

Lockheed Martin Corporation
Consolidated Statements of Earnings^{1, 2}
(unaudited; in millions, except per share data)

	Quarters Ended	
	March 26, 2017	March 27, 2016
Net sales	\$ 11,057	\$ 10,368
Cost of sales	(9,904)	(9,273)
Gross profit ³	1,153	1,095
Other (expense) income, net	(4)	63
Operating profit^{3,4,5}	1,149	1,158
Interest expense	(155)	(165)
Other non-operating income, net	1	1
Earnings from continuing operations before income taxes	995	994
Income tax expense ⁶	(232)	(188)
Net earnings from continuing operations	763	806
Net earnings from discontinued operations	-	92
Net earnings⁶	\$ 763	\$ 898
Effective tax rate	23.3 %	18.9 %
Earnings per common share		
Basic		
Continuing operations ^{2,3,4,5,6}	\$ 2.63	\$ 2.65
Discontinued operations ²	-	0.30
Basic earnings per common share	\$ 2.63	\$ 2.95
Diluted		
Continuing operations	\$ 2.61	\$ 2.61
Discontinued operations	-	0.30
Diluted earnings per common share	\$ 2.61	\$ 2.91
Weighted average shares outstanding		
Basic	290.0	304.5
Diluted	292.8	308.7
Common shares reported in stockholders' equity at end of period	288	303

¹ The Corporation closes its books and records on the last Sunday of the calendar quarter to align its financial closing its business processes, which was on March 26 for the first quarter of 2017 and March 27 for the first quarter of 2016. The consolidated financial statements and tables of financial information included herein are labeled based on that convention. This practice only affects interim periods, as the Corporation's fiscal year ends on Dec. 31.

² On Aug. 16, 2016, the Corporation completed the divestiture of its Information Systems & Global Solutions (IS&GS) business. Accordingly, the operating results of IS&GS have been classified as discontinued operations in the first quarter of 2016.

³ In the first quarter of 2017, the Corporation revised its estimated costs to complete a program to design, integrate, and install an air missile defense command, control, communications, computers – intelligence (C4I) system, EADGE-T, for an international customer. As a result of the change in estimate, the Corporation recorded an additional reserve of \$120 million, at the RMS business segment. This charge reduced net earnings by \$74 million, or \$0.25 per share.

⁴ In the first quarter of 2017, the Corporation recognized a \$64 million charge related to the Corporation's portion of a noncash asset impairment charge recorded by an international equity method investee, which had the effect of reducing net earnings by \$40 million, or \$0.14 per share.

⁵ Severance charges in the first quarter of 2016 consist of amounts associated with the elimination of certain positions at the Aeronautics business segment. These charges reduced net earnings by \$49 million, or \$0.16 per share.

⁶ In the second quarter of 2016, the Corporation adopted a new accounting standard that changed the accounting for certain aspects of employee equity awards, including the classification of certain tax benefits or expenses upon vesting. As a result, the Corporation has adjusted its results for the first quarter of 2016 to recognize additional income tax benefits of \$104 million (\$0.34 per share) as an increase to net earnings from continuing operations and cash from operating activities.

Lockheed Martin Corporation
Business Segment Summary Operating Results
(unaudited; in millions)

	Quarters Ended		<u>% Change</u>
	<u>March 26, 2017</u>	<u>March 27, 2016</u>	
Net sales			
Aeronautics	\$ 4,106	\$ 3,799	8 %
Missiles and Fire Control	1,489	1,434	4 %
Rotary and Mission Systems	3,101	3,004	3 %
Space Systems	2,361	2,131	11 %
Total net sales	\$ 11,057	\$ 10,368	7 %
Operating profit			
Aeronautics	\$ 436	\$ 420	4 %
Missiles and Fire Control	219	221	(1) %
Rotary and Mission Systems ¹	108	229	(53) %
Space Systems	288	244	18 %
Total business segment operating profit	1,051	1,114	(6) %
Unallocated items			
FAS/CAS pension adjustment	217	224	
Special item - severance ²	-	(80)	
Other, net ^{3,4}	(119)	(100)	
Total unallocated items	98	44	123 %
Total consolidated operating profit	\$ 1,149	\$ 1,158	(1) %
Operating margins			
Aeronautics	10.6 %	11.1 %	
Missiles and Fire Control	14.7 %	15.4 %	
Rotary and Mission Systems	3.5 %	7.6 %	
Space Systems	12.2 %	11.5 %	
Total business segment operating margins	9.5 %	10.7 %	
Total consolidated operating margins	10.4 %	11.2 %	

¹ In the first quarter of 2017, the Corporation revised its estimated costs to complete a program to design, integrate and install an air missile defense command, control, communications, computers – intelligence (C4I) system, EADGE-T, for an international customer. As a result of the change in estimate, the Corporation recorded an additional reserve of \$120 million at the RMS business segment. This charge reduced net earnings by \$74 million, or \$0.25 per share.

² Severance charges in the first quarter of 2016 consist of amounts associated with the elimination of certain positions at the Aeronautics business segment. These charges reduced net earnings by \$49 million, or \$0.16 per share.

³ As a result of the Information Systems & Global Solutions (IS&GS) divestiture in Aug. 2016, the Corporation reclassified \$35 million of general corporate overhead costs incurred in the first quarter of 2016 and previously allocated to the IS&GS business segment. These costs were not reported as discontinued operations because they were not directly attributable to the IS&GS business and will continue to be incurred by the Corporation.

