

The background of the entire page is a blue-tinted, high-contrast image of a complex industrial or aerospace component, possibly a jet engine or a large turbine. The image shows various circular and cylindrical parts with numerous bolts and rivets, creating a sense of depth and mechanical complexity. The Lockheed Martin logo is visible in the upper right corner, and the company name is faintly visible on a part of the machinery in the lower right.

LOCKHEED MARTIN

THE SCIENCE OF CITIZENSHIP

2014 SUSTAINABILITY REPORT

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About This Report

This is Lockheed Martin's fourth sustainability report. We release a report annually in April on www.lockheedmartin.com/sustainability.

Unless otherwise noted, this report encompasses data and activities for the calendar year 2014, derived from Lockheed Martin activities globally, including those of our corporate offices and five business segments: Aeronautics, Information Systems & Global Solutions, Missiles and Fire Control, Mission Systems and Training and Space Systems. The report provides environmental, social and governance data from the past five years when available.

For the third time, our report relies upon guidance issued by the Global Reporting Initiative (GRI), the world's most widely used sustainability reporting framework. This report is in accordance with GRI G4 Core, the latest guidelines. The [GRI Index](#) is available on our website.

Our energy, carbon, waste and water data from 2010 to 2014 were verified by an independent, third-party and reported in a [verification statement](#). In addition, our internal audit staff affirmed no noted concerns for the remaining Sustainability Management Plan indicators and other metrics.

We invite you to engage with us by writing to sustainability.lm@lmco.com.

About the Cover

Developing the World's Largest Tidal Stream Energy Project

Lockheed Martin is positioning clean, predictable and renewable tidal-current electricity for success through our experience with maritime systems and harsh environments. Components developed by our Sustainability Technologies line of business for the Atlantis Resources Ltd. AR1500 turbine system, shown here and on the cover, will improve power generation capabilities by 33 percent to 1.5-megawatts.

This new tidal turbine works like an underwater wind turbine. The tide's ebb and flow force the blades to spin, which in turn rotates a turbine to produce clean, renewable electricity. Harnessing Lockheed Martin advanced engineering, the newest turbine will be able to operate during any schedule of the tidal stream and have active rotor pitch, allowing the blades to tilt and angle to the direction of the tides to maximize electricity production.

The new technology will initially support Scotland's MeyGen project—the world's largest tidal stream project under development—to help generate nearly 400 megawatts of power, and can be applied in other places such as Canada's Bay of Fundy. Natural energy is not new, but advanced technologies to harness it could be transformative to a sustainable future.

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Lockheed Martin Chairman, President and CEO Marillyn Hewson speaking at the World Affairs Council Global Education Gala in March 2014.

Lockheed Martin's sustainability mission is to foster innovation, integrity and security to protect the environment, strengthen communities and propel responsible growth. Our commitment to sustainability influences our operations and informs our decision-making at every stage of our business lifecycle.

This 2014 Sustainability Report represents the fourth annual summary of our major accomplishments and opportunities tied to the larger environmental, social and governance issues that shaped our performance over the past year.

We made progress raising our operational performance levels that resulted in a smaller environmental footprint, more effective supplier partnerships and enhanced ethical conduct controls. Our leading team of scientists, engineers and other experts continued to push the boundaries of innovation and discovery. We also renamed the Sustainability Technologies line of business within our Mission Systems and Training area to strengthen alignment of its portfolio.

In 2014, we remained disciplined with our sustainability efforts in six high-impact areas. We determined how current environmental, social and governance concerns would affect and shape our strategic plans. We implemented our Lockheed Martin Sustainability Management Plan, which allowed our leadership to focus on our comprehensive set of commitments. Here are some highlights from 2014:

1. Governance: In our ongoing efforts to preserve our culture of integrity and combat corruption, we offered our first digital, interactive and mobile version of the Lockheed Martin Code of Ethics and Business Conduct, Setting the Standard. This reference tool clearly outlines our corporate values and expectations—and makes them readily available to our employees, customers and suppliers.

2. Information Security: We continued to strengthen our cyber security and information technology (IT) capabilities, expanding our efforts in the growing fields of homeland security, commercial aerospace and healthcare IT. Our Cyber Incident Response Assistance accreditation by the National Security Agency's Information Assurance Directorate makes us one of the few federally recognized companies certified to help organizations respond to their network cyber-attacks.

3. Supplier Sustainability: We trained 14,000 of our suppliers on counterfeit parts, making them aware of the problem and helping alleviate quality and safety risks in the supply chain.

4. Product Performance: We continued to invest in our energy portfolio and strategically partnered in several segments of the market, including energy generation, usage, storage and security. The commercial and public sectors sought our new energy and sustainability technologies like waste-to-energy and biomass plants, tidal power generation, and ocean thermal energy conversion. Also, we worked with a broad range of utility customers to seamlessly integrate their power, IT and communications networks as new sources of energy generation came on line.

5. Resource Efficiency: We voluntarily reduced our carbon emissions, energy use, water use and landfill waste from a 2010 baseline, actively shrinking our environmental footprint and decreasing our operating costs.

6. Talent Competitiveness: We exceeded employee attrition targets, while fostering a culture of diversity and inclusion that celebrates our different backgrounds, varied experiences and unique points of view. To help address the anticipated shortage of skilled workers for our industry in the coming years, we teamed with several companies and non-profit organizations to promote science, technology, engineering and math (STEM) to young people—and inspired students to pursue STEM careers.

These efforts helped us earn distinction as a new addition to the Dow Jones Sustainability World Index and, for the fourth consecutive year, a position on the CDP S&P 500 Climate Disclosure Leadership and Clean Performance Leadership Indices. This recognition helps confirm that our business strategy, which incorporates sustainability into our day-to-day operations, is not only responsible but also relevant to investors.

This report highlights some of the ways that we supported our customers, stockholders, employees, communities and the environment in 2014—and how we are shaping the future by engineering a better tomorrow.

A handwritten signature in dark ink, reading "Marillyn A. Hewson".

Marillyn A. Hewson

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OUR COMPANY

Lockheed Martin is a global security and aerospace company that employs about 112,000 people worldwide. Our scientists and engineers are principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems and products. Lockheed Martin products and solutions primarily serve United States and allied government institutions with charters to protect and provide essential services to billions of citizens worldwide. Corporate clients in several industry sectors such as energy, financial services, and hospitality also use Lockheed Martin-branded technologies. The Corporation's net sales for 2014 were \$45.6 billion. Outside the United States, significant activities relevant to issues covered in this report include our operations in Australia, Canada and the United Kingdom.

We are a corporation organized and existing under the laws of Maryland, United States of America, with one form of equity security outstanding, common stock. For our complete financial statements and explanation of beneficial ownership and changes in operations, please refer to our [Annual Report](#) and [Proxy Statement](#).

540 FACILITIES

LEASED OR OWNED IN 36 COUNTRIES

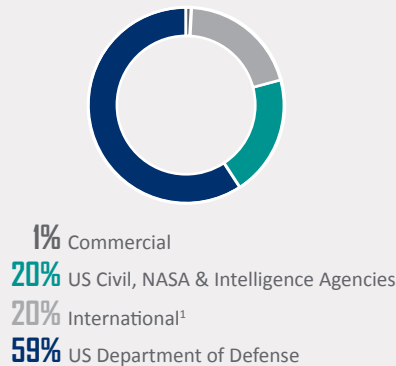
112,000 EMPLOYEES

INCLUDING NEARLY 60,000 SCIENTISTS,
ENGINEERS AND TECHNOLOGISTS

8,000+ OPEN PRIME CONTRACTS

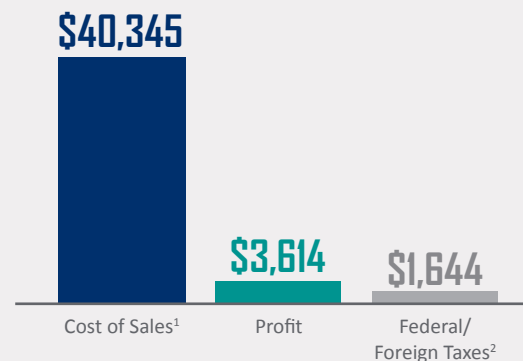
LARGEST FEDERAL CONTRACTOR
BY DOLLARS OBLIGATED

CUSTOMERS (PERCENTAGE OF NET SALES)



¹ Foreign military sales and direct commercial sales to governments

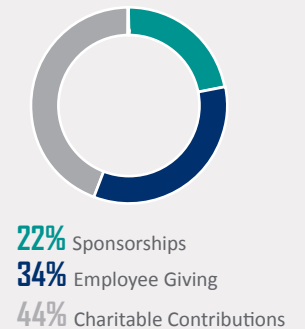
ECONOMIC IMPACT (IN MILLIONS)



¹ Includes salaries, global supply chain and other expenses

² Reflects recognized income tax expense, a 31% effective tax rate

SOCIAL IMPACT (\$56.9 MILLION)



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BUSINESS SEGMENTS (NET SALES IN MILLIONS)

\$7,680

17% MISSILES AND FIRE CONTROL

Provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics and other technical services; fire control systems; mission operations support, readiness, engineering support and integration services; and manned and unmanned ground vehicles.

\$7,147

16% MISSION SYSTEMS AND TRAINING

Provides 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.

\$14,920

32% AERONAUTICS

Engaged in the 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.

\$8,065

18% SPACE SYSTEMS

Engages in the research and development, design, engineering and production of satellites, strategic and defensive missile systems and space transportation systems. Space Systems is also responsible for various classified systems and services in support of vital national security systems.

\$7,788

17% INFORMATION SYSTEMS & GLOBAL SOLUTIONS

Provides advanced technology systems and expertise, integrated information technology solutions and management services across a broad spectrum of applications for civil, defense, intelligence and other government and commercial customers. In addition, IS&GS supports the needs of customers in data analytics, cyber security, air traffic management and energy demand management. IS&GS provides network-enabled situational awareness, delivers communications and command and control capability through complex mission solutions for defense applications, and integrates complex global systems to help our customers gather, analyze and securely distribute critical intelligence data. Also, IS&GS is responsible for various classified systems and services in support of vital national security systems.



Locations with more than 200 Employees

UNITED STATES OF AMERICA	105,400+
UNITED KINGDOM	2,400+
CANADA	800+
AUSTRALIA	700+
NEW ZEALAND	200+

As of Dec. 31, 2014. Includes ExPats and Local Country Nationals. Does not include Lockheed Martin contract workers or interns, or employees of certain subsidiaries or joint ventures.

BUSINESS SEGMENTS

We operate in five business segments based on the nature of the products and services offered. The remainder of our workforce supports Lockheed Martin International and Enterprise Operations. Lockheed Martin International enables integrated business strategies for customers outside of the United States to deliver products and services to meet their national security and citizen services needs. Enterprise Operations comprises headquarters personnel, business functional personnel and our enterprise-wide shared services skill centers.

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MISSION-READY SUSTAINABILITY FROM DEEP SPACE TO DEEP SEA

Many of our products are designed or used with sustainable value in mind. For us this includes world-class solutions to challenges in cyber and physical environments, serving markets as diverse as aerospace, military, mining, oil and gas, transportation, and utilities. Here are a selection of products that support human safety and environmental protection from deep space to deep sea.

JUNO

Sustainability Impact: Its advanced manufactured 3D parts saved resources and eliminated waste

ERAM

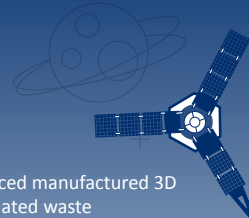
Sustainability Impact: Upgraded software to help the FAA manage increased air traffic and new innovations to create flight route efficiency that saves fuel and reduces emissions

INTELLIGENT MICROGRID SOLUTION

Sustainability Impact: To balance energy loads to minimize energy use and cost, this reliable, secure energy system can be connected to or independent of a utility power grid

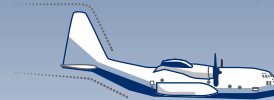
MAGNELINK®

Sustainability Impact: Improves mineworker safety and health with two-way voice communications underground during mining emergencies



GOES-R

Sustainability Impact: Satellite will give real-time weather forecast and early warning predictions to save lives

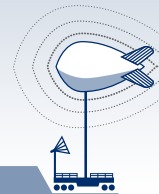


C-130

Sustainability Impact: Versatile transport aircraft operated by 70 countries is increasingly used in humanitarian relief missions after natural disasters

WINDTRACER®

Sustainability Impact: Doppler lidar system studies atmospheric conditions, detects hazardous winds for airports and aids wind power development



PTDS

Sustainability Impact: Tethered aerostat's surveillance technology used by military forces to monitor suspects and prevent corruption

LCS

Sustainability Impact: U.S. Navy's Littoral Combat Ship (LCS) is a fast surface combatant with a pirate-catching reconfigurable sea-frame that also counters illicit drug trafficking



MARLIN®

Sustainability Impact: Un-manned underwater inspection system provides earlier detection of safety hazards for oil and gas infrastructure

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OBJECTIVE

FOSTER INNOVATION, INTEGRITY AND SECURITY TO PROTECT THE ENVIRONMENT, STRENGTHEN COMMUNITIES AND PROPEL RESPONSIBLE GROWTH.



About Photo: Our 20 Global Positioning System satellites launched between 1997 and 2009 have recorded only 10 minutes of down time per satellite, thus spending more than 99 percent of time directing first responders to disaster areas, making transportation routes shorter, or assisting farmers with precision mapping to maximize crop growth while reducing waste of costly fuel, seed and supplies. Our next generation Global Positioning System III version (prototype shown here) offers better anti-jamming capabilities, delivers signals with three times more accuracy than current GPS spacecraft, and provides triple earth coverage power to global military, civilian and commercial users. Built on our highly reliable and efficient award-winning A2100 platform, the new model design will help accommodate a projected 11-fold increase in mobile data traffic by 2020.

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SUSTAINABILITY AND OUR BUSINESS

Defining Sustainability at Lockheed Martin: The future belongs to those who understand the technologies and systems that are the means for profound innovation in a resources-challenged world. Inherent to our business model, we recognize that the long-term value we provide our customers, our stockholders and the world is the enabling of thriving communities, environmental protection and sustainable economic development through technological advancement. This is *The Science of Citizenship*, and it is more than a commitment to propel responsible business growth. It cultivates scientific breakthroughs, global security and essential citizen services. It's our extraordinary opportunity to engineer a better tomorrow.

Unlocking Value for Society and Lockheed Martin: The broad scope of advanced technology systems, products and services we provide deliver shared value—and deepen strong relationships built on trust—on all seven continents. This ranges from the use of our modernized air traffic control information technology (IT) systems, which allow more planes to fly while reducing the fuel consumption and carbon footprint of air travel, to gradiometers that spot unsafe mining conditions on land and underwater, to the opportunities that our business ethics and government procurement mentoring bring to small businesses, local economies and our technology pipeline. Our Intelligence Driven Defense™ cyber services enable data

security and loss prevention from cyber intrusions for more than 200 customers around the world, supporting military communications and critical infrastructure for the energy, oil and gas, chemical, financial services and pharmaceutical industries. Such IT disruptions pose threats to national security, the economy, electric grids and other critical infrastructure and our well-being.

There are plenty of challenges, of course, including our efforts to represent products' cost of ownership across their total life cycle, and to coordinate with upstream suppliers to responsibly source the materials that go into our products. We are working diligently to contend with other complexities, including tracking the fear of retaliation for reporting ethical misconduct and assuring safe, environmentally aware development of disruptive technologies involving advanced materials.

Also, with our core business in military systems, it's true that we can't always disclose publicly all of the sustainability aspects of the design, content, purposes and capabilities of our products. This is not, however, a reason to diminish our pursuit of sustainability or to retreat from transparency. The more we integrate social, environmental, governance and economic considerations into our business decisions, the more we will realize long-term, sustainable success.

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VALUE	2014 RESULTS	SUSTAINABILITY FACTOR
SALES GROWTH	<ul style="list-style-type: none"> Sales of \$45.6 billion, up 1 percent versus 2013. Segment operating profit of \$5.6 billion. Segment operating margin of 12.3 percent. Net earnings from continuing operations increased 23 percent to \$3.6 billion. Record diluted earnings per share from continuing operations of \$11.21. Generated backlog of \$80.5 billion. 	Better business opportunities result from Lockheed Martin's ability to meet and exceed customers' increasing expectations for high-performing products that contribute to global security, environmental protection and sustainable economic development. We also go further, with sales of products and services that help government agencies support their own sustainability objectives, such as those derived from U.S. Executive Order 13514 "Federal Leadership in Environmental, Energy and Economic Performance and the U.S. Department of Defense Strategic Sustainability Performance Plan."
LONG-TERM COST AVOIDANCE	<p>As our customers face increasingly complex mission demands, we are committed to helping them do more with less. Since 2008, we've reduced overhead costs, cut capital expenses and removed 7.5 million square feet of facility space.</p> <p>In total, we returned almost 121 percent of free cash flow to stockholders. At the same time, we invested \$845 million into our business in capital expenditures, improving the quality and efficiency of our operations.</p> <p>Energy reduction and water conservation efforts contributed to approximately \$27 million in lowered annualized operating expenses and approximately \$3 million in 2014.</p> <p>Our Annual Report identifies 14 risk factors including hiring and retaining a qualified workforce, environmental costs, cyber security disruptions, international sales and supplier performance.</p>	<p>Enterprise Risk Management is monitored by the Board of Directors, its Audit Committee, and its Strategic Affairs Committee. Management reviews enterprise risk through the Risk and Compliance Committee and the Integrated Risk Council. The VP of Ethics & Sustainability is a member of the Corporation's Integrated Risk Council, which met five times in 2014.</p> <p>Through our enterprise risk management practices, sustainability is identified as a risk-mitigating driver in several areas of our value chain, including security of supply parts, bribery and corruption, cyber intrusions, workplace accidents and product quality issues.</p> <p>Our sustainability management plan brings increased focus, goals and performance measures to many identified risk areas.</p> <p>Energy and resource efficiency in Lockheed Martin office locations and manufacturing operations reduces our carbon footprint, lowers costs and increases productivity.</p>
HIGH-PERFORMANCE CULTURE	Our overall Organization Health Index—the combined measurement of Employee Experience, Leadership Excellence, Ethics and Integrity, and Diversity and Inclusion—is 74.2, which remains strong and is an increase of .44 points from the 2012 survey.	<p>A culture of inclusion inspires employee engagement, enabling their best work.</p> <p>Life-cycle assessments foster high-quality management decision-making that addresses customers' mission success sustainability requirements.</p>

This report includes references to segment operating profit, segment margin and free cash flow, which are non-GAAP financial measures. For reconciliations between our non-GAAP measures and the nearest GAAP measures, please refer to the page 85.

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VALUE	2014 RESULTS	SUSTAINABILITY FACTOR
INVESTOR OUTREACH	<p>During 2014, members of our senior management team held 36 meetings (in person or by telephone conference) with institutional investors representing more than 40 percent of our shares outstanding. At a majority of these meetings, shareholders raised environmental, social and/or governance topics to which we responded.</p> <p>Lockheed Martin is included in the following sustainability-screened indices and rankings:</p> <ul style="list-style-type: none"> • Dow Jones Sustainability World Index • CDP S&P 500 Climate Disclosure Leadership Index • CDP S&P 500 Climate Performance Leadership Index • MSCI Intangible Value Assessment • 100 Best Corporate Citizens • Sustainalytics • Calvert Investments MoRE World Strategy • Fortune Most Admired Companies 	<p>Our access to capital is facilitated by our rapport with major investors, many of whom integrate sustainability considerations into their investment decision making, as indicated by some being signatories to the United Nations Principles for Responsible Investment and by broad support for the U.K. Stewardship Code.</p> <p>This is our fourth year of sustainability reporting that comprehensively presents our environmental, social and governance metrics. It accompanies an online Global Reporting Initiative G4 Core Index accessible by investors and all stakeholders.</p> <p>We actively respond to select requests for sustainability data from data analytics providers.</p>

MEMBER OF

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM

For the first time, Lockheed Martin was named to the Dow Jones Sustainability World Index for our environmental, social, and financial performance. We were also named to the Dow Jones Sustainability North America Index for the second consecutive year.

ADDRESSING MEGATRENDS

In 2013, we at Lockheed Martin analyzed a number of global issues or megatrends against the core sustainability issues facing our business. In 2014, we continued to monitor these trends in the context of evaluating our long-term objectives. While these trends are not directly in our control, they influence our outlook and sustainability strategy.

Mobilizing a Versatile Energy Infrastructure, Accessible Anytime, Anywhere

A number of factors make our new technologies essential to a secure energy future: a massive global population shift from rural areas to densely populated cities, the growth of intermittent renewable energy sources complicating grid operations within an aging infrastructure, and complex systems integration demands on alternative energy generation. Scientific data from our space-based climate and extreme weather monitoring solutions factor in the mechanisms governments are considering utilizing to address increasing carbon emissions and pollution. On the ground, we deliver energy efficiency strategies for utilities' power generation and transmission, and we are making strategic investments in energy storage, waste-to-energy and ocean-based power. *This trend benefits*

Lockheed Martin by making clean, secure and smart technology attractive to fulfilling government mandates, and it benefits society by expanding access to affordable and reliable power as global population swells to an estimated nine billion by 2050.

Delivering Global Security Tools for Government Resilience

In the face of a changing global power dynamic, we serve government customers contending with serious threats such as armed aggression and terrorism, pervasive crime, depleted resources and threats to critical infrastructure. We see a world where developing nations, rogue nations, non-state groups, and even individuals, are increasingly able to influence global events. Our products and services help governments provide citizen services and mitigate geopolitical, technological and environmental risks. These risks may range from the spread of a virus that could unleash panic a continent away, to detecting a lone terrorist trying to board a plane anywhere and change the course of history everywhere. *As a trusted partner with a diverse product portfolio, we're positioned to continue helping our customers keep up with evolving challenges and achieve their missions.*

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Addressing Evolving Global Norms of Business Integrity

As public attitudes change and expectations increase for more responsible business, many large companies face more frequent requests for disclosure from an increasing number of interests monitoring corporate behavior. Recent regulatory actions now require companies to disclose their use of conflict minerals; restricted chemicals; and efforts to remove counterfeit electronic parts and human rights abuses, including human trafficking, from federal contractor supply chains. It is evident that some stakeholders seek further integration of sustainability principles and business values. *Our longstanding ethics and business conduct program, multi-tiered supplier relationships, and familiarity with complex contracting oversight regimes provide solid footing for responding to abundant levels of scrutiny.*

Combating Technology-Based Aggression in a Digital World

We view the health and safety of the “cyber environment” as an increasingly vital component of sustainability. The health, well-being, and development prospects of citizens around the globe rely on a safe and secure cyber environment. Even solutions to support the natural environment, a pandemic response, and better customer service increasingly rely on digital capabilities and tools. From this context we understand the threats posed by the rise of cyber warfare, driven by state- and non-state-sponsored disruptions. At least 30 nations have a published cyber warfare doctrine, with 12 having organizations dedicated to the issue, such as the U.S. Cyber Command. *Lockheed Martin already fields one of the most sophisticated portfolios of technology and talent to stay ahead of cyber adversaries, and we continue to invest in seamless, end-to-end capabilities. Protection of critical infrastructure and information technology systems, while balancing personal liberties and privacy expectations, represents opportunity for us.*

Winning the Future of Science and Technology Educated Talent

The U.S. labor market demand for core technical and engineering disciplines is almost triple the number of individuals available, and the fastest growing school-age U.S. minorities are typically the most underrepresented in science, technology, engineering and math (STEM) enrollment. Lockheed Martin conducts a substantial amount of business supporting national security missions that require U.S. citizenship status for employment, so we are already cultivating new partnerships with academic, business and non-profit groups to stimulate interest in STEM education and careers among students, pointedly including minority and female students, in the United States. *This human capital focus will help us grow a robust pipeline of engineers and technologists while helping communities overcome persistent gaps in education and economic opportunities.*

PRACTICING THE SCIENCE OF CITIZENSHIP

Daniel J. Heller, Vice President, Sustainability Technologies
Mission Systems and Training



Mission Systems and Training’s former New Ventures line of business is now called Sustainability Technologies. It was important for us to change the name to reflect our strong focus on global sustainability challenges.

We didn’t originally set out to focus on sustainability. Our focus was on emerging technologies that have a significant global impact, where we

could help make the market and then become a global leader in the market. We soon realized our portfolio was right in line with, and has the great opportunity to affect and contribute to, Lockheed Martin’s sustainability mission.

The sustainability innovation taking place across our portfolio has contributed to a variety of sustainable technologies and affordable solutions, including OTEC and the AR1500 tidal turbine. Our future application of Perforene™, an advanced filtration technology, and the design and construction of a first of its kind waste-to-energy facility in Owego, NY, help us advance technologies for commercial adoption. Our Perforene membranes will be used for water remediation in the oil and gas industry, and ultimately for desalination. Perforene and waste-to-energy also demonstrate the optimization of energy use, which is a critical focus not only externally but also in our operations.

While it may be easier to see the connection to the non-defense pieces of our portfolio, my hope is everyone sees the important role sustainability plays in our defense programs as well. One core issue of sustainability is product performance. Through our global supply chain services and logistics IT solutions, for example, we help deliver performance reliability and optimal economic value over the full life cycle of our customers’ platforms and products.

Our core issue of information security focuses on minimizing the probability and impact of undesirable security incidents. Through our cyber security training and testing solutions, the National Cyber Range is the only place where programs can create realistic replicas of complex cyber environments and safely use live malware to evaluate emerging cyber technologies and products, as well as to assess network security vulnerabilities.

Our commitment to sustainability will continue to accelerate the Sustainability Technologies’ and the Corporation’s strategy.

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GOVERNMENT CONTRACTING IN CONTEXT

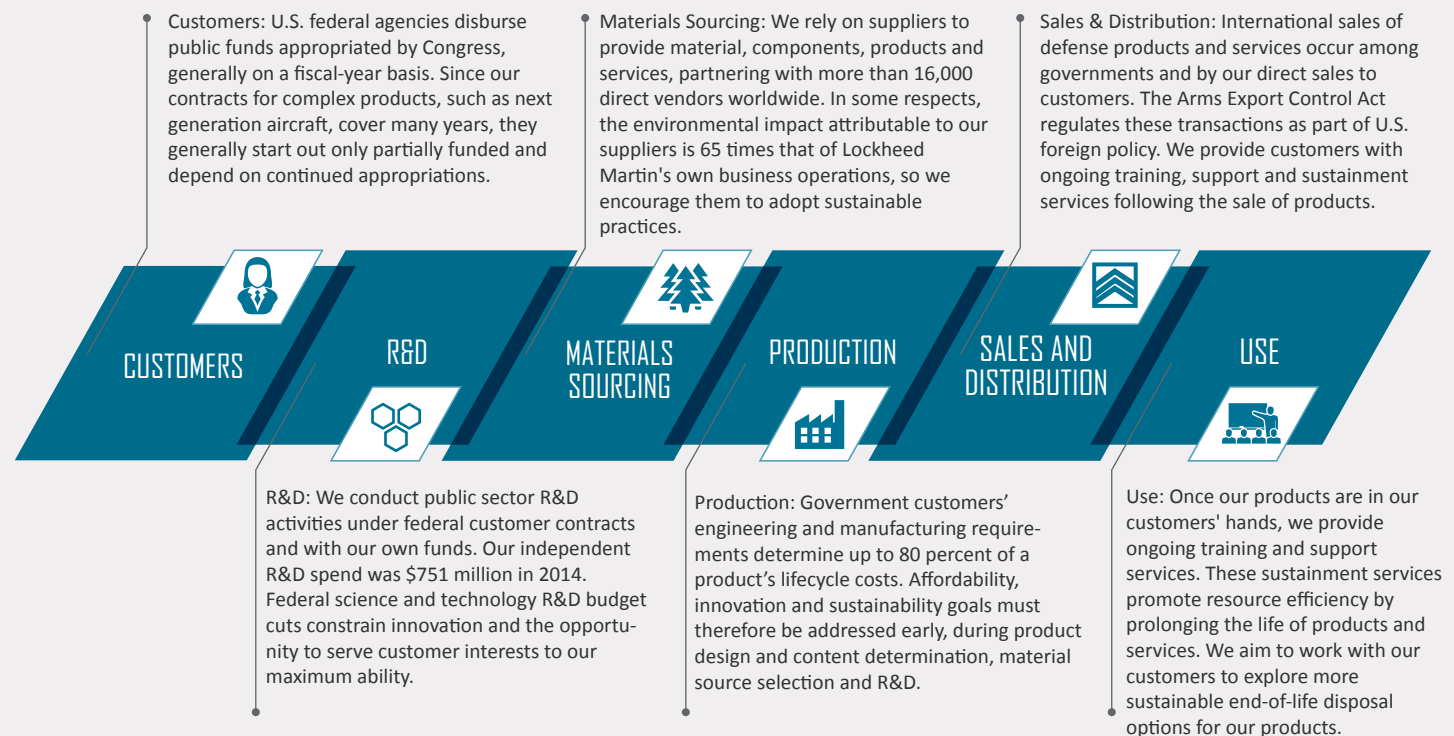
The U.S. federal government, our largest customer, plays a crucial role in furthering sustainability in our business and sector. The scale of its procurement activities and influence on the international trade of military-grade equipment provide opportunities for resource efficiency and sustainable innovation. Evolving customer sustainability requirements and drivers, as well as maturing doctrine and performance methods, affect the pace of our sustainability agenda.

