

2016 SUSTAINABILITY REPORT

THE

SCIENCE

OF

CITIZENSHIP

LOCKHEED MARTIN



TABLE OF CONTENTS

Our Company	03
Leadership Perspective	04
Our Approach	05
Business Integrity	14
Product Impact	22
Employee Wellbeing	30
Resource Efficiency	38
Information Security	43
Recognition	48
Legal Notices	49

ABOUT THIS REPORT

This is Lockheed Martin’s sixth sustainability report, published annually in April on www.lockheedmartin.com/sustainability. Unless otherwise noted, this report includes global data and activities for the calendar year 2016, from Lockheed Martin’s corporate offices and four business segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems, and Space Systems.

Rotary and Mission Systems is a newly organized segment that includes Sikorsky Aircraft Corporation (Sikorsky), a line of business we acquired in late 2015. Our efforts to integrate Sikorsky into our business operations are largely complete. In August 2016, we divested part of the Information Systems and Global Solutions (IS&GS) business segment and realigned some product lines to other parts of the corporation. This report notes when it includes IS&GS data and excludes Sikorsky data, and when data have been re-baselined to account for these significant changes to the business. In 2016, the corporation managed Sandia National Laboratories for the U.S. Department of Energy through a wholly owned subsidiary, Sandia Corporation (Sandia). This report notes when it includes Sandia data.

GRI Index: This is our fifth year using the Global Reporting Initiative (GRI) framework, the world’s most widely used sustainability reporting framework. The report adheres to GRI G4 Core, the latest guidelines. The [GRI Index](#) is available on our website.

Assurance: DNV GL, an independent third party, assured this report, including the Lockheed Martin Sustainability Management Plan (SMP) performance indicators and select GRI indicators. Verification details are in the [letter of assurance](#).

Contact us at sustainability.lm@lmco.com with questions or for more information.



ABOUT THE COVER:
CREATING IMPACT THROUGH INNOVATION

Once hurricane signal flags are raised indicating the imminent landfall of a storm, it is usually too late. We design and build airplanes and satellites for the military that tell the world the speed, direction and strength of hurricanes so communities can protect their infrastructure and evacuate safely. Our cover photo was taken from one of our military airplanes flying inside a hurricane, tracking the storm. The U.S. Air Force Reserve Command operates WC-130J Weatherbirds for weather reconnaissance missions to collect storm data to increase the accuracy of hurricane predictions and warnings by as much as 30 percent.

THIS IS LOCKHEED MARTIN

OVERVIEW

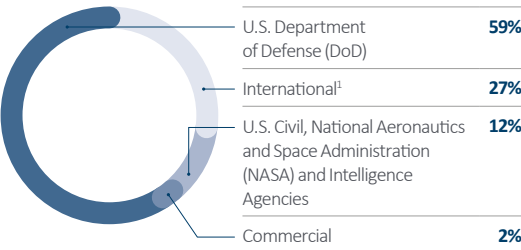
Lockheed Martin is a global security and aerospace company. We research, design, develop, manufacture, integrate and sustain advanced technology systems, products and services, and provide management, engineering, technical, scientific, logistics and information services.

Our primary customers are U.S. and allied government institutions and commercial entities in sectors including energy and transportation. In 2016, we employed approximately 97,000 people worldwide and generated net sales of \$47.2 billion.

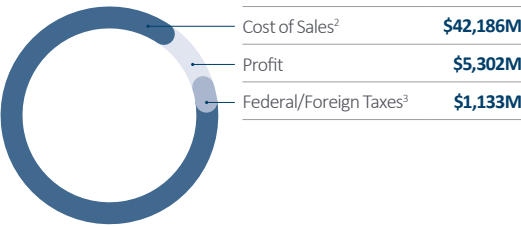
Lockheed Martin is a corporation organized and existing under the laws of Maryland, U.S., with one form of equity security outstanding, common stock. We publish our complete financial statements, explanation of beneficial ownership and changes in operations in our [Annual Report](#) and [Proxy Statement](#).

OUR BUSINESS IMPACT

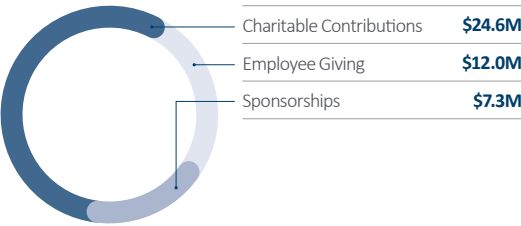
Customers (percent of net sales)



Economic Impact (\$48.6 billion)

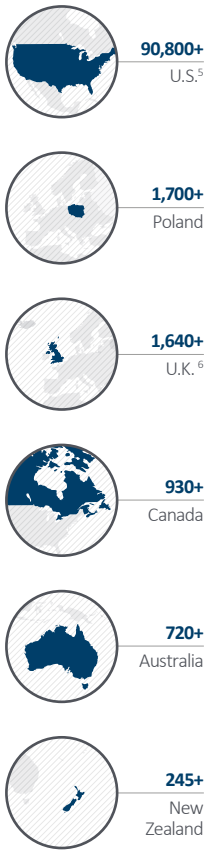


Social Impact⁴ (\$43.9 million)



¹ Foreign military sales to governments and direct commercial sales to international customers.
² Includes salaries, global supply chain and other expenses.
³ Reflects recognized income tax expense at a 23.2 percent effective tax rate.
⁴ Includes IS&GS business segment.

Locations with greater than 200 employees



⁵ As of Dec. 31, 2016. Does not include contract workers, interns or employees of certain subsidiaries or joint ventures.
⁶ Local Country Nationals.

HOW WE'RE ORGANIZED

We have four business segments dedicated to specific products and services. Our employees also support Lockheed Martin International, which enables delivery of products, technologies and services to meet global customers' national security and citizen services needs; and Enterprise Operations, comprised of headquarters personnel, business function personnel and enterprise-wide shared services centers.

NET SALES

AERONAUTICS \$17.8B, 38%

Research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies

MISSILES AND FIRE CONTROL \$6.6B, 14%

Air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support and integration services; manned and unmanned ground vehicles; and energy management solutions

ROTARY AND MISSION SYSTEMS \$13.5B, 28%

Design, manufacture, service and support for a variety of military and commercial helicopters; ship and submarine mission and combat systems; mission systems and sensors for rotary and fixed-wing aircraft; sea and land-based missile defense systems; radar systems; the Littoral Combat Ship (LCS); simulation and training services; and unmanned systems and technologies

SPACE SYSTEMS \$9.4B, 20%

Research and development, design, engineering and production of satellites, strategic and defensive missile systems and space transportation systems

LEADERSHIP PERSPECTIVE



At Lockheed Martin's 2016 Media Day event Chairman, President and CEO Marillyn Hewson highlighted how the company's innovations and technologies are addressing some of the most pressing sustainability challenges of the 21st century.

At Lockheed Martin, we trace our achievements and successes to our fundamental values – to do what's right, respect others and perform with excellence.

These values shape our culture, drive our approach to business, encourage our outreach in the community, and inspire our commitment to sustainability and environmental stewardship.

They are also the key to the future.

As we look around the world today, it's clear that we're living in one of the most complex and dynamic environments we've seen in decades. Nations are grappling with diverse and unpredictable geopolitical threats, regional instability, and economic uncertainty. In addition, there is shared global concern about carbon emissions and how to implement policies that lead to reductions efficiently and effectively.

At Lockheed Martin, we are dedicated to approaching every challenge with innovation and integrity. This means having a clear strategy to address environmental, social, and governance issues while ensuring the continuity of our operations, the development of our employees, and transparent engagement with our stakeholders.

That's why in 2016 we decided to raise the bar on our Sustainability Management Plan. To do this, we set new near- and long-term objectives to manage and measure our progress through the year 2020.

We defined five core issues – business integrity, employee wellbeing, product impact, information security, and resource efficiency. We set ambitious goals to measure the value of our business operations and the impact of our technologies. With this updated plan, the agenda for management is better focused and there is greater transparency for stakeholders.

In the pages that follow, readers can gain insights into how we are applying the principles of sustainability to a wide array of business practices under each of our five core issue areas. You'll learn about our commitment to encourage more efficient manufacturing, improve employee training, build trust among workgroups and customers, unlock transformative technologies from research and development, and implement additional methods to generate higher levels of performance and effectiveness across our corporation and its processes.

We believe that this ethical approach to every facet of our business yields tremendous results – from higher total shareholder return and robust job creation to positive community impacts and a smaller environmental footprint.

In the global effort to address the issues of security and sustainability, every company and citizen has a role to play. This report shows that the 97,000 men and women of Lockheed Martin are making a difference. Our collective achievements reflect our long-term vision and values. Ultimately, it is a commitment that will enable us to build a more sustainable future for our business, our customers, and our planet for decades to come.

MARILLYN HEWSON

Chairman, President and CEO

Our opportunity to address global risks

\$575 billion

Digital crime costs \$375 billion-\$575 billion a year.¹

\$420 billion

A \$420 billion increase in annual energy efficiency spending is needed by 2035.²

50%

Trust in business is below 50 percent for the mass population in more than 60 percent of countries.³

1.3 million

Estimates show a supply-demand gap of 1.3 million science, technology, engineering and mathematics (STEM) talent in the U.S. by 2020.⁴

84%

Eighty-four percent of executives believe geopolitical instability will have an 'important' or 'very important' impact on global business in the next five years.⁵

^{1,2} [EY Megatrends, 2015.](#)

³ [Edelman Trust Barometer, 2016.](#)

⁴ www.ed.gov/stem.

⁵ [McKinsey, 2016.](#)

OUR APPROACH

WE CREATE SOLUTIONS TO GLOBAL CHALLENGES FOR A BETTER TOMORROW.

OUR SUSTAINABILITY MISSION

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

THE SCIENCE OF CITIZENSHIP



The F-35 Lightning II is responsible for more than 146,000 direct and indirect U.S. jobs. Globally, there are more than 1,400 suppliers and more than 3,000 trained maintainers. Contributors' production learning curves are beating legacy aircraft while still bringing together more than 300,000 individual parts. Their efficiencies have brought down costs by 62 percent as of February 2017, and they have reduced the time it takes to build the aircraft by nearly half.

For more than 100 years, Lockheed Martin employees have applied their passion for purposeful innovation to push limits in transportation, advanced materials and global connectivity. We combine performance excellence and customer collaboration to deliver world-changing technologies with proven quality and societal value.



In a 2016 test, an F-35B used its Multi-function Advanced Datalink to pass target data directly to a land-based Aegis combat system site. The land-based site engaged and destroyed the target using only the data provided from the aircraft. Lockheed Martin will leverage lessons from this test to inform future initiatives at sea. One initiative already realized is the continuous airborne communication of aircraft health and maintenance data to ground control personnel throughout each mission, enabling pre-positioning of necessary parts and qualified maintainers to facilitate prompt servicing or repair when the aircraft lands. This will minimize aircraft downtime, thus improving operational availability.

