skunk Works' patented SPIDER (Self-Propelled Instrument for Damage Evaluation and Repair) protects cargo-hauling ships.

✓ GOALS

Monitor employee cybersecurity engagement to counter malicious email threats and monitor the number of vulnerabilities per device on core IT networks.

Monitor data loss incidents that occur within core IT networks for business operations.

We track another proprietary goal to improve the security of IT networks.

Progress: We do not disclose performance data deemed competitive and proprietary.

During the last two years as we have implemented and tracked performance against the third goal listed above, it has become clear that we need to consider additional factors beyond our direct control. This has required us to revise and adapt our approach to ensure we effectively satisfy the goal. As a result, this goal remains in progress, and we have reset the timeframe to 2020.

CASE STUDY
PROTECTING SENSITIVE DATA

WHAT WE DID

In 2017, CIS worked with CO&CI and our Corporate Engineering and Technology Office to pilot a new information categorization system that identifies highly sensitive, high-investment research and development programs projected to generate significant revenue for Lockheed Martin in the future. CIS and CO&CI created a list of elevated safeguards to protect this type of data, including expanded security training beyond our corporate policy requirements for relevant personnel. At the end of the pilot, we will review its effectiveness and decide how to apply the system to other programs.

WHY THIS MATTERS

Whether information pertaining to our products and services is classified or unclassified, government focused or commercial focused, our ability to safeguard innovations from adversaries has implications to our business operations and customer relationships. Enforcing security measures that match the value of this sensitive data will help ensure our company's future and proliferate advanced technology in commercial markets.

CUSTOMER INFORMATION SYSTEMS AND NETWORK SECURITY

OBJECTIVE

Efforts to ensure our products and processes capture, store and transfer data securely to protect the privacy and security of customer information and reduce the likelihood of data fraud, loss, sabotage and theft.

MANAGEMENT

Securing our customer networks and systems requires cutting-edge cyber capabilities that are resilient against today's cyber threats. The Lockheed Martin Cyber Kill Chain® framework allows security personnel to monitor systems, detect potential acts and adapt to attackers' actions. Full-spectrum cybersecurity spans physical, human, supply chain, engineering and operations to harden platforms against cyber threats. As we develop more Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) capabilities, we simultaneously mature our cyber hardening programs to protect against data loss and mission disruption during missions requiring multi-platform communication.

Lockheed Martin established a corporate-wide Embedded Cyber Team to help facilitate cyber hardening of our platforms and production lines. They support development and implementation of state-of-the-art security programs for our customers and the corporation, and integrate applicable methodologies into our products and services using threat modeling to discover existing and future risks.

⌾ Lockheed Martin delivers full spectrum of cyber capabilities to protect our employees and our customers.

✓ GOALS

Monitor employee cybersecurity engagement to counter malicious email threats and monitor the number of vulnerabilities per device on core IT networks.

Monitor data loss incidents that occur within core IT networks for business operations.

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📢 HIGHLIGHTS

The U.S. Department of Homeland Security identified the U.S. Postal Service® (UPS) as one of 18 critical infrastructure sectors. The USPS has one of the world's largest computer networks linking almost 32,000 facilities and enabling communication between hundreds of thousands employees and hundreds of systems. In 2017, Lockheed Martin was selected to provide high-end cybersecurity services to the USPS Chief Information Security Officer Support Services department to help protect the nation's postal system.

CASE STUDY
SAFEGUARDING PRODUCTS AND SUPPLY CHAINS AGAINST CYBER RISK

WHAT WE DID

In 2017, using Guardtime Federal's core blockchain infrastructure, we became the first U.S. defense contractor to integrate blockchain technology into our systems engineering processes, supply chain risk management and software development. In simple terms, blockchain technology increases the transparency and security of our products and their supply chains by updating, storing and distributing blocks of information across a decentralized network. This network cannot be controlled by any single entity and has no single point of failure. Employing this solution increases the transparency and security of our products and their supply chains and decreases systemic cyber risk.

WHY THIS MATTERS

Inherent interconnectivity makes the cyber ecosystem especially vulnerable to risk. An adverse event impacting a single site or component has the potential to cascade throughout the cyber ecosystem and negatively affect public wellbeing or national security. Experts predicted 8.4 billion IoT (Internet of Things) devices — highly connected and interconnected cell phones, smart meters, sensors, etc. — would be in use worldwide in 2017, a 31 percent increase from 2016. By 2020, the number is expected to jump 41 percent to 20.4 billion. Gartner says 8.4 billion connected "things" will be in use in 2017, up 31 percent from 2016, Gartner, February 7, 2017.

As technology systems become more connected and interdependent, and society relies more on autonomous and automated capabilities, systemic cybersecurity is a high priority. Threats and attacks on this critical infrastructure supporting the economy, public safety and national security can be catastrophic and cost billions of dollars in damage. Since 2015, Lockheed Martin and Guardtime Federal, a team of cryptographers, developers and security architects, have worked together to design cybersecurity into our business with new, non-traditional approaches, technologies and processes.