Contracts with governments often require us to buy or invest in their respective countries' economic development, which we view as a key platform for building social and relationship capital and as an opportunity to contribute to

sustainable development initiatives globally. We also provide our customers with sustainment services that promote resource efficiency by prolonging the lives of products and services, and aim to work with customers to explore more sustainable end-of-life disposal options for our products.

The graphic below illustrates our value chain through a focus on our biggest customers: U.S. military and civil agencies and allied national governments. These customers represent approximately 99 percent of Lockheed Martin sales, presenting unique value chain issues including funding uncertainties, government control over product exports, and opportunities to promote sustainable development through offsets.

LOCKHEED MARTIN GOVERNMENT CONTRACTING VALUE CHAIN



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SUSTAINABILITY STRATEGY

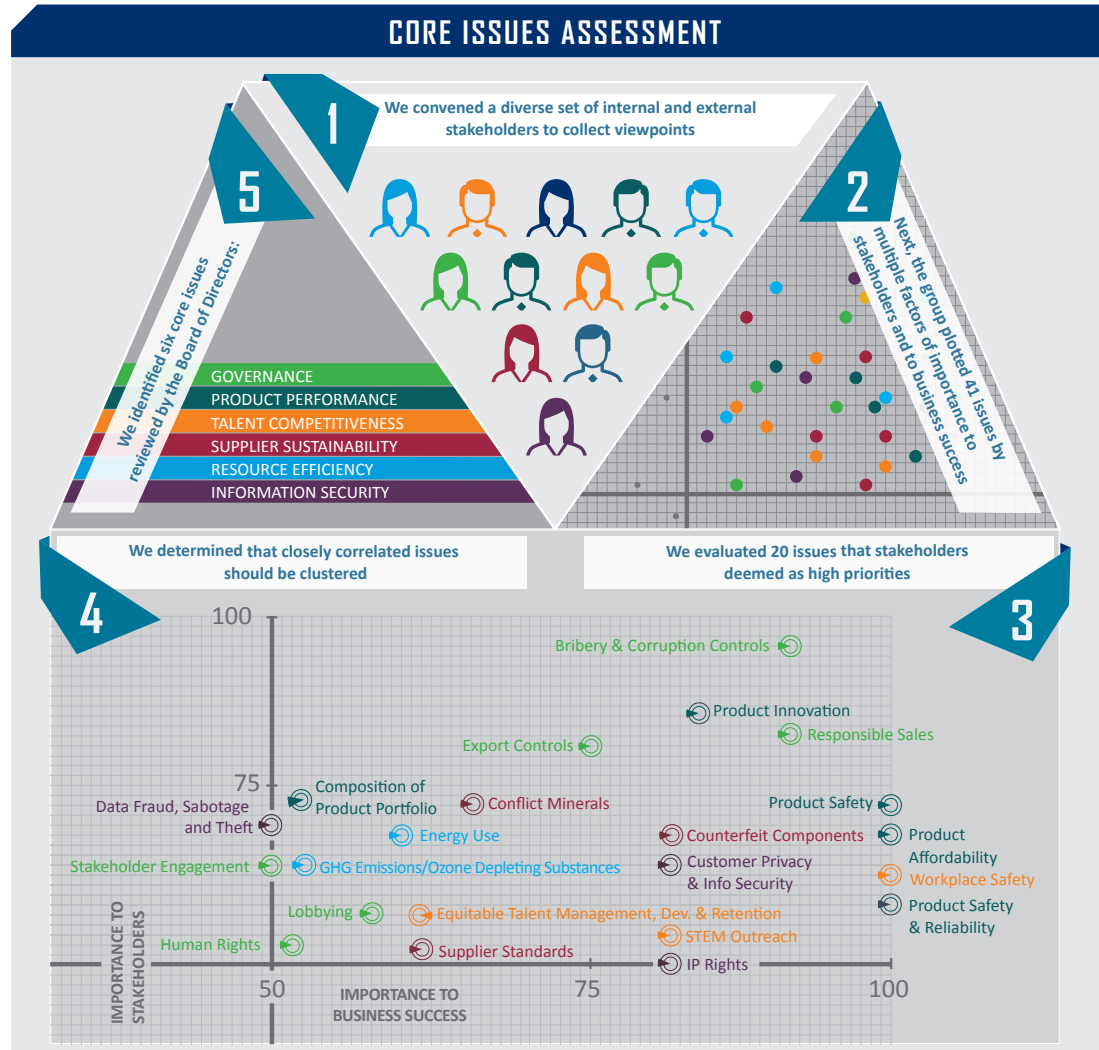
We used an inclusive, formal four-step assessment in 2013 to evaluate the core sustainability issues of importance to our stakeholders and our business. We also sought to identify opportunities for improving our disclosure of related information. In exploring more than 40 topics, we drew upon feedback from:

- The reflections of institutional shareholders and multiple representatives of five other stakeholder segments on our business model, compliance requirements and competitive positioning;
- Senior business leaders' perceptions of short, medium and emerging risks, as well as the World Economic Forum Global Risks Index;
- Issue prioritizations from 35 Lockheed Martin employees across 10 business functions, analyzed during three internal workshops with an independent third party facilitator; and
- The Global Reporting Initiative G4 Principles, the Ceres Roadmap to Sustainability, and guidance from the Sustainability Accounting Standards Board and the International Integrated Reporting Council.

This core issues assessment allowed us to see the connections between issues that matter to our stakeholders and our business strategy, risks and opportunities. Understanding these linkages allows us to be more focused in our engagement and to allocate resources where there is the greatest opportunity for sustainable growth while mitigating potential risks.

We grouped the highest-ranked, closely related issues from this assessment to identify our six core issues: **Governance, Product Performance, Talent Competitiveness, Supplier Sustainability, Resource Efficiency and Information Security**. Please see our [2013 Sustainability Report](#) for more details about our core issues assessment.

CORE ISSUES ASSESSMENT



In 2014, the Sustainability Accounting Standards Board developed a draft set of industry-specific disclosure topics and metrics for use by publicly listed U.S. aerospace and defense companies. The results closely matched the findings of our core issues assessment.

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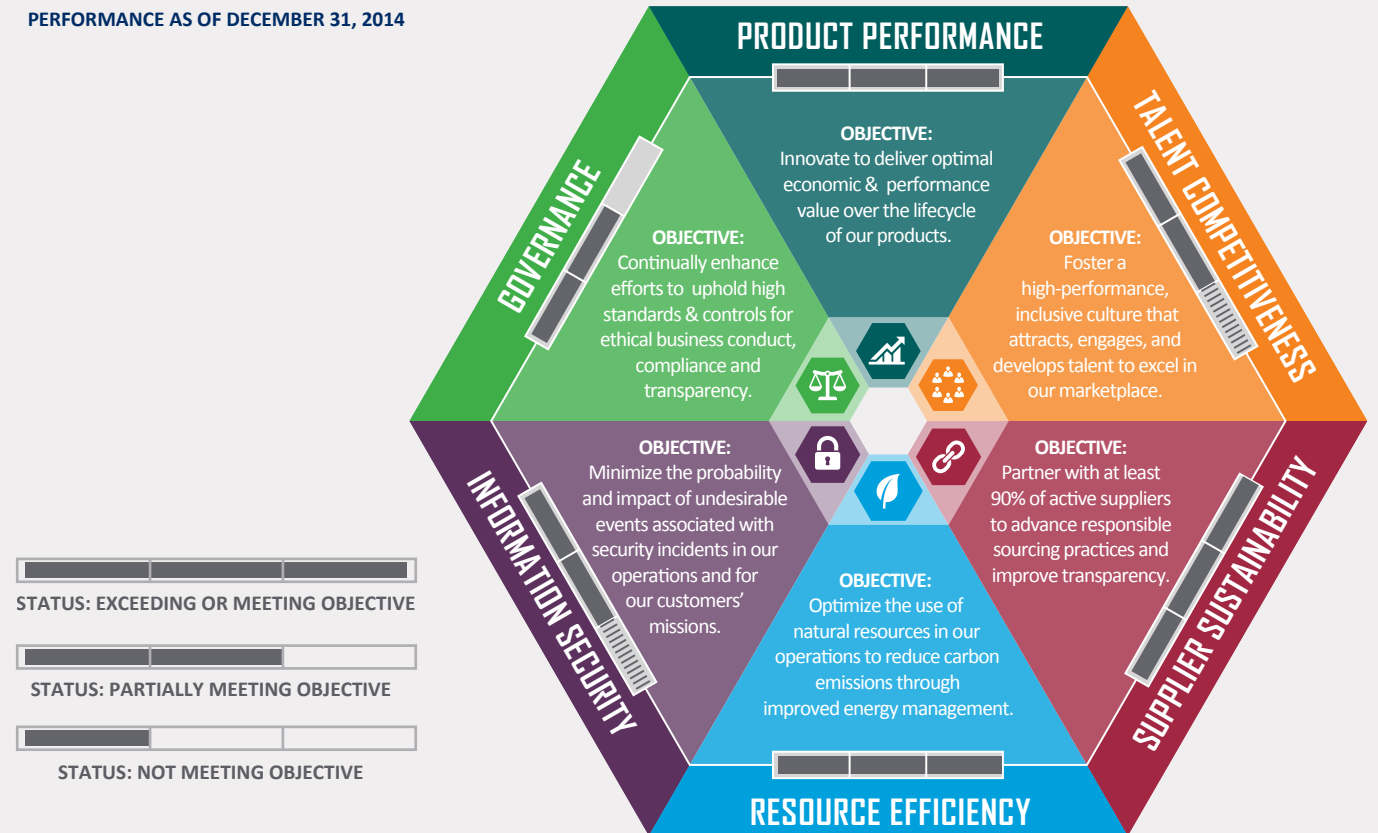
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SUSTAINABILITY MANAGEMENT PLAN

PERFORMANCE AS OF DECEMBER 31, 2014



SUSTAINABILITY PERFORMANCE

During 2014, we implemented our Sustainability Management Plan to effectively manage, measure and disclose performance related to objectives associated with our six core issues. Our management plan outlines 41 short- and long-term indicators of sustainability in our business decisions and practices. Unless otherwise noted, all indicators include 2015 performance goals from a 2013 baseline. Our

Executive Leadership Team (ELT), led by our chairman, president and chief executive officer, discussed and reviewed mid-year and full-year performance. The Ethics and Sustainability Committee of the Board of Directors also reviewed the implementation process. The sections that follow include our specific strategies, goals, and relevant performance for each core issue.

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SUSTAINABILITY GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

Ethics and Sustainability Committee

EXECUTIVE LEADERSHIP TEAM

Chairman, President and CEO
Executive VP Aeronautics
Executive VP International Systems and Global Solutions
Executive VP Lockheed Martin International
Executive VP Missiles and Fire Control
Executive VP Mission Systems and Training
Executive VP Space Systems
Chief Financial Officer
Chief Technology Officer
Senior VP Corporate Strategy and Business Development
Senior VP Washington Operations
General Counsel
Senior VP Human Resources
VP Ethics and Sustainability

SUSTAINABILITY WORKING GROUP

VP Ethics and Sustainability
Director Sustainability
Director Ethics
VP Corporate Energy, Environment, Safety and Health
VP Human Resources
Director Community Outreach
Associate General Counsel
VP Technology and Innovation
Director Supply Chain
Director Communications

SUSTAINABILITY GOVERNANCE

During 2014, the Ethics and Sustainability Committee of the Board of Directors oversaw efforts in corporate responsibility, human rights, environmental stewardship, employee health and safety, ethical business practices, community outreach, philanthropy, diversity and inclusion, and equal opportunity, as well as the Corporation's record of compliance with related laws and regulations. It monitored adherence to our Code of Ethics and Business Conduct. It also oversaw matters pertaining to community and public relations, including government relations, political contributions and charitable contributions.

The Corporation's highest executive governance body, the Executive Leadership Team (ELT), governed and guided corporate-wide sustainability objectives. The ELT reviewed topics related to corporate sustainability operations and reporting four times during 2014. It also met with the Independent Insights Group (see [Stakeholder Engagement](#)) for guidance on current issues and best practices in sustainability. The vice president of Ethics and Sustainability, who is an elected corporate officer and reports directly to both the CEO and the Ethics and Sustainability Committee of our Board, was chairman of the Sustainability Working Group of functional leaders that shapes our strategic sustainability agenda, facilitated implementation of sustainability initiatives, and coordinated sustainability stakeholder engagement and disclosures.

Lockheed Martin also maintains separate leadership councils dedicated to areas such as production operations, risk and compliance, supply chain and environment, health and safety. These councils include leaders with relevant expertise from our business segments and functions. They meet periodically to evaluate our progress in implementing our strategies and to evaluate performance goals.

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STAKEHOLDER ENGAGEMENT

We solicit and use feedback from employees, customers, investors, analysts, community leaders, suppliers, regulators and non-governmental organizations to inform our sustainability agenda and broader business strategy. Given the geographic breadth and product portfolio diversity of Lockheed Martin, we apply a decentralized model for stakeholder engagement suited to the needs of our business segments and functions. While this allows for more frequent and localized contacts, it also lends some inconsistency to our outreach on core sustainability issues. This report and activities coordinated by our corporate sustainability office helps harmonize information on our global engagement efforts. Significant stakeholder engagement developments in 2014 by core issue included, but were not limited to:

CORE ISSUE	LOCKHEED MARTIN ACTION	ENGAGEMENT VALUE
GOVERNANCE	Developed and implemented ethics controls that are customized to our small remote locations. We conducted site visits to build awareness and relationships. <i>See more in Governance Performance.</i>	By fostering a culture of inclusion, we addressed the risk of these isolated sites developing a site culture that is not always consistent with Lockheed Martin values.
SUPPLIER SUSTAINABILITY	Hosted engagement summit with suppliers representing 7 percent of annual contractor spending, covering core issues and sustainability-related procurement criteria. <i>See more in Supplier Sustainability Management.</i>	Received feedback on our sustainability performance and identified collaborative opportunities to advance responsible procurement strategies, including standardizing supplier codes of conduct.
PRODUCT PERFORMANCE	Partnered with the Mission Ready Sustainability Initiative (MRSI) to validate the U.S. Department of Defense's streamlined life-cycle assessment guidance for our industry. <i>See more in Product Performance.</i>	The guidance may now be used as a tool by our largest U.S. military customers during the acquisition process.
INFORMATION SECURITY	Invested in research that engaged subject matter experts and policy-makers to simulate cyber security risks and their potential macroeconomic impact. <i>See more in Information Security Performance.</i>	Introduced new open-source risk modeling tool to assist industry and other institutions with resourcing information security defense, and understanding societal impact of systemic IT failures.
RESOURCE EFFICIENCY	Convened more than 200 government and industry officials for a roundtable discussion on the Energy Water Nexus, in partnership with U.S. Chamber of Commerce Foundation. <i>See more in Resource Efficiency Performance.</i>	Called attention to varying U.S. regional priorities and effective strategies for mitigating these interconnected environmental and social risks.
TALENT COMPETITIVENESS	Established the Executive Inclusion Council, led by our CEO. <i>See more in Talent Competitiveness Management.</i>	Prioritized and emphasized the business imperative of advancing our diversity and inclusion strategies and programs.

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Independent Feedback

Our Independent Insights Group met on three occasions. It serves as a panel of experts in academia, business, sustainability, law and government to provide guidance on sustainability issues and best practices to our senior corporate leadership and key functional leaders. The group offered insight on product stewardship, competitive positioning and climate issues. For the second time, it also informed and reviewed Lockheed Martin sustainability reporting. We offer members travel reimbursements to attend meetings, but do not provide other compensation, preserving the independence of their viewpoints.

The five members are:

- Christopher (Chris) Bell, Shareholder, Greenberg Traurig
- Sheila Bonini, Chief Executive Officer, The Sustainability Consortium
- Nabil Nasr, Associate Provost for Academic Affairs and Director, Golisano Institute for Sustainability, Rochester Institute of Technology
- Elizabeth (Liz) Schrayner, President, Schrayner & Associates
- Mohammad Zaidi, strategic advisory board member, Braemar Energy Ventures and former Executive Vice President and Chief Technology Officer, Alcoa

The panel's final letter of opinion on this report is included here, unedited.

For the second year in a row, and at the invitation of the CEO, Lockheed Martin invited us to comment on its Sustainability Report. Four of the original five members of the Independent Insights Group (IIG) return and we welcome the addition of Sheila Bonini. Steve Rochlin of IO Sustainability has again facilitated this process. Our commentary is based solely on the information provided to us by Lockheed Martin and is not part of an assurance process, an evaluation of Lockheed Martin's sustainability performance, or an attempt to speak on behalf of Lockheed Martin's myriad stakeholders.

The 2014 Report builds upon previous reports and addresses several of our earlier recommendations. We are pleased to see Lockheed Martin emphasize sustainability as part of its business strategy and commend the company for its continuing commitment to integrate sustainability in its values, mission, management and product offerings, as well as its emphasis on good citizenship. With its application of science and systems thinking to complex problems, Lockheed Martin is well-positioned to address sustainability throughout its businesses.

This Report reflects progress in many areas. The CEO's assumption of the leadership for sustainability governance with her Executive Leadership Team is a significant step. The Report's discussion of financial benefits underscores

that Lockheed Martin views sustainability as a value-creating endeavor. The increased investment in technologies such as energy efficiency, cyber-security and water treatment signals an effort to leverage Lockheed Martin's capabilities to develop sustainability opportunities. We also appreciate the discussions of the "megatrends" that may affect the company and the unique challenges of serving government customers. We hope to see Lockheed Martin build on these successes.

While there are many opportunities for Lockheed Martin to improve its sustainability performance, we have some specific recommendations. We believe more effort should be put into defining and meeting the most complex sustainability challenges that affect the company's security mission, including providing more clarity on the linkages between security and sustainability. We also encourage Lockheed Martin to increase its engagement in global strategies and partnerships that contribute to sustainable development in developing countries, and to enhance its efforts to meet sustainability challenges through offset programs.

Further, as noted in last year's letter, metrics are of central importance in helping the company execute its strategy and stakeholders evaluate progress. Examples to consider include: financial targets related to Lockheed Martin's sustainability goals; clarifying the relationship between cost savings and sustainability; more explicitly allocating R&D resources to sustainability efforts and identifying the ancillary sustainability benefits of R&D that is not explicitly dedicated to sustainability; and assessing the environmental and social impacts of Lockheed Martin's sustainability activities. Comparisons of Lockheed Martin's performance with that of its peers would be interesting, and it would be helpful to see relative metrics expressed in terms of other measures of business performance, rather than absolute metrics. Lockheed Martin should also develop metrics that go beyond the boundaries of its facilities and address the life cycle of its products and services and its value chain, since that is where many of its sustainability impacts and opportunities are.

Addressing these issues should enhance the company's sustainability performance and help internal stakeholders better understand and execute the company's commitment to sustainability.

Lockheed Martin is making progress in its sustainability journey, and the Report provides useful information about their efforts. We appreciate the company's willingness to engage with us and publish our unedited feedback.

Signed,

Chris Bell, Sheila Bonini, Nabil Nasr, Liz Schrayner, and Mohammad Zaidi



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OBJECTIVE

CONTINUALLY ENHANCE EFFORTS TO UPHOLD HIGH STANDARDS AND CONTROLS FOR ETHICAL BUSINESS CONDUCT, COMPLIANCE AND TRANSPARENCY.



About Photo: Our F-35 Lightning II Full Mission Simulator, shown here, allows U.S. and international partner users to test and train on all three aircraft variants without risk of injury to pilots or individuals on the ground, while saving on fuel and other materials. The simulator represents one of many products sold to U.S. allied nations, and therefore subject to strict anti-corruption and business conduct laws and policies. Purchasing countries also commonly require that Lockheed Martin buy or invest in resources of that country, which we view as an opportunity to contribute to sustainable development initiatives globally.

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OVERVIEW

Strong governance provides the foundation for building a culture of ethical behavior and minimizing business risk. By acting with integrity, we gain the trust of our customers, business partners, stockholders and other stakeholders, and create a positive impact on society.

Everyone at Lockheed Martin is expected to behave with integrity at all times. We embed accountability for ethical business conduct through corporate policies; employee training; and transparent, stakeholder-focused reporting. To promote good governance throughout the aerospace and defense sector value chain, we use our scale, market position and trusted relationships to encourage ethical behavior by our partners.

GOVERNANCE IMPACTS ON SUSTAINABLE BUSINESS PRACTICES

Bribery and Corruption Controls:

We're trusted to support the most sensitive missions undertaken by governments across the world. Through a zero tolerance approach and the active engagement of all employees on anti-corruption policies and practices, we uphold the integrity of the missions we support and their contributions to maintaining secure societies that enable sustainable development.

Stakeholder Engagement:

We build relationships with customers, employees, non-governmental groups, stockholders and suppliers who seek common ground on sound governance. To foster mutual trust, we rely on these stakeholders to understand and mirror the ethical conduct we expect from our employees in all business challenges and activities.

Responsible Sales:

We're committed to ensuring that all sales employees carry out their responsibilities in an honest, truthful and fair manner, whatever the local laws, culture or regulations.

Human Rights:

We practice due diligence to guard against human rights violations and have expanded corporate policies to set clearer expectations.

Export and Import Controls:

Adversaries working across national borders seek ways to illegally access privileged, private or secret information. By practicing export and import controls, we mitigate the risk of sensitive information falling into the wrong hands.

Lobbying:

We lawfully engage in the political process to communicate views on legislative and regulatory matters that impact our business. High ethical standards dictate how we conduct these lobbying activities, which we pursue in support of laws and regulations that encourage industry growth and innovation in a socially and environmentally responsible manner.



MACROCHALLENGES

Public trust in global companies and national governments—our largest customer base—is low, while expectations for them to support and protect the world's citizens remain high. As our company pursues international sales growth, it is critical that we are sensitive and responsive to business practices that could have an adverse impact along the value chain, compromising our business ethics standards. The areas highlighted on the left are critical to maintaining our reputation for the highest ethical standards.

STAKEHOLDER INSIGHTS

Taxpayers and investors expect us to effectively apply their resources. All of our stakeholders expect us to apply business acumen and ethical standards of the highest order across all parts of our business.



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SUSTAINABILITY MANAGEMENT PLAN PROGRESS

PERFORMANCE INDICATORS

2014 RESULTS

- | | |
|---|---|
| <p>1. Continue to measure and monitor anti-bribery and anti-corruption by maintaining or reducing the frequency of deviations from corporate policies on international and domestic business conduct.</p> | <p>1. 33 fewer reportable instances—Through disciplined monitoring of business practices, we recorded five total deviations, which represent an 87 percent decrease in frequency of reportable instances. We trained 100 percent of International Consultants on anti-corruption laws including the Foreign Corrupt Practices Act (FCPA) and U.K. Bribery Act, however, this occurred several weeks after the December 2014 target date.</p> |
| <p>2. Increase Ethics Supplier Mentoring relationships with small businesses.</p> | <p>2. Nine new mentees—In 2014, we established nine new small supplier mentoring relationships, bringing the total to 15 for 2013 and 2014.</p> |
| <p>3. Maintain 100 percent completion of Business Code of Conduct Training (BCCT) for Sensitive Information and International Trade Compliance, and for International Business Practices.</p> | <p>3. 100 percent BCCT completion—We achieved 100 percent completion of Business Conduct and Compliance Training for Sensitive Information and International Trade Compliance, and for International Business Practices.</p> |
| <p>4. Track the ratio of recommendations for personal information processing to Privacy Impact Assessments completed on Internal systems.</p> | <p>4. Mid-year ratio of 0.95 and year-end ratio of 1.33—We track this ratio to assess privacy risk on our internal systems that process personal information. We began measuring this indicator in 2013 and will continue to monitor its trends.</p> |
| <p>5. Increase external stakeholder participation in the Core Issues Assessment.</p> | <p>5. Core Issue Assessment Scheduled—The Core Issue Assessment is scheduled to begin in late 2015. Updates will be included in a future report.</p> |
| <p>6. Increase the percentage of eligible respondents completing the Sustainable Supply Chain Management Voluntary Assessment.</p> | <p>6. 84 percent assessment completion—Of all eligible respondents, 84 percent completed the Sustainable Supply Chain Management Voluntary Assessment as compared to the baseline of 52 percent, representing a 32 percentage point increase.</p> |

CHALLENGES

We are disclosing one new metric that broadens governance measures for privacy and providing better transparency for our performance on anti-bribery and anti-corruption monitoring.

High standards of ethical conduct are integral to our business strategy, helping build customer trust and win programs domestically and abroad. We seek to further refine accountability for anti-corruption controls in international business activities in coordination with leaders from each of our business segments and Lockheed Martin International.

2014 HIGHLIGHTS

For the **20th consecutive year**, all employees completed our annual Ethics Awareness Training.

We launched an **Anti-Retaliation Program** to identify and protect employees after they report misconduct.

We formed a new **international anti-corruption program team**.



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MANAGEMENT

Our well-established ethics program fosters an environment in which we live our company values: Do What's Right, Respect Others and Perform With Excellence. On a day-to-day basis, we guide our employees' behavior through our global Code of Ethics and Business Conduct. Each year, we expect all employees to complete mandatory business conduct compliance and ethics awareness training.

The vice president of Ethics and Sustainability is an elected corporate officer and reports directly to the chief executive officer and the Ethics and Sustainability Committee of the Board of Directors. This role has authority over the ethics and sustainability program, and the execution of the Corporation's business conduct compliance training, procurement integrity and anti-corruption efforts.

SETTING THE HIGHEST STANDARDS

Our Code of Ethics and Business Conduct, "Setting the Standard," applies to all Lockheed Martin employees, members of the Board of Directors, consultants, contract laborers and other agents when they represent or act for the Corporation. Available in 16 languages, it does what its name suggests—sets out clear policies and expectations in areas that include:

- Practicing good citizenship, including support for human rights,
- Preventing corruption,
- Promoting a positive and safe work environment,
- Ensuring transparency in our public disclosures,
- Avoiding conflicts of interest,
- Protecting sensitive information,
- Properly using company assets,
- Complying with all laws,
- Competing fairly and
- Considering sustainability in our business dealings.

In 2014, we released a digital version of our Code, [Setting the Standard](#). Online delivery reduced the environmental impact of circulating printed copies to all employees.

The digital Code is available on our intranet, external website and in mobile format, with links to related policies, frequently asked questions, videos and other resources. By the end of 2014, 100 percent of employees certified and acknowledged that they had read it. Future ethics communications will direct employees to related sections of the Code, making it a living resource.

Corporate Policies that Direct Employee Action and Management of Governance Include:



- Compliance with the Anti-Corruption Laws
- Disclosures to the United States Government
- Ethics and Business Conduct
- Export Controlled Information
- Internal Investigations
- International Trade Controls and Compliance
- Sustainability
- Trafficking in Persons

By evaluating employee use through website metrics, we will identify topics that may need further communications, training, or supplemental resources.

RISK MANAGEMENT

Our Enterprise Risk Management (ERM) strategy uses well-established methods to identify potential risks and to manage risks that threaten strategic objectives. The process is guided by our Risk and Compliance Committee (RCC), a group of representative leaders from 14 organizations (business segments and corporate functions) represented on the Executive Leadership Team (ELT). The RCC also approves business conduct and compliance training.

We identify and manage risks across the near-, mid- and long-term, providing assurance to executive leaders and the Board of Directors that the key risks facing our business today and tomorrow are managed effectively. We generate input from surveys, environmental scans, industry group resources. The risk evaluation process also includes interviews with external experts and our senior executives, as well as surveys of leaders across the Corporation to assess the probability and impact of various risks and to develop prioritized risk rankings. We also cross-correlate risk perception at enterprise, business segment and international program level to inform our mitigation priorities and ensure these priorities are understood across the enterprise.

In 2014, we began using our risk assessment process to collect intelligence about risk interconnectivity. Our approach analyzes the connections among different enterprise risks by exploring the primary root cause and consequence of each one. Eight action plans owned by five ELT members were managed by seven risk managers. These action plans require analysis of more than 45 risk indicators and 75 mitigating actions.



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BUSINESS RESILIENCY AND CLIMATE CHANGE

Our operational risks associated with climate change are addressed by business resiliency. Business resiliency uses predefined teams, processes, plans and tools to rapidly respond to and recover from the risk or reality of impacts due to natural, human or technological causes. The principal components of business resiliency are crisis management, business continuity, information technology disaster recovery and medical response. Individual business entities and facilities are required to prepare and regularly exercise business resiliency plans.

POLITICAL PARTICIPATION DISCLOSURE

Lockheed Martin participates in the political and public policy process in a responsible and ethical way, serving the best interests of our stockholders and customers. The global security industry is highly regulated, and our operations are affected by the actions of elected and appointed officials at many levels of government. Our public policy activities in the United States include advocacy efforts at the federal and state levels, thought leadership regarding global security trends, and other initiatives to address important issues impacting the Corporation and our customers, including educational outreach and promotion. Our [Political Disclosures website](#) reports on our contributions, associations, employee political action committee and lobbying activities.

STAKEHOLDER ENGAGEMENT

DEFENSE INDUSTRY ETHICS LEADERSHIP

Defense Industry Initiative on Business Ethics and Conduct

Lockheed Martin is a founding signatory of the Defense Industry Initiative on Business Ethics and Conduct (DII). An association of U.S. defense and security companies, the DII promotes a sector-wide culture of conducting business affairs at the highest ethical level.

In 2014, our chief executive officer and our vice president of Ethics and Sustainability concluded two-year terms serving as the association's steering committee chair and working group chair, respectively. Under their leadership, DII launched an online community to share best practices and completed an industry model supplier code of conduct. We are leading the effort to apply this supplier code, moving toward an industry standard that will ensure our supply chain embraces a common set of ethical and compliance expectations. This common approach will also bring efficiency benefits, reducing the need for suppliers to demonstrate compliance with multiple company codes.