As a diverse array of threats shape the global environment, our core government customers and their citizens count on us to improve their physical and digital safety and overall quality of life. Our systems-engineered solutions support the critical infrastructure needed for interoperability, resiliency and ultimately sustainable development.

INNOVATIVE SOLUTIONS, SCALABLE IMPACTS

Throughout our history, Lockheed Martin has pushed the boundaries of innovation in an increasingly complex, uncertain and resource-challenged world. Today, our products and technologies benefit societies and individuals, and drive responsible growth for stockholders, employees, customers and suppliers. This shared value is the essence of our sustainability strategy and leads to extraordinary opportunities to engineer a better tomorrow.

GLOBAL MEGATRENDS

Mounting social, environmental and geopolitical challenges threaten safe, productive societies. Communication, energy and security system infrastructures are under pressure, trust in business and institutions is waning, and skills and resource shortages put business growth at risk. While daunting, these hurdles present tremendous opportunities for our business model to provide solutions. Technologies that 15 years ago were unimaginable now deliver tangible value. Space-based, defense and unmanned technologies, waste-to-energy systems, and computational models for natural disaster response are just a few examples of how we have evolved technology for meaningful impact. As we develop new solutions for tomorrow, our sustainability strategy provides a critical lens, helping us to understand and meet the changing needs of our customers and the global communities to which they are accountable.



◀ The most powerful Global Positioning System (GPS) satellite ever designed, GPS III, is now in full production. It will have new positioning, navigation and timing capabilities to keep military, commercial and civilian users safer.

OUR VALUE TO CUSTOMERS AND SOCIETY

Our government customer relationships enable us to apply solutions at scale for sustainable development. These solutions improve and strengthen critical systems that support thriving economies and stable societies worldwide. Our 'innovation with purpose' mindset is evident in the many systems that underpin everyday life, for example:

- Constellations of satellites we design, build and launch ensure the security and accuracy of GPS and other data as far reaching as military and commercial communications, global trade and logistics, disaster relief responses and weather forecasting.
- Allied military forces train to identify and counter cyber threats at a global level with our National Cyber Range platform.
- Defense platforms such as fighter jets and intelligence, surveillance and reconnaissance solutions enable governments to protect their democracies and their citizens' way of life.
- Utilities and commercial property owners use our energy management systems to stabilize electricity grids, reduce energy consumption and expand coverage.
- Other industries use our unmanned systems to promote agricultural productivity and safety for firefighters.

Global Megatrends



Global
Connectivity



Geopolitical
Crisis



Changing
Workforce



Climate
Resiliency

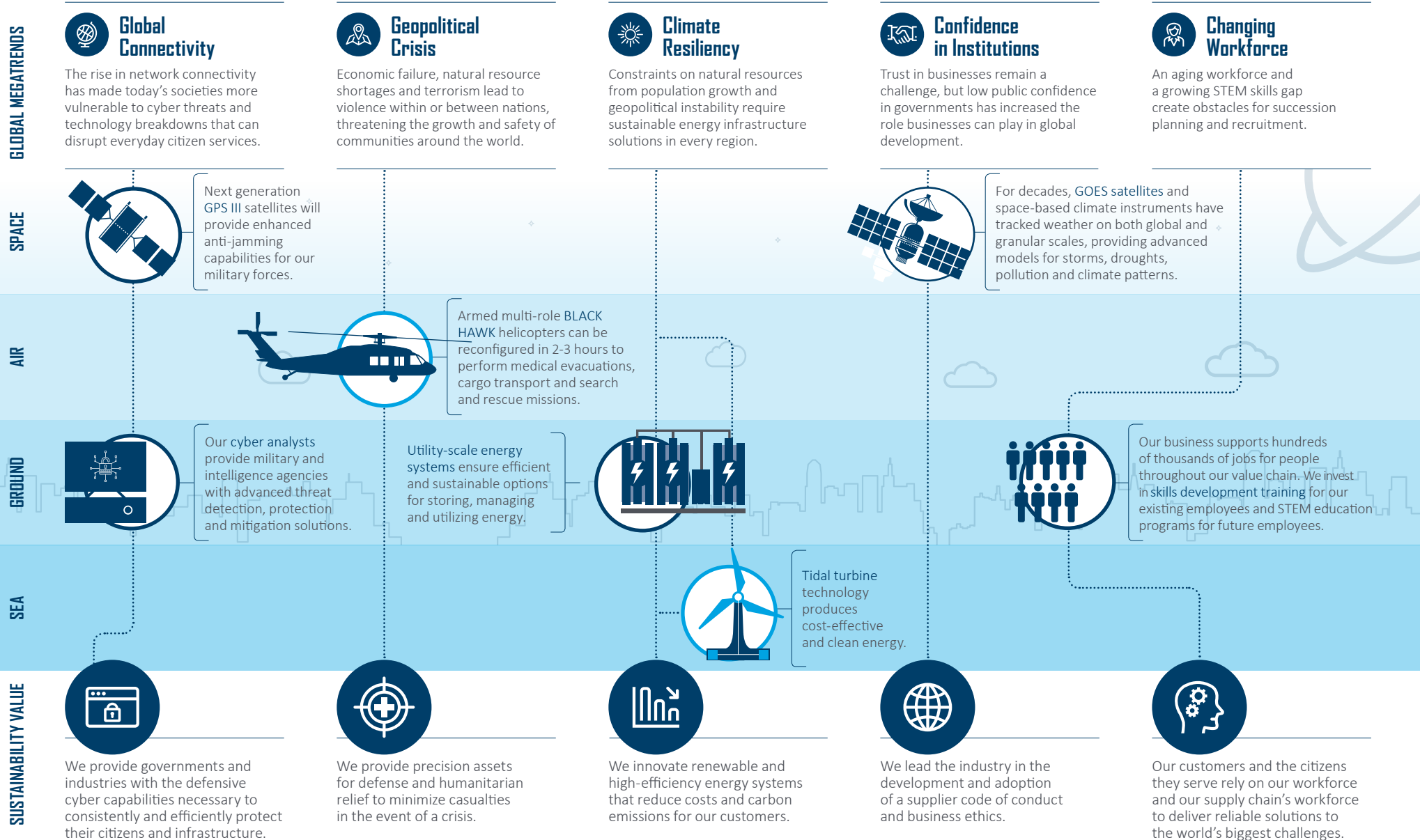


Confidence in
Institutions

For more information on how we address global challenges, see page 7. ➤

HOW WE PROVIDE VALUE TO SOCIETY

As a global defense and aerospace company, our products and technological solutions enable our customers to protect and facilitate resilient and thriving societies. To meet the demands of our government and commercial customers, we deliver innovative, scalable solutions to the world's most complex problems. Addressing global challenges, today and in the future, is our opportunity to provide value. Follow the connections between a global megatrend, a selection of our generation-after-next technologies and services and the sustainability value we offer.



GOOD GOVERNANCE, SOUND LEADERSHIP

SUSTAINABILITY GOVERNANCE

Our governance structure keeps our sustainability strategy on track, ensures clear and transparent accountability and adds value for our stakeholders. It includes our Board of Directors, executive leadership team and key functional leaders, and it reflects how important sustainability is to us. In 2016, we further validated this commitment by elevating our lead sustainability executive to the senior vice president level. Our senior vice president of Internal Audit, Ethics and Sustainability drives the integration of sustainability into core business decisions and upholds high standards of ethical leadership. In addition to overseeing enterprise risk, this role participates in the internal governance of philanthropic grantmaking and corporate venture capital investments.

Sustainability is part of our culture of good governance and our core values to Do What's Right, Respect Others and Perform with Excellence. Throughout Lockheed Martin, leadership councils in areas such as production operations; risk and compliance; environment, safety and health (ESH); and supply chain meet periodically to review our sustainability goals and evaluate performance. Involving multiple business functions across the business ensures our sustainability priorities are relevant to the business and implemented throughout our operations.

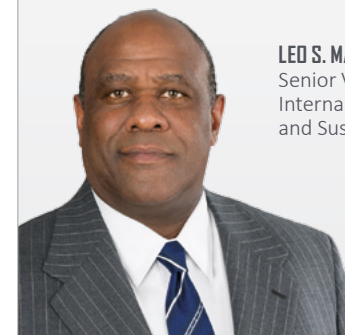
HIGHLIGHT

Our [corporate policy on sustainability](#) guides integration across the business.



THE SCIENCE OF CITIZENSHIP REFLECTS OUR COMMITMENT TO SUSTAINABILITY, INFLUENCES OUR OPERATIONS AND INFORMS STRATEGIC BUSINESS DECISIONS.

OVER THE PAST YEAR, THROUGH THE CORE ISSUES PROCESS AND BEYOND, WE SAW SUSTAINABILITY GROW IN IMPORTANCE AT LOCKHEED MARTIN. THROUGH GREATER INTEGRATION, OUR APPROACH IS MORE FOCUSED AND HAS MORE IMPACT. I AM HONORED TO LEAD THIS NEXT PHASE OF OUR APPROACH AND STEADFAST IN DELIVERING VALUE TO NATIONS AND CITIZENS ALIKE.



LEO S. MACKAY JR.
Senior Vice President,
Internal Audit, Ethics
and Sustainability

CLEAR STRATEGY, REAL RESULTS

Lockheed Martin's sustainability strategy involves connecting stakeholder values with the economic, social and environmental impacts of our business model to make sound decisions. It reflects how we prioritize and organize our Science of Citizenship actions and move toward our long-term mission.

We use a formal, structured approach to manage sustainability. Using stakeholder feedback, we determine our priority topics, common objectives and performance indicators. We regularly track and disclose our progress, assess issues and repeat the cycle.

FIVE-YEAR JOURNEY

Since solidifying our sustainability strategy five years ago, we have taken leading and innovative actions to progress through governance, transparency and integration. In 2012, we formalized our governance by establishing a Corporate Sustainability Office (CSO), now led by a senior vice president reporting to the CEO and our Board of Directors. We improved transparency through disclosures and goal setting, including an annual report that now is independently assured, and developed in accordance with the GRI G4 framework. We deepened integration of sustainability in core business practices, from developing a supplier code of conduct, to implementing our Sustainability Management Plan of priorities and metrics, to convening a standing cross-functional working group and conducting streamlined life-cycle assessments on a number of products. We continue forward, facing new challenges and strengthening our foundation with long-term resiliency.

REFINING OUR ISSUES ASSESSMENT PROCESS

In late 2015, we reassessed our priority sustainability issues based on the corporation's evolving business portfolio and highly dynamic environment. We saw the opportunity to increase stakeholder engagement to gather more diverse perspectives, internally and externally across geographies. This strengthened stakeholder relationships, increased our accountability and understanding, and enhanced our potential for impact.

Based on these core issues, a cross-functional team of more than 50 subject matter experts identified performance measures and filtered them for general usefulness and data consistency.

SUSTAINABILITY MISSION

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

The resulting Sustainability Management Plan includes specific goals and performance measures we monitor and voluntarily disclose. The 2015 process included the steps below.