By designing cybersecurity into our engineering and software development processes, we enhance data integrity, discover and solve problems more quickly and reduce regression testing, enabling more efficient and assured offerings to the federal government and other customers.

# EMPLOYEE PRIVACY AND DATA PROTECTION

OBJECTIVE
Efforts to protect the privacy and integrity of employee data to reduce the likelihood of data fraud, loss, sabotage and theft.

MANAGEMENT
Three business functions coordinate Lockheed Martin employee privacy and data protection:

- Corporate Information Security (CIS) detects cyber intrusion risks and devises technical defenses.

- Our Chief Security Officer and Counterintelligence Operations and Corporate Investigations (CO&CI) works with federal agencies to understand external intelligence threats and identify insider threats.

- Privacy determines methods and governance for proper use of personal data.

Our corporate policies direct the corporation's compliance with global privacy laws and regulations. We integrate privacy considerations into new business opportunities, contracts, systems and acquisitions. We instill in our employees a respect for data protection and privacy through outreach, education, training and awareness. Education and awareness are vital to maintaining an environment where our employees, customers and partners trust us to responsibly use and protect personal information. We offer five privacy-related trainings for our employees, ranging from mandatory new-hire privacy awareness training and biannual sensitive information training to two-day-long privacy professional certification classes.
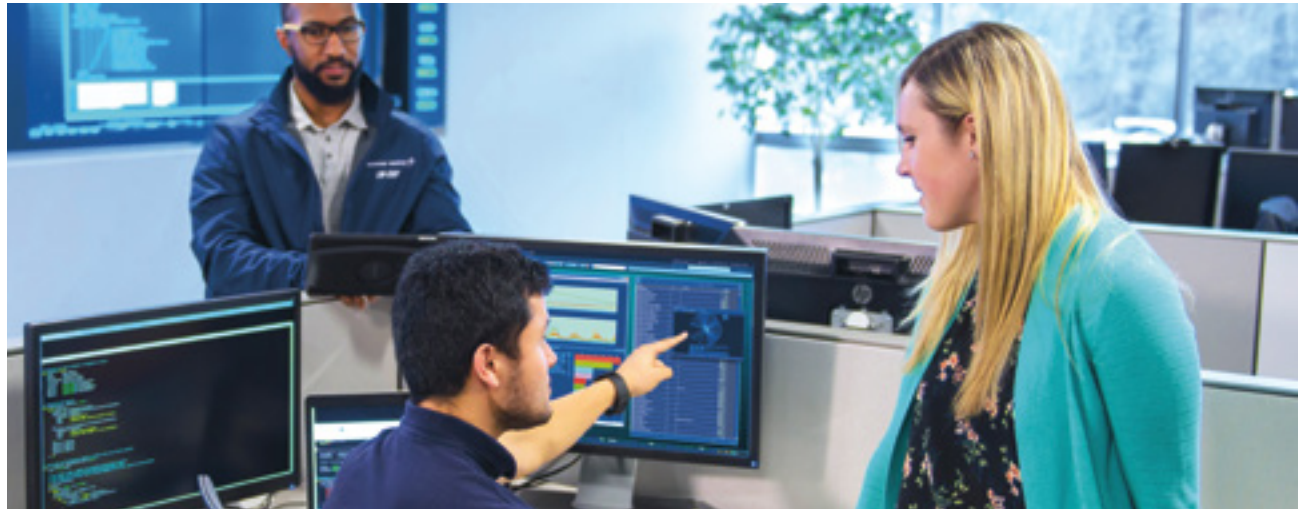
📷 Lockheed Martin employees are trained to protect sensitive data.

✅ GOAL

Achieve desired thresholds for identifying vulnerabilities to employees' personal data exposure within our IT systems.

Progress: We conduct privacy impact assessments (PIA) on internally developed and commercial off-the-shelf systems used to collect, store and process employees' personal information within the corporate network. In 2017, we assessed 62 systems and achieved our desired threshold for identifying potential vulnerabilities from among all observations that we recorded. The majority of these observations were administrative in nature and none were related to a failure to comply with the privacy frameworks, laws, directives or regulations in the countries in which the assessed system operates.

The PIA observations, in number and type, are consistent with what you would expect from a mature, robust and successful PIA process.

In an effort to further enhance the protection of employee personal data the Corporate Privacy Office drives continual process improvement, including coordinating with our supply chain function to embed privacy-related questions in vendor evaluations. This year we also certified under the European Union-United States Privacy Shield framework, a framework that provides enforceable protections applicable to the transatlantic exchange of personal data between the European Union and the United States, and are continuing to prepare for the new European Union general data protection regulation that will take effect in May 2018.

📢 HIGHLIGHTS

In 2017, CO&CI won a NOVA, our highest corporate award, for exceptional teamwork in mitigating intelligence threats targeting the corporation's most sensitive information, brand and reputation, our customers' security and the nation's security.