International Forum on Business Ethics and Conduct for the Aerospace and Defense Industry

Lockheed Martin is also a leader in international ethics collaboration for our sector. We are a founding member of IFBEC, the International Forum on Business Ethics and Conduct for the Aerospace and Defense Industry, created by member companies of the Aerospace Industries Association of America (AIA) and the Aerospace and Defense Industries Association of Europe (ASD) in 2010. Through its Global Principles, IFBEC promotes the development and effective implementation of global, industry-wide ethical standards. In 2014, we participated in plans for the forum to increase engagement with the industry's supply chain to understand and mitigate potential corruption in international offset arrangements. Offset requirements are established by many government customers to support industrial growth. Responsible and sustained fulfillment of these offset requirements and their impact on trade pose long-term challenges for Lockheed Martin international export opportunities.

EMPLOYEE FEEDBACK ON MISCONDUCT REPORTING

Our employees are among our most important stakeholders. We encourage them to speak up, without fear of retaliation, when they witness unethical behavior and we ask for their feedback on how their concerns are treated. Our ethics officers lead engagement with internal reporting parties. To gauge their effectiveness, we approach employees whose non-anonymous reports of misconduct result in an ethics investigation. Their feedback includes entries into a survey that scores the effectiveness of our ethics officers' handling of the reports. We aim to increase our feedback scores year-over-year. The continuing high level of satisfaction with our ethics officers is shown in the table below.

Reporting Party Feedback Survey Results	2014	2013	2012	2011
Enterprise-Wide (score out of five, five is the highest)	4.3	4.2	4.0	3.9



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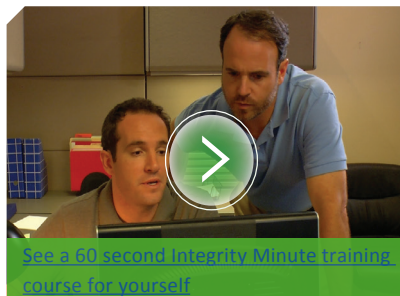
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PERFORMANCE



See a 60 second Integrity Minute training course for yourself

BUSINESS CONDUCT COMPLIANCE TRAINING

Each year, we deliver mandatory business conduct compliance training to all employees. To maintain effectiveness, we frequently update this training with a focus on risk reduction and control, and on zero tolerance for corruption. In 2014, the Risk and Compliance

Committee approved enhancements including course updates and additional testing options. One of those course updates uses “gamification” as a way to better engage our workforce. In meeting 100 percent of our training requirements, employees completed more than 480,000 training sessions in 2014.

ETHICS TRAINING

Keeping ethics front of mind for our workforce requires frequent reinforcement. In 2014, for the 20th consecutive year, all employees on the payroll as of August 29, 2014, completed our annual Ethics Awareness Training, Voicing our Values. The majority of these sessions were leader-led group trainings, using video-based real life examples to drive discussion of how to apply our values to ethical dilemmas. The training cascades throughout our organization from the chief executive officer to first-line supervisors and individual employees.

To continually improve our ethics guidance, we conduct a post-training survey; more than 4,200 employees provided feedback that will help shape the 2015 course.

Ethics Awareness Training Survey	
Year	Number of Participants
2012	906
2013	3913
2014	4092

Nearly 60 ethics professionals are on the frontline of safeguarding good governance at Lockheed Martin, implementing our ethics program. Each year, ethics officers and staff complete customized training courses to build their professional knowledge and share best practices with peer ethics officers across the Corporation. In 2014, our ethics professionals completed nearly 400 courses and all successfully completed an annual proficiency quiz.

480,000 & 100%

Employees learned through more than 480,000 business conduct and compliance training sessions, achieving a 100% completion rate.

ETHICS REPORTING BY THE NUMBERS

We provide multiple avenues for employees and suppliers to report ethical concerns, including a confidential, toll-free corporate ethics helpline and e-mail, business segment helplines and e-mails, on-site ethics offices, and our anonymous online reporting tool known as *Ask Us*. Employees can post public or private questions on the intranet page, which our ethics officers answer.

In 2014, we received 4,314 ethics contacts worldwide, up from 4,246 in 2013, and investigated every query and concern in line with our corporate policy. A contact is any report of misconduct or request for guidance handled by our Ethics staff. The increase in contacts in 2014 is reflected by more requests for guidances, which is viewed as a positive trend. This trend was also reflected through our recent employee survey, which indicates that employees are using the Voicing Our Values techniques to address concerns before they escalate.

Ethics Management Indicators ⁽¹⁾	2014	2013	2012	2011	2010
Total Contacts	4,314	4,246	4,341	4,068	4,619
Percentage Change	2%	(2)%	7%	(12)%	—
Total Cases	462	558	638	767	869
Percentage Change	(17)%	(13)%	(17)%	(12)%	—
Total Guidances	3,852	3,688	3,703	3,301	3,750
Percentage Change	4%	(1)%	11%	(12)%	—

(1) 2014 data is as-of Jan. 31, 2014. “As-of” data is pulled annually and may shift as contacts are processed. Data is re-stated as of 2012 to exclude Sandia Corporation.



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ENGAGING SMALL SITES

A lapse in ethical leadership at one of our small, remote locations led us in late 2013 to review our approach to engaging with the hundreds of such sites across the Corporation. We realized that, in some cases, the isolation of these sites can create a higher risk of developing a site culture inconsistent with our corporate values. For example, employees at these locations may be reluctant to speak up and report concerns. In response, we assessed the risk level facing each of our small locations, based on factors including quality of on-site leadership, procurement authority, access to regular company communications and frequency of visits by other Lockheed Martin employees.

We also developed a Small Site Playbook for multiple department leaders and ethics officers to use in engaging these locations effectively, establishing relationships to embed them into the Lockheed Martin culture. We shared the lessons learned and the Playbook at several industry and professional conferences, including those of the DII, Ethics and Compliance Officers Association (ECO), the Society of Corporate Compliance and Ethics, and American Bar Association.



The Small Site Playbook helps us to engage remote locations on our culture of ethics and business conduct.

ANTI-RETALIATION PROGRAM LAUNCH

Our ethics program will only succeed if employees feel confident that they can report misconduct without fear of reprisal.

In January 2014, our chief executive officer announced an Anti-Retaliation Program to identify and protect employees after they contact our ethics team. Actions include follow-up conversations with people reporting ethical concerns, surveys sent to a sample of reporting parties and close monitoring of employees at potentially higher risk of retaliation, such as those making complaints against a leader. All instances of possible retaliation will be fully investigated, building on previous efforts of our grievance mechanisms.

Employees and leaders already receive training and communications on common types of overt and subtle retaliation and how to avoid them. The goals of the Anti-Retaliation Program are to deter those who might take retaliatory action, and to provide additional assurance for employees that they may report their observations of misconduct with no personal adverse impact.

To detect instances of adverse actions taken against employees reporting misconduct, we also rolled out an Anti-Retaliation Monitoring Program in 2014. This will track the key career developments of such employees for two years after they report an ethics concern. Follow-up investigation and action will be taken as warranted. These measures will support the work of our ethics officers who, since 2013, have received training to strengthen their skills in investigating allegations of possible retaliation. A new Anti-Retaliation Awareness Training course, created by the ethics team, was launched in 2014. Our ethics professionals opened the discussion and awareness by facilitating live training sessions to more than 3,000 leaders and human resources business partners across all business segments.

We continue to notify employees of their whistle-blower rights and protections, as described in [Defense Federal Acquisition Regulation Supplement 203.9](#) for defense contractors.

IMPORT AND EXPORT CONTROLS

The governments of the United States and other countries in which we do business regulate the export and import of military and other sensitive technology, as well as of chemical substances. A multitude of governmental authorities implement such controls. As the world's largest defense exporter, Lockheed Martin's international business is a highly regulated enterprise.



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Lockheed Martin maintains corporate and business segment export and import policies, procedures, control plans and training courses. We regularly conduct internal audits and self-assessments, investigate potential compliance missteps and report documented violations to governmental authorities as appropriate.

In late 2013, the U.S. government began implementing its Export Control Reform initiative, addressing national security-based controls and impacting nearly every Lockheed Martin product and program. This initiative requires analysis of new controls and the reclassification of items down to the piece-part level. Additionally, governments around the world have been strengthening their own national security-based export controls and enforcement posture.

We maintain collaborative relationships with governmental authorities and industry partners to inform regulatory changes to these controls and to collaborate on adaptations to them. In 2014, we updated our licensing and compliance software tools to align with Export Control Reform, hired additional staff at the Corporate International Trade Compliance Office, revised training modules and updated our export and import functional procedures. We reached out to our supply chain to provide compliance awareness training to smaller businesses. Aligning with our growing international footprint, in 2014 we also established a Global Trade Compliance initiative to enhance oversight of compliance at all our international subsidiaries and field offices.

RESPONSIBLE SALES

International sales of Lockheed Martin defense products and services occur on a government-to-government basis, via Foreign Military Sales programs, and by direct sales from Lockheed Martin to our customers. These transactions are authorized by the Arms Export Control Act (AECA) and constitute a fundamental aspect of U.S. foreign policy. It is common for contracts with purchasing countries to require that Lockheed Martin buy or invest in resources of that country. This is commonly called an offset obligation. Some countries allow and may require these offsets to be direct foreign investment, technology transfer or other business relationships with non-defense economic sectors. We view this as an opportunity to contribute to sustainable development initiatives globally.

One example is the investment of our Mission Systems and Training business segment in university research project development in Turkey. Collaborators on these projects include Koc University and Sabanci University. The educational and development investment will meet offset requirements aligned to our Aegis/TF-2000 program in Turkey.

INTERNATIONAL EXPANSION

Since we launched Lockheed Martin International in July 2013, the corporate ethics team has played an enhanced role in international business development and operations.

In April 2014, this role grew with the launch of a new anti-corruption program team, whose responsibilities include conducting due diligence on third parties and determining the applicability of hospitality exceptions. Led by a global anti-corruption compliance attorney, the team also includes five business segment anti-corruption counsels, the three Lockheed Martin international regional counsels, and the Global Supply Chain Organization counsel whose responsibilities include international supplier issues.

The team reviews issues of common concern and shares information about anti-corruption efforts around the globe on a weekly basis. It also collaboratively revised the Corporation's anti-corruption policy and drafted an Anti-Corruption Due Diligence Manual for our legal team. This benefits Lockheed Martin through increased efficiency and the application of uniform anti-corruption due diligence.

Training International Consultants

As our international business grows, we have strengthened the ethics training we provide for the 238 international consultants who support our business operations outside the United States. In 2014, our Ethics Officers began in-house, one-on-one training for these personnel, including video scenarios, and updated international consultant training materials to reflect the latest regulations, interpretations, and enforcement policy. We also reframed our guidance on conflicts of interest with culturally relevant dialogue to enhance understanding and compliance by people working for us around the globe.

All international consultants are contractually required to receive ethics training every two years, and in the off year our legal team conducts due diligence interviews.

GOVERNING OUR SUPPLY CHAIN

International Supplier Monitoring

Our business success and customer missions depend on a robust and reliable network of global suppliers. We therefore take supply chain governance extremely seriously, actively engaging partner companies to mirror our own high ethical standards.



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PRACTICING THE SCIENCE OF CITIZENSHIP

Rielle Miller-Gabriel, Manager, Ethics Operations & Ethics Officer, Americas (CCEP-I, CIPM), Lockheed Martin International



Our customers and suppliers know that they can count on Lockheed Martin to do the right thing. Having the technical expertise gets us in the door, but our ethical reputation makes us attractive as long-term partners. Treating others with respect is a core value of Lockheed Martin, and is the base from which we engage with communities around the globe.

It is imperative for us to have a single Lockheed Martin ethics standard across the Corporation, regardless the site, to ensure that every employee is being held to the same expectation. An employee's work location, type of occupation, position within the company, and regional culture all shape what is appropriate. Our ethics program strives for a dynamic interpretation of the standard, while still maintaining the permanence of its tenets.

As a large multinational corporation, our actions affect citizens in the communities in which we work, and citizens of the countries whose governments purchase our products and services. One way we impact society is by refusing to participate in corruption. Research has shown that corruption contributes to poverty and economic stagnation. We work hard to ensure our business dealings are free from corruption and worth the taxpayers' money.

Lockheed Martin works with U.S. Customs and Border Protection (CBP) to monitor the supply chain security activity of contracted foreign suppliers, and participates in the Customs Trade Partnership Against Terrorism (C-TPAT) program. To monitor supply chain risk, each year we send questionnaires developed in conjunction with members of the Aerospace Industries Association and CBP's published security requirements to foreign suppliers with open purchase orders greater than \$100,000. Based on their responses, we assign a risk score to each supplier surveyed, and the Lockheed Martin business segment Supply Chain Security Council (SCSC) lead decides what mitigation acts should occur.

In 2014, we conducted 126 such reviews (see table), which decreased in part because the number of total active suppliers declined, and fewer suppliers required reviews based on U.S. CBP coverage. Our contracts also require sub-contractors to address potential supply chain risks and supply chain security requirements such as C-TPAT. These are included in purchase orders issued by Lockheed Martin business segments. Although sub-tier supplier information is not always available, the Lockheed Martin SCSC uses additional tools (both external and internal) to gauge supplier risk for suppliers with under \$100,000 in open purchase orders, or located in politically unstable parts of the world. U.S. CBP is also working with foreign governments to establish "Mutually Recognized Programs" that will certify a nation's commitment to C-TPAT-like standards and will assist Lockheed Martin in ranking suppliers located in those nations.

	2010	2011	2012	2013	2014
Supplier Reviews	—	313	311	334	126
Program Status ⁽¹⁾	Tier 3 Maintained	Tier 3 Maintained	Tier 3 Revalidated	Tier 3 Maintained	Tier 3 Maintained

(1) Lockheed Martin's Tier 3 status assigned by U.S. CBP is the highest rating and means that the Corporation "significantly exceeds" the minimum security standards. Tier 3 status earns us a competitive advantage, as only about 340 companies from more than 10,000 registered C-TPAT companies achieve Tier 3. Tier 3 companies' U.S. imports are prioritized by customs and in the event of a national emergency would be the only tier to receive goods in a timely manner.

We also conduct anti-corruption law due diligence on international suppliers of goods and services during the supplier registration process. Our Global Supply Chain Operations organization ensures that such companies disclose anti-corruption information, which we use to determine whether to do business with them. In 2014, we also revised our acquisition procedures to require our buyers to verify every supplier's anti-corruption rating before initiating a contract outside the United States. We review all supplier profiles with unsatisfactory anti-corruption responses and decide with our legal department if additional due diligence is required. In addition, we require suppliers based in countries with a Transparency International Corruption Index score of 50 or



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less to complete an International Subcontractor Anti-Corruption Questionnaire. Internally, our buyers are audited monthly to ensure they follow the anti-corruption process.

Ethics Supplier Mentoring Program

Lockheed Martin's Supplier Mentoring program, piloted in 2012, is now a staple element of our ethics program. Twice a year, each business segment enters an ethics mentoring relationship with at least one supplier, assisting in a comprehensive review of its ethics program. Participants have included both large and small suppliers. The program is tailored to each company.

Participating suppliers have followed up with significant actions such as developing codes of conduct, new communication tools and even overarching policies. We also provide self-assessment tools for companies who are not mentoring program participants. In 2014, nine small companies participated in the program, making the total 15.

Eradicating Human Trafficking

[The risk of human trafficking and slavery](#) in our supply chain is reduced by our assessment of product supply chains through several methods, including Lockheed Martin-conducted site evaluations, inspections and verification against lists of businesses and individuals debarred or otherwise denied doing business with the U.S. government. We do not conduct audits of suppliers to evaluate their compliance specifically with company standards on trafficking and slavery.

Learn more about our governance in the [Supplier Sustainability Chapter](#).



4 MEMBERS

The four members of the Ethics and Sustainability Committee of our Board of Directors review our policies, procedures, and compliance with respect to sustainability, including corporate responsibility, human rights, environmental stewardship, employee health and safety, ethical business practices, community outreach, philanthropy, diversity, inclusion and equal opportunity.

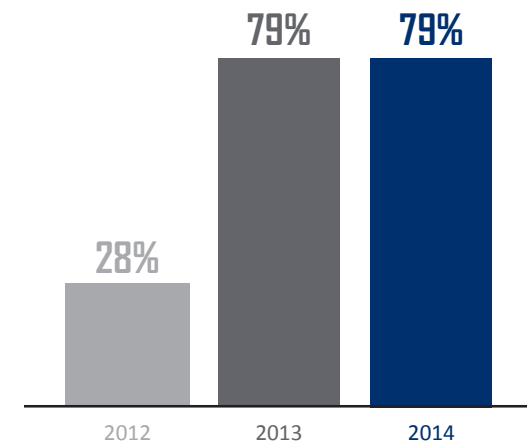
RECOGNITION

CPA-Zicklin Index of Corporate Political Accountability and Disclosure

This index measures political disclosure and accountability in the United States, and is issued by the Center for Political Accountability and the Carol and Lawrence Zicklin Center for Business Ethics Research. Due to our enhanced disclosures since 2012, Lockheed Martin's score has risen to 55 of 70, placing our company in the top quartile for the second consecutive year.

Lockheed Martin's Corporate Political Accountability and Disclosure

CPA-Zicklin Index Percentile



New York Stock Exchange Governance Services

New York Stock Exchange Governance Services scored Lockheed Martin's new interactive Code of Conduct an A-, much higher than the average score awarded to the thousands of codes it reviews.



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OUTLOOK

GLOBAL GOVERNANCE

Demand for our products in countries around the world continues to grow. More than 25 percent of our backlog is from orders outside the United States, and we expect that figure to rise further. To facilitate our global business growth, we have opened new offices in Canada, the United Kingdom, Israel, Qatar and the U.A.E.; and we hired hundreds of local country nationals during 2014 in our global operations. We have begun to export technologies and products from our non-United States operations.

Our ability to uphold high standards of good governance will play an important role in this expansion. For example, we recognize the growing importance of stakeholder engagement regarding non-U.S. labor practices and the availability of grievance mechanisms for labor practices that contradict our standards.

As our business grows in non-U.S. locations, our advocacy efforts are expanding as well. We are monitoring greenhouse gas emissions and climate change-related emerging issues in the United Kingdom, Australia and elsewhere. We also engage in the regulatory process related to chemical substance restrictions, which may impact our products. Read more about managing chemical restrictions for our products in the [Product Performance](#) and [Supplier Sustainability](#) chapters.

New Gifts and Hospitality Single Policy: The international anti-corruption team identified the need for a single policy covering gifts, business courtesies and hospitality that applies to Lockheed Martin offices around the globe. Our legal and ethics teams then devised a new policy, to be released in early 2015, that will eliminate employee confusion, conflicting guidance, and differing practices among business segments. The new single policy will streamline the approval request for policy exceptions and establish one enterprise database for recording them, reducing the risk of unethical behavior escaping notice.



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OBJECTIVE

INNOVATE TO DELIVER OPTIMAL ECONOMIC AND PERFORMANCE VALUE OVER THE LIFE CYCLE OF OUR PRODUCTS.



About Photo: The biggest innovation we can make to reduce the environmental impact of our products is to lower their fuel consumption. That is a value we've added to the Joint Light Tactical Vehicle (JLTV), shown here. JLTV is designed to provide our warfighters with the best light tactical vehicle protection, payload and performance. Its objectives include increased protection and performance over the fleet it will replace, minimizing ownership costs by maximizing commonality and reliability, increasing fuel efficiency and executing effective competition throughout the program's development. JLTV has 30 percent better fuel efficiency and four times higher reliability than its small MRAP predecessor.

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OVERVIEW

Introducing *The Science of Citizenship* into our systems and products by making them more efficient, innovative and sustainable is a challenge that Lockheed Martin employees embrace. Together, our nearly 60,000 engineers, scientists and technologists work to innovate across a diverse range of business lines that include aerospace and defense, cyber security, health care, energy and integrated logistics.

Customers judge their experience with us in terms of cost, quality and performance reliability. They also measure value by how closely our innovative solution anticipates their mission needs. When we do it right, we help customers succeed on a variety of missions critical to national security, citizen services and sustainable development.

Providing trusted solutions includes considering the impacts our products have on society and the environment, while first and foremost meeting customer needs. We prioritize safety, reliability and quality to keep users protected, and we embed efforts to reduce the size, weight and energy demands of our products in our design and manufacturing processes. We collaborate with top scientific institutions to create advanced computing technologies for everything from aerospace modeling to medical imaging and deploy insights from research and development, estimated life cycle impacts and stakeholder consultation to guide innovations in product content, design and capability.

Our long-term thinking is guided by technical roadmaps that link our strategy with global trends such as information security needs and energy demand. This drives our research and development investments and operational priorities.

PRODUCT PERFORMANCE IMPACTS ON SUSTAINABLE BUSINESS PRACTICES

Product Affordability:

In the face of government budget constraints in the United States and other core markets, our optimization of resources, including funding, schedule and talent, delivers value-added capabilities to both the customer and taxpayer.

Composition of Product Portfolio:

Embedding sustainability in the design, content and manufacture of our products, and in the growth of our portfolio, enhances business performance.

Product Safety, Quality, Reliability:

Aerospace and defense customers require highly customized solutions for mission-critical needs that demand more-stringent quality, reliability and safety specifications than commercial goods.

Product Innovation:

We need to work closely with customers—from idea to execution—to develop products that evolve along with the process of conceiving, building, managing and sustaining mission requirements.



MACROCHALLENGES

As a federal contractor, affordability is critical to getting the most value from limited public resources and concurrently satisfying exacting specifications for performance, quality and cost. Technical challenges include conceiving products and solutions that can withstand the harshest environments and display “always-on” requirements, while also seeking to reduce the substantial amount of energy and other resources needed to deploy aircraft, launch rockets, operate information technology systems and use other products in our portfolio.

STAKEHOLDER INSIGHTS

We understand that some stakeholders perceive the nature of our core military platforms as contrary to a sustainable future. Other stakeholders have heightened expectations for accountability and transparency given the breadth and global application of our portfolio to hyperconnectivity, energy adaptation and government resilience. We increasingly work with these and a range of stakeholders because the diversity of their perspectives informs and enhances our efforts to realize sustainable business growth.



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SUSTAINABILITY MANAGEMENT PLAN PROGRESS

PERFORMANCE INDICATORS

2014 RESULTS

1. Increase company realized savings and customer savings.

1. **\$159 million increase in realized cost reductions**—We achieved a total of \$668 million in realized cost reductions, exceeding our goal of \$509 million.

2. Increase supply chain savings among key suppliers.

2. **Target met**—Through collaboration and innovation we reduced by 8.7 percent spending commitments with the top 15 suppliers across the top 20 programs.

3. Increase investment in Life Cycle Analysis (LCA)-based methodology.

3. **Three LCA projects**—Three new LCA project investments were established in 2014.

4. Start to track sustainability-based intellectual property (IP) monetization.

4. **Executing to Plan**—We are evaluating a product classification framework from which to set a baseline.

5. Decrease the rate of in-process defects, scrap, rework, and repair in manufactured products (for proprietary reasons, we do not disclose performance).

5. **Targets met**—Successfully met reduction targets across most business segments, 2014 results demonstrated overall performance improvement from prior year.

6. Decrease the frequency of repeat corrective actions to remedy quality escapes (for proprietary reasons, we do not disclose performance).

6. **Targets met**—Successfully met reduction targets across most business segments, 2014 results demonstrated overall performance improvement from prior year.

CHALLENGES

Business segments are responsible for tracking and internally reporting on their relative performance related to their manufacturing process. By using Lean Six Sigma and process improvement best practices, business segments set targets aimed at the reduction and elimination of waste by decreasing in-process defects, scrap, rework, required repairs and manufacturing losses.

2014 HIGHLIGHTS

The **F-35 aircraft's Blueprint for Affordability** aims to save the customer \$8 billion over the life of the program.

The Remote Minehunting System Littoral Combat Ship realized **\$2 million in savings** for the U.S. Navy through quality improvements. These savings can be redeployed to other Navy needs.

We piloted the updated Department of Defense (DoD) Guidance "**Integrating Sustainability into DoD Acquisitions**," which is derived from the standardized ISO 14040 Life Cycle Assessment Framework and existing life cycle costing guidance.

We launched the latest of our more than **40 weather satellites**, which helps keep citizens alerted to and safe from extreme conditions.

By replacing spray coating, we **reduced the use of volatile organic compounds (VOCs)** emitted during manufacturing of the F-35 by 200 pounds.



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MANAGEMENT

Lockheed Martin's five business segments contain a wealth of expertise that we can employ to further *The Science of Citizenship* in our products and solutions. We leverage these strengths through collaborative, interdisciplinary, cross-business segment teams, organized by domain expertise and program experience. In 2013, we established corporate-level councils, responsible for governing collaborative product development activities across the enterprise, chaired on a rotating basis by executives from our five business segments.

These five functional councils—Engineering & Technology, Production Operations, Program Management, Supply Chain and Sustainment—focus on sharing best practices, policy matters, personnel development and programmatic issues. Composed of senior leaders from corporate functions and our business segments, they meet quarterly and hold a multi-council meeting annually.

These business teams help embed *The Science of Citizenship* throughout our global operations and supply chain. For example, Production Operations teams promote best practices that ensure efficient and effective production of goods and services. They manage the process that converts inputs (materials, labor and energy) into outputs (goods and services) with sustainability and Lean Six Sigma principles in mind. Reinforcing this approach, our Global Supply Chain Operation ensures the right materials are provided at the right location, at the right time and at the best-possible price through optimized resources and processes.

Another example of integrating sustainability into business processes is the renaming and alignment of a line of business now called Sustainability Technologies. Innovations across this line of business contribute to a variety of sustainable technologies, with applications that include clean energy, access to clean water and secure cyber environments.

Corporate Policies that Direct Employee Actions and Management of Product Performance Include:



- Program Performance Management
- Quality, Mission Success and System Safety
- Risk/Opportunity Management
- Sustainability

STAKEHOLDER ENGAGEMENT

Beyond our own operations, we partner with academic, customer and industry-oriented stakeholders to expand the application of sustainability thinking and practice across our diverse business segments.

Mission Ready Sustainability Initiative

Lockheed Martin is a founding sponsor of the Mission Ready Sustainability Initiative (MRSI), which provides a platform for aerospace and defense companies to learn from peers, showcase successes and launch new activities and processes that support the sustainability needs of our largest customer, the Department of Defense. In 2014, MRSI released a white paper on [Streamlined Life Cycle Assessment](#), which highlights opportunities to better understand the total cost of ownership of products. The U.S. government's Office of the Deputy Under Secretary of Defense (Installations & Environment) has asked our industry to vet the process outlined in this guidance and to assure that it is operational across the DoD supply chain.

Developing the Next Generation Quantum Computer

The world's biggest sustainability challenges require next generation analytic and computing capabilities. Our work in quantum computing represents our effort to bring transformative functionality through *The Science of Citizenship*. In 2014, we established the Quantum Engineering Center at the University of Maryland to develop a revolutionary computing platform based on applied quantum science—a discipline that connects physics, information science and engineering. While typical computers operate using a binary system of ones and zeros, quantum systems use atomic particles to represent an infinite set of values between zero and one. This advanced platform is expected to outperform traditional computers at solving problems with complex dynamics. Applications it could help advance range from analyzing patient genomics for personalized healthcare to debugging millions of lines of software code for cyber defense.

Quantum computing enhances our ability to engineer the next generation of systems and technologies, which will help us solve the challenges of the future and ensure our products meet customers' evolving needs.

Supporting National Security Decision-making

Since 2011 we have worked with the Military Operations Research Society (MORS), whose mission is to enhance the quality of analysis by operations research professionals to better address real world national security interests. Our efforts included supporting development of an industry-wide Department of Defense affordability analysis guide, released in 2014.



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PERFORMANCE

PRODUCT AFFORDABILITY

We view affordability as a key factor in the sustainability of our products. As large-scale suppliers to our government customers, who purchase our products with taxpayers' money, we too are stewards of public resources. Since our products are highly technical, high-performing and research intensive, they require considerable investment. However, we work hard to increase their affordability and enable governments to deliver other essential services while maintaining the safety and security of citizens. Making our products more affordable also complements our environmental sustainability efforts because it requires continuous manufacturing process improvements. Our approach includes developing new technologies with resource-saving applications, integrating life-cycle information into cost calculations and lowering costs while preserving and even enhancing mission capabilities. For example, in close collaboration with NASA, we have saved \$1 billion on the Orion program to date by using more simulations, simplifying reporting requirements and reducing the number of flight tests.

Production Line Progress

An innovative efficiency effort involves significant changes to the way we distribute materials on the F-35 production line. Instead of aircraft moving from station to station to add new materials and components, we now move the materials to the aircraft. This enables production crews to work on more aircraft simultaneously, as well as allowing for better tracking of materials. Material handlers are now equipped with mobile tablet technology, allowing them to work directly with the production line assemblers to determine



Sustainability is designed into the F-35 program, and in many respects is fundamental to the aircraft's mission. Elements include: multi-purpose capability, reducing the types and number of aircraft necessary to accomplish a range of operations; better management of materials on the production line; reduced waste; and reduced costs for the customer.

needs and track progress instantly. These improvements increase efficiencies, enable better management of materials on the production line, reduce waste, and reduce costs for the customer.