Core Issues Assessment Process



1

Topic Initiation:
Our chief sustainability executive and Sustainability Working Group of business leaders conducted an internal review of qualitative and quantitative data detailing existing and possible environmental, social and governance topics and definitions.



2

Stakeholder Review:
A diverse group of internal and external stakeholders convened to express their views and debate topics. Stakeholder engagement increased 25 percent and included U.S. and European perspectives.



3

Stakeholder Scoring:
All participants scored 39 topics by 11 dimensions of importance to stakeholders and business success.



4

Factor Linking:
Our CSO evaluated interdependencies and correlations among 32 factors deemed high priorities by stakeholders.



5

Issue Clustering:
The CSO, in coordination with the Sustainability Working Group of business leaders, refined definitions and clustered closely correlated topics into a set of five Sustainability Core Issues.

STAKEHOLDERS WEIGH IN

During the core issues assessment, we gathered many meaningful and thought-provoking perspectives from stakeholders.

Our discussions with people across organizations and regions revealed important insights that led us to shift the way we characterize and prioritize sustainability issues that have an impact on our business.

STAKEHOLDER PARTICIPANTS

Category	Description
Employees	Employees from different levels, business segments and key functions including Enterprise Risk Management, Supply Chain, Finance, Talent Acquisition and Program Management
Academic Institutions	Issue experts from universities familiar with our business and industry
Investors	Shareholders, financial institutions and socially responsible investors
Non-governmental Organizations (NGOs)	Membership organizations and philanthropic program partners
Customers	Governments and commercial entities that depend on our products and services
Policy Organizations	Advocacy groups with whom we partner on environmental, social and governance (ESG) issues
Suppliers	Small to large vendors on which we rely to deliver products
Analysts	Aerospace and defense (A&D) industry and sustainability experts

KEY STAKEHOLDER INSIGHTS AND RESPONSES

- Internal stakeholders strongly consider governance, ethics and leadership as critical and strategically relevant to our business. We reframed the core issues and factors to reflect the impact of these elements internally and more broadly across our value chain.
- Internal and external stakeholders believe product cost and stewardship are inextricably linked, whereas product eco-innovation is secondary for customers requiring durable, reliable and cost-effective solutions. Now, Total Cost of Ownership also reflects product stewardship, while Eco-Innovation is separate.
- Introducing global infrastructure needs received unanimous support as a key topic and an opportunity to link contributions to sustainable development in light of increasing global challenges and customer mandates.
- Supplier conduct is a risk requiring careful management, but stakeholders believe it closely aligns to maintaining integrity in our business. It is now a factor grouped with other topics impacting good governance.
- Individual stakeholder responses to human rights varied significantly. After identifying the likelihood of impacts in our predominantly U.S.-based operations and supply network, we believe we can address the issue more effectively by encouraging excellence via supplier conduct and continuing to adhere to existing standards for due diligence of human rights abuses.
- Internal stakeholders strongly believe our previous set of core issues did not sufficiently emphasize existing employee development. We reframed a number of issues to prioritize development and retention.

HIGHLIGHT

The core issues assessment is just one way we regularly engage our stakeholders. Because our business is global and diverse, we take a decentralized engagement approach to inform our sustainability strategy and business priorities. Multiple engagement channels ensure our sustainability agenda is meaningful to diverse stakeholder segments, the constituents they serve and society as a whole. Certain stakeholders with very specific interests do not align with our sustainability priorities overall, and we address those topics on our [website](#).



▲ Stakeholders increasingly inquire about product impacts and portfolio growth. In September 2016, we opened a new bioenergy facility in Owego, New York expected to convert waste into clean, renewable energy.

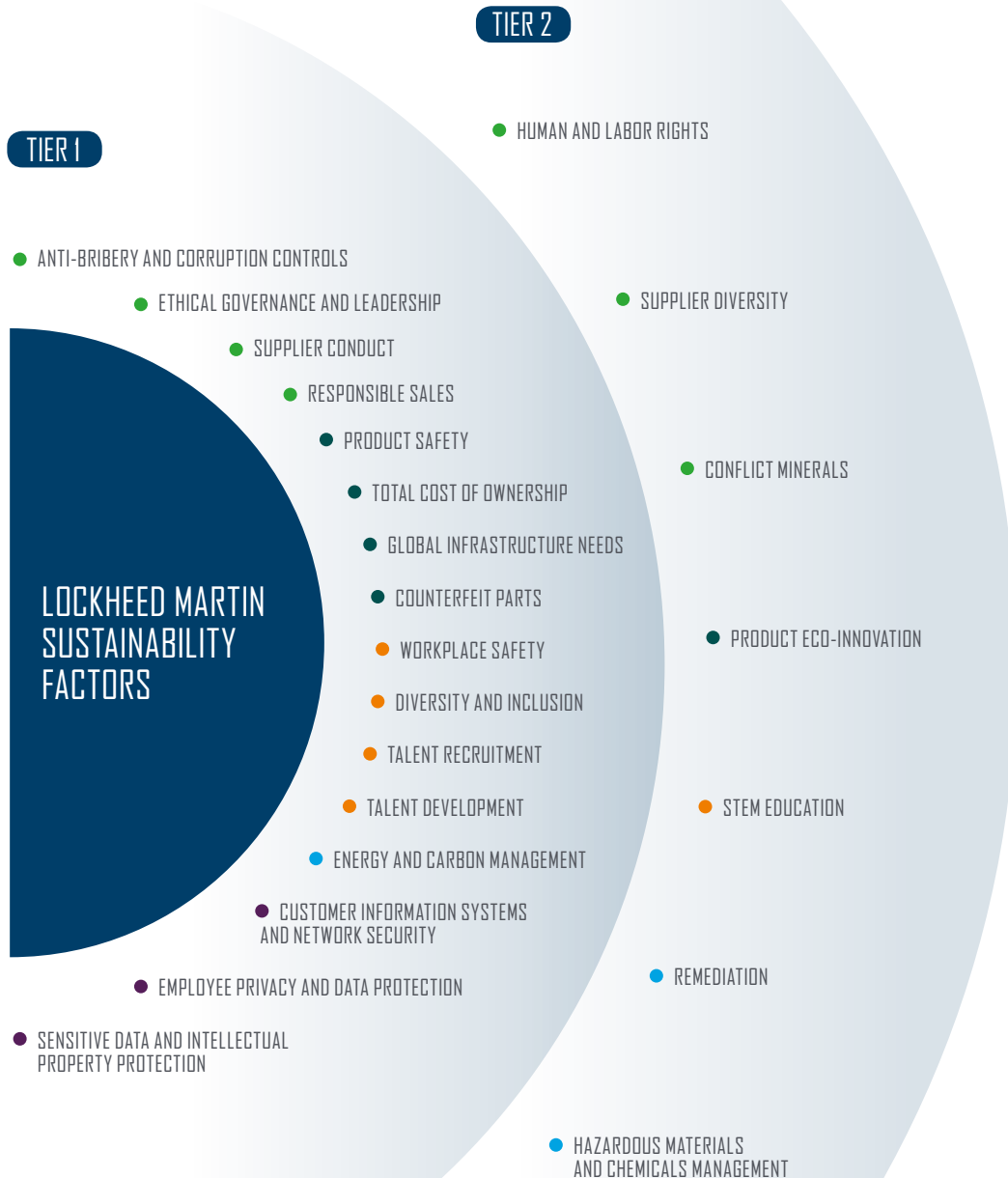
PRIORITIZING OUR ISSUES

OUR SUSTAINABILITY FACTORS

Our sustainability factors have two tiers of priorities: Tier 1 performance factors where we seek to accelerate progress by setting targets for 2017 and 2020; and Tier 2 factors that we will advance through continued management and disclosure, without setting new SMP goals.

KEY

- BUSINESS INTEGRITY
- PRODUCT IMPACT
- EMPLOYEE WELLBEING
- RESOURCE EFFICIENCY
- INFORMATION SECURITY



RELEVANT ISSUES, STRATEGIC PRIORITIES

Beginning in 2016, we focus on five core sustainability issues and objectives. Each issue and how we manage it is detailed in the corresponding chapters of this report. We have evolved our five core issues in the following ways:

Business Integrity

Formerly 'Governance', this core issue now more broadly reflects our value chain and further integrates responsible leadership and integrity into all aspects of our business.

Product Impact

Changes reflect the growing alignment between our customers' needs, our product portfolio and global trends.

Employee Wellbeing

We expanded this core issue's scope to more effectively reflect the entire employee journey.

Resource Efficiency

We expanded this issue to include water and, as secondary concerns, environmental remediation and hazardous materials.

Information Security

Increasing concerns for data security came through prominently, with employee and customer data privacy becoming two distinct issues we measure and manage individually.



AMBITIOUS GOALS, MEASURABLE PROGRESS

The goals outlined in our Sustainability Management Plan reduce the risk of negative impacts for the business, the planet and society, while cultivating long-term, responsible economic and social growth.

This dashboard summarizes all of our sustainability priorities, performance indicators and timelines. The core issue chapters provide more detail on the challenges we address, our activities and our progress. In our online GRI Index, we report against GRI G4 indicators.

	FACTOR	GOALS	TARGET DATE
BUSINESS INTEGRITY	ETHICAL GOVERNANCE AND LEADERSHIP	<ul style="list-style-type: none"> Decrease rate of allegations of misconduct by leaders compared to overall workforce. Increase employees' perceptions of ethical behavior in leaders. 	2020 2020
	ANTI-BRIBERY AND CORRUPTION CONTROLS	<ul style="list-style-type: none"> Decrease violations of our consultant payment policy. Decrease violations of our customer hospitality policy. 	2017 2017
	SUPPLIER CONDUCT	<ul style="list-style-type: none"> Increase participation in our virtual ethics supplier mentoring program. 	2017
	RESPONSIBLE SALES	<ul style="list-style-type: none"> Track the rate of improperly licensed exports of hardware or technical data under U.S. export regulations. 	2017
PRODUCT IMPACT	PRODUCT SAFETY	<ul style="list-style-type: none"> Track and report product failure or nonconformance due to manufacturing processes. 	2017
	PRODUCT TOTAL COST OF OWNERSHIP	<ul style="list-style-type: none"> Add criteria to fully identify cost drivers early in product design cycle within each business segment's proposal planning and proposal review processes. 	2020
		<ul style="list-style-type: none"> Generate \$1 billion in product life-cycle cost reductions, resulting in lower resource consumption and impacts on human health and the environment. 	2020
		<ul style="list-style-type: none"> We track another proprietary goal to reduce the total cost of our products and services. 	2020
	GLOBAL INFRASTRUCTURE NEEDS	<ul style="list-style-type: none"> Achieve \$4 billion in product sales with direct, measurable benefits to energy and advanced infrastructure resiliency. 	2020
	COUNTERFEIT PARTS	<ul style="list-style-type: none"> Maintain or reduce instances of counterfeit parts in delivered systems confirmed as our responsibility. 	2017