⁴ In the first quarter of 2017, the Corporation recognized a \$64 million charge related to the Corporation's portion of a noncash asset impairment charge recorded by an international equity method investee, which had the effect of reducing net earnings by \$40 million, or \$0.14 per share.

Lockheed Martin Corporation
Consolidated Balance Sheets
(unaudited; in millions, except par value)

	<u>March 26, 2017</u>	<u>December 31, 2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,216	\$ 1,837
Receivables, net	8,869	8,202
Inventories, net	5,074	4,670
Other current assets	427	399
Total current assets	<u>16,586</u>	<u>15,108</u>
Property, plant and equipment, net	5,481	5,549
Goodwill	10,773	10,764
Intangible assets, net	4,019	4,093
Deferred income taxes	6,489	6,625
Other noncurrent assets	5,488	5,667
Total assets	<u>\$ 48,836</u>	<u>\$ 47,806</u>
Liabilities and equity		
Current liabilities		
Accounts payable	\$ 2,718	\$ 1,653
Customer advances and amounts in excess of costs incurred	6,572	6,776
Salaries, benefits and payroll taxes	1,647	1,764
Other current liabilities	2,660	2,349
Total current liabilities	<u>13,597</u>	<u>12,542</u>
Long-term debt, net	14,276	14,282
Accrued pension liabilities	13,908	13,855
Other postretirement benefit liabilities	861	862
Other noncurrent liabilities	4,609	4,659
Total liabilities	<u>47,251</u>	<u>46,200</u>
Stockholders' equity		
Common stock, \$1 par value per share	288	289
Additional paid-in capital	-	-
Retained earnings	13,087	13,324
Accumulated other comprehensive loss	(11,892)	(12,102)
Total stockholders' equity	<u>1,483</u>	<u>1,511</u>
Noncontrolling interests in subsidiary	102	95
Total equity	<u>1,585</u>	<u>1,606</u>
Total liabilities and equity	<u>\$ 48,836</u>	<u>\$ 47,806</u>

Table 3

Lockheed Martin Corporation
Consolidated Statements of Cash Flows¹
(unaudited; in millions)

	Quarters Ended	
	March 26, 2017	March 27, 2016
Operating activities		
Net earnings	\$ 763	\$ 898
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	285	296
Stock-based compensation	44	44
Severance charges	-	99
Changes in assets and liabilities		
Receivables, net	(667)	(558)
Inventories, net	(404)	(310)
Accounts payable	1,111	751
Customer advances and amounts in excess of costs incurred	(204)	(146)
Postretirement benefit plans	345	246
Income taxes	175	225
Other, net	218	122
Net cash provided by operating activities	1,666	1,667
Investing activities		
Capital expenditures	(170)	(151)
Other, net	4	4
Net cash used for investing activities	(166)	(147)
Financing activities		
Repurchases of common stock	(500)	(501)
Dividends paid	(544)	(533)
Proceeds from stock option exercises	31	28
Other, net	(108)	(152)
Net cash used for financing activities	(1,121)	(1,158)
Net change in cash and cash equivalents	379	362
Cash and cash equivalents at beginning of period	1,837	1,090
Cash and cash equivalents at end of period	\$ 2,216	\$ 1,452

¹ Cash flows includes cash flows generated by the IS&GS business segment through the closing of the divestiture of this business segment on Aug. 16, 2016, as the Corporation retained this cash as part of the divestiture.

Lockheed Martin Corporation
Consolidated Statement of Equity
(unaudited; in millions)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>	<u>Non- controlling Interest</u>	<u>Total Equity</u>
Balance at Dec. 31, 2016	\$ 289	\$ -	\$ 13,324	\$ (12,102)	\$ 1,511	\$ 95	\$ 1,606
Net earnings	-	-	763	-	763	-	763
Other comprehensive income, net of tax ¹	-	-	-	210	210	-	210
Repurchases of common stock	(2)	(29)	(469)	-	(500)	-	(500)
Dividends declared ²	-	-	(531)	-	(531)	-	(531)
Stock-based awards and ESOP activity	1	29	-	-	30	-	30
Increase in non-controlling interests in subsidiary	-	-	-	-	-	7	7
Balance at March 26, 2017	\$ 288	\$ -	\$ 13,087	\$ (11,892)	\$ 1,483	\$ 102	\$ 1,585

¹ Primarily represents the reclassification adjustment for the recognition of prior period amounts related to postretirement benefit plans.

² Represents dividends of \$1.82 per share declared during the first quarter of 2017.

Lockheed Martin Corporation
Operating Data
(unaudited; in millions, except aircraft deliveries)

	March 26, 2017	Dec. 31, 2016
Backlog		
Aeronautics	\$ 32,000	\$ 34,200
Missiles and Fire Control	14,500	14,700
Rotary and Mission Systems	27,500	28,400
Space Systems	19,500	18,900
Total backlog	\$ 93,500	\$ 96,200

	Quarters Ended	
	March 26, 2017	March 27, 2016
Aircraft Deliveries		
F-16	2	2
F-35	15	6
C-130J	5	6
C-5	1	2
Government helicopter programs	32	41
Commercial helicopter programs	-	5
International military helicopter programs	1	-

Table 6