Improving Processes Reduces Costs for the Navy

Another product line where we have innovated for efficiency is the Remote Minehunting System capability on the Littoral Combat Ship, which provides the U.S. Navy with unmanned mine-hunting capability. This project's integration team continues to build on past affordability successes that resulted in \$10 million in customer savings in 2013. By identifying, prioritizing and executing best practice work plans, the team achieved a 40 percent drop in defects per 1000 labor hours in 2014 and a 25 percent reduction in rework required, with associated reductions in generated waste. This resulted in over \$2 million in customer savings in 2014, contributing to the Navy's decision to award a sole source contract to Lockheed Martin to upgrade five more systems.



Unmanned mine-hunting capabilities on the Littoral Combat Ship are reducing costs for the U.S. Navy.

Using Life Cycle Analysis to Integrate Total Cost

Government customers' engineering and manufacturing requirements determine up to 80 percent of a Lockheed Martin product's life-cycle costs. Our goal is to work to address affordability, innovation and sustainability goals early in the research and development, material source selection and product design processes.

In line with this approach, we tested the updated Department of Defense (DoD) Guidance "Integrating Sustainability into DoD Acquisitions" released in May 2014. We piloted use of this guidance, which is derived from the standardized ISO 14040 Life Cycle Assessment Framework and existing life-



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cycle costing guidance. The pilot focused on scenarios that highlight the potential reductions in human health and environmental impacts and life-cycle costs associated with better utilization of energy technologies such as microgrids, renewable energy sources and energy storage.

We piloted use of this analysis to quantify, in monetary terms, the reduced risk of on-base power outages associated with an integrated microgrid with onsite renewable power production. The microgrid technology evaluated can be used to ensure uninterrupted power, at a lower carbon intensity. The analysis also quantifies the installation's reduced electricity costs associated with demand smoothing and revenue potential from selling power generated onsite back to the local grid.

We intend to undertake similar assessments to better gauge in our products the relative importance of energy, waste and water; the intensity of environmental factors to customer costs in the use phase and in the supply chain; and the total cost of ownership from our customers' perspective.

A cradle-to-gate Streamlined Life Cycle Assessment based on our annual procurement, operations and product delivery data showed that an estimated

87 PERCENT OF ENVIRONMENTAL AND PUBLIC HEALTH IMPACTS WAS ATTRIBUTED TO PRODUCT USE.

The assessment, which applied methodologies published in peer-reviewed journals, informed the relative importance of resource use, environmental releases and other total cost of ownership factors based on the fuel-consumption rates and useful life spans of our major military systems.

Harnessing 3D Printing to Reduce Costs

Lockheed Martin's Space Systems business is integrating advanced 3D printing technologies into its satellite manufacturing operations to reduce production costs. In this application, the 3D printing, or additive manufacturing, process makes use of fine titanium dust to build components and renders much less material waste than generated by traditional manufacturing techniques. This process effects a reduction in the weight of the critical components it produces from those created by standard means, enabling the use of smaller and more fuel efficient rockets to launch the satellites into orbit.

Another project uses 3-D printing to create the bowframe that crosses the cockpit enclosure of the F-35. This \$342,000 investment could save \$31.5 million over the program of record.

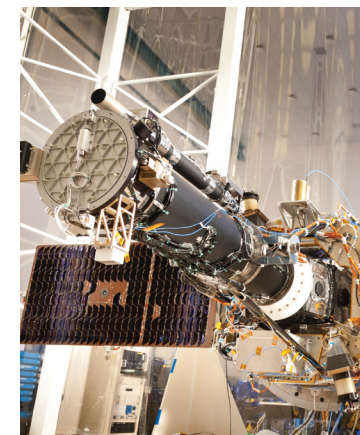
PRODUCT INNOVATION

Innovation is at the heart of our business success and its sustainability efforts. Adapting to global trends and challenges such as cyber security, government resilience, growing energy needs and climate change requires transformative thinking and approaches that deliver next generation solutions. That's why Lockheed Martin invests heavily in the development of leading-edge technologies that address the most critical needs of our customers and the sustainability of our solutions.

Monitoring Extreme Weather

Weather Predictability for the Military: In 2014, a satellite built by the Lockheed Martin Defense Meteorological Satellite Program (DMSP) was launched aboard an Atlas V rocket from Vandenberg Air Force Base in California. DMSP satellites collect data that enables military forecasters to find, track and forecast weather systems all over the globe, particularly for troops deployed in remote and hostile areas. Access to reliable weather data is critical to making important national security decisions, from flight patterns to troop movements.

Additionally, DMSP supports a broad range of civil users with sensing capabilities not provided by U.S. civil and international weather satellite systems. The satellite is equipped with a sophisticated sensor suite that can capture visible and infrared cloud cover; measure precipitation, surface temperature and soil moisture; and collect specialized global meteorological, oceanographic and solar-geophysical information in all weather conditions.



NASA mission utilizes our Interface Region Imaging Spectrograph (IRIS) to gain insight on solar flares.

Lockheed Martin has produced more than 40 satellites throughout the DMSP's 50-year history, many of which are performing well beyond their design life.

Solar Flares: Scientists are gaining a better view into energy and plasma movement near the surface of the sun, thanks to NASA's Interface Region Imaging Spectrograph (IRIS) mission. IRIS was designed and built by Lockheed Martin's Space Systems Company and our Advanced Technology Center in Palo Alto, California. In May 2014, IRIS captured imagery in unprecedented detail of a coronal mass ejection (CME). A CME is a violent burst of solar wind and magnetic



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fields that releases vast amounts of plasma into space at speeds near 1.5 million miles per hour. Understanding the science behind CMEs is important because they produce strong magnetic storms that can interfere with electrical systems on Earth. To date, observing CMEs in sufficient detail has been a fundamental challenge in solar science. The IRIS mission will provide observations necessary to pinpoint physical forces at work in this little understood aspect of the sun, which will inform development of protections for electrical systems against the resulting magnetic storms.

Tracking Space Debris

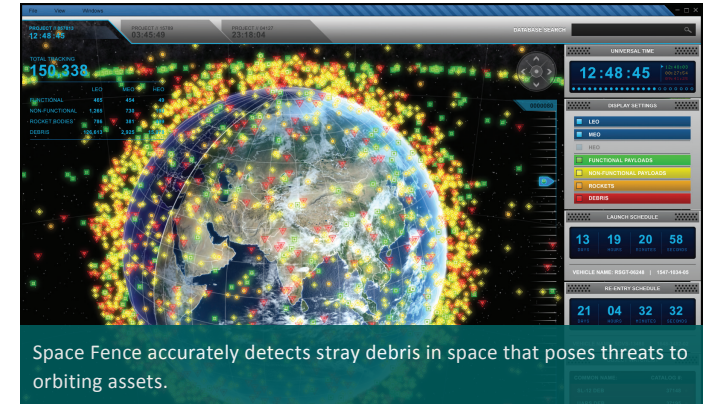
In 2014, the U.S. Air Force awarded Lockheed Martin a contract to build an advanced ground-based radar system to track space debris. Spent rocket boosters, dead satellites and stray hardware pieces are a growing threat to critical space infrastructure. Space-based technologies enabling not only national security, but also important services such as weather forecasting, banking, global communications and GPS navigation, are vulnerable to collisions with this debris. Using powerful new technology, this project—dubbed “Space Fence”—will enhance the way the United States detects, tracks, measures and catalogs orbiting objects and space debris with improved accuracy, better timeliness and increased surveillance coverage.

While existing technologies can track basketball-sized objects, Space Fence will be able to track objects as small as a marble, revolutionizing space situational awareness.

From the onset, we applied “Design for Affordability” methods to optimize Space Fence radar size in order to affordably meet mission needs. Robust design for manufacturing and test efforts further reduced system costs. Through the early design phases, we focused on total life-cycle cost and implemented a plan of Lean Six Sigma improvement activities to reduce total cost over 50 percent from initial baselines. Efficient power system designs and reduced manning levels greatly reduced long-term operations and support costs.

LCS LED Savings

Lockheed Martin and the 3M™ Company collaborated to bring 3M light-emitting diode (LED) general illumination fixtures to the Littoral Combat Ship (LCS) and other U.S. Navy ships. The forward-thinking design offers low maintenance, light weight, low power consumption and reduced crew fatigue to improve ship sustainability. Because LEDs last many times longer than fluorescent bulbs, ship personnel will be relieved from routine fixture maintenance. For LCS, the lighter weight of 3M LED fixtures will reduce ships’ weight by two tons. The Department of Defense Sustainability Analysis Pilot Study predicts a \$2.6 million to \$3.6 million cost avoidance, in discounted dollars, over the life of each LCS Freedom Variant ship fitted with these fixtures. The technology



Space Fence accurately detects stray debris in space that poses threats to orbiting assets.

will save each ship approximately 200 megawatt hours of electricity annually. With the success of the demonstration installation and qualification testing, the light fixtures are now approved for use on all U.S. Navy ships.

COMPOSITION OF PRODUCT PORTFOLIO

As we continue to grow and diversify our portfolio of products, embedding sustainability has become a powerful driver of growth. In particular, we see opportunity in innovations that help to promote safe, renewable energy, and to deliver greater energy efficiency. With the world’s population expected to increase to nearly nine billion by 2050, an increase of around 47 percent since 2000, the demand for energy is increasing rapidly. At Lockheed Martin, we focus on deploying innovations to reduce our own energy footprint while pursuing new technologies, in partnership with organizations and universities around the world, to create reliable and sustainable clean energy for all.

Applying Membrane Technology to Clean Water Filtration

In 2014, we continued to identify potential applications for our patented Perforene™ membrane technology comprised of a barrier layer of perforated graphene on an application-specific substrate. The one-atom thick layers of graphene feature nanometer-sized holes. Originally conceived for desalination solutions, research continues to demonstrate the possible viability of the technology at the broad molecular filtration level.

Applications may include medical uses; filtering heavy metals, chemical substances and compounds from water used in oil and gas wells; and various reverse osmosis applications, such as drinking water filtration. Lockheed Martin is actively seeking commercialization partnerships for these and other potential applications.



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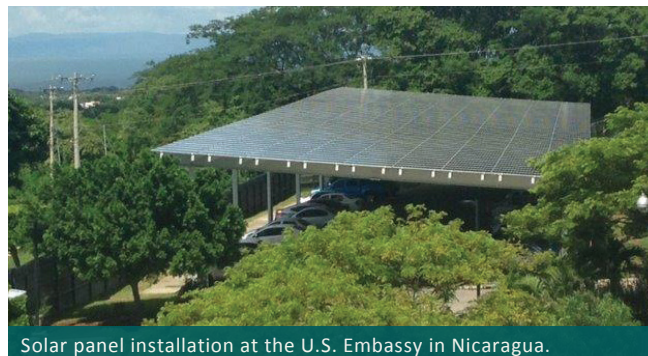
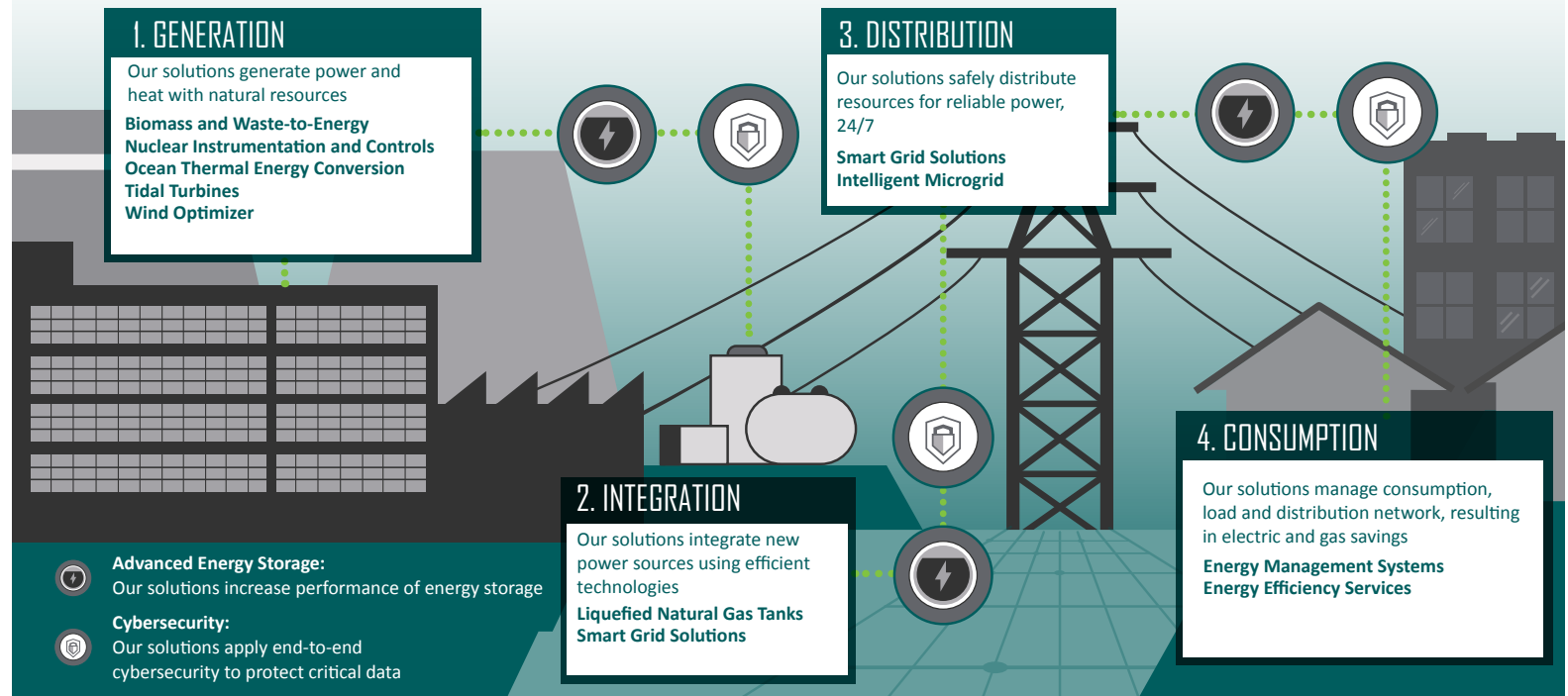
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LOCKHEED MARTIN ENERGY SOLUTIONS: AFFECTING THE ENTIRE POWER GRID

The world's rapidly growing population creates increased demand for clean, safe and smart energy solutions. Lockheed Martin is engineering a more sustainable future for utilities, independent power producers, developers and end users across the entire power grid from generation to consumption. Discover more about our [energy solutions](#).



Solar panel installation at the U.S. Embassy in Nicaragua.

Supporting State Department Building Energy Savings Goals

Lockheed Martin is partnering with the U.S. Embassy in Nicaragua and the Department of State's Bureau of Overseas Buildings Operations to save energy. We have implemented energy conservation measures (ECM) for the embassy, including our SEESuite technology, energy efficiency (cooling, lighting and electrical) and renewable generation (956 kW of solar photovoltaics). Two-month trend data show the conservation measures will result in a 27 percent reduction in energy consumption, and the solar photovoltaics will meet 27 percent of the energy demand, for a total 54 percent reduction in energy purchased.



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Next, the team will investigate several viable siting alternatives for wind power, additional solar photovoltaic power and energy storage. Additional onsite generation will further the Department of State's progress toward meeting the goals of its Greening Diplomacy Initiative and Federal Sustainability Mandates, as well as improve energy stability and security.

PRODUCT SAFETY, QUALITY, RELIABILITY

In our business, where product failure could mean mission failure, we strive to achieve the high levels of safety, quality and reliability that our customers and employees need and expect. We develop innovations to improve quality and reduce potential collateral damage. We scrutinize our cutting edge processes to eliminate potential adverse worker, user and environmental impact.

Reducing Hazardous Materials in Our Products

Hazardous air pollutants can be a byproduct of our manufacturing processes, and we are working to reduce the amount generated. For example, the team responsible for our F-35 aircraft program is reducing the use of volatile organic compounds (VOCs) during manufacture by replacing spray coating of several aircraft components with patches of a similar material that is pre-molded to the correct contours. The traditional spray-coated material contains approximately 3 pounds/gallon of VOCs, and requires 5 gallons per application. By switching to the patches, the F-35 production line VOC emissions will be reduced by approximately 200 pounds annually.

Improving Safety with Military Surveillance Unmanned Aerial Systems

Our customers engage in critical global security efforts, and we provide tools and solutions that keep service men and women assigned to some of these missions out of harm's way. In 2014, Lockheed Martin's Aeronautics business segment accelerated development of the Unmanned Carrier Launched Airborne Surveillance and Strike (UCLASS) air vehicle. UCLASS, a drone that integrates proven technologies from other systems, such as the F-35, features low observable technology—including noise and electronic emissions reduction—to avoid detection. These capabilities help meet the Navy's requirements for a versatile, carrier-based unmanned aircraft. Lockheed Martin's technologies also allow for multi-vehicle control by a single remote operator, which reduces overall costs of surveillance.

Supporting Civil Government Services

We are invested in the citizenship value of cyber security—its enormous potential for enhancing social good, human rights and basic freedoms. We work to apply our solutions to emerging and entrenched global issues, with the goal of improving outcomes and driving change. For example, in 2014, our Information Systems & Global Solutions (IS&GS) Health & Life Sciences team helped public health professionals respond to increased demands for information during the largest recorded outbreak of the Ebola virus.

The IS&GS team supports the U.S. Centers for Disease Control with systems integration, cyber security, data analytics and other information technology capabilities that allow health professionals to expedite responses while maintaining alignment with appropriate protocol. It created and supported the Ebola page on the CDC website, which increased by nearly 2 million views, and maintained systems related to emergency operations. Team members also included emergency communications specialists who answered and triaged up to 300 daily phone calls from state and local health authorities, healthcare providers and the public.



Number of U.S. Patents granted to Lockheed Martin in 2014.

RECOGNITION

Climate Change Business Journal's Business Achievement Award

For its innovation in Ocean Thermal Energy Conversion (OTEC) technology, Lockheed Martin was honored with the Business Achievement Award by the *Climate Change Business Journal*. OTEC harnesses temperature differences between warm surface water and cool deep sea water to drive a turbine generator and produce electricity. The award cited the technology as an important step in making this clean, baseload and reliable source of energy commercially viable. Lockheed Martin is the industry leader in the development of OTEC technology, holding 19 related patents.



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Lockheed Martin's FORTIS™ can help reduce ergonomic-related injuries.

Cooldest Gadgets of 2014

CNN Money named FORTIS™ one of the 36 coolest gadgets of 2014. FORTIS™ can help reduce ergonomic-related injuries, which are one of the main drivers of worker injuries across industries. For six years, Lockheed Martin has been developing this unpowered, lightweight exoskeleton that allows operators to effortlessly hold the first 36 pounds of tools and machinery. Its advanced ergonomic design moves naturally with the human body, and helps to increase productivity by reducing muscle fatigue and avoiding muscle injury. We are testing the technology in our facility in Marietta, Georgia, where it is used by employees engaged in riveting, grinding and overhead drilling.

OUTLOOK

Sustainability Technology Roadmap

Lockheed Martin research and development is guided by strategic technology threads that map a course to future innovations. Technology investment is made in categories such as advanced materials and manufacturing, and autonomous and robotic systems. Beginning in 2015, we will formalize the sustainability strategic technology thread to direct innovation addressing the causes and ramifications of global megatrends.

Developing Processes for Chemical Sustainability in Our Operations

Since the 1980s, we have worked to reduce or eliminate hazardous chemicals and materials in our operations. In 2013, we developed a formal enterprise process to identify chemicals and materials that may be substituted with less hazardous alternatives. The process takes into consideration materials'

PRACTICING THE SCIENCE OF CITIZENSHIP

Mary Beth Miller, Principal EHS Scientist and Chief Product Stewardship Officer, Applied NanoStructured Solutions, Lockheed Martin



Sustainable processes and products have always made a great business case to save money and resources as well as avoid need for regulatory oversight. We should not ask ourselves how to disposition a waste material we generate. Instead, we should always ask ourselves how we can prevent making this waste in the first place, how can we reuse the waste materials we do generate and how can we get a longer life from the products we design.

At Applied Nanostructured Solutions, we utilize Life Cycle Analysis (LCA) to understand our product development elements in preparation for commercialization. LCA is the cornerstone for risk versus benefit analysis in developing our advanced and nanomaterial products. For example, LCA was used to redesign manufacturing equipment to "point source" treat the waste byproduct of our manufacturing process. This enabled us to significantly reduce both raw materials and waste generated. LCA also helped to understand and mitigate potential risk prior to Premanufacture Notice submittal to the Environmental Protection Agency. We all own the responsibility for developing sustainable practices across our own areas of responsibility at Lockheed Martin. This is not a task solely for our scientists and engineers. We all should be asking ourselves, "How I can help make a difference in developing sustainable technology?"

toxicity and global regulatory status, as well as sustainable business practices and customer requirements. For example, driven by global regulatory and program requirements, our Palmdale, California, site qualified the use of a chromium-free bond primer for titanium bonding that has no volatile organic compounds, thus eliminating potential employee exposure to hexavalent chromium and reducing the overall site hazardous air pollutant (HAP) emissions. The product was specifically qualified for the F-35 aircraft program to meet the hexavalent chromium use limitations under the European Economic Area's Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) requirements.



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Current Concord Blue Reformer® in Herten, Germany. Lockheed Martin and teammate Concord Blue will build a waste-to-energy facility that will provide a new, clean power source to meet the needs of 5,000 homes and businesses in Herten, Germany. Photo courtesy Concord Blue.

Using Waste to Generate Power

Lockheed Martin and teammate Concord Blue announced a new contract to build a [power generation facility](#) that will provide a new, clean energy source to meet the needs of 5,000 homes and businesses in Herten, Germany. The five-megawatt power generation facility will transform forestry waste to power using Concord Blue's Reformer® technology, which converts waste to energy through advanced gasification. Under this engineering, procurement and construction contract, Lockheed Martin will provide overall project management, engineering and design, procurement and construction for the new facility.

Product and Process Life Cycle Analysis

We will seek to continue identifying opportunities to apply the draft DoD Guidance, "Integrating Sustainability into DoD Acquisitions," to products in our portfolio. This analysis helps illustrate the true cost of ownership, which often reveals disproportional cost related to the product's use phase. The cost and environmental impact of fuel during the product use phase often has the largest impact. In 2015, we plan to apply life-cycle analysis to several products to encourage government and commercial customers to make more environmentally sustainable decisions and to highlight opportunities for cost savings.

Managing Chemical Restrictions for Our Products

We are actively addressing the proliferation of chemical substance restrictions that affect our products in some of our most significant markets, and we are working to identify chemicals and materials that are less hazardous and thus less likely to face restrictions on their use or manufacture, commonly referred to as "chemical obsolescence." Our industry faces product development cycles of years or decades, so the chemicals we select today must be viable when a product is delivered several years from now. Using a substitute material requires extensive performance testing, which impacts cost and timing. Internally, we work to address these issues through our Restricted Substances Community of Practice, which is focused on:

- Identifying the chemicals and materials that may present the biggest risk for Lockheed Martin's operations and identifying less hazardous alternatives;
- Developing corporate policy documents and guidance; and
- Leveraging best practices and lessons learned from across Lockheed Martin and the industry as a whole.

Externally, we participate in the regulatory process, directly or with other stakeholders, to ensure that regulators use the best available science as regulations are developed. As an example, we provided comments on and supported the development of a U.S. industry position related to industry usage of boric acid, when the chemical was proposed by the European Chemicals Agency to be added to the REACH Authorisation List.

We also collaborate with peer companies through the International Aerospace Environmental Group (IAEG) to identify industry-wide solutions related to chemical regulatory mandates and their ramifications. In 2014, the group developed an approach for identifying all regulated substances relevant to our industry and a process to identify top priority materials for the industry to focus on replacing. In addition, a pilot was conducted with a selected group of suppliers to obtain input on a proposed process for collecting information from suppliers on the aerospace draft list of declarable substances (chemicals of concern).



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OBJECTIVE

FOSTER A HIGH-PERFORMANCE, INCLUSIVE CULTURE THAT ATTRACTS, ENGAGES AND DEVELOPS TALENT TO EXCEL IN OUR MARKETPLACE.



About Photo: Our engineers and scientists often find themselves on the cutting edge of technology. The team shown here works on [Compact Fusion](#) that could provide world-wide access to inexpensive energy. We need to attract and retain the best minds now and in the future to continue our innovations.

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OVERVIEW

Our company's future, our aspirations for *The Science of Citizenship* and mission success for our customers all depend on the quality, performance and commitment of our workforce.

A talented, healthy and engaged employee population drives performance and powers innovation, making it imperative that we continue to attract, develop, motivate and retain employees effectively. Our success also relies on a continuous supply of highly trained and capable technical talent—the engineers and technologists who will apply *The Science of Citizenship* to our products and services in the next decade and beyond. It is their skills that help our customers to combat terrorism and cyber warfare, to advance understanding of climate and weather patterns, to implement transformative energy solutions and to modernize air traffic control systems. By helping to solve complex challenges, our employees generate wide-ranging societal benefits and contribute to sustainable economic growth.

We are focusing on strengthening talent management, workplace safety and science, technology, engineering and math (STEM) outreach to enable Lockheed Martin to design and innovate for tomorrow. These efforts are represented both in our business products and services and in how we use *The Science of Citizenship* to address workplace and societal challenges.



TALENT COMPETITIVENESS IMPACTS ON SUSTAINABLE BUSINESS PRACTICES

Equitable Talent Management, Development and Retention:

We invest in our talented employees and they invest in our success. We strive to create a culture of inclusion where every employee feels equipped to perform at his or her best.

Workplace Safety:

Striving for an injury-free workplace results in a better quality of life for employees, higher job performance, product excellence and mission success for our customers.

STEM Outreach:

U.S. labor market demand for technical and engineering jobs far exceeds the number of qualified individuals available. This is an unsustainable trajectory, making investment in STEM talent development critical to our company's and our nation's success.

MACROCHALLENGES

Attracting, developing and retaining a robust, diverse talent pipeline is a complex undertaking. Our efforts are impacted by the number of students studying STEM subjects and the number of professionals to fill available jobs. Recruitment and development approaches must also address the unique compliance requirements for U.S. government contractors and balance customer budget uncertainties.

STAKEHOLDER INSIGHT

Eighty-five percent of our employees believe that there are business-related benefits to focusing on sustainability, based on our annual random-sample survey with 4,300 respondents. Employees would most like sustainability efforts and resources to focus on ensuring our workforce is treated with respect (77 percent), cultivating a workplace supportive of employee health and wellness (77 percent) and ensuring workplace safety in our direct operations (72 percent).



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SUSTAINABILITY MANAGEMENT PLAN PROGRESS

PERFORMANCE INDICATORS

2014 RESULTS

1. Maintain a lower voluntary attrition rate among top performing exempt employees as compared to the exempt employee population with lower ratings.

1. **3.49 percent**—Maintained a lower voluntary attrition rate of 3.49 percent for top exempt performers as compared to a voluntary attrition rate of 4.15 percent for all other exempt employees.

2. Maintain the diversity and inclusion component score at 2012 levels, as measured by LM Voice employee survey results.

2. **71.49**—Maintained the Diversity and Inclusion Organizational Health Index score at 2012 levels. The 2012 level was 71.55, compared to the 2014 level of 71.49.

3. Achieve or exceed day away case, recordable and severity (lost days) rate goals.

3. **Surpassed all three rate goals**—Recordable Rate: **1.06** versus a goal of **1.31**; Day Away Case Rate: **0.18** versus a goal of **0.20**; Severity (Lost Days) Rate: **4.22** versus a goal of **5.62**. Goals are based on a 2 percent improvement from the rolling average of our previous three years of performance.

4. Reduce average time to complete manager 1 over 1 discussions following a work-related injury.

4. **Achieved reduction**—Reduced average time to complete manager discussions and have achieved our goal of increasing manager attention as a focus for 2014.

5. Allocate approximately half of Board of Directors-authorized charitable contributions to initiatives that support STEM education with impact metrics for major grants by the end of 2015.

5. **41 percent**—STEM Contributions account for more than \$10 million (41 percent of Board of Director-authorized charitable contributions).

6. Increase number and percentage of employee volunteers in STEM education.

6. **12 percent**—An estimated 12 percent of 1,040,152 volunteer hours supported STEM education, a one percent increase from 2013, based on best available data.

CHALLENGES

We recognize the need to launch learning resources for leaders focused on modeling inclusive behaviors.

We are focused on creating a culture of leadership engagement related to employee health and safety. We will continue to focus on the quality of the manager 1 over 1 interactions.

We strive to balance corporate strategic goals for STEM education contributions with local community partnerships.

2014 HIGHLIGHTS

Launched an **Executive Inclusion Council** led by our chief executive officer

97.3 percent of Lockheed Martin team members participated in **formal learning and development training**

24 percent of our employees are **military veterans**

We have **28 onsite Wellness Centers**



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MANAGEMENT

EQUITABLE TALENT MANAGEMENT, DEVELOPMENT AND RETENTION

People are our greatest asset. Recognizing this, our human capital strategy works to attract, develop, motivate and retain a diverse and high performing workforce that can deliver for our business-driven sustainability agenda. Our goal is to make Lockheed Martin the employer of choice for the best scientists, engineers and technologists in our sector, while building a robust talent pipeline across all roles and teams to serve our customers into the future.

With this in mind, we continually work to refine our learning and development programs to ensure our workforce is positioned well for the future and to respond to new and changing customer needs. Building on our technical training and first-line leader development, in 2014 we completed the design for a comprehensive upgrade of our mid-level leadership development program. This new programming will be launched in 2015. In 2014 we also strengthened our ability to respond to evolving customer needs. Our new Customer Focus initiative provides employees with a framework to deliver business results, defining our approach to creating and sustaining outstanding customer experiences. In 2015, we will expand customer focus skill development, starting with leaders and with team members who work directly with our external customers.