	FACTOR	GOALS	TARGET DATE
EMPLOYEE WELLBEING	WORKPLACE SAFETY	<ul style="list-style-type: none"> Achieve or outperform day away, recordable and severity case rate goals. 	2017
	DIVERSITY AND INCLUSION	<ul style="list-style-type: none"> Develop the best workforce for our customers by increasing representation of women, minorities, veterans and people with disabilities. 	2020
		<ul style="list-style-type: none"> Increase employee participation in company-sponsored diversity events, employee resource groups (ERGs) and leadership associations. 	2020
	TALENT DEVELOPMENT	<ul style="list-style-type: none"> Maintain a lower voluntary attrition rate among top-performing salaried employees compared to those with lower performance. Increase succession planning for senior executives. 	2017 2020
	TALENT RECRUITMENT	<ul style="list-style-type: none"> Achieve intern conversion rate of greater than, or equal to, 50 percent. 	2020
RESOURCE EFFICIENCY	ENERGY AND CARBON MANAGEMENT	<ul style="list-style-type: none"> Reduce energy use by 25 percent, scope 1 and 2 carbon emissions by 35 percent and water use by 30 percent. 	2020
		<ul style="list-style-type: none"> Increase square footage of facilities with green building certifications. 	2020
		<ul style="list-style-type: none"> Increase annual renewable energy consumption. 	2017
		<ul style="list-style-type: none"> Help energy customers reduce carbon emissions by at least twice the carbon impact of our business operations. 	2020
INFORMATION SECURITY	CUSTOMER INFORMATION SYSTEMS AND NETWORK SECURITY and SENSITIVE DATA AND INTELLECTUAL PROPERTY PROTECTION	<ul style="list-style-type: none"> Monitor employee cyber security engagement to counter malicious email threats and monitor number of vulnerabilities per device on core IT networks. 	2017
		<ul style="list-style-type: none"> Monitor data loss incidents that occur within core IT networks for business operations. 	2017
		<ul style="list-style-type: none"> We track another proprietary goal to improve data security. 	2017
	EMPLOYEE PRIVACY AND DATA PROTECTION		
		<ul style="list-style-type: none"> Achieve desired thresholds for identifying vulnerabilities to personal information exposure in our information technology (IT) systems. 	2017



BUSINESS INTEGRITY

We awarded General Tool Company with an Outstanding Small Business Award for its work on the AR1500 tidal turbine, seen here. This turbine is part of the world's largest tidal power array, a project that will generate 398 MW of renewable energy for the U.K.

BUSINESS INTEGRITY

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

SCIENCE We apply proven methodologies and innovative training techniques to cultivate ethical thinking among our employees and develop resources and tools to advance integrity across our industry.	CITIZENSHIP Conducting business with the utmost integrity engenders trust and fosters a resilient value chain and a high-performing, transparent work environment. This not only attracts more customers and helps us retain the best talent, it reduces risk and ensures that the safety of societies and citizens will not be subverted by corruption.
--	--

IMPORTANCE
Integrity is a cornerstone of our business strategy. Poor ethical judgment by government contractors presents risks to future business opportunities and jeopardizes our customers’ ability to protect their citizens. Our high standards for integrity define how we do business and make us a partner of choice for the most sensitive and critical customer missions.

SUSTAINABILITY FACTORS
Through our biennial assessment of sustainability issues, we classified two tiers of priorities: Tier 1 performance factors where we seek to accelerate progress by setting targets for 2017 and 2020; and Tier 2 factors that we will advance through continued management and disclosure, without setting new SMP goals. We define Business Integrity through these factors:

Tier 1 Factors	Tier 2 Factors
<ul style="list-style-type: none">• Ethical governance and leadership• Anti-bribery and corruption controls• Supplier conduct• Responsible sales	<ul style="list-style-type: none">• Human and labor rights• Supplier diversity• Conflict minerals

BUSINESS INTEGRITY IS PARAMOUNT FOR A DEFENSE COMPANY THAT SELLS TO GOVERNMENTS. YOU MUST MAINTAIN STAKEHOLDER TRUST.
Insight from stakeholder engagement summit

EVOLUTION
Since our last reporting cycle, we evolved our Business Integrity core issue, previously called Governance, as a result of our stakeholder engagement-led issues assessment. We incorporated three supplier-focused factors — supplier conduct, supplier diversity and conflict minerals — under Business Integrity because they address a nearly identical objective: to reduce negative impacts in our supply chain. Two other factors shifted in priority based on stakeholders’ inputs: Import and Export Controls and Lawful Lobbying and Political Engagement were deemed well-managed through our existing compliance controls and less urgent for sustainability management. Tier 2 factors remain pivotal topics for our stakeholders but did not warrant setting new goals. While some issues and measures previously included are no longer in the SMP, they remain important and carefully managed.

ETHICAL GOVERNANCE AND LEADERSHIP

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

CHALLENGE

Companies in our industry face increasing pressure to enact governance structures that mitigate the risks of corruption and unethical business practices. The challenge for our ethics program is to create a culture in which employees can resolve ethical dilemmas themselves and feel comfortable speaking up when they observe questionable business practices.

MANAGEMENT

Our ethical culture starts at the top of our organization with our Code of Ethics and Business Conduct, strong policies, continual ethics and compliance training and transparent grievance mechanisms. The Senior Vice President of Internal Audit, Ethics and Sustainability, is an elected corporate officer who reports directly to the CEO and the Audit Committee and Ethics and Sustainability Committee of the Board of Directors. This role has authority over our corporate-wide Ethics and Sustainability programs, including all ethics and business conduct training. A wide range

of business functions, including Legal, Finance, Business Development, and Human Resources, across the Corporation, oversee our compliance performance.

Our Code of Ethics and Business Conduct explains how our affiliates must conduct themselves when representing Lockheed Martin and details our high standards for employee behavior. We publish the Code in 17 languages and make it available to all employees, our Board of Directors, consultants, contract laborers and other agents acting on the Corporation's behalf.

We have an anti-retaliation program to assuage employees' fears of retaliation for reporting misconduct to their management or local Ethics Office. We closely monitor employees at potentially higher risk of retaliation, such as those making complaints against a leader. We notify employees of their whistle-blower rights and protections, as described in Defense Federal Acquisition Regulation Supplement 203.9 for defense contractors.

GOALS

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

Progress: The rate of allegations of misconduct by leaders decreased by 0.2 percent, from 45 percent in 2015 to 44.8 percent in 2016. This measure complements other qualitative and quantitative indicators we monitor to assess ethics in the workplace.

Improve employees' perceptions of ethical behavior in leaders.

Progress: We monitor employees' perceptions of our culture through all-employee surveys and interim sample surveys, which evolve with our business structure and workforce. The next survey in 2017 will establish a new baseline of employee perceptions of leaders' ethical behavior.



IMPROVING OUR INVESTIGATIONS

INNOVATION

In 2016, we revamped our ethics investigator training program by supplementing lecture-based coaching sessions with quarterly experiential training modules. In the new training program, ethics officers simulate an ethics investigation by role-playing realistic interactions with reporting parties, subjects and witnesses, allowing them to experience a case from all points of view. Participants then create an investigation plan based on what they learned.

We also introduced an informative video series featuring employee experts from departments that frequently participate in employee investigations such as Security, Legal, Human Resources and the Computer Incident Response Team. These speakers provided overviews of key topics in their domain (such as employment law, labor relations or computer forensics) and how they apply to investigations. These resources are available on an internal website accessible by the investigations team.

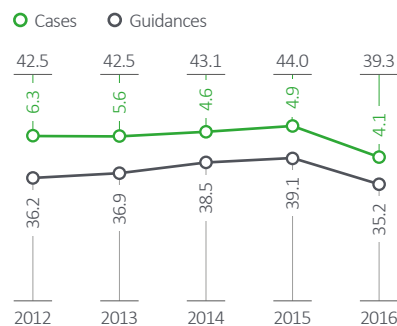
IMPACT

Allowing ethics officers to hone their investigation skills and experience the process from all perspectives increases the efficacy of our investigations. Since expanding our training techniques, we have seen a 6 percent average increase in response rates to satisfaction surveys sent to the subjects and reporting parties of investigations to 60 percent and 69 percent, respectively. This indicates that employees feel more comfortable sharing thoughts and ideas about the ethics reporting process.

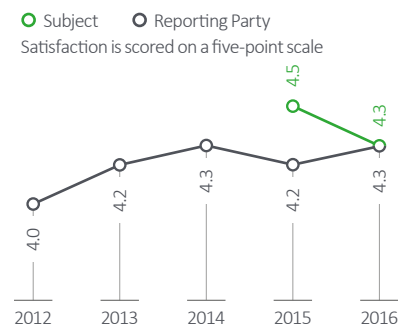
▲ Maintaining a strong ethical culture requires participation from all Lockheed Martin employees.

▼ Forty-six percent of the cases investigated in 2016 were substantiated.

Ethics Contacts (per 1,000 employees)



Investigation Feedback



ANTI-BRIBERY AND CORRUPTION CONTROLS

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

CHALLENGE

Unethical practices can hurt our reputation, lead to significant legal costs and liabilities, and jeopardize sensitive missions to protect citizens. We must enforce zero tolerance anti-corruption policies and practices to protect mission, product and service integrity.

MANAGEMENT

External stakeholders view our anti-corruption efforts through our formal controls and employees' actions. Internally, our anti-corruption program begins with our Corporate Policy Statements. The SMP and other mechanisms monitor compliance with these policies. [Key anti-corruption policies](#) include:

- [Compliance with Anti-Corruption Laws](#) mandates we conduct business according to applicable anti-corruption laws, rules and regulations and our Code of Conduct.

- [Gifts, Hospitality, Other Business Courtesies and Sponsorships](#) says we will not engage in, or otherwise tolerate, any form of bribery or corruption in our business dealings, even when compliance with this policy could force us to turn away business.

For the 22nd year in a row, 100 percent of Lockheed Martin employees¹ completed their required business conduct compliance training (BCCT). BCCT courses are assigned by job function, role and level to educate employees on the laws and standards of conduct that apply to their jobs including, but not limited to, domestic and international anti-corruption laws. When possible, we use interactive training techniques like video game-style simulations to illustrate real-world examples of ethical gray areas and workplace processes that may require ethical review. Every year, all employees also participate in mandatory values-based live ethics training sessions with their leaders.

¹ Data exclude Sikorsky, which is scheduled to fully integrate BCCT in 2017.

GOAL

Decrease violations of our consultant payment and customer hospitality policies.

Progress: In 2016, no payments were made to consultants that were not in compliance with our internal policy, compared to 16 payments in 2015.

In 2016, there were 11 instances where hospitality or business courtesies were provided that were not in compliance with our internal policy, compared to six instances in 2015.

All instances were reviewed and determined to be administrative or procedural errors and no hospitality violated any anti-corruption law. Employees who had not followed the correct approval procedure received training on the policy and its guidelines.