CASE STUDY
ENHANCING INSIDER THREAT DETECTION

WHAT WE DID
In 2017, our Insider Threat Steering Committee enhanced our insider threat detection program to better identify employees at greater risk of intelligence collection and targeting by foreign intelligence entities or adversaries. The first iteration of our detection tools used internal reporting information already being collected for administrative purposes. We now also pull data from pertinent public records that might appear in background checks. This allows us to proactively identify employees at higher risk of blackmail targeting, information theft or unintentional data leaks. These employees undergo one-on-one training with security and counterintelligence staff to learn how to safeguard company and personal information.

WHY THIS MATTERS
Data breaches resulting from insider actions can be insidious and costly. A 2017 Ponemon Institute study found the average consolidated cost of a data breach is $3.62 million, which is about $141 per stolen record. Insider threats not only affect company financial performance, they can lead to degradation of government or company information, resources and capabilities, thus impacting their ability to protect public interests. By reducing employee vulnerability to malicious social engineering and other targeting, we help protect our employees, our competitive advantage and national security.

RECOGNITION IN 2017

SUSTAINABILITY

Dow Jones Sustainability World Index: World Index, Bronze Class Sustainability Award. Highest scoring U.S. company in our industry, third-highest scoring company in our industry worldwide

CR Magazine: 100 Best Corporate Citizens List, 2017: 9th; 2016: 8th; 2015: 10th

BUSINESS INTEGRITY

Sustainable Purchasing Leadership Council: Outstanding Case Study Award, Small Business Strong Case Study

Small Business Administration: Dwight D. Eisenhower Award for Manufacturing Excellence

PRODUCT IMPACT

Environmental Leader: Product of the Year Award, Advanced Gasification Bioenergy System

Aviation Week: Program Excellence Awards

- Supplier Sustainment, Apache Sensors Performance-Based Logistics
- OEM Sustainment, Space-Based Infrared System Sustainment

Manufacturing Leadership Council: Engineering & Production Technology Leadership Awards

- Ultrasonic Hole Cutting
- Forced Mechanical Oscillation Drilling
- Mold-in-Place Inlet Coatings Project

EMPLOYEE WELLBEING

Disability Equality Index: 100 percent score for the third year

Human Rights Campaign's Corporate Equality Index: 100 percent score, named "Best Place to Work for LGBT Equality" for the 10th consecutive year

Applied Ergonomics Conference: Ergo Cup® Excellence in Ergonomics Risk Award, Enhanced Launcher Electronics System RECAP Enhanced Tooling

RESOURCE EFFICIENCY

CDP Climate A List

CDP Water Disclosure A-

U.S. Environmental Protection Agency (EPA)

- Climate Leadership Award, Organizational Leadership
- Green Power Leadership Award, Direct Project Engagement

INFORMATION SECURITY

Defense Security Service:

- Award for Excellence in Counterintelligence
- James S. Cogswell Outstanding Industrial Security Achievement Award, awarded to four Lockheed Martin sites

OTHER SOURCES
OF INFORMATION

More about sustainability at Lockheed Martin, including the 2017 Global Reporting Initiative (GRI) Index, the Executive Summary and historical reports, are online at:

sustainability.lockheedmartin.com

FORWARD-LOOKING STATEMENTS

This report contains statements which, to the extent not recitations of historical fact, constitute forward-looking statements within the meaning of the federal securities laws. The words "will," "enable," "expect," "plan," "forecast," "anticipate," "continue," "achieve," "scheduled," "estimate," "believe," "intend," "aim," "orient," "goal" and similar expressions are intended to identify forward-looking statements. Statements and assumptions with respect to achievement of goals and objectives; anticipated actions to meet goals and objectives; allocation of resources; planned, encouraged or anticipated actions; planned performance of technology; or other efforts are also examples of forward-looking statements.

Forward-looking statements are based on our current expectations and assumptions, are not guarantees of future performance, and are subject to risks and uncertainties. Actual results could differ materially due to factors such as (i) the availability of funding for the programs described in this report; (ii) changes in our priorities as well as changes in the priorities of our customers and suppliers; (iii) the accuracy of our estimates and assumptions; (iv) the future effect of

legislation, rule-making and changes in policy; (v) the impact of acquisitions or divestitures or other changes in our employee or product and service base; (vi) the competitive environment; (vii) the ability to attract and retain personnel and suppliers with technical and other skills; (viii) the success of technologically developed solutions; (ix) the willingness of suppliers to adopt and comply with our programs; and (x) global economic, business, political and climate conditions.

These are only some of the factors that may affect the forward-looking statements contained in this report. For further information regarding risks and uncertainties associated with our business, please refer to our U.S. Securities and Exchange Commission (SEC) filings including our Annual Report on Form 10-K for the year ended Dec. 31, 2017 and our 2018 Quarterly Reports on Form 10-Q, which can be obtained at the Corporation's website www.lockheedmartin.com/investor or through the website maintained by the SEC at www.sec.gov. The forward-looking statements in this report are intended to be subject to the safe harbor protection provided by federal securities laws.

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