Our Full Spectrum Leadership model lays out the high standards to which we hold all our leaders accountable. We expect our leaders to deliver results, shape the future; build effective relationships; energize their teams; and model personal excellence, integrity and accountability. In 2014, we refined the model to increase its effectiveness, reinforce leadership standards for behavior and promote an inclusive environment. We simplified the leadership levels and reduced the number of competencies to focus on those that truly make a difference. Finally, we have tied all actions back to our primary imperative, delivering results for our customers.

Promoting Diversity and Inclusion

Diversity is multidimensional to us—it is the various attributes we each possess based on perspectives we have developed, experiences we have had, and capabilities we offer. Inclusion is acknowledging and leveraging diversity by creating an environment where employees feel welcome, respected, engaged and able to bring their full selves to work. We consider diversity and inclusion as critical factors to realizing optimal business outcomes.

Having a [board and executive team](#) with diverse backgrounds and experience brings a broader perspective to business issues, allowing us to make better-informed decisions. It also sets the tone for our commitment to bring our best

thinking to the table and maintain our leadership position in aerospace and defense technology and innovation. Through our human capital strategy we strive to foster an inclusive environment that brings out the full scope of our global workforce's skills, talents and abilities.

To excel in an increasingly competitive global marketplace, and address effectively with the sustainability challenges facing today's world, we must continue to ensure that all employees feel equally valued and empowered to bring their best to work every day. In 2014 our chairman, president and chief executive officer, Marilyn Hewson, established an Executive Inclusion Council comprised of leaders from across the enterprise to further deepen our commitment in this area. The Council works to ensure a cohesive enterprise-wide diversity and inclusion strategy that drives continued progress and helps power business success.

Lockheed Martin's new diversity and inclusion vision is to foster a culture where diverse talents and perspectives of our people

POWER INNOVATIVE SOLUTIONS

for our customers and drive business success.

WORKPLACE SAFETY

Enabling our employees to focus on pursuing business innovations and *The Science of Citizenship* includes providing a safe and healthy work environment. Our goal is to provide an injury-free workplace, and our Target Zero initiative promotes a global culture where employees embrace a zero injuries mentality. In our business, certain manufacturing processes for aircraft, space and other products, as well as customer support responsibilities, involve safety hazards that require sophisticated protocol and management attention. We invest in management systems, leadership engagement, workforce involvement and training to ensure that this culture and the provisions of our Environment, Safety and Health (ESH) policy are upheld. The ESH policy focuses on continual improvement and commits everyone in the company to protecting our employees.

Our principles of safety and health management are governed by the cross-business ESH Leadership Council, chaired by the vice president of Corporate Energy, Environment, Safety and Health (EESH), who reports to our chief information officer. The team meets at least three times per year and is accountable for developing our safety and health strategy and goals.



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The Council includes the most senior leaders responsible for ESH both within the corporate EESH function and in each of Lockheed Martin's business segments. In addition, the Council includes senior leader representatives from other functional organizations whose partnership and support is critical to the implementation and success of ESH programs, such as our health and wellness, and legal organizations.

The Council is accountable for setting direction and policy and determining priorities within our ESH Management System, which goes beyond workplace safety.

Learn more about our ESH Management System in the [Resource Efficiency Management Section](#).

Contractor Safety

Lockheed Martin's contractor management procedure addresses ESH considerations during the procurement, selection and execution of work by our contractors. Our individual sites tailor and implement contractor management programs to their operational needs, including how they provide ESH orientation for contractors, monitor their performance and implement consequences for failure to meet our requirements. Contract workers supervised by Lockheed Martin on a day-to-day basis are included in our safety performance metrics. In total, these individuals make up less than one percent of the Lockheed Martin worker population and hours worked. To further improve our contractor management program, we will be introducing enhanced screening of firms with negative safety and environmental records, and strengthening site contractor management programs through best practice sharing.

29 OHSAS 18001 CERTIFIED SITES

Several of our sites are participants in or certified to external health and safety programs or management systems, including the U.S. Occupational Safety and Health Administration's (OSHA) Voluntary Protection Programs and the OHSAS 18001 standard for occupational health and safety management systems. See a listing of these Lockheed Martin sites on our [Blueprint for Tomorrow map](#).

STEM OUTREACH

With U.S. demand for technical and engineering jobs nearly 2.5 times the number of qualified, available individuals, investing in the STEM pipeline is an investment in the future of our business. For this reason, we financially support K-12 and higher education programs intended to grow the pipeline of U.S. students considering a STEM career. Our human resources, community

relations, and engineering, technology and operations teams work together to carry out our STEM engagement strategy, which is a primary focus of our philanthropic efforts.

Lockheed Martin supports a variety of programs that aim to inspire young people to enter these critically important fields, and advocates with governments for the importance of STEM education. We also dedicate resources to supporting STEM teachers and their professional development. To grow the size and diversity of our sector's talent pipeline, we work with non-profit partners dedicated to promoting STEM knowledge and achievement among young women and minorities throughout their school years.

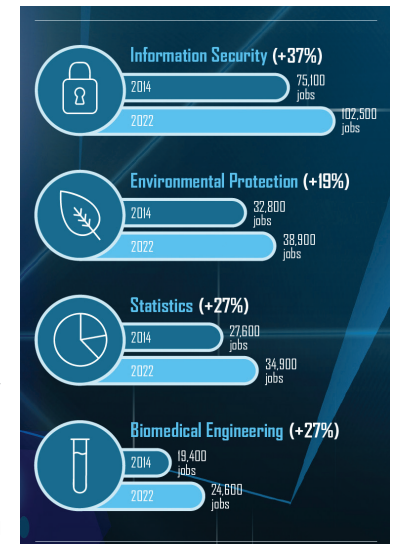
Building a diverse STEM pipeline also extends to our work with the higher education community and our own internship programs.

With a focus on entry-level talent, we have strategically oriented our outreach and recruiting activities to build a robust pipeline through partnerships with minority-serving institutions (MSIs) and professional organizations. We believe MSIs have the potential to increase the number of STEM degrees awarded to minorities, thus positively impacting our pipeline of talent.

Learn more on our [STEM website](#).

To manage our STEM outreach, we:

- Track our charitable contributions and STEM volunteer hours through an online database.
- Review metrics twice yearly from STEM grantees above \$100,000, including the results of beneficiary surveys.
- Implement local engagement efforts by our five business segments and Lockheed Martin International to address the unique needs of their communities and employees.



Over the next eight years more jobs will be available in science, technology, engineering and mathematics than in any other fields. Source: Vilorio, Dennis, and Bureau of Labor Statistics.



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Corporate Policies That Direct Employee Actions and Management Include:



EQUITABLE TALENT MANAGEMENT:

- Good Corporate Citizenship and Respect for Human Rights
- Harassment-Free Workplace
- Military Leave
- Nondiscrimination—Equal Employment Opportunity
- Providing Reasonable Accommodations
- Recruitment and Hiring
- Workplace Security—Maintaining a Safe and Respectful Workplace Free from Threats and Violence

WORKPLACE SAFETY:

- Drug-Free Workplace
- Environment, Safety and Health
- Tobacco- and Smoke-Free Environment
- Workplace Security—Maintaining a Safe and Respectful Workplace Free from Threats and Violence

STEM OUTREACH:

- Charitable Contributions

STAKEHOLDER ENGAGEMENT

EQUITABLE TALENT MANAGEMENT, DEVELOPMENT AND RETENTION

Employee Feedback

Our biennial all-employee survey, LM Voice, is critical in enabling us to take the engagement pulse of our diverse global workforce. It provides an opportunity for our more than 100,000 employees to share views on topics such as diversity, ethics, career development, leadership and job satisfaction. Nearly 75,000 employees participated in the latest survey, conducted in mid-2014.

The survey's four key components (Employee Experience, Leadership Excellence, Ethics and Integrity, and Diversity and Inclusion) determine the Organization Health Index (OHI) and provide valuable information on which to draw actionable conclusions. Our latest survey results show we are maintaining our positive scores and continuing a slightly favorable trend. The Corporation maintained its high marks in diversity and inclusion and continues to see increasingly high marks from employees who highlighted corporate ethics as a deepening strength. They also gave senior leadership high marks for communicating the vision, for the direction in which Lockheed Martin is headed. Employee retention and its drivers will continue to be a focus area.

Our leadership team is held accountable for the diversity and inclusion survey component results as a key corporate commitment tied to executive incentive compensation. Targeted diversity and inclusion initiatives and metrics are monitored on a quarterly basis to measure progress on our workforce planning activities. These efforts are part of our integrated talent management strategy that reinforces our culture of leadership, performance and inclusion.

Leaders across the company reviewed survey findings relevant to their work group, and discussed with their teams what improvement actions may be needed. Leaders are accountable for taking actions, and associated goals and activities are embedded in their commitments or objectives for the coming year.

In addition to LM Voice, leaders can call on trained facilitators to use a process called Voice of the Employee (VOE), to seek input from their teams. VOE combines qualitative focus group feedback with quantifiable metrics on engagement and leadership team performance. Forty-five facilities across the U.S. and in Europe, Asia and Africa have taken advantage of VOE so far.

Innovation Garage Program

One way we foster employee creativity is through our Innovation Garage, which can take good ideas from concept to rapid prototype in about 16 weeks. This program encourages engineers to work on projects outside their normal day-to-day responsibilities, using their own time to learn new skills, test concepts and gain insights that will help them develop their careers. This approach aids in identifying business processes that make technology development more efficient. For example, in 2014 one team of employees in Orlando



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developed a successful concept for turning tablets and handheld devices into wearable solutions. Possible uses include pilot training, maintenance training, ship board controls-watch commander and gaming.



Innovation Garage engineers on our Sunnyvale campus.

In another example, a Rapid-Engineered Nano-Satellite team in Sunnyvale, California, built a cube satellite over a weekend, demonstrating the feasibility of developing cube satellite systems using commercial off-the-shelf and open-source technologies. Although the hardware and software the team developed were not

ready to fly, they allowed the team to test concepts that can be adapted to space hardware.

WORKPLACE SAFETY

Safety Month Launch

Lockheed Martin's 2014 Safety Month was aligned with the United States' National Safety Council's "Safety: It Takes All of Us" theme. Throughout June, we encouraged employees worldwide to identify and report potential hazards. Key topics for raising awareness included prescription drug use, situational awareness and distracted driving. Communications to employees and leaders included an informational video and a company-wide contest that drew entries from nearly 450 employees.



"Safety: It Takes All of Us" employee awareness poster for Safety Month.

STEM OUTREACH

Expanding Internship Opportunities

Lockheed Martin views its intern and co-op program as a critical component of building a robust and diverse entry-level talent pipeline. In 2014, we expanded our U.S. program, hiring more than 1,000 interns for the academic year, up from 800 in 2013.

Internationally, we grew our aeronautical engineering specialization partnership with Delft University and Fokker Technologies in the Netherlands. The Delft intern program provides young engineers with the opportunity to gain supply chain experience supporting the F-35. In addition, we created a new intern partnership with the Saudi Arabian Ministry of Higher Education that exposes Saudi students to U.S. corporate practices.

PERFORMANCE

EQUITABLE TALENT MANAGEMENT, DEVELOPMENT AND RETENTION

We provide compensation, benefits and learning programs to retain our employees and motivate them to drive innovation and business success.

In hiring, we strive to build an inclusive, high performance workforce. In 2014, 25 percent of our global employee base was composed of women, and 25 percent was composed of minorities. We also actively seek to hire qualified veterans, who made up 24 percent of our workforce in 2014.

Advancing Diversity and Inclusion

As stated in her [LinkedIn Influencer post](#), Chairman, President and Chief Executive Officer Marilyn Hewson noted, "When tackling a difficult decision, a person's skills and experience will only get them so far. That's why the best leaders surround themselves with people who offer diverse opinions, complement their abilities, and aren't afraid to suggest a different approach."

This imperative led our CEO to establish an Executive Inclusion Council (EIC) in April 2014. This team of senior leaders from across the Corporation is leading efforts to advance our diversity and inclusion strategies and programs. Early accomplishments include:

- Establishing a business case, mission and vision for diversity and inclusion;
- Aligning business segment diversity and inclusion councils with the EIC strategy;
- Creating internal and external benchmarking strategies;



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- Launching a robust communication strategy, including the launch of a key component called the “Inclusion Matters” series, which examines diversity and inclusion as a business imperative;
- Launching learning resources for leaders focused on modeling inclusive behaviors to include the “Leading Diverse Teams” training series, which provides leaders with tools and techniques for building effective teams and reinforcing the company’s inclusive and supportive culture. The associated coaching manual enhances the leader experience and promotes actions to incorporate learning into standard practice; and

- Standardizing our program management pipeline development across the enterprise.

In 2014, Lockheed Martin held its inaugural Leadership Forum Summit, which drew input from senior leaders represented in our seven leadership forums and associated Employee Resource Groups. The summit provided a platform of diversity and inclusion initiatives for the organization to address. Our seven leadership forums represented at the summit included:

- African-American Leadership Forum;
- Council of Asian American Leaders;

COMPANY DEMOGRAPHICS

WOMEN

25%

MINORITIES¹

25%

VETERANS¹

24%

20%

10%

21%

33%

17%

25%

● All Employees ● Executives² ● Board of Directors

¹Excludes Local Country Nationals

²Executives are Directors and above

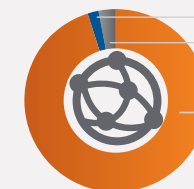
GENERATION



EDUCATION



REGION





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- Hispanic Leadership Council;
- Lesbian, Gay, Bisexual, Transgender (LGBT) Leadership Forum;
- Military/Veterans Leadership Forum;
- People with Disabilities Leadership Forum; and
- Women's Leadership Forum.

In early 2015, we held a second Leadership Forum Summit to introduce our revised diversity and inclusion strategy and assess our current progress.

As part of our global expansion of diversity and inclusion, the first women's leadership forum for our Asia Pacific region employees was held in Canberra, Australia, in October 2014. Thirty senior level Lockheed Martin female employees from Australia, New Zealand, Singapore, Hong Kong, the United Kingdom and the United States attended the forum, which included a full day of sessions focused on Lockheed Martin strategy, leadership development, Lockheed Martin International business updates and several leadership panel discussions. The event concluded with presentations on shareholder value, diversity, inclusion and the employee experience. In 2015 we plan to host our second international women's leadership forum in the U.K.

We have continued our focus on engaging leaders in shaping an inclusive culture with our Effective Leadership of Inclusive Teams (ELOIT) initiative. In partnership with an external vendor, we successfully piloted a program for U.S.-based managers, which is already mandatory for all vice presidents and above. The lab-based learning experience fosters skills necessary to deepen diversity dialogues, create effective partnerships among diverse individuals, and develop courageous leadership skills.

Learning and Development

Lockheed Martin makes a significant investment in learning and development across its diverse workforce to ensure excellence in performance. In 2014, 97.3 percent of Lockheed Martin team members participated in formal training averaging 19.78 hours each. Topics included ethics, leadership and technical training.

74.2

Our global Organization Health Index—measuring Employee Experience, Leadership Excellence, Ethics and Integrity and Diversity and Inclusion—remains strong, rising .44 points in 2014 from the previous survey in 2012.

Military Connect Launch

In 2014, we launched Military Connect, a unique online talent community for current and former military personnel looking to transition to jobs in our industry or gain knowledge about working in the private sector. The forum allows veterans to interact directly with Lockheed Martin employees who are former service men and women, as well as our military hiring outreach team, about jobs in our sector and company.

We also renewed our partnership with the Hiring Our Heroes Foundation through the Veteran Employers Advisory Council. In April 2014, we partnered with the U.S. Chamber of Commerce to support the Foundation's Veterans Jobs Summit at Ft. Campbell, Kentucky. Our vice president of Talent Acquisition joined a panel of senior industry executives to discuss best practices for veterans seeking employment, and our military relations team held an interview and resumé-writing workshop.

Year	Total Veteran Hires	Total Veteran Hires (% of External Hires)	Total Veteran Employees (% of Employee Population)
2014	2,354	34%	24%
2013	2,490	37%	24%
2012	2,969	40%	24%
2011	3,520	40%	24%
2010	3,898	39%	25%

Competitive Retirement Plans

Competitive retirement plans help retain employees, strengthen their financial health and ensure the long-term health of the Corporation. In July 2014 we announced plans to freeze our salaried defined benefit pension plan and transition the majority of Lockheed Martin's salaried employees to an enhanced defined contribution retirement plan. When the transition is completed, in 2020, those employees will benefit from a retirement plan that offers up to 10 percent of salary in weekly company contributions.

We are enhancing current and introducing new web-based tools and resources to help all employees navigate the changes and build their retirement savings, including:

- **Retirement Income Modeler**—An integrated financial modeling tool supporting Lockheed Martin pension and savings plans, personal savings and social security.



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- **Financial Management Tool**—A personal budgeting and financial management tool.
- **Enhanced Financial Planning Tools and Support**—An enhanced personal financial planning tool integrated into the savings plan web tool, which provides a comprehensive visual summary of an employee's financial plan components and progress. The tool automatically updates company retirement benefits and allows other retirement assets and savings to be entered by the employee. The tool also offers investment strategy advice and access to personal retirement planning professionals.
- **Personal Retirement Evaluation**—A concise summary of retirement plan progress against goals, mailed to employees' homes. Both tool-based and financial professional-based support is provided.
- **Onsite Workshops and Support**—Subject matter experts will provide onsite support at major sites throughout 2015.

WORKFORCE SAFETY

Lockheed Martin's safety programs emphasize leader ownership and employee engagement to strengthen a culture of safety across our global operations. We established annual workforce safety goals for 2014 for our U.S. locations that sought to build on our improvements in the previous year by achieving or exceeding the day away case, recordable and severity (lost days) rate goals for 2013. We were proud to surpass our goals in all three areas. Since launching Target Zero in 2003, we've achieved a 57 percent improvement in day away case

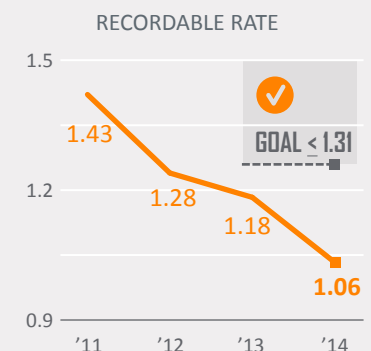
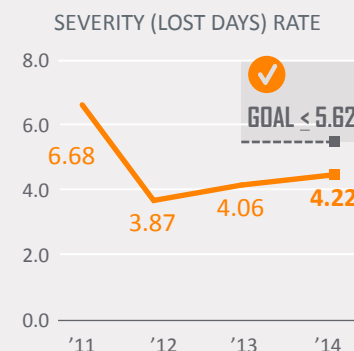
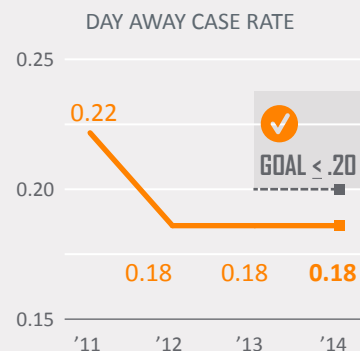
rates, a 62 percent improvement in recordable rates and a 74 percent improvement in severity (lost days) rates. In 2015, our goals are 0.18, 1.18, and 4.40 for day away case, recordable and severity (lost days) rates respectively (based on a 2 percent improvement over the rolling average of our previous three years of performance).



6 LIVES SAVED

Since 2010, six employees' lives have been saved by co-workers using on-site auto external defibrillators (AEDs). We have 982 units across 263 facilities and 3,526 trained responders. Our program is one of the largest single roll out of an AED program in the United States.

TARGET ZERO WORKPLACE SAFETY PERFORMANCE



Each rate is calculated per 100 employees, working 40 hours per week for 50 weeks per year. Metrics include all U.S. Lockheed Martin facilities, which account for 94 percent of all employees. Prior reporting included non-U.S. facilities. Employees operating in-theater (war zones) are not included in this data. Employees of contractors who are directly supervised by Lockheed Martin are included and make up less than one percent of the Lockheed Martin worker population and hours worked.



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Health and Wellness Impacts

We promote good health and wellness in our global workforce by designing work sites with health and well-being in mind, helping employees eat better, move more and recharge (see graphic). In 2014, we realized a 5 percent increase in steps taken per person tracked by our pedometer program. Employees increased their participation in the bi-annual onsite biometric health screening events by 58 percent. Eight percent more employees certified as tobacco-free in 2014.

To measure the effectiveness of our health and wellness programs, we benchmark other companies through the U.S. National Business Group on Health's WISCORE (Wellness Impact Scorecard). In 2014, we earned our first Best Employers for Healthy Lifestyles Gold Award. Select program outcomes include:

- An increase in the percentage of our employee population with a healthy body mass index;
- An increase in the percentage of employees classified as being at low risk of developing health problems (two or fewer risk factors).

In a separate scorecard measuring employee health management programs and administered by the Health Enhancement Research Organization (HERO), we scored 64 percent higher than the U.S. national average, among more than 1,200 companies who participated.

Ergo Cup

Sprains, strains and musculoskeletal disorders—all injuries most commonly associated with ergonomics—comprise nearly 50 percent of all U.S. Occupational Safety and Health Administration (OSHA) recordable injuries across Lockheed Martin. In 2014, we focused strongly on driving down ergonomic-related injuries. For example, the Ergo Cup competition, now in its second year, fosters innovation of new practices and processes to minimize ergonomic stressors experienced in the workplace. Employees' submissions were judged on a set criteria covering ergonomic risk reduction, innovation, simplicity and cost savings. The Ergo Cup and similar programs enable us to enhance business performance by reducing injuries through ergonomic programs like this one. Ergonomic programs contributed to a 34 percent year-over-year decrease in ergonomic-related recordable injuries enterprise-wide between 2012 and 2014.

BY THE NUMBERS: HEALTHY WORKFORCE



28

Wellness Centers



28

Fitness Centers



26

Outdoor/Indoor Walking Paths



32

Sites with Walk Stations

204,120

Non-occupational Health Visits at our Wellness Centers

74%

Participation in Our Fitness Program

5%

Increase in Pedometer Steps Tracked per Person



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New Global Emergency Operations Center Ensures Safety and Security

In 2014, Lockheed Martin opened a new Global Emergency Operations Center (GEOC) to help ensure the safety and security of our employees around the world. The GEOC provides standardized, state-of-the-art crisis management for all of our business segments, including a crisis hotline, global threat monitoring, employee wellness checks, crisis communications and traveler and asset risk management services. The GEOC will monitor crisis incidents that range from natural disasters to bombings and terrorist attacks. When there is an emergency, GEOC staff members have the capability to identify and communicate with employees across the enterprise to ensure that appropriate measures are taken to keep our employees safe.

STEM OUTREACH

We invest in our future success by investing in programs that build the pipeline of talent across the fields of science, technology, engineering and math, known as STEM. The long-term sustainability of our business depends on attracting and retaining the most talented team. We work to develop the best and brightest from a young age, encouraging them to develop their skills and follow their passion throughout their school years and into their careers.

USA Science and Engineering Festival

With more than 325,000 attendees, the 2014 USA Science and Engineering Festival was the most successful ever, providing thousands of opportunities for students and families to experience hands-on STEM experiences. Nearly 450 volunteers brought the Lockheed Martin-sponsored pavilion to life for the biennial event. Our employees contributed more than 40 demonstrations featuring nanotechnology, data analytics, robotics, energy, advanced aeronautics and scientific discovery.

Project Lead the Way

Lockheed Martin has supported Project Lead the Way (PLTW), the leading U.S. provider of K-12 STEM programs, since 2007. Our current partnership supports implementation of STEM curricula in urban centers with high populations of underserved and minority students. In 2014, we implemented this model in District of Columbia Public Schools. Our funding also enabled the Huntsville, Alabama, City School District to implement PLTW's new K-5 Launch program across its 26 elementary schools.



Young participants experience F-16 flight simulation at the 2014 USA Science and Engineering Festival.

National Science Teachers Association

A key objective of our K-12 STEM programming is to provide robust professional development opportunities for the math and science teachers whose job is to inspire the next generation of scientists and engineers. Our partnership with the National Science Teachers Association supports 40 new science teachers each year with intensive professional development.

A Global STEM Program

Expanding a robust STEM pipeline is a growing priority not only in the United States, but also for the United Kingdom, Australia and many other Lockheed



Lockheed Martin and PLTW increased the availability of K-12 STEM programs in urban school districts.



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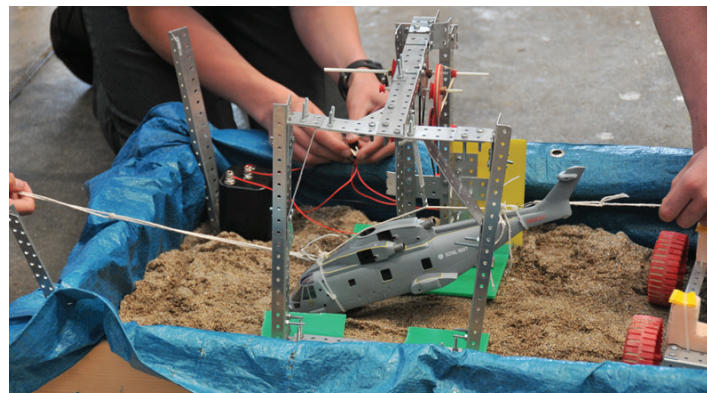
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Martin key growth markets. We work with educational organizations in these countries to promote a STEM pipeline of talented students. Here are some of our major international programs:

- Our Lockheed Martin U.K. operation pairs Lockheed Martin engineers with students for unique experiences. For example, 60 students ages 13 to 16 from schools across Devon and Cornwall participated in the third annual Lockheed Martin and Royal Navy Engineering Challenge. Students helped construct a device to rescue a model Merlin helicopter after a heavy desert landing deemed it unfit to fly. The day culminated in the testing of each design, which was marked on its durability, weight and performance.
- In 2014, Lockheed Martin Australia entered a partnership with the National Youth Science Forum (NYSF), whose mission is to provide community-minded and science-focused young Australians with an opportunity to gain the skills needed for a lifetime of achievement in STEM careers. NYSF has an impressive success rate: 85 percent of its alumni are expected to complete STEM degrees.



Students in Devon and Cornwall, U.K. participating in the Lockheed Martin and Royal Navy Engineering Challenge.

Higher Education Partnerships

Lockheed Martin has been recognized by Historically Black Colleges and Universities as an “HBCU Top Supporter” for 10 consecutive years. In May of 2014, we were ranked number one Top Industry Supporter of HBCU engineering schools. To advance our work with HBCUs, Lockheed Martin established an HBCU STEM partnership initiative that grants 12 HBCUs over \$870,000, the largest annual amount funded for HBCUs in Lockheed Martin’s history. Working with HBCU deans and administrators, we have agreed upon a commitment to support the Lockheed Martin hiring initiative to attract, develop and retain top talent.

Building Pathways

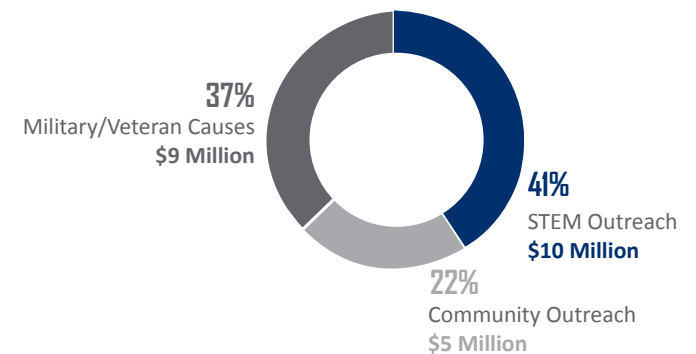
In 2013 and 2014, Lockheed Martin supported Great Minds in STEM’s Viva Technology program, which provides underrepresented K-12 students an avenue for college and career awareness in STEM. Programs were held at middle schools near Lockheed Martin facilities in Denver, Colorado; Greenbelt, Maryland; Fort Worth, Texas; and Marietta, Georgia. Viva Technology stimulates interest and achievement in STEM through innovative lesson plans and specifically designed hands-on activities, laying the foundation for students to pursue STEM college and career pathways.

1,040,152

Employee Volunteer Hours
Nearly 115,000 hours volunteered for STEM Outreach¹

¹STEM data excludes volunteer hours by Sandia Corporation employees.

\$25 Million
Total Charitable Contributions





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PRACTICING THE SCIENCE OF CITIZENSHIP

Rosie Roessel, Member Engineering Staff Engineering Leadership Development Program
Lockheed Martin Mission Systems and Training—Moorestown, NJ



Lockheed Martin's innovations can be used to benefit not only those in the United States, but throughout the world. Applying sustainability expertise into our designs increases the efficiencies of the end products. Although one product alone may not be monumental in energy savings, the sums of products can be. For example, advancements in cyber security can protect confidential information, while advancements in tidal energy can help meet the demands of finding cleaner energy sources.

Every individual has the potential to develop innovative concepts and designs, but not if he or she isn't given the opportunities to do so. Expanding STEM outreach to as many people and as early as possible increases both the probability as well as the quality of technological advancements. Promoting STEM to women and underrepresented populations is very important for Lockheed Martin.

STEM outreach has always been important to me as well. In high school, I was a counselor at a STEM summer camp for four straight years. At the camp, we taught young students scientific concepts through fun, hands-on experiments. Since joining Lockheed Martin, I've been able to participate in STEM outreach at a local high school, Women in Engineering Day, and Engineer's Week. Hopefully, some of the students I've interacted with will fall in love with STEM and continue to pursue similar opportunities. Maybe some of them will be here at Lockheed Martin in a few years.