INTEGRATING NEW ACQUISITIONS

INNOVATION

After acquiring Sikorsky, we became responsible for the conduct and development of its 15,000 employees in 11 countries, our largest integration in more than 20 years. We formed a cross-functional integration management office made up of Lockheed Martin and Sikorsky employees to oversee actions related to streamlining policies and practices between the two companies. The team assessed both sets of procedures and used best practices from both entities. The process is intended to ensure that within 18 months of the start of the acquisition, Sikorsky employees are integrated into our internal systems and have access to resources including BCCT and ethics awareness training.

IMPACT

Our stakeholders and employees needed reassurance that, despite changes in our organizational structure and product mix, we are committed to upholding the highest levels of business integrity. By prioritizing ethics training and education, we reaffirm our long-standing expectation that anyone affiliated with Lockheed Martin act in accordance with our values.

Sikorsky became part of Lockheed Martin on November 6, 2015. On that day, every Sikorsky employee received a link to the Lockheed Martin Code of Conduct. Delivering the Code was the first milestone in a comprehensive onboarding plan across multiple business functions, digital platforms, employee benefits plans and training programs.

▲ Sikorsky's CH-53K helicopter handles missions like humanitarian aid, troop transport, casualty evacuation, support of special operations forces, and combat search and rescue.

HIGHLIGHT

Following the SEC rules to assess effectiveness of controls within one year of acquisitions, we determined that Sikorsky's internal control over financial reporting was deficient. It did not adequately implement appropriate controls for its processes and information technology systems. There were no material errors in the financial results identified and no restatements were required as a result. [Learn more in our Annual Report.](#)

SUPPLIER CONDUCT

Supporting our suppliers to strengthen management and disclosure on ethical, labor, human rights and environmental issues.

CHALLENGE

Our suppliers' quality of work and business conduct directly impact our license to operate. It is our responsibility to ensure our 16,000 active suppliers understand our expectations of professional performance, business conduct and ethical behavior, and to help them uphold these standards.

MANAGEMENT

More and more stakeholders demand increased transparency into where and how products are made, which requires due diligence and strong partnerships across the value chain. Managing finite natural resources, ethical behavior, data protection and other supply chain risks is vital to product quality and profitability. We work with suppliers to share best practices, ensure regulatory compliance and assess management practices. We also reference our [Supplier Code of Conduct](#) in all purchase orders to ensure all active suppliers

understand our expectations for their environmental, social and ethical performance. In 2016, we accepted the Defense Industry Initiative's Model Supplier Code as equivalent to our own, leading the way toward a commonly accepted industry standard code of conduct.

Global Supply Chain Operations has a number of integration points across the Corporation. The function reports to the Senior Vice President of Corporate Engineering, Technology and Operation (CETO), who reports to the CEO. The Director of Global Supply Chain Operations is a member of the Corporation's Sustainability Working Group and the Supply Chain Council. The Supply Chain Council consists of executives from each business segment and collaborates with the other CETO councils: Engineering and Technology, Production Operations, Program Management, and Logistics and Sustainment.

GOAL

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

Progress: In 2016, seven companies participated in our one-on-one mentoring program and 48 companies participated in our online webinar series, compared to 11 and 24 companies respectively in 2015. Using webinars and other virtual resources has enabled us to multiply the impact of the ethics supplier mentoring program.



THE SUPPLIER CODE OF CONDUCT REALLY DROVE OUR EFFORTS TO EXPAND OUR ETHICS PROGRAM. IT HELPED GIVE US A FRESH PERSPECTIVE ON OUR RESPONSIBILITIES AS PART OF A GREATER COMMUNITY. WE'VE BEEN SURPRISED AT HOW MUCH WE'VE LEARNED BY WORKING WITH LOCKHEED MARTIN AND WE'RE GOING TO TAKE ADVANTAGE OF EVERY OPPORTUNITY PROVIDED US.

JEROME SIROTNIK

VP & General Manager, Aviation Ground Equipment Corp

SUPPLIER MENTORING

INNOVATION

In 2016, we introduced a live instructional webinar series and a set of short videos for our suppliers. These resources are abridged versions of topics covered in-depth during one-on-one Ethics Supplier Mentoring Program sessions. The series covers the 12 elements of an effective ethics program and how to develop a sustainability strategy. We posted the [videos and webinars](#) online so all current and prospective suppliers can access them.

IMPACT

Many of our suppliers do not have the resources to engage with us one-on-one for six months. This streamlined approach to ethics mentoring allows us to reach more suppliers cost effectively, thereby decreasing risk of misconduct in our supply chain. In 2016, 53 people from 48 companies participated in at least one live webinar in our five-part series. Our video series averaged 250 views per module in the first three months it was available online.

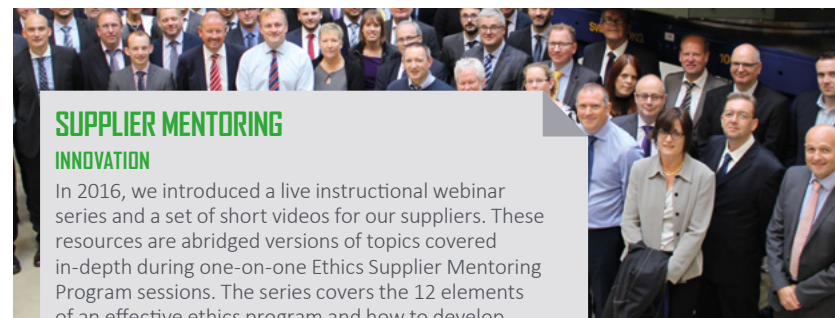
SUSTAINABILITY SURVEY

INNOVATION

In 2016, we conducted our second voluntary survey for suppliers to report on their environment, social and governance management systems and performance. We expanded invitations from 23 to 166 suppliers that represent 54 percent of our supply chain spending. We selected a mix of small and large businesses with varying contract length and value, suppliers to our business travel program and those who were prior participants in our ethics mentoring program or supplier sustainability summit. We received responses from 121 suppliers representing 45 percent of Lockheed Martin supply chain spending.

IMPACT

The survey provided insight on the sustainability landscape of our supply chain. After analyzing the results, we developed action plans for supplier engagement and our own sustainability performance. For example, six percent of respondents indicated that they do not have their own code of conduct. We used this information to send out tailored communications, inviting suppliers to take advantage of our free ethics resources to help them develop a code of conduct, including our Ethics Supplier Mentoring Program.



▲ The Warrior Capability Sustainment Programme team in Amptill, U.K., honored supplier representatives for performing excellent work.

HIGHLIGHT

Our diverse supply chain spans 53 countries and consists of:

62%

small businesses

93%

U.S.-based

43%

manufacturers

26%

service providers

13%

distributors

RESPONSIBLE SALES

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

CHALLENGE

Our frequent interactions with U.S. and foreign governments and corporate customers bring an understandably high level of public and regulatory scrutiny to our business ethics and export practices. We challenge ourselves to operate at or above the highest standards set by corruption and transparency regulations.

MANAGEMENT

We conduct international business through foreign military sales (FMS) contracted through the U.S. government or through direct commercial sales (DCS) to international customers. FMS transactions are subject to federal acquisition regulations and are sales by the U.S. government to international governments. DCS transactions are conducted by us, directly with another international government or commercial customer. FMS and DCS transactions with international customers are subject to our Code of Ethics and Business Conduct and U.S. and foreign laws and regulations, including those related to anti-corruption, import-export control, taxation, repatriation of earnings, exchange controls and the anti-boycott provisions of the U.S. Export Administration Act. In 2016, approximately 66 percent of Lockheed Martin sales to international customers were FMS, and about 34 percent were DCS.

When conducting international business, we have procedures to mitigate corruption risks in all our international and domestic dealings. Our corporate policy, Compliance with Anti-Corruption Laws, sets forth requirements for conducting risk-based, anti-corruption due diligence before entering into

a proposed relationship with international third parties, including consultants and offset brokers, distributors, resellers, joint venture partners, teammates, suppliers, and potential merger and acquisition targets.

We mandate anti-corruption compliance and assurance in several other policies. For example, we mandate that international consultants undergo training on our Code of Ethics and Business Conduct and associated business conduct and anti-corruption policies. Additionally, we require that international suppliers located or providing services to Lockheed Martin in countries with Transparency International Corruption Perception Index (CPI) rating below 50 undergo additional screening before contracting can begin. We do this to emphasize our commitment to our Code of Conduct and the anti-corruption laws of the countries in which we do business, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. We would rather walk away from business than risk violating these anti-corruption laws and the corporate values described in our Code of Conduct.

GOAL

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

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



ALTERNATIVES FOR MISSION SUCCESS INNOVATION

In 2016, the U.S. Army field tested the new Guided Multiple Launch Rocket System Alternative Warhead (GMLRS AW), developed by Lockheed Martin in partnership with ATK. This live firing test demonstrated the suitability of the GMLRS AW to replace the GMLRS cluster munition warhead. The test targets consisted of a command post, fuel tanker convoy, resupply point and truck mounted mortar. All 12 rockets precisely hit their targets, validating the GMLRS AW's accuracy and effectiveness.

IMPACT

In 2008, more than 100 nations signed the Convention on Cluster Munitions that will ban the use of all cluster munitions after 2018. Signatories cited the danger of those types of ordinances, which previously could land unexploded and then be detonated by civilians unintentionally. While Lockheed Martin stopped the production of rockets with submunition warheads approximately six years ago, the Army's requirement for an area coverage weapon persists. The GMLRS AW can engage the same targets and achieve the same area coverage as the former GMLRS submunition warhead, but without the lingering danger of unexploded ordnances. GMLRS AW is fully compliant with international treaties banning submunition weapons, and helps our military customers fulfill their national security and civilian safety objectives.

Our four business areas approach responsible sales with the highest standards.

100%

In 2016, 100 percent of our international consultants received training on ethics, compliance and our Code of Conduct.

TIER 2 FACTORS

Other factors we manage and monitor as secondary priorities of our sustainability strategy.

HUMAN AND LABOR RIGHTS

Efforts to prevent abusive labor practices and violations of civil liberties in business operations and supply chain in a manner consistent with internationally recognized standards.

MANAGEMENT

Risk assessments and stakeholder engagement on environmental, social and governance matters suggest the potential for human rights violations listed in the Universal Declaration of Human Rights is not significant in our primarily U.S. operations or direct supply chain. Our sustainability goals for Ethical Leadership and Supplier Conduct encompass actions we take to uphold human rights and labor practices. Several existing due-diligence and compliance measures seek to prevent possible violations from occurring.

We complete arms sales through two processes approved by the U.S. government: transfers completed by the U.S. government through the Foreign Military Sales program and Direct Commercial Sales. The U.S. government reviews and approves all arms transfer decisions using criteria that includes the “likelihood that the recipient would use the arms to commit human rights abuses or serious violations of international humanitarian law, or re-transfer the arms to those who would commit human rights abuses or serious violations of international humanitarian law.”

In accordance with the Federal Acquisition Regulation, our Combating Trafficking in Persons Compliance Plan details our communications and oversight strategy for preventing suppliers and employees from engaging in activities known to be conducive to human trafficking. We communicate our anti-human trafficking standards and requirements on our website and in the Supplier Code of Conduct, which are on every purchase order.