RECOGNITION

IDEAL FUTURE EMPLOYER

Each year, the global branding firm Universum asks more than 50,000 students from hundreds of American universities to rank their ideal future employers. Lockheed Martin has earned a place within the top companies every year in all fields of study since the survey began in 2009. In 2014, Lockheed Martin was ranked fourth by engineering students and 20th by those pursuing computer science degrees. The collective rankings illustrate our strong brand visibility among the next generation of customers and colleagues.

Governor's Award for Safety Excellence

The Pennsylvania Department of Labor & Industry's Health and Safety Division presented our Missiles and Fire Control facility in Archbald, Pennsylvania, with the Governor's Award for Safety Excellence, which recognizes successful employer-employee safety programs.

New Zealand Defence Force Health and Safety Award

The New Zealand Defense Force (NZDF) awarded Lockheed Martin the Health and Safety Award for "Best Initiative by a Contractor" for our safety campaign aimed at engaging with employees to promote safe work behaviors. Our local Environment, Safety and Health team, which supports approximately 230

employees, identified a significant hazard contributing to an increase in accidents and injuries in the NZDF workplace. The team responded with a successful employee information and awareness campaign aimed at changing safety behaviors in the workplace by encouraging employees to stop and think about the potential for injury before performing a task. The campaign included an information roadshow that promoted safe work practices by actively engaging employees on issues associated with manual handling injuries. The initiative contributed to a 70 percent reduction in injuries resulting from manual handling activities.

American Heart Association Fit-Friendly Worksites

Twenty-six Lockheed Martin sites were recipients of the American Heart Association Corporate Platinum Award for advanced efforts to champion the health of employees and create a culture of physical activity and health in the workplace. "Platinum" is the top level awarded, and 2014 marked the second year that Lockheed Martin achieved this recognition for the entire Corporation.

National Business Group on Health Best Employers for Healthy Lifestyles Gold Award

Lockheed Martin was honored by the National Business Group on Health, a non-profit association of large U.S. employers, for its ongoing commitment and dedication to promoting a healthy work environment and encouraging its workers and their families to maintain healthy lifestyles.



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OUTLOOK

EQUITABLE TALENT MANAGEMENT, DEVELOPMENT AND RETENTION

Diversity and Inclusion Learning Curriculum

As part of our efforts to further embed diversity and inclusion in our culture, we will launch Inclusion Dialogues for employees in 2015. This series of online diversity and inclusion topics of workplace interest will be made available to leaders and staff worldwide to heighten their awareness of various dimensions of diversity and demonstrate inclusive behaviors. We also will continue our video series on “Leading Diverse Teams” with additional vignettes, and add education on “Leading with Inclusive Behaviors” to our leadership development portfolio. A fundamental element of this diversity learning curriculum is to help employees recognize unconscious bias and provide tools for mitigating such behavior at critical stages of an employee’s time with us.

Effective Leadership of Inclusive Teams

In keeping with our commitment to diversity and inclusion, all vice presidents and above have attended Effective Leadership of Inclusive Teams (ELOIT) learning labs. In 2015, we will launch a multi-year roll-out extending the program to all U.S. directors. We will also continue to host two-day, intensive ELOIT Summits, where leaders of all levels improve skills to lead their teams in effective dialogue and create partnerships among diverse individuals.

Lockheed Martin International Inclusion Framework

In the year ahead, Lockheed Martin International is committed to establishing an international executive inclusion council. The framework will allow the inclusion council to focus on engaging employees, promoting inclusion to infuse initiatives in country strategy playbooks, and leveraging best practices in Canada, Australia and the United Kingdom.

WORKPLACE SAFETY

Managing International Expansion

In 2014, we convened an Environment, Safety and Health (ESH) Global Working Group to establish minimum ESH operating standards and guidance for our global operations. The group also will develop common processes, systems and accessibility to ensure compliance and to minimize ESH risks, including workplace safety. Our goal is to align with the international business models established by our leadership in order to provide effective functional support and to drive value that will help create growth and disciplined business execution. This includes the design, implementation and oversight of various in-country ESH programs, such as those in the United Kingdom, Canada, Australia and New Zealand. In 2015, we plan to develop global baseline measures that will allow us to consistently report on our Target Zero performance for non-U.S. incidents.

In line with the importance we place on continual safety improvement, we actively participate in the development of a new international standard for workplace health and safety management systems, ISO 45001, as members of its U.S. Technical Advisory Committee. This rigorous new standard is due to be finalized by 2016.

STEM OUTREACH

Extending Our Reach

In 2015, we will continue to support employee efforts to inspire the next generation of engineers, scientists and technologists through new outreach programs and partnerships. Our focus on district-wide implementations of Project Lead the Way curricula will also continue in other school systems, such as Orange County, Florida. Also, our STEM efforts in countries including Australia, Canada, Israel, and the United Kingdom will expand in 2015 and beyond.



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OBJECTIVE

PARTNER WITH AT LEAST 90 PERCENT OF ACTIVE SUPPLIERS TO ADVANCE RESPONSIBLE SOURCING PRACTICES AND IMPROVE TRANSPARENCY.



About Photo: Sciaky, Inc. supplies Lockheed Martin Space Systems Company with a large-scale additive manufacturing, or 3D printing, solution. The turnkey electron beam additive manufacturing (EBAM) system will help us reduce time and cost, especially for the production and testing of titanium propellant tanks, shown here. We will produce these large titanium parts with virtually no waste. Partnering with suppliers that innovate in sustainable ways furthers our own sustainability.

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OVERVIEW

Our business depends on a reliable, global network of skilled suppliers. More than 16,000 companies provide the materials, parts and services to make our products and deliver them to our customers mission-ready and on time. Suppliers are also our partners in implementing *The Science of Citizenship* through responsible practices, including sustainable sourcing and protecting human rights.

SUPPLIER SUSTAINABILITY IMPACTS ON SUSTAINABLE BUSINESS PRACTICES

Supplier Standards:

We expect our suppliers to uphold the same standards for business conduct we ask of our own employees, as stated in our Supplier Code of Conduct. Building capacity among suppliers to live these values improves environmental and social conditions worldwide.

Conflict Minerals:

The mining of conflict minerals, tin, tantalum, tungsten and gold, from the Democratic Republic of Congo (DRC) and the surrounding region has been linked to human trafficking, slavery and other human rights abuses. These minerals are used in many manufacturing processes and associated products. We perform reasonable country of origin inquiries with relevant suppliers, and perform due diligence to seek to verify the source of these raw materials in our products.

Counterfeit Components:

Counterfeit parts directly impact product quality and performance. We have established a strategy and risk-based approach to implement and maintain methods and processes appropriately to minimize the risk of introducing counterfeit work that can compromise the integrity of Lockheed Martin products and services.



MACROCHALLENGES

The majority of Lockheed Martin products are complex, durable goods typically supported by multiple tiers along the value chain, from raw materials to the components that enter our manufacturing processes. This creates challenges to effectively manage social and environmental issues, such as mitigating the impacts of natural resource-intensive activities and addressing conflict minerals. We work closely with key suppliers, including hundreds of small businesses, to address these challenges.

STAKEHOLDER INSIGHTS

We partner with a wide range of suppliers, large and small, public and private, serving many customers within aerospace and defense and across other industries. We know that actions we request of our suppliers to promote transparency, sustainability and good citizenship may be burdensome, regardless of their good intent. That's why we keep the lines of communication open, offer modifications when possible, and work to find industry-wide solutions.



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SUSTAINABILITY MANAGEMENT PLAN PROGRESS

PERFORMANCE INDICATORS

2014 RESULTS

1. Distribute Supplier Code of Conduct to 100 percent of suppliers via open purchase orders.

1. **77 percent**—Since releasing Lockheed Martin's Supplier Code of Conduct in December 2013, 77 percent of active suppliers in our vendor purchasing system, P2P, have received the Code on the face of their purchase order.

2. Assess 100 percent of top 500 suppliers below target threshold for Dun & Bradstreet Supplier Stability Indicator (SSI) Score and have risk mitigation plans as necessary.

2. **97 percent**—Evaluation of top 500 suppliers concluded with several identified as having severe risk ratings. We have been able to verify mitigation plans for 97 percent of the suppliers at risk. The remaining 3 percent of at-risk suppliers are in process of being evaluated.

3. Increase percentage of eligible respondents completing Sustainable Supply Chain Management Voluntary Assessment.

3. **84 percent, increase of 32 percent**—Of all eligible respondents, 84 percent completed the Sustainable Supply Chain Management Voluntary Assessment as compared to the baseline of 52 percent.

4. Ensure 100 percent of eligible purchasing, quality, or other affected employees complete Counterfeit Parts Awareness Training.

4. **99 percent**—Of the Lockheed Martin employees who are required, 99.2 percent completed the Counterfeit Parts Awareness and Prevention training.

5. Increase percentage of suppliers with deliverable hardware with acceptable counterfeit work control plans, as assessed by business segments.

5. **Executing to Plan**—Business segments have plans in place in 2015 to execute to individual counterfeit work control plans.

CHALLENGES

Any suppliers that need to remain active in the Lockheed Martin database, but who have not received a new purchase order from us since implementation of the Supplier Code of Conduct, will receive separate correspondence notifying them of the Code in late 2015.

Each business segment has plans in place to determine whether it has adequate work control plans to address preventing, and mitigating the impact of, counterfeit parts. In 2015, the Counterfeit Parts Integrated Product Team will focus on implementing a consistent reporting process across all business segments.

2014 HIGHLIGHTS

Lockheed Martin has **direct orders with more than 16,000** active suppliers from 50 countries.

Total spending with small businesses in 2014 was **\$4.9 billion** or 20 percent of total spend with all suppliers.

More than 90 percent of our direct material supplier spend was represented in our **Conflict Minerals Report** filing survey process.

We provided about 14,000 suppliers with **counterfeit parts awareness training** materials.

For the fourth year in a row, our support of small and diverse suppliers earned us an **"outstanding" rating** from the Defense Contract Management Agency (DCMA).



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MANAGEMENT

SUPPLY CHAIN MANAGEMENT

Strong, farsighted management of our global supply chain is essential to meet our customers' needs for quality, timely products, and to expand our efforts to deliver *The Science of Citizenship* beyond our own operations. To this end, our senior vice president, Corporate Engineering, Technology and Operations leads Global Supply Chain Operations, reporting directly to the CEO. This structure allows for close coordination between supply chain decision-making and our engineering and innovation strategies. To encourage sharing of ideas and best practices, we regularly convene a Supply Chain Council represented by leading vice presidents from each business segment, which also liaises frequently with our Corporate Engineering, Technology and Operations Councils. The Chair of the Supply Chain Council is a member of the Corporation's Sustainability Working Group.

PROGRESS TOWARD A SUSTAINABLE SUPPLY CHAIN

We pursue sustainable supply chain management (SSCM) by engaging and doing business with suppliers worldwide in ways that drive affordability and innovation through responsible sourcing and environmental stewardship. The goal is to align our supply base's social, ethical, environmental, safety and health responsibilities with our own [sustainability goals and objectives](#).

Suppliers are critical partners in achieving Lockheed Martin's Sustainability Management Plan goals and we continued to expand supplier development and engagement during 2014. Highlights included:

- Holding a strategic internal workshop focused on sustainability that engaged 20 cross-functional, cross-business segment representatives. The purpose of the workshop was to evolve Lockheed Martin's SSCM strategy and associated practices for continued enterprise-wide applicability, as well as to ensure the creation of value consistent with the long-term preservation and enhancement of environmental, social and financial capital.
- Engaging directly with key individual suppliers via our Supplier Sustainability Summit to collect direct feedback on our SSCM program and sustainability core issues. Our goal was to shape our next steps and validate the path forward for continued enterprise-wide applicability of the SSCM plan. For 2014, the plan focused on building supplier sustainability capacity and expanding our supplier sustainability survey processes.

- Updating the supplier application questions to include the sustainability elements of anti-corruption and cyber security.
- Creating and distributing a green product definitions document and SSCM overview brochure to educate employees and suppliers.

These activities, coupled with supplier engagement activities (see Stakeholder Engagement) built on the progress we made last year to systematize our approach to embedding sustainability in our supply chain. During 2013, we released our [first supplier code of conduct](#), as well as supplier sustainability questionnaires that will be used to monitor suppliers' progress on social and environmental issues; and to identify risks in the suppliers' current processes, and opportunities for collaboration and best practice sharing.

Read more in our [2013 Sustainability Report](#) on pages 46 and 50.

SUPPLIER DIVERSITY

We are strongly committed to using and developing small business suppliers including companies that are owned by women, veterans or minorities, or are based in economically disadvantaged areas. Hiring small businesses and diverse suppliers supports our efforts to foster product innovation and deepen community ties. As a federal contractor, our U.S. government customers also require us to offer maximum practicable opportunity to small business suppliers, and our small business subcontracting performance is regularly reviewed by multiple U.S. federal government agencies as part of the contracting process.

To assist our small business suppliers with cash flow and operability, we offer them an accelerated payment schedule. We also participate in government outreach programs, including the Mentor-Protégé program in which we assist and establish successful long-term relationships with diverse small businesses. Lockheed Martin employs 37 supplier diversity representatives across the Corporation to guide our small business outreach and reporting practices.

Helping Small Businesses Spur Innovation

Through the U.S. Government's [Small Business Innovation Research \(SBIR\)](#) program, we are empowering small businesses to participate in federal research and development. Successful partnerships include:

- Developing Anti-Submarine Warfare modules with Daniel H. Wagner Associates, Inc., a small business based in Hampton, Virginia. The modules optimize the use of air, surface and subsurface assets to defend against submarine threats and to reduce friendly force vulnerability.



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- Using small business partners to develop innovative production and sustainment technologies for the F-35 fighter jet. Examples include technologies for mold-in-place inlet coatings that allow the small business to mold a special material (boot) around the two air intakes on either side of the main fuselage instead of molding them on a machine. This solution provides a better fit and cuts the production time by a factor of four. The hand-held imaging tool also allows the inspection of the boots to be conducted much more quickly and accurately than the current manual process.
- Working with Neya Systems, a small business based in Wexford, Pennsylvania, to integrate mission management technology that can task unmanned vehicles for the U.S. Army.



Integrating mission management technology with small business partner, Neya Systems.

Corporate Policies and Acquisition Procedures that Direct Employee Actions and Management of Supplier Sustainability Include:



- Acquisition of Goods and Services
- Counterfeit Electronic Parts and Material
- Lockheed Martin Acquisition Procedures (LMAP)
- Supplier Code of Conduct
- Supplier Diversity Program

STAKEHOLDER ENGAGEMENT

SUPPLIER SUSTAINABILITY SUMMIT

In 2014, we hosted a focus group session in Arlington, Virginia, on sustainability in our supply chain. An independent facilitator guided the discussion with 13 key suppliers, large and small, public and private, representing more than \$2 billion in procurement spend. Manufacturers, electronics distributors and information technology services providers participated in the day-long event, which included discussion of anti-corruption issues, conflict minerals and counterfeit parts. Supplier participants reached consensus on priorities and challenges that included:

- **Supplier Standards**—Suppliers are frustrated by the number of requests to certify against customers' codes of conduct, particularly when they already have a robust code of their own in place. Lockheed Martin shares its code in a way that permits suppliers to adapt its principles to their own codes of conduct, rather than establishing inflexible contractual requirements.
- **Conflict Minerals**—Supplier development is needed to build suppliers' capacity to trace potential conflict minerals, especially in the sub-tier where there is limited visibility.
- **Counterfeit Parts**—Given the long life cycle of our programs in the aerospace and defense industry, parts needed to support these programs can become obsolete in favor of newer technologies and suitable replacements from original component manufacturers can be limited or hard to find. The increasing value of aerospace and defense commodities creates a potential for black market profit by introducing counterfeit parts into the supply chain.

Feedback from the summit will help to inform the path forward for our Sustainable Supply Chain Management program. In particular, participants were eager to partner with us on sub-tier supplier sustainability development and looked to Lockheed Martin to facilitate ongoing dialogue beyond personnel working in traditional sustainability roles.

SUSTAINABLE PURCHASING LEADERSHIP COUNCIL

To support our goal of becoming a U.S. leader in sustainable procurement, we play an active role in the U.S. Sustainable Purchasing Leadership Council (SPLC) whose members include suppliers, government agencies, standards bodies and Non-Government Organizations (NGOs). The Council seeks to drive social, environmental and economic progress by focusing on:

- Guiding, measuring and recognizing leadership in sustainable purchasing;
- Establishing a procurement rating system that mirrors Leadership in Energy and Environmental Design (LEED) ratings for properties; and



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- Harmonizing common training, guidance, definitions and measurements for sustainable purchasing.

The SPLC platform is one of only a few forums world-wide focused entirely on supply chain sustainability, where members bring to the table common problems and work collectively to devise solutions with global applicability.

As a member of the Founders Circle, we provide financial and technical support for the Council, and advise on its pilot rating system.

SUPPLIER COMMUNICATIONS

Keeping suppliers informed of risks to our business and pipeline is critical to our ability to deliver for customers. In 2014, we issued correspondence on counterfeit parts to approximately 14,000 hardware suppliers, reminding them to use trusted, manufacturer-authorized supply chains. We also held a counterfeit parts prevention webinar, which included practical guidance on counterfeit part avoidance, mitigation, disposition, communication and reporting.

All suppliers receive an annual Ethics letter, pointing them to our Supplier Code of Conduct and “Ethics Resources for Suppliers” web page.

PERFORMANCE

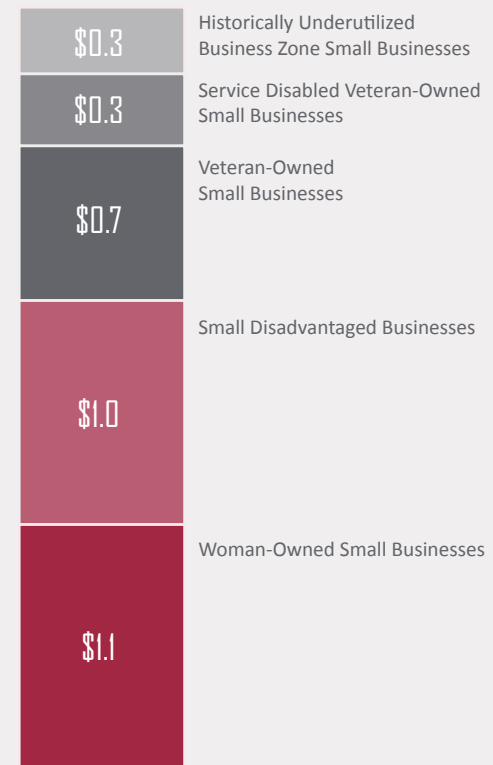
SUPPLY CHAIN PROFILE

In 2014, Lockheed Martin had direct orders with over 16,000 active suppliers from 50 countries—30 percent fewer suppliers and 18 percent fewer countries than the previous year. This reduction was driven by closing inactive purchase orders and by many suppliers opting out of our two-factor authentication cyber security requirements. Of these 16,000 suppliers:

- More than 94 percent are based in the United States.
- Nearly 5 percent are based in key expansion locations outside the United States—the United Kingdom, Canada, Australia, Israel, Japan, Saudi Arabia and the United Arab Emirates.
- More than 3 percent are located in the European Union, including the United Kingdom.
- Nearly 41 percent are manufacturers, 25 percent provide services and 13 percent are distributors.
- Sixty-three percent are small businesses: the number of active small business suppliers increased by 10 percent from 2013 to 2014.

WE SPENT \$4.9 BILLION WITH SMALL ENTERPRISES¹

This included contracts with firms in these socioeconomic categories:



¹Enterprises can span multiple categories



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- More than 20.5 percent are based within 30 miles of a major Lockheed Martin facility.
- Based on the U.S. government's fiscal year, Lockheed Martin's total spending for small businesses was \$4.9 billion or 20 percent of total spend on all suppliers.

SMALL BUSINESS SUPPLIER OUTCOMES

In 2014, we attended 111 national and local outreach events targeting potential suppliers across the United States, and offered 25 free [Supplier Wire](#) webinars and chat sessions.

Supporting Native American Business

We also support programs and initiatives intended to improve the representation of American Indian, Native Alaskan and Native Hawaiian-owned and -operated businesses in the aerospace and defense industry.

Lockheed Martin is a member of the Advisory Boards for the National Center for American Indian Enterprise Development and provides in-kind support to the American Indian Procurement Technical Assistance Center. We also support the Department of Defense's (DoD) Indian Incentive Program, which provides incentives to prime contractors that use federally recognized Indian, Native Alaskan or Native Hawaiian enterprises when they subcontract work under DoD contracts. In November 2014, we presented 179 awards to our buyers in recognition of their support for the program.

Overall, we have nearly 300 active Native American companies in our business base today, with over \$193 million spent in 2014.

ACTION ON CONFLICT MINERALS

Our work continues to trace potential sources of conflict minerals across our supply chain, in line with our commitments to global citizenship and supplier sustainability. In accordance with U.S. Securities and Exchange Commission (SEC) regulations, in June 2014 we submitted a Conflict Minerals Report and a Specialized Disclosure Report for the 2013 reporting year. More than 90 percent of our direct material supplier spend was represented in our Conflict Minerals Report filing survey process. Our policy statement and SEC disclosure is published on our [Conflict Minerals webpage](#).

Additional activities in 2014 included:

- Surveying more than 1,000 suppliers and performing due diligence on those that use smelters and mines from the affected part of the Democratic Republic of the Congo and surrounding areas;
- Introducing a web-based survey tool to expedite supplier input and our management of the large number of survey responses;
- Analyzing several targeted components from our Mission Systems and Training and Missiles and Fire Control business segments to determine raw material content and supply chain sources; and
- Collaborating on industry progress through the Electronic Industry Citizenship Coalition (EICC) Conflict Free Smelter Initiative, and Aerospace Industries Association working group.

PROTECTING AGAINST COUNTERFEIT PARTS

We take the threat of counterfeit parts in our supply chain very seriously and are working hard to eliminate this threat to the integrity of our business.

Lockheed Martin business units and programs are responsible for detecting, mitigating and resolving incidences of confirmed counterfeit electronics. The techniques used to prevent and respond to this illegal activity vary by business unit in line with the products or services involved and customer needs.

In addition, an enterprise-wide team fosters communication and collaboration in our responses to counterfeits. We implement effective and active measures to prevent, detect and mitigate the entry of counterfeit parts into the Lockheed Martin supply chain in order to provide our customers with the products of the highest possible quality, consistent with our contractual obligations.

Lockheed Martin continues to take actions towards eliminating counterfeit parts in our supply chain through:

- **Policies:** Through our contract terms, we require our suppliers to take responsibility for preventing, detecting and mitigating the risk of counterfeit parts in products delivered to Lockheed Martin.
- **Training:** We provided roughly 14,000 suppliers with counterfeit parts awareness training materials and updated our employee training module.



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- **Engagement:** We collaborated on industry-wide efforts through our membership in the Aerospace Industries Association Quality Assurance Committee, the American Bar Association Public Contracts Law Section Task Force on Counterfeit Parts, the National Defense Industrial Association, and the Council of Defense and Space Industry Associations.
- **Monitoring:** We tracked 23 suppliers within our procurement database that have had industry Government-Industry Data Exchange Program (GIDEP) alerts related to counterfeit parts.

MANAGING CHEMICAL USE

The European Union's (EU) Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation aims to improve protection of human health and the environment from the risks posed by chemicals. One way this is achieved is through substitution of "substances of very high concern" with less hazardous alternatives. However, some chemicals used in the aerospace and defense industry do not have suitable alternatives, and some military specifications effectively require the use of some chemicals regulated under REACH.

Despite this challenge, Lockheed Martin strives to reduce the use of potentially harmful chemicals wherever possible throughout our company and within our supply chain. Actions in 2014 included:

- Conducted REACH process assessments at our three major U.K. locations to ensure compliance with REACH and related internal procedures, and to mitigate risk associated with chemical obsolescence and supplier non-compliance;
- Released a REACH self-audit checklist, which is based on the most stringent EU Member State enforcement agency guidelines, and created checklists to accompany mandatory requirements called out in our REACH functional procedure;
- Assessed new Lockheed Martin acquisitions of EU-located firms for REACH compliance and provided them with tools and resources;
- Supported AIA advocacy efforts for REACH chemicals critical to our industry, such as boric acid and lead oxide, and served as vice-chair of the AIA Chemicals Subcommittee for the fifth consecutive year;
- Continued to hold monthly REACH meetings for representatives of our business segments and interested employees; and
- Collaborated with peer companies through the International Aerospace Environmental Group to identify industry-wide solutions related to chemical regulatory mandates. Read more in the [Product Performance Chapter](#).

PRACTICING THE SCIENCE OF CITIZENSHIP

John Seto, Lead, Strategy and Analytics, Lockheed Martin Global Supply Chain Operations



Our supplier partnerships are essential to addressing our sustainability challenges with approximately 16,000 active suppliers and a large amount of our product costs originating from our supply chain. Last year, we conducted "Supplier Wire" sessions to inform our small business community of key areas impacting sustainability and provide them an opportunity for dialogue on these subjects.

We also held our first Supplier Sustainability Summit in November 2014 to collect feedback on the Corporation's Sustainable Supply Chain Management program. The summit was attended by a group of 13 suppliers representing our diverse supply base. I was interested in hearing how the issues of counterfeit parts were being addressed with our suppliers and to see if there were any best practices on awareness and mitigation that could be shared. I was impressed with the free flowing exchange of views and collaboration related to counterfeit parts, as well as the addressing of our core issues of conflict minerals and supplier standards.

Our Supplier Code of Conduct, which mirrors the standards and core values we set for ourselves at Lockheed Martin, expresses the expectations we hold for our suppliers. The Code allows us to jointly focus on ethical expectations pertinent to our relationship and is one way of promoting global citizenship and doing what's right.



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ANTI-CORRUPTION PROCESS FOR INTERNATIONAL SUPPLIERS

We hold our suppliers to the same stringent anti-corruption standards applicable to our employees. Our suppliers are required by the terms of our contracts with them to comply with applicable laws, including anti-corruption laws and regulations.

All international suppliers must answer a series of anti-corruption questions in order to disclose information about their integrity. Lockheed Martin uses this information to determine whether to conduct business with them. We expanded this program in 2014, implementing a paper form for those suppliers not registered through our online systems.

See more in the [Governance Chapter](#).

ACQUISITION REGULATION AND CONTRACT COMPLIANCE

As a major contractor to many U.S. government agencies, Lockheed Martin is required to comply with a wide range of regulations, many of which must be flowed down to our suppliers. We maintain controls to ensure that applicable flowdown requirements are identified and shared with the affected suppliers. We also actively monitor regulatory changes to ensure that procurement procedures and flowdown provisions are updated on a timely basis. Our supplier registry system requires suppliers to provide information about their eligibility for the award of subcontracts, small business status and present responsibilities.

For emerging and complex new requirements, we do more than simply include flowdown provisions in our terms and conditions. For example, when the Department of Defense (DoD) issued a rule on protecting unclassified controlled technical information, we not only modified our flowdowns, we communicated information about the requirement to our supplier community and provided a website with training and other materials. When the DoD issued a rule addressing detection and avoidance of counterfeit parts, we not only updated our flowdown terms and conditions, but also reviewed our policy and procedure documents, identified required changes, and modified training and other materials including those provided to our supplier community.

We take a similar approach to addressing customer flowdown in our operations outside the United States and with respect to contracts with international suppliers.

RECOGNITION

NASA'S JET PROPULSION LABORATORY LARGE PRIME CONTRACTOR OF THE YEAR

NASA's Jet Propulsion Laboratory named Lockheed Martin "Large Prime Contractor of the Year" in 2014 through its Small Business Industry Awards Program. The award recognizes companies that pursue sound small business programs, meet or exceed small business requirements, use small business contractors to perform technical work and participate in outreach activities.

DEFENSE CONTRACT MANAGEMENT AGENCY OUTSTANDING RATING

For the fourth year in a row, our support of small and diverse suppliers earned us an "outstanding" rating from the Defense Contract Management Agency (DCMA). The rating is the highest possible and is a result of the DoD Comprehensive Subcontracting Plan Test Program, which determines whether negotiations, measurements and reporting on small business performance results increased subcontracting opportunities.

BEST SUPPLIER ENGAGEMENT FINALIST

Lockheed Martin was the only Aerospace & Defense industry finalist and one of six total finalists for Ethical Corporation's Responsible Business Awards in the Best Supplier Engagement category. The company was recognized for achieving significant milestones in its Sustainable Supply Chain Management program.





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OUTLOOK

SMALL BUSINESS INNOVATION RESEARCH PROGRAM FOR TECHNOLOGY TRANSITION

We are always looking for [new ways to support our small business suppliers](#), including support of their research and development capabilities. Our new quick-turn-around fabrication prototype labs in Baltimore, which support military and commercial programs and products, for example, provide opportunities for our Small Business Innovation Research program awardees. Given the importance of commercialization and technology transition plans in launching products, the support of Lockheed Martin labs and our expert engineers can help these promising small businesses play a role in projects that increase their chances of securing additional funding.

Across the country, Lockheed Martin's Silicon Valley Alliance initiative, based out of our Space Systems Company campus in Sunnyvale, California, fosters strategic relationships with leading tech companies (both big and small) to leverage innovation and technology development synergies. We invite small businesses to help design and produce next-generation systems for our government customers. Connecting Silicon Valley innovation with our expertise in space exploration, satellite communications, defense, global positioning, air traffic control, weather satellites and more, may provide significant new possibilities for groundbreaking solutions.