We communicate our human rights stance to our employees through our corporate policies: [Good Corporate Citizenship and Respect for Human Rights](#) and [Combating Trafficking in Persons](#). We encourage our employees, suppliers and the general public to report potential human rights violations through our anonymous ethics helpline.

CONFLICT MINERALS

Efforts to monitor and manage conflict mineral use, as defined in section 1502 of the Dodd-Frank Act, in our product manufacturing and supply chain.

MANAGEMENT

Mining tin, tantalum, tungsten and gold from the Democratic Republic of the Congo and surrounding countries has been linked to human trafficking, slavery and other human rights abuses. We perform country of origin inquiries with relevant suppliers and conduct due diligence to verify the sources of raw materials used in our products. As of December 31, 2016, our annual conflict mineral survey solicited approximately 1,000 suppliers representing more than 90 percent of our direct material spending. Working toward a better conflict minerals program, we continue to enhance our smelter data and verification processes and increase supplier outreach and education. We are a member of the Conflict-Free Sourcing Initiative (CFSI), through which we fund smelters audits annually to help them become validated as conflict-free.

Learn more on our [Conflict Minerals](#) webpage.

TIER 2 FACTORS

SUPPLIER DIVERSITY

Efforts to enhance procurement opportunities for small business suppliers by supporting their organizational development and competitiveness.

MANAGEMENT

We contract with and support a diverse range of U.S. small business suppliers as part of our supply chain strategy. Small businesses enhance our competitive advantage, create economic growth and advance our corporate diversity goals and principles. We especially value the agility, ingenuity and new perspectives we gain when partnering with small businesses to solve our customers' complex challenges. We surpassed our 2016 goal of \$3.08 billion in small business spending by awarding \$4.3 billion in subcontractor contracts to small businesses, with \$3.4 billion of those contracts supporting U.S. DoD contracts.

We participate in [government outreach and development programs](#), including the DoD's Small Business Innovation Research (SBIR) program and Mentor-Protégé Program (MPP). SBIR funds technology research and development for U.S.-based small businesses, and the MPP fosters technology innovation by pairing small businesses with large companies under individual, project-based agreements. These programs are mutually beneficial. Our small business suppliers develop technology and business operations and we get an early look at emerging technologies we can apply to our defense portfolio.

We advance opportunities for our small business suppliers through speaking engagements, special events and our Supplier Wire virtual resource center, which hosts question and answer sessions, webinars and training videos. In 2016, we added virtual educational resources called the [Supplier Training Excellence Program \(STEP\)](#). Through these engagements, we teach small businesses to better position themselves to secure contracts, increase operational capacity and manage ethics and sustainability impacts.

We were one of the first companies to join the Small Business Administration's Supplier Pay Initiative in 2014, and we provide prompt payment to over 7,000 small businesses on a two-year 15.4 day average. The goal of the program is to support our country's small businesses with the financial support needed to empower growth and strengthen financial stability. This, in turn, stimulates economic activity and drives efficiencies for the small businesses by not having to wait to collect payments.



▲ We attended nearly 150 outreach events targeting small and disadvantaged business.

Working with Small and Disadvantaged Businesses¹

\$4.3 billion (24.5%) awarded to more than 9,900 small businesses²

More than \$336 million with over 355 Service Disabled veteran-owned small businesses

Over \$271 million with more than 170 HUBZone businesses

Over \$666 million with more than 1,244 veteran-owned small businesses

More than \$872 million with over 991 small, disadvantaged businesses

Over \$865 million with more than 1,600 woman-owned small businesses

Capacity Building²

630 SBIR/Small Business Technology Transfer (STTR) proposals endorsed, with 107 partnerships made in the government fiscal year (GFY) 2016

Seven MPPs in the GFY 2016

Outreach Activities

Hosted 15 supplier events, including Supplier Wire webinars

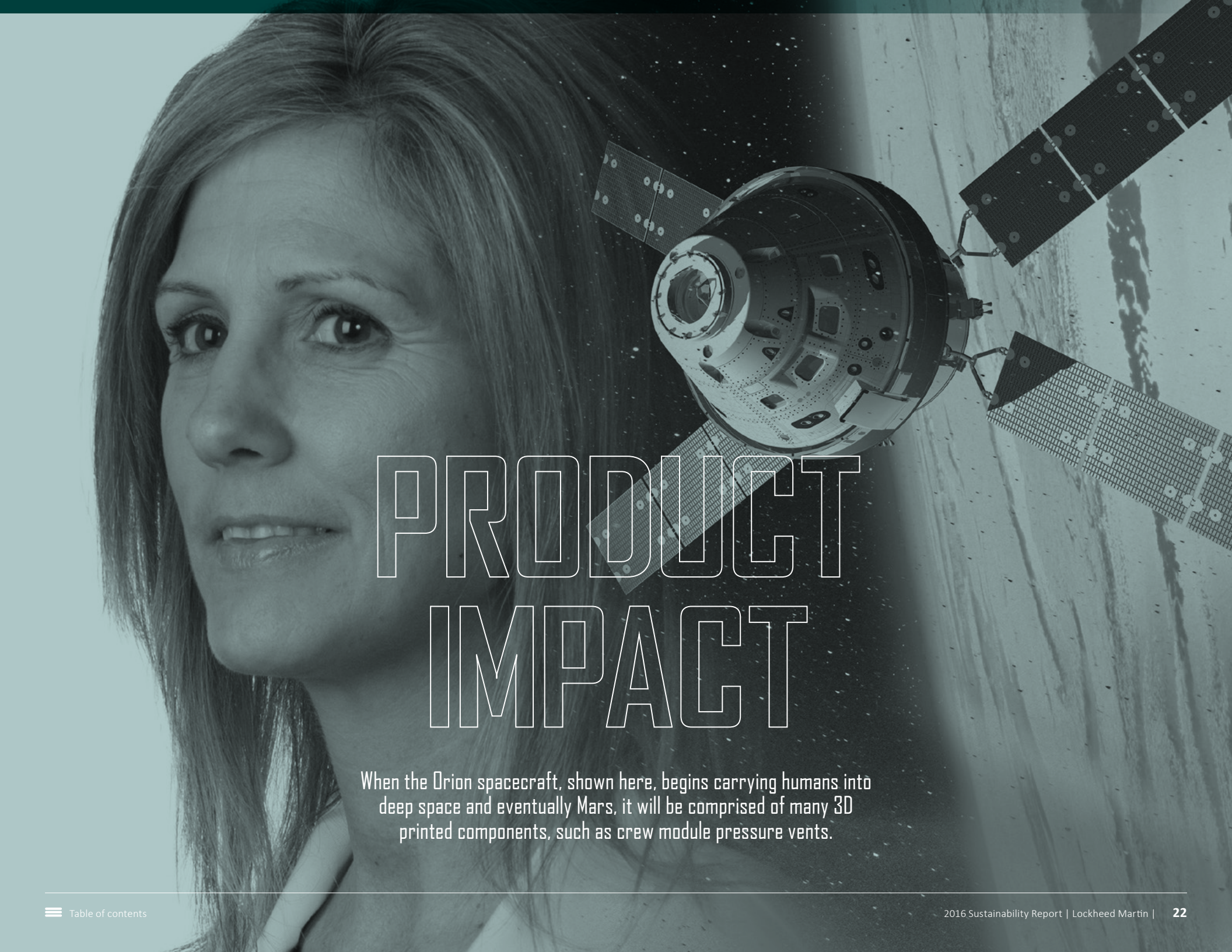
Attended 139 events

Launched the STEP resource library

Offered four exclusive supplier recognition awards events, honoring 40 small businesses

¹ For the GFY of October 1, 2015 – September 30, 2016.

² Does not reflect Sikorsky.

A woman with long brown hair is looking up and to the right with a slight smile. In the background, the Orion spacecraft is shown in space, with its solar panels extended. The Earth's surface is visible in the lower right corner.

PRODUCT IMPACT

When the Orion spacecraft, shown here, begins carrying humans into deep space and eventually Mars, it will be comprised of many 3D printed components, such as crew module pressure vents.

PRODUCT IMPACT

OBJECTIVE

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

SCIENCE

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

CITIZENSHIP

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

IMPORTANCE

Our 50,000 scientists, engineers and information technology professionals develop a broad portfolio of products and solutions for national defense, cyber security, logistics and energy. This portfolio supports global advanced infrastructure for national security and citizen services to strengthen critical systems at scale. Customers measure our value through product quality, cost and reliability. We build safety, resource efficiency and other dimensions of sustainability into each phase of the product life-cycle, from design to delivery. By recognizing the nexus between customer needs and sustainability, we can design generation-after-next solutions that deliver greater value to our customers and society in terms of product impact and total cost of ownership.

SUSTAINABILITY FACTORS

Through our biennial assessment of sustainability issues, we classified two tiers of priorities: Tier 1 performance factors where we seek to accelerate progress by setting targets for 2017 and 2020; and Tier 2 factors that we will advance through continued management and disclosure, without setting new SMP goals. We define Product Impact through these factors:

Tier 1 Factors

- Product safety
- Total cost of ownership
- Global infrastructure needs
- Counterfeit parts

Tier 2 Factor

- Product eco-innovation



TOTAL COST OF OWNERSHIP IS EMPHASIZED OVER PRODUCT ECO-INNOVATION BECAUSE THE FORMER GENERALLY EMBODIES THE IMPLEMENTATION AND MONETIZATION OF THE LATTER. FEDERAL CONTRACTORS CAN INCORPORATE SUSTAINABILITY INTO COST REDUCTION DISCUSSIONS IN WAYS FOR CORE CUSTOMERS TO MORE READILY SEE ITS VALUE.

Insight from stakeholder engagement summit

EVOLUTION

Since our last reporting cycle, we evolved our Product Impact core issue, previously called Product Performance, as a result of our stakeholder engagement-led issues assessment. We combined affordability and innovation into total cost of ownership to show how product cost and stewardship are inextricably linked; whereas for customers, product eco-innovation is secondary to durable, reliable, cost-effective solutions. After increased stakeholder interest in businesses' roles in global sustainable development, we introduced global infrastructure needs as a factor to reflect our societal value and opportunity to contribute to sustainable development. This year, we realigned a supplier-related factor, counterfeit parts, to Product Impact because of its relevancy to product performance and business risk. While some issues and measures previously included are no longer in the SMP, they remain important factors we value and manage.

GLOBAL INFRASTRUCTURE NEEDS

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

◀ LMH-1 Hybrid Airships can deliver aid to remote areas without roads.

CHALLENGE

Increased environmental, social and geopolitical pressures demand significant investments in infrastructure worldwide. As a large aerospace and defense contractor, we are challenged to adjust our research and development priorities when entering new commercial technology markets.