MULTI-TIER SUPPLY CHAIN RISK MONITORING

In early 2015, we will begin a full scale test of a multi-tier supply chain risk monitoring process. Our Mission Systems and Training business segment will explore using our own Lockheed Martin Wisdom® data analytics product with support from external experts. Results will help us determine the most effective and affordable way to monitor our procurement network beyond our direct suppliers.

SUSTAINABILITY MENTORING

Each year, through the federally managed Mentor-Protégé program, we help train small business suppliers. We help them compete with large companies through individual, project-based agreements. In 2015, we will begin including sustainability criteria into their needs assessment. We plan to provide sustainability training to help them meet their environmental, social and governance goals.



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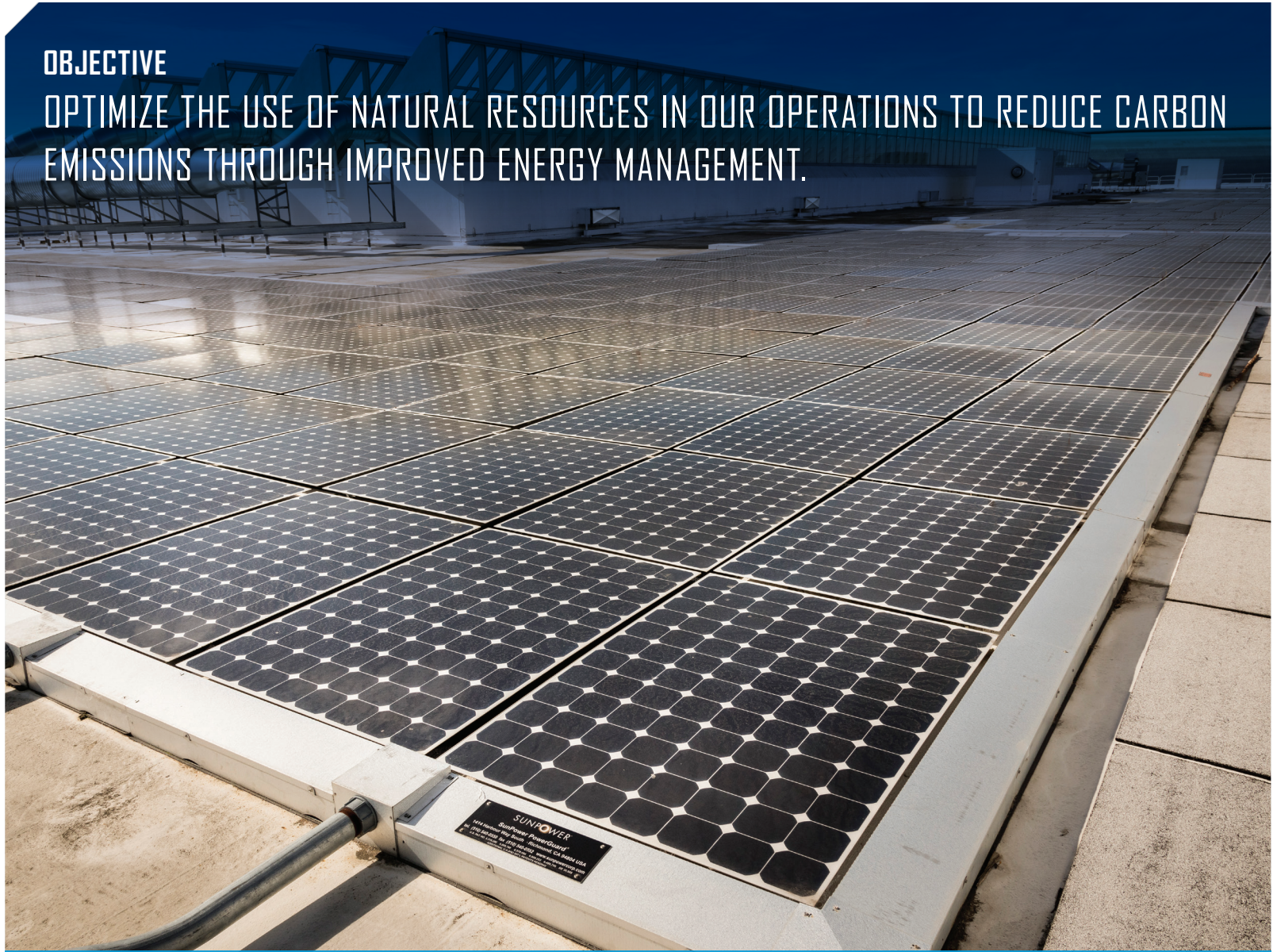
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OBJECTIVE

OPTIMIZE THE USE OF NATURAL RESOURCES IN OUR OPERATIONS TO REDUCE CARBON EMISSIONS THROUGH IMPROVED ENERGY MANAGEMENT.



About Photo: We reduce our environmental footprint through operational innovations. Our campus in Sunnyvale, California, utilizes approximately 3,000 solar roof tiles, shown here. The solar array generates approximately one megawatt (MW) of electricity annually. The site also hosts a one MW solid oxide fuel cell powered by natural gas.

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OVERVIEW

Applying *The Science of Citizenship* includes optimizing our own operations. We pursue efficiencies and innovation to conserve natural resources and reduce our environmental impact. To propel our efforts, we set targets for our United States and United Kingdom facilities covering environmental impacts ranging from energy and water use to waste generation and greenhouse gas (GHG) emissions, and use our sites as testbeds for energy-related technologies developed in-house. These actions promote sustainable innovation while reducing business costs and risks. A comprehensive analytical framework using a combination of life cycle assessment techniques has helped us more fully understand and prioritize environmental issues in our supply chain, facilities and products. The findings of this analysis affirmed that the most significant issues for our business operations are associated with energy use and its climate change impacts. See [Product Performance](#) for more information about our efforts to design resource efficiencies into products and services.



RESOURCE EFFICIENCY IMPACTS ON SUSTAINABLE BUSINESS PRACTICES

Energy Use:

We are committed to optimizing energy use in our operations through efficiency programs and developing a renewable energy strategy for the Corporation.

GHG Emissions:

We aim to reduce emissions of GHGs from our operations. GHGs are believed to trap heat in the atmosphere.

MACROCHALLENGES

While we have made progress implementing energy efficiency projects, which have shown significant cost reductions to the business, the return on investment is weaker for some resource projects such as water use reductions and renewable energy. We are working to develop the value proposition for expanding our efforts in these areas by considering the broader environmental, business and societal benefits beyond direct cost avoidance. Additionally, approximately two-thirds of our 74.6 million square feet of operations are either leased or government-owned facilities for which the facility owner's agreement may be required to make any building alterations.

STAKEHOLDER INSIGHTS

We are a global company, but our stakeholders include local neighbors. Our approach to environmental stewardship therefore attends to local aspects and regional differences, while considering universal impacts, such as greenhouse gas (GHG) emissions.



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SUSTAINABILITY MANAGEMENT PLAN PROGRESS

PERFORMANCE INDICATORS

2014 RESULTS

1. Achieve 25 percent reductions in energy and water use and 35 percent reductions in carbon and waste to landfill by 2020.

1. **Reductions on track**—Carbon emissions, 20 percent; energy use, 15 percent; waste to landfill, 47 percent; water use, 21 percent.

2. Meet 100 percent of carbon usage effectiveness (CUE) and power usage effectiveness (PUE) targets for electricity consumption/IT load at enterprise-managed data center consolidation locations.

2. **100 percent**—PUE 1.79; CUE 1.65. One hundred percent of the four enterprise-managed data center consolidation locations are meeting their CUE target of 1.65 or less and PUE targets of 1.8 or less.

3. Track energy usage indexed to revenue.

3. **0.000025 CO₂e/dollar of revenue**—MTCO₂e/\$45.6 billion = 0.000025

4. Identify and establish green information technology efficiency targets.

4. **Partially complete**—We have determined to expand PUE targets to additional large data centers, which will require additional metering.

5. Identify and establish water reuse targets for Lockheed Martin operations in water-stressed regions.

5. **Partially complete**—In 2014, water balance and efficiency studies were completed for our highest-ranking water-stressed sites. We updated a metrics collection form to obtain more detailed water data beginning with 2015 performance. The team will be using this data to assess appropriate water targets in 2015.

6. Identify and establish green footprint or green building targets for Lockheed Martin operations.

6. **More than 1.3 million square feet**—2013 green footprint: 1.3 million square feet; 2014 green footprint: 1.6 million square feet. Goal is to have year-over-year increase in total green footprint.

7. Identify and establish total waste reduction and recycling targets.

7. **Reduce waste by seven percent; increase recycling rate by eight percent**—Target set with a 2014 baseline and 2020 target year.

8. Develop business case for on-site renewable energy generation within Lockheed Martin operations by business segment.

8. **Completed business cases**—Each business segment completed a renewable energy business case; three of these projects were approved for capital funding for completion in 2015.

CHALLENGES

While we have made progress implementing energy efficiency projects, which have shown cost savings to the business, the return on investment is not as strong for some resource projects such as water-use reductions and renewable energy. We are working to develop the value proposition for expanding our efforts in these areas by considering the broader environmental, business and societal benefits beyond financial payback.

As we continue to identify and establish green IT efficiency targets, we are focusing on our data centers and IT footprint. An assessment of the top 12 data centers was completed in 2014. As a result, we are working to integrate the appropriate metering in order to properly and accurately report on our carbon usage effectiveness (CUE) and power usage effectiveness (PUE) which will help us set and pursue green IT efficiency targets.

2014 HIGHLIGHTS

During 2014, our facilities implemented more than **30 energy-efficiency projects** such as HVAC improvements, retro-commissioning activities and peak load reduction programs. These initiatives led to \$3 million of cost avoidance and 15,000 MTCO₂e of GHG emission reductions.

We operated **23 Leadership in Energy and Environmental Design (LEED)-certified facilities.**

GDP ranked us in the top 10 percent of companies on its 2014 S&P 500 Climate Disclosure Leadership Index and its S&P 500 Climate Performance Leadership Index.



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MANAGEMENT

Our Resource Efficiency efforts in direct operations are built around voluntary measures to minimize our environmental footprint, including reducing our carbon emissions, energy use, water use and waste. Resource Efficiency at Lockheed Martin is overseen by both the Environment, Safety and Health Leadership Council and Facilities Leadership Team, chaired by the vice president of Corporate Energy, Environment, Safety and Health, who reports to our chief information officer; and the vice president of LMC Properties Inc. The teams are accountable for developing voluntary reduction strategy and goals known as Go Green 2020, the process by which we track and assess the success of our operational-efficiency efforts.

Corporate Policies That Direct Employee Actions and Management of Resource Efficiency Include:



- Energy
- Environment, Safety and Health
- Green Buildings
- Sustainability

Covering more than Resource Efficiency, our integrated Environment, Safety and Health (ESH) management system defines our strategies and programs to manage the environmental, safety and health aspects of our global operations. Our ESH Management System is defined by corporate-level policies and procedures, which provide enterprise direction based on the level of potential risk from regulatory non-compliance and reputational loss and opportunities for business growth through operational and product stewardship.

We periodically review our Go Green 2020 goals for reducing carbon emissions, energy and water use and waste. To drive continual improvement, leaders and stakeholders review our ESH management system performance throughout the year in the frequency shown in the diagram.

ENVIRONMENTAL MANAGEMENT SYSTEM STAKEHOLDER REVIEWS



Our ESH Management System covers all of our global operations, including the design, implementation and oversight of the common in-country ESH management systems needed to support efficient and consistent execution across the enterprise. Globally, [25 Lockheed Martin sites are certified to external standards](#), including the ISO 14001 international standard for environmental management systems. Priority non-U.S. facilities for support include operations in the United Kingdom, Canada, Australia and New Zealand. In 2014, our U.K. operations that operate to our ESH Management System were subject to third-party certification audits confirming compliance to the OHSAS 18001 and ISO 14001 standards.



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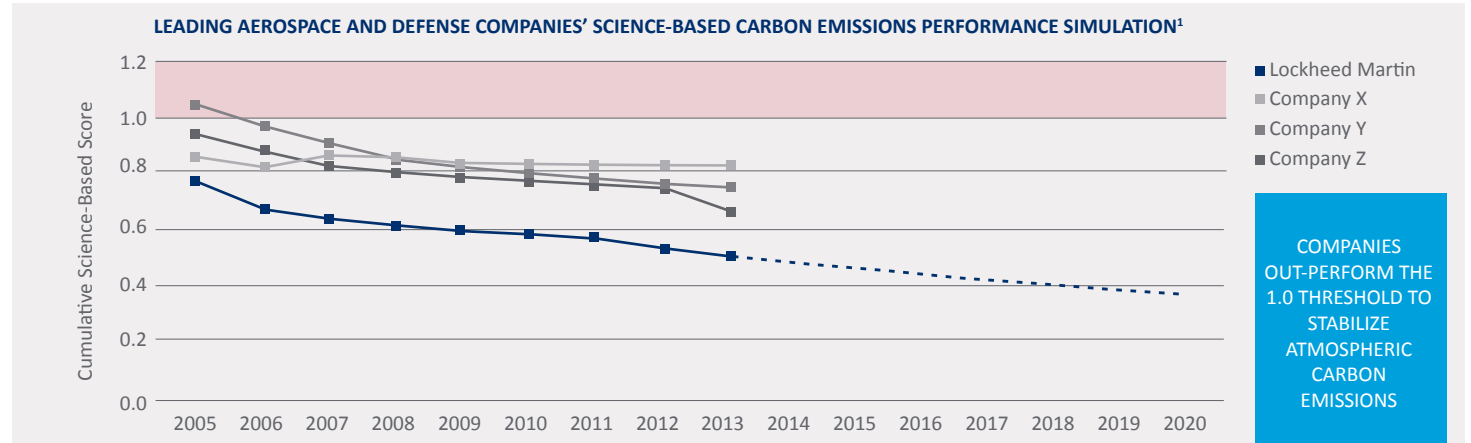
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Carbon Goal Setting Frameworks

When establishing our reduction targets, we consider past performance, the goals of our primary customers, projected business growth and the material issues of our key stakeholders. We also monitor frameworks such as [science-based goal setting approaches](#) that are under development. Our current outcomes demonstrate that our voluntary targets and performance to date result in emitting less than our estimated allocation of carbon emissions in the model shown. As we continue to explore all aspects of goal setting, our overarching objective remains delivering smart business practices that provide positive benefits for our business and broader society.



Using the Center for Sustainable Organizations' Context-Based Carbon Metric methodology, this chart shows the past and estimated future performance of four large aerospace and defense companies. Results reveal that these companies are already performing sustainably by producing less carbon emissions than they would be allocated based on their contribution to gross domestic product. In addition, Lockheed Martin's future scores continue to outperform the science-based recommended target. Methodology source: [Center for Sustainable Organizations' Context-Based Carbon Metric](#)

¹The 1.0 threshold results from the ratio of the actual/projected emissions to allocated emissions, based on a company's current reduction targets and their contribution to GDP. Note that the dotted lines after 2013 denote projections.

Peer Assessments

In 2014, we completed 11 internal peer assessments of selected environmental, safety and health programs at Lockheed Martin sites. Internal experts assessed conformance to ESH standards, opportunities for program improvements and best practices for enterprise-wide sharing. This approach grows our skills base and spreads diverse ideas by allowing compliance experts from different business segments to visit operations other than their home sites. During the year, we expanded the program to include targeted assessments of hazardous materials transportation and commercial motor vehicle operations. We used trend and incident data to choose sites where these assessments would be most useful.

As a result, we identified both opportunities to strengthen our ESH management programs, and over 30 scalable best practices. For example, our Santa

Barbara, California, site has installed velocity sensors to provide an additional level of safety for hood vents. A hood vent is a local ventilation device designed to prevent or limit exposure of an employee to hazardous or toxic fumes. The velocity sensor detects if a failure causes the air velocity at the face of the hood to drop below safe limits. If an unsafe condition were to occur, an audible and visible alarm would notify the operator.

The Water/Energy Nexus

Smart water management at our facilities supports smart energy management, since a significant portion of our energy use stems from heating, cooling and circulating water in operations. There is a strong water/energy nexus in relation to the generation of energy, which uses significant amounts of water, and water distribution, which requires significant amounts of energy.



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We conducted an analysis of water use reduction associated with our energy reduction activities to further understand the water/energy nexus in relation to our Go Green program. The water savings realized by all affected stakeholders associated with our energy reduction activities (5.8 billion gallons from 2010 to 2013) was substantially greater than the water savings from our on-site facility water reduction projects (0.4 billion gallons from 2010–2013).

STAKEHOLDER ENGAGEMENT

Employee Solar Program

Through a partnership with SunPower, we are working to provide our U.S. employees with a financial incentive to install solar panels on their homes. The program also provides education and free home assessments. Since starting the partnership in 2009, 264 Lockheed Martin employees have installed a total of 1,298 kilowatts of solar power, including 104 kilowatts in 2014.



Native Plants Save Water: Employees replaced water-hungry lawns at our plant in Manassas, Virginia, with 3,500 plants native to the state, and built a 1.3 mile-walking path with interpretive guidebook to educate visitors.

E-waste Recycling

We encourage employees to recycle at work and at home, and we held electronic waste (e-waste) recycling events at 16 sites across the United States in 2014. These events enabled employees to dispose of more than 75,000 pounds of used e-waste in an environmentally friendly manner, while learning about the benefits of waste recycling and natural resource protection. Responsible e-waste recycling reduces business risks, confidential data losses, raw materials availability to counterfeiters and adverse impacts on human health and the environment.

Since 2012, we have improved our internal e-waste processes and education of employees about the benefits of responsible recycling, including spreading this message through our science, technology, engineering and math (STEM)

education volunteer programs. In our supply chain, we partnered our with e-waste recycling vendors to ensure that used electronics at our U.S. facilities are responsibly managed, and we made e-Stewards certification—an independent third-party verification—a contract requirement for all our U.S. e-waste vendors. All U.S. Lockheed Martin e-waste recycling vendors are required to hold the e-Stewards certification.

75,000 POUNDS OF ELECTRONIC WASTE RECYCLED

At 16 Lockheed Martin sites, employees disposed of business and personal e-waste in an environmentally responsible manner, while learning about natural resource protection.

Supporting NASCAR Green in Partnership with ACORE

In February 2014, Lockheed Martin and the American Council On Renewable Energy (ACORE) signed a sponsorship agreement allowing ACORE to become an official partner with NASCAR Green, the sustainability arm of the National Association for Stock Car Auto Racing, Inc. Lockheed Martin and ACORE will jointly engage an audience of millions of NASCAR fans about the benefits of renewable energy, sustainability and energy security. The sponsorship aims to promote careers in the renewable energy community by highlighting the life-long value of studying STEM subjects in order to build a strong, secure, economically viable and sustainable future.

PERFORMANCE

Our commitment to sustainable resource use, and to applying *The Science of Citizenship* to our own operations, is underpinned by our Go Green goals.

Go Green Goals Progress

We remain committed to further reduce carbon emissions, energy consumption, waste generation and water use by 2020. Our current absolute reduction goals, initially launched in 2012, were revised in our 2013 Sustainability Report. We established the current goals after meeting or exceeding 25 percent absolute reductions in carbon emissions, water use and waste-to-landfill, set in 2008.



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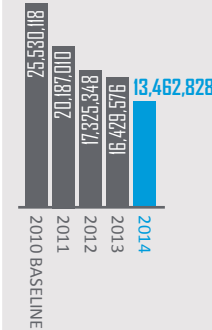
SINCE 2010, WE HAVE REDUCED CARBON EMISSIONS
ENOUGH TO TAKE MORE THAN

45,000 CARS

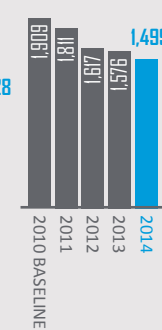
OFF THE ROAD...SAVED ENOUGH WATER TO FILL THE
LINCOLN MEMORIAL REFLECTING POOL IN
WASHINGTON, D.C. MORE THAN 100 TIMES...
REDUCED WASTE ENOUGH TO FILL MORE THAN 250
C-130J SUPER HERCULES AIRCRAFT TO CAPACITY!

GO GREEN 2020¹

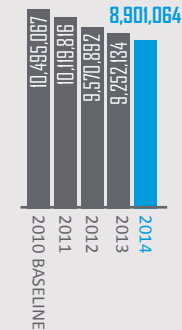
Waste-to-Landfill
Pounds



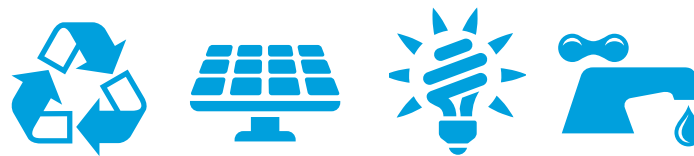
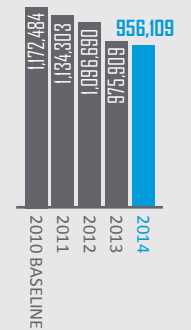
Water Usage
Million Gallons



Energy Consumption
MMBTU



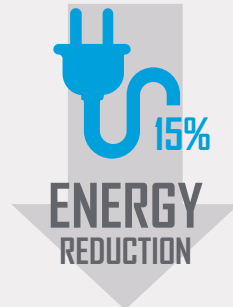
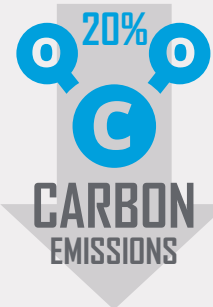
Carbon Emissions
MT CO₂e



2020 GO GREEN GOALS:

- Reduce carbon emissions by 35 percent, from 2010 to 2020
- Reduce facility energy use by 25 percent, from 2010 to 2020
- Reduce water use by 25 percent, from 2010 to 2020
- Reduce waste-to-landfill by 35 percent, from 2010 to 2020

GO GREEN PERFORMANCE AND COST AVOIDANCE



ANNUAL ENERGY & WATER COST
**AVOIDANCE OF
\$27 MILLION**
COMPARED TO 2010

Our energy, carbon, waste and water inventories from 2010 to 2014 were verified by an independent, third-party and reported in a [verification statement](#).



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Energy Performance

Using less energy and leveraging Lockheed Martin-developed technologies to improve our own operations are the driving factors behind our approach to resource efficiency. We reduced energy used by our facilities by 15 percent from 2010 to 2014. During 2014, our facilities implemented more than 30 energy-efficiency projects such as heating, ventilation and air conditioning (HVAC) improvements, retro-commissioning activities, lighting upgrades and peak load reduction programs. These initiatives will result in approximately \$3 million of cost avoidance and 15,000 MTCO₂e of greenhouse gas (GHG) emission reductions annually.

The majority of these savings resulted from projects that we completed related to HVAC system upgrades, compressed air projects and efficiency improvements. We completed more than 15 HVAC projects in 2014, which resulted in approximately \$1.7 million in cost avoidance and 13,000 MTCO₂e of GHG emissions reductions annually. The HVAC-related energy efficiency projects reduce GHGs directly emitted by us and caused by our energy consumption (Scope 1 and 2), and are voluntary projects that we completed to maintain the integrity of facility equipment while also reducing electricity usage.

To educate our employees on best practices, we conducted HVAC retro-commissioning workshops at our facility in Marietta, Georgia, and held on-site training and webinars for relevant managers on building energy standards.

Our data centers consume approximately 2 percent of our power usage. To explore ways to reduce their energy footprint, we conducted an analysis of 12 U.S. data centers in 2014 to determine actual energy load. During 2015, we will track power usage effectiveness at the top five locations for energy use.

In the United Kingdom, we have developed a comprehensive energy management approach across our facilities. In designing this approach, we analyzed the available energy sources in the market, internal opportunities to increase efficiency, current and target levels of carbon emissions, and relevant partnerships that could help us to achieve our goals.

Renewable and Low-Carbon Energy

Renewable energy offers opportunities to reduce our carbon footprint and support the development of emerging technologies. Our present approach is to implement renewable energy projects on a site-by-site basis, where economically feasible. Currently, Lockheed Martin uses on-site solar array, wind turbine and biomass boiler [renewable technologies](#).

In Owego, New York, we have two 600 horsepower biomass boilers that provide steam for heating and cooling. Waterton, Colorado, is home to a 500 kW ground mount solar array installed in 2013. Our smaller scale projects include a solar array and wind turbine installed in Colorado Springs, Colorado, as well as a solar array installed in Moorestown, New Jersey, in 2009. Lastly, our Orlando, Florida, site is home to a solar LED street light system completed in 2009, one of the largest in the state. Our on-site renewable energy generation is currently less than 1 percent of our total electricity purchased, and we plan to increase this footprint.



In Owego, New York, local woodchips are stored prior to transfer to the two biomass boilers. By adding a renewable fuel source, the site has saved approximately \$1 million annually.



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Green Power	2014	2013	2012	2011	2010
Green Power and Renewable Energy Credits (RECs) Purchased (MT CO ₂ e)	201,992	207,943	252,573	273,065	172,202
Percent of Total Electricity Used	25%	24%	26%	27%	16%



In Orlando, Florida, our street lights are one of the largest solar LED lighting systems in the state.

Energy Efficient Facilities

We apply our own products to help us optimize energy management, and thereby reduce costs and emissions. Internally developed software, known as SEEview, provides near-real-time situational analysis of utility use, manages building control system data, integrates key operational and business systems and allows operators to optimize energy use. We are integrating this software with smart meters to obtain real time, actionable data. The 60 Lockheed Martin U.S. facilities using SEEview software now represent 97 percent of our total natural gas use, 95 percent of electricity use, and 97 percent of the Corporation's Scope 1 and 2 GHG emissions.

Lockheed Martin also has a Green Building policy that establishes requirements for implementing green building practices in the design, construction and operations of all our facilities. In 2014, we received LEED Silver certification for our Advanced Materials and Thermal Sciences Center in Palo Alto, California. Our Gaithersburg, Maryland, facility received another LEED certification in August. We also received our first green building certifications for facilities located outside the United States, including our

Dartmouth, Canada, LEED Silver facility and our new Lockheed Martin Commercial Flight Training facility in Sassenheim, Netherlands, which received Building Research Establishment Environmental Assessment Method (BREEAM) certification, the European equivalent of LEED. In 2014, we operated 25 green buildings including 23 LEED, one BREEAM and one Energy Star-certified facility, totaling more than 1.6 million square feet. By these measures, green building space accounts for about 2 percent of our facility footprint. For a listing of Lockheed Martin sites with green building certifications, visit the [Blueprint for Tomorrow](#).

Water Reduction Performance

We reduced our facility water usage by 21 percent from 2010 to 2014. We are increasing our focus on water use reduction opportunities in water-stressed regions of the western United States. Projects that we have introduced or are planning include:

- Smart irrigation metering for our facility grounds in Sunnyvale, California, which is generating approximately 4 million gallons a year in water savings.
- At Palmdale, California, a cooling tower centralization project will be started in 2015 and will generate savings of 3 to 4 million gallons of water.
- A separate steam decentralization project at Palmdale, California, planned for 2016–2018, will save an additional estimated 10 million gallons of water.

More energy-efficiency and water projects details in our [Climate Change CDP report](#) and our [Water CDP report](#).

Waste Reduction Performance

We take a comprehensive approach to waste reduction that includes waste-to-energy projects, recycling and reclamation programs and source reduction, which has resulted in a 47 percent reduction of waste going to landfills from 2010 to 2014. For examples on hazardous waste reduction projects that have resulted in reduced waste and air emissions, refer to the Product Performance section.

Gold Recycling

Reclaiming certain materials, such as gold, delivers both environmental and financial benefits. For example, our Fort Worth, Texas, facility has set up a gold collection and reclamation project. In 2014, 16 55-gallon drums (2,800 pounds) of waste was collected for precious metal reclamation, yielding 100 troy ounces of gold worth \$118,000. The innovative program may serve as a role model for other facilities that are exploring setting up their own precious metal collection and reclamation programs.

Sustainable Packaging Reduces Waste

We invest in innovative sustainable packaging pilot programs that solve a waste or inefficiency problem, while yielding triple bottom line results—reduced costs, improved safety and a smaller environmental footprint. We also use lean principles and out-of-the-box thinking to understand how a product and its component parts are manufactured and flow in production, thus generating innovative new packaging design ideas.

For example, we reduced waste associated with the wooden containers used to transport F-35 fighter jet Wing Access Panels, using innovative hardware design.



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11 SITES BENEFIT FROM ENERGY DEMAND RESPONSE PROGRAMS

Demand response programs offer incentives to businesses that reduce the energy use of their facilities during times of peak demand. Eleven sites are enrolled in Lockheed Martin's program, resulting in \$245,000 in cost avoidance during 2014.

"We used enhanced electronic capabilities, such as 3D printers, to think more strategically and creatively about retooling and repackaging," said Dave Wickwire, director, Production Operations, Corporate Engineering. "We then were able to redesign a shipping container to do more, such as act as a fixture or staging container, all while reducing inefficiencies in labor, risk of product damage and costs of waste."

As a result, the team reduced overall shipping and handling costs by 40 to 60 percent, or about \$500 per wing box.

Compliance Record

In 2014, we recorded one significant environmental, safety or health incident of non-compliance (INC) and zero significant spills.

ESH Significant Incidents of Non-Compliance (INC) ⁽¹⁾	2014	2013	2012	2011	2010
Frequency	1	—	1	1	1
Value of Associated Fine(s) Paid	\$6,800	\$0	\$60,000	\$182,895	\$9,000

(1) We consider an INC or spill significant if it meets one or more of the following criteria: results in a criminal conviction; triggers a civil or administrative proceeding that results in obligations costing Lockheed Martin \$5,000 or more; or results in a proceeding or expenditures material to our business or financial condition. These definitions draw on the reporting requirements of the U.S. Federal Awardee Performance and Integrity Information System, and the disclosure requirements of the U.S. Securities and Exchange Commission.

RECOGNITION

CDP LEADERSHIP



CDP (formerly the Carbon Disclosure Project) ranked Lockheed Martin in the top 10 percent of companies on both its 2014 S&P 500 Climate Disclosure Leadership Index and its S&P 500 Climate Performance Leadership Index. This marks the fourth consecutive year that our exceptional performance has received an "A" rating—the longest period of any company in the aerospace and defense sector. We also received our highest disclosure score to date, 98 out of a possible 100 points.

CDP	2014	2013	2012	2011	2010
Performance	A	A	A	A	B
Disclosure	98	91	93	90	76

U.S. EPA Green Power Partnership



Lockheed Martin is ranked 23rd on the U.S. Environmental Protection Agency's (EPA) National Top 100 list of green power purchasers as of January 2015. This ranking takes into account both green power purchases and on-site renewable energy generation.

The Corporation purchases more than 200,000 MWh of green energy, approximately 13 percent of its total annual energy usage, in the form of renewable energy credits (RECs), which represent energy generated by renewable energy sources such as biomass, solar and wind facilities.

Newsweek Green Ranking

Lockheed Martin was ranked 45th among U.S. corporations in *Newsweek's* 2014 list of Greenest Companies and 72nd in the world, ranking third among firms in the capital goods industry category. Our ranking climbed from 67th and 138th in the United States and world, respectively, due to improvements on energy, carbon, water and waste efficiency and in our sustainability governance structure.



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PRACTICING THE SCIENCE OF CITIZENSHIP

Tracie R. Nash, Lead, Enterprise Go Green and Dining Services
Lockheed Martin Space Systems



I want to do my part to reduce our environmental impact. We foster a culture at Space Systems Company where we encourage all employees to help us drive to a more sustainable model. In order to succeed with our goals, we must all make a personal commitment to generate less waste, use less energy and conserve more water.

As the enterprise Go Green lead for Lockheed Martin Space Systems, I am responsible for partnering with Industries, Lines of Business, Functional Areas, Customers, Employees, Community and Corporate Energy, Environment, Safety and Health (CEESH) to drive to a more sustainable model. I also integrate the Go Green Program across Space Systems and ensure the team is “on track” with corporate and company objectives and goals. Everyone can play a major role in energy efficiency and reducing greenhouse gas emissions by minimizing the impact of their effects on our operations.

Lockheed Martin continues to promote global citizenship and benefit societies by empowering our employees to use our planet’s resources wisely; supporting our local neighbors and communities; and developing state-of-the-art products that minimize impacts on the environment.

OUTLOOK

New Go Green Goals

In 2015, we set a new direction for waste reduction goals due to our strong operational waste management results compared to our existing waste-to-landfill goal, in order to further drive source reduction and recycling in our operations. By 2020, we now seek to reduce total waste generated from our U.S. and U.K. operations by 7 percent, and increase our recycling rate by 8 percent, from a 2014 baseline. We calculate the recycling rate by dividing the recycling volume by the total waste volume. We will begin reporting progress towards the total waste and recycling rate goals in 2015.

In addition, we set a new water use goal to reduce usage by 30 percent by 2020 from a 2010 baseline. This higher target reflects that we will no longer include Sandia Corporation, which aligns with other Go Green data.

Renewable Energy Strategy

Lockheed Martin is in the process of pursuing a coordinated renewable energy strategy for our direct operations. Through this effort we aim to achieve three main goals:

- To diversify our energy mix while reducing costs;
- To support and align corporate strategy with our growing renewable energy business endeavors (see [Product Performance section](#)); and
- To pursue renewable energy in alignment with the requirements of our federal customers wherever possible.

Increasing output from existing on-site renewable energy projects, we plan new solar projects in Clearwater, Florida, and Palmdale, California. The Clearwater project is a 2 megawatt (MW) photovoltaic system that is estimated to reduce emissions by approximately 2,000 metric tons CO₂e annually. Our Palmdale facility plans to host a 1 MW concentrated solar photovoltaic system that will reduce emissions by approximately 800 MTCO₂ annually. We are also implementing a 250 kilowatt [waste-to-energy pilot project](#) at our Owego, New York, site in partnership with Concord Blue.



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OBJECTIVE

MINIMIZE THE PROBABILITY AND IMPACT OF UNDESIRABLE EVENTS ASSOCIATED WITH SECURITY INCIDENTS IN OUR OPERATIONS AND FOR OUR CUSTOMERS' MISSIONS.



About Photo: Lockheed Martin's EnRoute Automation and Modernization platform (ERAM) is the next generation of air traffic control. We're upgrading systems for the National Airspace System (NAS) and the Federal Aviation Administration (FAA) to increase air traffic capacity, and to improve efficiency and reduce the fuel consumption and greenhouse gas impact of air travel. ERAM is replacing the existing en route air traffic control automation system, which is more than 40 years old and can no longer be easily upgraded or expanded. Open, standards-based software is being built into a new, highly secure system architecture. All this capability comes in a system that is more secure, more reliable, and easier to manage, maintain, upgrade and support.

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OVERVIEW

Protecting the integrity of our global information systems is a critical focus for *The Science of Citizenship*. Lockheed Martin, our customers and the world are increasingly connected through, and reliant on, digital infrastructure to support business, expedite efficiency and drive innovation. The security of this infrastructure is critical for the smooth and stable functioning of society, from governments and militaries to energy grids, communications systems and health records. Yet, the digital age has also accelerated the threat of cyber disruptions and increased the attack surface available to bad actors.

To stay ahead of adversaries, Lockheed Martin works to protect the integrity of our employees' personally identifiable information and customers' mission-sensitive data, as well as the intellectual property that supports our business operations and product innovation. We call our approach to cyber security Intelligence Driven Defense™. It relies on security thought leaders, talented cyber analysts, cutting-edge technology, employee vigilance and innovative processes to defend networks comprehensively from the advanced threats we face.



INFORMATION SECURITY IMPACTS ON SUSTAINABLE BUSINESS PRACTICES

Customer Privacy:

Our ability to protect customer data is integral to their mission success and their trust in us.

Data Fraud, Sabotage and Theft:

The information we safeguard is critical to global security and commercial enterprises. The integrity of our ability to protect critical business systems is essential to safeguarding these important information assets.

Intellectual Property (IP) Rights:

Protecting IP maintains our capacity to innovate, generate stockholder returns and earn customer trust. With thousands of our scientists and engineers developing advanced, patented solutions, the health of our business depends on these rights.

MACROCHALLENGES

Hyperconnectivity increases the impact and frequency of cyber threats perpetrated by insiders, "hacktivists," terrorists and nation-state adversaries. Conventional processes and approaches are often insufficient to contain these new and intensified challenges. To be resilient, we must understand the intent, capability, doctrine and patterns of operation behind every threat and attack, and develop solutions to prevent or mitigate their impacts.

STAKEHOLDER INSIGHTS

Partnerships across the cyber security field accelerate the development of solutions end-to-end. To defend against purposeful, persistent opponents we need to build effective security ecosystems based on collaboration, knowledge sharing and industry best practices.



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SUSTAINABILITY MANAGEMENT PLAN PROGRESS

PERFORMANCE INDICATORS

We track and report metrics regarding the information security of our systems and of our products' performance in the areas of: intellectual property rights and protection; data fraud, sabotage and theft; customer privacy; and insider and outsider threats, both digital and human. We regularly report metrics and engage our Board of Directors to discuss cyber security risk and associated actions plans. For security reasons we do not publicly disclose performance on these measures.

CHALLENGES

Supply chain cyber security continues to pose a challenge as adversaries target anyone who possesses the sensitive information they seek, and supplier cyber security capabilities and resources vary. Our cyber security supply chain efforts remain a priority and are focused on building partnerships that improve the security of our cyber ecosystem.

Incorporating secure engineering principles throughout the hardware, software and systems integration design phase to properly safeguard against likely threat vectors is important to the creation of an agile and resilient cyber security practice. Our threat-modeling efforts result in greater visibility into systems, faster translation of intelligence into defensive measures and more effective deployment of those measures into our security controls.

The changing landscape of cyber security requirements, along with an evolving threat landscape, make the adoption of emerging technologies in support of business innovation cumbersome for organizations of all sizes. We explicitly design systems to support Intelligence Driven Defense™ cyber services and create systems that are resilient to attacks, and whose designs are resilient to changes in attackers.

2014 HIGHLIGHTS

Supported a **military cloud pilot** that securely increases agility and improves service for 800,000 U.S. Air Force users

Received seven of the 40, 2014 **James S. Cogswell Outstanding Industrial Security Achievement Awards**

Honored for our Insider Threat Detection Program by *Chief Security Officer (CSO)* magazine as part of the CSO40 awards program

Achieved NSA Cyber Incident Response Accreditation



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MANAGEMENT

The issue of information security continues to gain momentum as access to data increases and because of the complex cyber ecosystem in which we operate. We can't afford to underestimate the security and privacy risks that could destabilize our business, our customers and society at large. This ecosystem includes our core network and internal systems; perimeter and program environments; legal entities such as joint ventures; our extended supply chain; and the products and services we deliver to customers. The complexity of this system continues to grow, driven by business relationships; emerging legislative and contract requirements; the rate of development of new and emerging technologies, such as mobility and cloud; increased media scrutiny; and—most importantly—ever-evolving cyber threats.

Along with our customers, suppliers, subcontractors and venture partners, we routinely experience cyber security threats to our information technology infrastructure and unauthorized attempts to gain access to our company-sensitive information. Hacktivists, cyber criminals and Advanced Persistent Threats (APTs) continue to be the main culprits. Our Intelligence Driven Defense™ framework helps us to stay ahead of these threats, and to identify tactical and strategic focus areas to manage cyber risk for ourselves and our customers. We use threat modeling and keen understanding of our adversaries to secure customer privacy, to protect against data fraud, sabotage and theft, and to safeguard intellectual property rights. This in-depth understanding of our

Corporate Policies that Direct Employee Actions and Management of Information Security Include:



- Disposing of Sensitive Information
- Export Controlled Information
- International Trade Controls and Compliance
- Lockheed Martin Proprietary Information
- Personal Data Protection—Non-U.S.
- Personal Information
- Privacy—United States
- Protection of Sensitive Information
- Storing Sensitive Information
- Third Party Proprietary Information
- Transmitting Sensitive Information
- Unrestricted Information

CYBER KILL CHAIN®

Lockheed Martin's Computer Incident Response Team has created an intelligence-driven defense process, Cyber Kill Chain®, which allows information security professionals to proactively remediate and mitigate advanced threats in the future.

ADVANCED:
Targeted, Coordinated,
Purposeful

PERSISTENT:
Month after month, Year
after Year

THREAT:
Person(s) with intent,
opportunity & capability

RECONNAISSANCE
Develop targets, e.g. email
addresses, harvesting

WEAPONIZATION
Coupling exploit with
backdoor into
deliverable payload

DELIVERY
Delivering weaponized
bundle to the victim via
email, web, USB, etc.

EXPLOITATION
Exploiting a vulnerability
to execute code on
victim's system

INSTALLATION
Installing malware in
the asset

COMMAND & CONTROL (C2)
Command channel for remote
manipulation of victim

ACTIONS ON OBJECTIVES
With "Hands of keyboard"
access, intruders accomplish
their original goal.





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adversaries is gleaned by applying a methodology we developed called the Cyber Kill Chain®.

Risk Management

As part of our overall Enterprise Risk Management Program, the Corporate Information Security Office oversees and drives efforts to defend the Corporation from cyber threats using our Intelligence Driven Defense™ cyber services approach. Defending our networks relies on security thought leaders, talented cyber analysts, cutting-edge technology, vigilant people and innovative processes.

We track the success of our risk management strategies through strategic indicators and operational metrics. These results are reported to our Executive Leadership Team, the Chief Risk Officer, business segment IT leadership teams, and Enterprise Business Services leadership on a quarterly basis, and help to guide risk management and mitigation discussions. This approach allows us to adapt and respond to issues as they emerge, such as:

- Shifting adversarial targets, including supply chain links and insider threats
- Evolving contractual requirements, such as Defense Federal Acquisition Regulations;
- Emerging technologies such as cloud and mobile; and
- The growing scope of our platforms and solutions.

Chairman, President and Chief Executive Officer Marillyn Hewson shares lessons learned during National Cyber Security Awareness Month on her [LinkedIn Influencer post](#).

Employee Engagement

Cyber security is part of our culture at Lockheed Martin, integrated into internal business processes and leadership mandates. Some of the key mandates and processes that guide cyber risk management include:

- Security Throughout the Engineering Life Cycle: We follow a structured, yet agile, approach to integrating security engineering and secure software engineering activities into the systems engineering life cycle from concept to retirement. We approach IT architecture by designing systems that can be defended against attack, survive compromise and adapt to adversary changes.
- Security is Every Employee's Responsibility: Employee cyber behavior is a key component of any organization's cyber security posture. We developed the *I Campaign*™ to help our employees combat the most common adversarial attack vector, spear-phishing by which criminals seek access and information through phony email requests. The *I Campaign*™ combines innovative security awareness, monthly simulated spear-phishing attacks,

and progressive training and accountability to help ensure employees exhibit desired cyber behaviors when faced with identifiable adversarial tactics. Since its inception, this campaign has driven a 54 percent reduction in risky e-mail behavior and a ten-fold increase in reporting of targeted emails to our Computer Incident Response Team (CIRT).

- Cyber Challenge: Keeping our customers' sensitive information safe starts with thinking like an adversary. That's why in 2014 Lockheed Martin's Information Systems & Global Solutions (IS&GS) business segment held its third annual Cyber Challenge, a competition in which our employees put their information security skills to the test. The Challenge, which engaged more than 140 employees across the Corporation, encouraged participants to identify security vulnerabilities in isolated, virtual environments. We use this approach to strengthen our own defenses against cyber-attacks and improve the information security services we offer to our customers.



The Lockheed Martin Cyber Challenge engaged

140 EMPLOYEES

to strengthen our own defenses against cyber attacks.



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STAKEHOLDER ENGAGEMENT

Effective cyber security management requires collective action and partnership. Through our engagement efforts, we share data and insights with governments, work with partners across the industry, fund ground-breaking research, and foster the next generation of thought leaders through Science, Technology, Engineering and Math (STEM) education and academic research.

LOCKHEED MARTIN CYBER SECURITY ALLIANCE™

enhancing the speed of solutions delivery through
partnership and innovation

Lockheed Martin Cyber Security™ Alliance

[Lockheed Martin Cyber Security™ Alliance](#) brings together market-leading technology companies to establish best practices and share solutions. The NexGen Cyber Innovation and Technology Center is a unique research, development and collaboration center that provides an opportunity for Alliance members to design and test customer-focused solutions. The goal is to develop early threat detection, protection and multi-layer self-healing capabilities to solve customers' current problems and meet future challenges.

Engaging Globally

Our Information Security & Global Solutions (IS&GS) business segment and EMC Corporation plan to jointly develop and enhance partnerships with Israeli industry, government and academic institutions. We launched the program at the CyberTech 2014 International Exhibition and Conference in Tel Aviv, Israel. Our business units will fund and promote advanced technology projects in cloud computing, data analytics and cyber technology that support the country's cyber security capabilities. The investment will enable EMC and IS&GS to explore collaborative research and development and engage local experts, including talent at Ben-Gurion University, in developing new solutions for the companies to bring to market, as well as expanding the talent pipeline of cyber professionals.

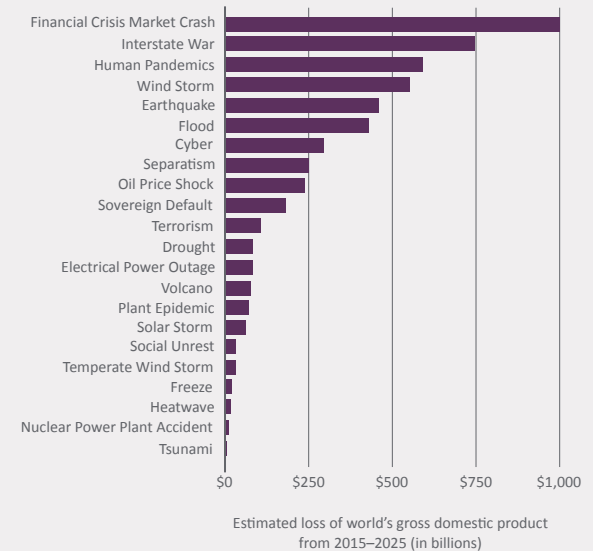
Preparing for the Future

Lockheed Martin's engagement on information security includes outreach to the next generation of cyber professionals. It is aligned with our commitment to advancing STEM education. A key element includes a recent partnership with Girls, Inc., which connects Lockheed Martin volunteers with girls ages 9 to 12 to strengthen their interest and confidence in pursuing STEM education and careers. Volunteers help with hands-on learning activities that encourage thinking through challenges and reflecting on lessons learned.

Researching Hyperconnectivity Risks of Cyber Catastrophe

In 2014, we funded [research](#) that furthered global understanding of the impact of strong cyber security in our highly interconnected economy. With our support, the Centre for Risk Studies at the University of Cambridge Judge Business School in the United Kingdom investigated the potential for, and impact of, a global system-wide IT failure affecting many sectors. Our U.S. and U.K. cyber experts worked with Cambridge researchers on developing a cyber scenario that tracks persistent threats in the digital economy, and the Cambridge team then applied a macroeconomic model to forecast losses to global gross domestic product (GDP) by industry sector.

GLOBAL ECONOMIC THREATS POSTED BY CATASTROPHIC SHOCKS TO SOCIETY¹



¹Courtesy: University of Cambridge Judge School Centre for Risk Studies



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The results revealed that a number of technology companies are so critical to business productivity that they are systemically important to the global economy. It also showed that a catastrophic cyber event poses a greater economic loss in terms of global GDP than many natural disasters.

PERFORMANCE

While cyber disruptions have the potential to negatively affect our business, to date such attacks have not had a material impact on our financial results. We continue to use our Intelligence Driven Defense™ approach to manage the risk and impact of cyber incidents directed at Lockheed Martin as well as to help customers become more resilient to cyber attacks. This is one of the most crucial areas in which we apply *The Science of Citizenship* to further practical benefits for business and society.

In 2014, we made significant progress in strengthening our cyber security at Lockheed Martin and for our customers in several key areas, including:

1. Supply chain,
2. Industrial control systems,
3. Cloud,
4. Attack testing and simulation, and
5. Insider threats.

Securing the Supply Chain

Suppliers across the aerospace and defense industry provide tremendous value in support of our customers' missions. However, the cyber security capabilities of small- and mid-size businesses vary widely. This issue is not unique to the aerospace and defense industry, it is a growing problem across all industries and critical infrastructure sectors. There has been an increase in legislation in numerous countries that establishes minimum cyber security standards. Lockheed Martin is supportive of these efforts, including encouraging tax incentives for small- and mid-size businesses that adopt a new voluntary cyber security framework endorsed by the U.S. federal government.

In addition to working with our government and industry partners on this national level problem, we have continued to engage our supply chain on cyber security. This includes working with our suppliers to understand their cyber security capabilities, build awareness of the threat landscape and manage identified cyber security risks. Finally, we continue to work with our supply chain to ensure that access to resources across our ecosystem requires strong 2-factor authentication.

Industrial Control Systems

Cyber security contributes to the stability of many industries essential to the smooth and sustainable functioning of society. To support these industries, Lockheed Martin is working to adapt our cyber security expertise to the commercial market, in order to strengthen the resilience of our hyper-connected society, and provide better customer experiences for all people.

In 2014, we acquired Industrial Defender, a leading provider of cyber security solutions for control systems in the oil and gas, utility and chemical industries. More than 400 companies in 25 countries rely on Industrial Defender's solutions to monitor, manage and protect their operations. This acquisition was a strategic step to expand our commercial portfolio and capabilities, while contributing to the security of infrastructure critical to the everyday functioning of society. Watch a video on [Industrial Defender's capabilities](#).

Delivering Improved Cloud Service to 800,000 Air Force Users

In our interconnected world, standardized systems and greater efficiencies provide significant benefits to defense agencies, and in turn to the people they protect, including fewer errors, better sharing of information and improved service provision. We apply *The Science of Citizenship* in these areas by helping huge agencies with complex wide-ranging networks to modernize their operations in a secure manner, with information security at the forefront of the design process.

In 2014, IS&GS supported the Global Combat Support System—Air Force (GCSS-AF) program in piloting a hybrid cloud to provide a secure hosting capability for the Air Force Portal and for mission applications. As the premier web gateway to the Air Force enterprise, the Air Force Portal hosted on the GCSS-AF infrastructure provides users worldwide with centralized and secure access to the information they need—from the status of mission critical parts



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to the most recent USAF benefits information. The program supports more than 200 mission applications, and a recently added mobile capability provides portal and application data to warfighters on their mobile devices, enabling higher productivity and flexibility.

The GCSS-AF cloud pilot demonstrated the technical and operational viability of using the cloud to further boost the system's effectiveness by enabling service requests to be fulfilled on-demand, within minutes, compared to current processes that take weeks. When combined with existing services, the cloud will lower costs, increase agility and improve service for 800,000 Air Force users.

50+ ADVANCED ADVERSARIES TRACKED

Lockheed Martin tracks more than 50 advanced adversaries targeting our environments to disrupt our missions or exfiltrate information related to our products and services.

Using Simulation and Testing Tools to Secure Platforms

Lockheed Martin engineering teams are developing novel models and simulation tools for automatically classifying and assessing the risk of malicious activity in large enterprise networks. These methods are vital in helping to improve detection, impact, recovery and defense from cyber threats and attacks on our business and customers.

Our Disparate Event Correlation and Suspicion Modeling program applies deductive reasoning to disparate IT system and network events and employs formal models of suspicion and generative rule evaluation to create live forensic analysis. Our goal is to quantifiably demonstrate higher accuracy and lower false alarm rates in detecting malicious activity than traditional intrusion detection system approaches.

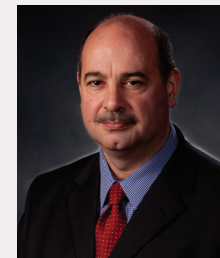
Through our Emulab we provide customers with a rapidly reconfigurable distributed test-bed, quick turn-around emulations and live experiments. Lockheed Martin's full day Computer Systems Performance Engineering Course provides a comprehensive engineering methodology for performance-critical systems presenting useful theoretical and practical results.

Leading Insider Threat Detection

Lockheed Martin was honored for its Insider Threat Detection Program by *Chief Security Officer (CSO)* magazine as part of the CSO40 awards program, which recognizes security projects and initiatives that demonstrate outstanding business value and thought leadership. We were also recognized as the annual Defense Security Service Counterintelligence Award winner; one of four defense companies out of more than 10,000 to win the award. Our insider threat detection program actively identifies and mitigates internal risks associated with the theft or misuse of intellectual property and trade secrets. It identifies employees who are at higher risk for being targeted by foreign intelligence or those more likely to misuse access to protected information.

PRACTICING THE SCIENCE OF CITIZENSHIP

Paul Weatherly, Program Director, IS&GS Secure Systems & Solutions
Lockheed Martin United Kingdom



Since 2010, my role has been to establish a sovereign United Kingdom cyber defense capability that supports both Lockheed Martin's own Corporate Network Defense operations, and the provision of cyber security solutions and services to customers in the United Kingdom and Europe. We recently announced the launch of the LMUK Virtual Technology Cluster, which is designed to work with small and medium enterprises in the

United Kingdom to develop new and hopefully game-changing cyber defense capabilities.

There are no geographic borders for cyber threats, and Lockheed Martin's cyber defense capability is regarded by many government departments in many different countries as one of the world's best. For us in LMUK, this means that we continually review how we do business securely across international boundaries, and how we help support our U.K. staff as they travel to meet customers in countries such as Belgium, Poland, Australia, South Korea and Saudi Arabia.

The ubiquitous nature of electronic data and records requires greater alertness and stronger defenses both at home and at work. Lockheed Martin's foundational strength lies in the security awareness of its human assets and I would hope that we are contributing to a wider understanding of good cyber security.



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RECOGNITION

NSA Cyber Incident Response Accreditation

In 2014, Lockheed Martin became one of the first federally recognized companies accredited to help organizations respond to cyber-attacks on their networks. Cyber Incident Response Assistance accreditation, a program of the National Security Agency (NSA), identifies government-approved vendors that can provide state-of-the-art cyber protection capabilities. To qualify, Lockheed Martin was evaluated on its ability to deliver consistent services, maintain a highly skilled staff and sustain and improve the quality of cyber incident response services using training and lessons learned. The evaluators also reviewed our ability to deliver 21 critical focus areas of incident response assistance services to owners and operators of national security systems. The accreditation serves as a testament to our ongoing commitment to information security, both in our own operations and those of the customers we serve.

James S. Cogswell Outstanding Industrial Security Achievement Award

Lockheed Martin facilities received seven of the 40, 2014 James S. Cogswell Outstanding Industrial Security Achievement Awards. The award criteria focus on industrial security excellence factors including establishing and maintaining a security program that far exceeds the basic National Industrial Security Program requirements, and providing leadership to other cleared facilities in establishing best practices and the highest security standards.

The selection process requires a Defense Security Service Industrial Security Representative to nominate facilities that have at a minimum two consecutive superior ratings and which show sustained excellence and innovation in their overall security program management, implementation and oversight. Our winning facilities were:

- Center for Innovation, Suffolk, Virginia
- Information Systems & Global Solutions, Papillion, Nebraska
- Information Systems & Global Solutions, King of Prussia, Pennsylvania
- Lockheed Martin Security Operations Center, Orlando, Florida
- Missiles & Fire Control, Goleta, California
- Missiles & Fire Control, Ocala, Florida
- Mission Systems and Training, Fort Worth, Texas

Top Spot on *Washington Technology's* Top 100 List for the 20th Consecutive Year

In 2014, Lockheed Martin again topped Washington Technology's list of the 100 largest contractors to the U. S. government based on our IT, systems integration, telecom, professional services and other high-tech revenue. Lockheed Martin had over \$14.2 billion in such IT-related prime contracts for the year, more than double the second-ranked company.

Adoption of Cyber Kill Chain® Methodology

Lockheed Martin's Cyber Kill Chain® intrusion defense process gains recognition through continued adoption by customers. In 2014, the Department of Homeland Security announced that it will revamp its internal network security methods by implementing the Cyber Kill Chain®. The National Institute of Standards and Technology (NIST) of the U.S. Department of Commerce included the Cyber Kill Chain® process in its draft publicized guidance that is intended to help organizations manage the impact of cyber incidents on their organizations as well as on the wider community. The process was also used by the Senate Committee on Commerce, Science, and Transportation to evaluate the response of the 2013 retail store data breach.

OUTLOOK

Managing the Threat Horizon

We anticipate the cyber ecosystem will continue to evolve and grow in complexity as the rate of technology advancement continues to accelerate, as governments wrestle with the legal ramifications of these technological advancements and cyber security, and as our adversaries persist in their efforts to exploit weaknesses throughout the ecosystem to achieve their objectives.

Cyber security will remain a key focus and core competency for Lockheed Martin. We will utilize our Intelligence Driven Defense™ approach to comprehensively defend our systems and networks from the variety of cyber threats we face, and work with key stakeholders throughout our cyber ecosystem to protect our own and our customers' critical information and mission integrity.

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,” “anticipate,” “continue,” “achieve,” “scheduled,” “estimate,” “believe,” “intend,” “aim,” “orient,” 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 by others; 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) competitive environment; (vii) 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 filings including our Annual Report on Form 10-K for the year ended Dec. 31, 2014 and our 2014 Quarterly Reports on Form 10-Q which may be obtained at the Corporation’s website <http://www.lockheedmartin.com/investor>.

NON-GAAP DEFINITIONS AND RECONCILIATION OF NON-GAAP MEASURES TO GAAP MEASURES

This sustainability report contains non-generally accepted accounting principles (GAAP) financial measures. While we believe that these non-GAAP financial measures may be useful in evaluating Lockheed Martin, this information should be considered supplemental and is not a substitute for financial information prepared in accordance with GAAP. In addition, our definitions for non-GAAP measures may differ from similarly titled measures used by other companies or analysts.

Free Cash Flow

Lockheed Martin defines Free Cash Flow (FCF) as Cash from Operations, less Capital Expenditures.

In millions	2014
Cash from Operations	\$3,866
Capital Expenditures	(845)
Free Cash Flow (Non-GAAP)	\$3,021

Segment Operating Profit/Margin

Segment Operating Profit represents the total earnings from our business segments before unallocated income and expense, interest expense, other non-operating income and expense, and income tax expense. This measure is used by our senior management in evaluating the performance of our business segments. The caption “Total Unallocated Items” reconciles Segment Operating Profit to Consolidated Operating Profit. Segment Margin is calculated by dividing Segment Operating Profit by Net Sales.

In millions	2014	2013	2012
Net Sales	\$45,600	\$45,358	\$47,182
Consolidated Operating Profit	\$ 5,592	\$ 4,505	\$ 4,434
Less: Total Unallocated Items	4	(1,247)	(1,149)
Segment Operating Profit (Non-GAAP)	\$ 5,588	\$ 5,752	\$ 5,583
Consolidated Operating Margin	12.3%	9.9%	9.4%
Segment Operating Margin (Non-GAAP)	12.3%	12.7%	11.8%



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