MANAGEMENT

Our objective is to solve complex challenges, advance scientific discovery and deliver innovative solutions to help our customers keep people safe. One of the most significant ways we do this is through space-based telecommunications

GOAL

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

Progress: In 2016, product sales that benefit energy and infrastructure resiliency totaled \$2.47 billion towards a 2020 goal to exceed \$4 billion in same product sales.

technology that provides critical information for national security and humanitarian aid missions, enhances cyber and banking security, and secures public health and safety. Our satellites support sustainable development programs with high-quality, timely and reliable geospatial information that underpins sound public policy and responsible industrial growth in developing nations. We solve energy infrastructure problems with low-carbon energy generation, distribution, storage and management systems. Our company size and strategic partnerships allow us to scale our solutions regionally and nationally, creating global solutions at affordable prices to contribute to sustainable development.

In 2016, we formed a Technology Advisory Group (TAG) of external experts to advise us on innovation strategy and direction. Two members were selected for their expertise in sustainability, ensuring we integrate environmental and social sustainability considerations into our technology.

AIDING THE UNREACHABLE

INNOVATION

In 2016, we signed our first contract for the purchase of up to 12 LMH-1 Hybrid Airships, our 100-meter helium airships capable of carrying more than 20 tons of cargo and 19 passengers. At a cruising speed of about 70 miles per hour (mph), the LMH-1 can stay airborne for 30 hours, and at about 30 mph, it can fly for up to 20 days. Its thrust comes from an engine that exerts only one-tenth the power and emissions of an airplane. LMH-1's air cushion landing system allows it to land virtually anywhere, in dirt, grass, ice, snow or water, with little or no transportation infrastructure.

The LMH-1 inspired the creation of the RAD-AID Straightline Medical Airship Program, which plans to deliver radiology, diagnostic medical imaging equipment and medical assistance to regions that are medically underserved, remote or have poor access to conventional transportation infrastructure. Beginning in 2018-2019, the initiative intends to center on outreach programs providing vaccinations, disaster response, patient education, screenings and treatment of common diseases, including cancer, heart disease, diabetes, HIV, tuberculosis and hepatitis. Hybrid Airships would provide affordable and effective solutions to critical health and social development challenges around the world.

IMPACT

More than half the world's population has no direct access to paved roads. A lack of safe and reliable transportation infrastructure puts remote communities at risk of being unreachable during humanitarian crises, creates barriers to education, and can lead to higher prices for healthcare and imported goods. The expense to create transportation infrastructure is a deterrent to economy-boosting industrial investments. The Hybrid Airship's remote landing capabilities could help remove barriers to development for remote and rural communities by lowering construction, transportation and logistics costs for large-scale industrial projects. The aircraft's extended flight and heavy-lift capacity could create new intercontinental trade routes. Its malleable envelope and passenger seating would create a functioning mobile hospital during disaster relief and humanitarian efforts.

TOTAL COST OF OWNERSHIP

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

CHALLENGE

In defense contracting, our charge is to develop innovative design, manufacturing and sustainment techniques meeting our customers' highly specific technical requirements and budgetary constraints. We balance these needs with our commitment to sustainable innovation through smarter products, more durable solutions and responsible resource stewardship.

MANAGEMENT

Many stakeholders acknowledge that 85 percent of the life-cycle cost of products in our sector is decided during the design phase. Product design determines how the product will operate as well as fuel and maintenance requirements. To reduce total cost of ownership for customers, we design aircraft with reduced fuel requirements and components that allow less expensive operation and maintenance. We use additive manufacturing techniques to reduce process time and costs. We aim to ensure the cost impact of every decision is immediately understood through the application of proven systems engineering approaches.

We also invest significantly in our Design for Affordability initiative, an effort to reduce total life-cycle costs of our products while preserving and even enhancing mission capabilities. Our goal is to help our customers meet their vision for the future while balancing competing priorities in a smart and sustainable way. We hope to evolve the current method of doing business in a way that passes real savings on to our customers.

GOALS

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

Progress: We established an employee training module and a corporate-wide working group to plan the implementation of a standardized design-to-cost methodology, which is a systematic approach to controlling the costs of product development and manufacturing during the capture and design phases.

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

Progress: We conducted life-cycle assessment case studies on three products, identifying cost savings of \$250 million versus business-as-usual scenarios.

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

Progress: In late 2016, we modified the cost reduction goal due to the effect of the Sikorsky acquisition.

3D PRINTING TRAVELS TO JUPITER INNOVATION

The Juno spacecraft completed its five-year journey to Jupiter on July 4, 2016, becoming the first and fastest spacecraft to fly into deep space using solar panels. We designed and manufactured Juno to maximize energy efficiency and minimize production costs. More than 18,000 high-performance solar cells powered the spacecraft 1.7 billion miles, at times generating only 500 watts of electricity, or the equivalent of five household light bulbs. Our engineers designed Juno's flight pattern to maximize time facing the sun and its instruments are designed to be as energy efficient as possible. Juno also broke the distance record for spacecraft using 3D-printed parts. Eleven lightweight antenna brackets were 3D-printed with titanium-64 alloy powder, reducing both production cost and schedule by an estimated 50 percent as well as providing a reduction in waste metal over conventional machining techniques.

IMPACT

Spacecraft exploring the outer solar system have traditionally used plutonium-powered batteries to produce electricity for their computers and instruments. Plutonium-238, the radioactive isotope needed to create plutonium batteries, is scarce in the U.S. and import costs are estimated at about \$8 million per kilogram. Furthermore, re-establishing a domestic P-238 production system is estimated to cost \$85-125 million and take approximately nine years to implement. By using solar panels, we avoided the cost of importing or producing an expensive nuclear material and demonstrated a viable, less expensive alternative power source for future low-light space missions.

By 3D printing the waveguide brackets, we halved the cost and manufacturing time, proved 3D-printed components can function in deep space, and opened the door for 3D printing to become common in space travel.

Each of Juno's three solar panels is 30 feet long.

HIGHLIGHT

3D titanium printing can streamline spacecraft and aircraft production by reducing:

48%
of part costs

43%
of average production time

40%
of part weight

See more examples of 3D printing in spacecraft.

PORTFOLIO IMPACT BY LIFE-CYCLE STAGE: GREENHOUSE GAS EMISSIONS¹

Three of our new Sustainability Management Plan goals have the potential to reduce greenhouse gas (GHG) emissions in our products for our customers, thus focusing our efforts on the area of greatest impact.

Through internal consultation, we identified opportunities in our value chain where we can create transformative change in GHG emissions from sourcing through use of our products.

Our Goals

GENERATE
\$1 BILLION

of life-cycle costs reductions from products.

ACHIEVE
\$4 BILLION

in product sales with measurable benefits to energy and infrastructure.

REDUCE
ENERGY
CUSTOMERS'
EMISSIONS

by at least twice the carbon impact of our business operations.

Life-Cycle Stage

SUPPLY CHAIN

OUR OPERATIONS

DISTRIBUTION
AND TRANSPORTATION

CUSTOMER USE

Amount of GHG Emissions

27%

4%

1%

69%

Factors We Manage to Help Reduce GHG Emissions

- Supplier Conduct
- Total Cost of Ownership
- Counterfeit Parts
- Product Eco-Innovation
- Hazardous Materials and Chemical Management

- Ethical Governance and Leadership
- Total Cost of Ownership
- Product Eco-Innovation
- Energy and Carbon Management
- Remediation

- Supplier Conduct
- Total Cost of Ownership
- Energy and Carbon Management

- Responsible Sales
- Total Cost of Ownership
- Global Infrastructure Needs
- Energy and Carbon Management

¹ Based on a 2016 cradle-to-grave streamlined life-cycle assessment that analyzed our annual procurement, operations and product delivery data for our major military systems. The assessment applied peer-reviewed methodologies to determine the relative impacts of resource use, environmental releases and other total cost of ownership factors.

PRODUCT SAFETY

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

CHALLENGE

Safety represents a major dimension of our product development strategy and is fundamental to maintaining customer trust and satisfaction. We seek to anticipate and mitigate consequences of the production and use of our products, but we have limited ability to control all potential risks across our value chain.

GOAL

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

Progress: We actively manage and review the efficacy of our manufacturing practices internally, but do not disclose performance data deemed competitive and proprietary. We track measures specific to each of our lines of business that indicate the quality of our manufacturing processes.

MANAGEMENT

Product safety depends upon our commitment to quality and safety in our design and engineering principles, development and testing practices and sustainment processes. We develop services and products to account for human factors during product use to ensure our safety measures are realistic and relevant to customers. Our Quality, Mission Success and System Safety policy requires each business segment to implement and maintain an independent quality assurance function that reports to the segment's senior executive, as well as a quality management system (QMS) that meets or exceeds ISO 9001 standards. We require all suppliers to have a QMS that meets our requirements and we establish program-specific processes to verify supplier quality.

Certain programs implement a failure review board to manage risks and outcomes associated with product parts failures, including design and manufacturing process evaluations, and flight and development tests. The board has the responsibility and authority to ensure that the root causes of test failures are identified and corrective action is taken.



DELIVERING SAFETY THROUGH SMART COMMUNICATION

INNOVATION

In 2016, Lockheed Martin's Advanced Development Programs, also known as Skunk Works®, collaborated with research teams from the U.S. Department of Defense (DoD) and NASA to demonstrate our Automated Air Collision Avoidance System (Auto ACAS) in the F-16D fighter jet. Auto ACAS builds a buffer zone around each aircraft and recognizes unauthorized entries into this 'Formation Deactivation Zone.' It can then analyze the flight trajectories of both aircraft to detect impending collisions and automatically maneuver each aircraft to prevent mid-air collisions. We designed the system to work with the Automatic Ground Collision Avoidance System (Auto GCAS) and together they prevent the two leading causes of fighter aircraft losses: controlled flight into terrain and mid-air collisions.

IMPACT

Aircraft collisions can result from errors in supply chain sourcing, manufacturing processes or pilot operations. We want to protect our customers from deadly collisions, regardless of the root cause. The integrated Auto ACAS-Auto GCAS system is a significant safety milestone that will make combat training and flight operation significantly less dangerous. The Office of the Secretary of Defense estimates this system will save 25 pilot lives and 34 aircraft and reduce costs by \$2.3 billion through 2030.

▲ The F-16 demonstrated avoidance of two causes of aircraft loss: controlled flight into terrain and mid-air collisions.

HIGHLIGHT

In September 2016, Auto GCAS performed its fourth confirmed 'save', assuming control for an unconscious pilot and avoiding imminent ground collision.

COUNTERFEIT PARTS

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

◀ We prevent counterfeit parts by training our quality assurance professionals on supply chain, quality, manufacturing and engineering topics and trends.

CHALLENGE

Counterfeit parts may be sub-standard or unreliable, which can compromise our reputation and negatively impact mission success and national security. The risk must be mitigated across our supply chain's 16,000 direct vendors and tens of thousands of sub-vendors. Industry research shows electronic parts pose the highest risk of counterfeit parts.

MANAGEMENT

We never want to see a counterfeit part in our deliverables. To manage the risk, we employ quality and control processes to detect and

mitigate instances of suspected or confirmed counterfeit parts, and make prompt disclosure to the government and customer when we become aware of them.

The Corporate Counterfeits Avoidance Working Group comprises quality and supply chain subject matter experts across each business segment and corporate function, and manages our corporate policy on counterfeits prevention. The policy states that all business segments must apply a risk-based approach to the prevention, detection and mitigation of counterfeit work. Each business segment administers a counterfeit work prevention training course that includes supply chain, quality, manufacturing and engineering activities. The training builds awareness of counterfeits and teaches strategies to prevent, detect and mitigate counterfeits from entering our products.

We collaborate with industry associations such as the Aerospace Industry Association and SAE International's G19 Counterfeit Electronic Parts Committee to develop common strategies to reduce the risk of counterfeit parts. We participate in the Government-Industry Data Exchange Program (GIDEP), an information-sharing network between the federal government and industry participants. Manufacturers can originate GIDEP notices when they suspect parts are counterfeit.

GOAL

Maintain or reduce instances of counterfeit parts prior to customer delivery and confirmed as our responsibility.

Progress: In 2016, one instance of suspected counterfeit materials escaped to end-customers. Using GIDEP, our Aeronautics business segment identified one suspected counterfeit — circuit cards associated with test lab facilities. We initiated a purge process to locate, document and notify affected companies. There was no impact to production of aircraft and no hazard to personnel or equipment.

COLLABORATING TO DEFEAT COUNTERFEITS INNOVATION

In 2016, our Corporate Counterfeits Avoidance Working Group held a Counterfeit Prevention Summit with quality and supply chain leaders from each business segment. The purpose of the summit was to review our internal processes and update our corporate Counterfeit Prevention policy to reflect recent changes in Defense Federal Acquisition Regulation Supplement (DFARS) requirements for sourcing electronic parts. The new DFARS clauses require contractors to purchase electronics from specified sources when available, or assume a higher level of liability. All suppliers assembling or providing electronic parts must also implement robust counterfeit electronic part detection and avoidance systems that address 12 key risk areas laid out in the new regulation.

We hosted a counterfeit prevention webinar for 35 suppliers, giving them strategies to avoid and detect counterfeits, informing them of DoD regulations and outlining our expectations of them. For those who did not attend the webinar, we updated our Supplier Wire website with supplier responsibilities under the new clause and created a page answering 20 frequently asked questions about counterfeits prevention. We will publish and distribute a Supplier Newsletter on counterfeits to our suppliers in early 2017.

IMPACT

Excellent supply chain management begins in-house. We train our supply chain professionals on the latest industry trends, techniques and regulations, and engage our suppliers so they are prepared to fulfill their responsibilities. Industry reports of counterfeit electronic parts infiltrating the aerospace and defense supply chain have increased in the past several years. We receive, integrate and deliver components with thousands of electronic parts that must be screened and inspected. The Counterfeit Prevention Summit resulted in an action plan to update our corporate policies and acquisition procedures with the latest DFARS.

HIGHLIGHT

Improperly discarded e-waste contributes to the counterfeit parts market and is an environmental and health danger. We partner with recycling vendors to responsibly manage used electronics.

100%

of our e-waste recycling vendors are e-Stewards or R2 certified.

In 2016, we hosted

6

employee e-waste events with

600+

employee participants

45,000

pounds of e-waste were collected

TIER 2 FACTOR

This is a factor we manage and monitor as a secondary priority of our sustainability strategy based on stakeholder feedback.

PRODUCT ECO-INNOVATION

Accounting for material efficiency, re-usability and use-phase emissions and energy consumption throughout product design, development and maintenance.

MANAGEMENT

Material selection and design are critical in determining our company's environmental footprint. As we move toward more sustainable systems and operations, we want our engineers to make better, more informed sourcing, design and development choices. An example of engaging engineering employees is the Design for Environment, Safety and Health, a mandatory systems engineering course for all engineers in our Aeronautics business segment, which accounts for 38 percent of our sales. The course teaches engineers how to improve product performance and reduce resource consumption, waste and cost by systematically considering environmental, safety and health impacts across the full product or program management life-cycle. It emphasizes the benefits of incorporating these impacts early on, teaches the tenets of sustainable design and illustrates how employees' personal work helps meet customer and global sustainability objectives. Engineers put course insights into practice when they complete a required checklist that flags potential concerns.



▲ To raise awareness of the Design for ESH course, employees shared in their own words what sustainable design means to them.



EMPLOYEE WELLBEING

Employees at our Middle River, Maryland, facility produce the world-renowned MK 41 Vertical Launch System, shown here aboard Australia's Aegis equipped Hobart Class Destroyer.

Photo courtesy of Australian Defence

EMPLOYEE WELLBEING

OBJECTIVE

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

SCIENCE

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

CITIZENSHIP

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

IMPORTANCE

Our business succeeds when our employees thrive. Employees with diverse backgrounds and perspectives contribute to our high-performance environment and enhance our competitiveness as an employer of choice. We prioritize talent recruitment, talent development, workforce safety and diversity and inclusion to meet customer needs and innovate for the future.

SUSTAINABILITY FACTORS

Through our biennial assessment of sustainability issues, we classified two tiers of priorities: Tier 1 performance factors where we seek to accelerate progress by setting targets for 2017 and 2020; and Tier 2 factors that we will advance through continued management and disclosure, without setting new Sustainability Management Plan (SMP) goals. We define Employee Wellbeing through these factors:

Tier 1 Factors

- Workplace safety
- Diversity and inclusion
- Talent recruitment
- Talent development

Tier 2 Factor

- Science, technology, engineering, and math (STEM) education



THE FACTORS THAT IMPACT EMPLOYEE WELLBEING ARE ALL CRITICAL AND REQUIRE SHORT- AND LONG-TERM SOLUTIONS.

Insight from stakeholder engagement summit

EVOLUTION

Since our last reporting cycle, we evolved our Employee Wellbeing core issue, previously called Talent Competitiveness, as a result of our stakeholder engagement-led issues assessment. We now distinguish between talent recruitment and talent development, a reflection of how we manage and measure each initiative separately. Independently representing diversity and inclusion reflects a renewed emphasis on its importance to the business. STEM education remains important to cultivating our talent pool and our strategy continues to focus on ways our company can influence both local and nationwide STEM education. While some issues and measures previously included are no longer measured in the SMP, they remain important factors we value and manage.

WORKPLACE SAFETY AND WELLNESS

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

Our Middle River facility implemented a new comprehensive workplace safety plan.

CHALLENGE

The work environment inherently involves physical risks. Overexertion, physical strain and falls are only a few of the reasons safety measures are important. Stress and productivity challenges also impact employee wellbeing. Improving workplace safety and wellness in our facilities requires a cultural shift from 'doing what works' to prioritizing safety and long-term health. We seek to educate our employees and improve our equipment and work processes before negative health consequences occur.

MANAGEMENT

The corporate-wide Lockheed Martin Environment, Safety and Health (ESH) Leadership Council governs our workplace safety and health management strategy.

GOAL

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

Progress: In 2016, we had a day away rate of 0.20, a recordable injury rate of 1.11 and a severity case rate of 5.12, all of which outperformed our annual goals.

Members meet at least quarterly to develop and monitor our ESH Management System performance and review strategy. We invest in initiatives through our Target Zero program, which includes safety education, engagement and holistic ergonomic activities to achieve an injury-free workplace. We emphasize leadership, workforce involvement and facility-wide training to protect employees and contractors and create a culture of safety and wellbeing that adheres to our ESH policies.

The LM HealthWorks initiative combines employee medical benefits coverage with other health-related programs, resources and amenities including on-site flu shots, medical centers, walking paths and healthy food services at several Lockheed Martin locations. Employees and their families have access to other virtual benefits including a physical activity program, financial wellness support and resources, and an employee assistance program. Our intent is to motivate employees to make sustainable healthy lifestyle changes to build resilience and expand their capacity to perform.

TEAMING UP FOR SAFETY

INNOVATION

In 2016, we overhauled the production line at our Middle River, Maryland, facility after 34 years of operation. We developed a comprehensive workplace safety plan to ensure all upgrades were ergonomically designed. A unique cross-functional team designed and customized approximately 80 tools, including mobile, height-adjustable tooling, new fall protection equipment and an easy-access toolkit for assemblers.

IMPACT

A safe, healthy work environment is vital to sustainable business. We encourage our employees to work together to develop ergonomic practices to minimize injury risk, and we implement their suggestions. The Middle River team, made up of safety, facility, engineering and on-the-job experts created a higher quality work environment, improved process flow, and increased production. These improvements make work easier and safer for employees by alleviating heavy lifts, awkward postures, strains and repetitive movements that can potentially lead to musculoskeletal injuries. The safety practices they implemented will help prevent accidents, reduce employee fatigue and contribute to a 30 percent cost reduction and a 20 percent reduction in labor hours per unit.

HIGHLIGHT

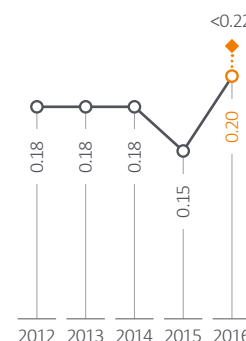
Since we launched the Target Zero program in 2003, Lockheed Martin's day away case rate has reduced by 52 percent, severity rate has reduced by 69 percent, and recordable injury rate has reduced by 60 percent.

Our 2016 workplace safety metrics and goals include Sikorsky and exclude IS&GS. This change from a lower-risk office environment to a higher-risk manufacturing environment led to a slight increase in rates during 2016.

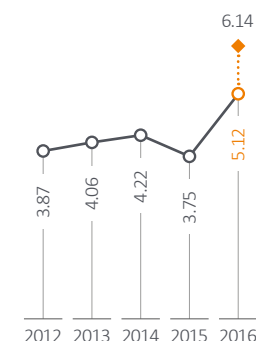
Workplace Safety Results¹

◆ Goal

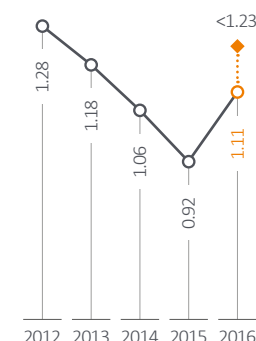
Day Away Case Rate



Severity (Lost Days) Rate



Recordable Rate



¹ Metrics are reported by calendar year and include all U.S. Lockheed Martin facilities and Sandia. Employees operating in-theater (war zones) are not included in this data. Data from 2012 to 2015 include IS&GS and exclude Sikorsky. Each rate is calculated per 100 employees, working 40 hours per week for 50 weeks per year. Our annual goals are set based on a 2 percent improvement over the average of our previous three years of performance.

TALENT DEVELOPMENT

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

CHALLENGE

Developing a robust, diverse workforce is complex. Our approach must be multifaceted and cultivate individual and team growth and development, diverse experiences and relationships with leaders. Training and development opportunities must keep pace with expectations of all employees, from Millennials to Traditionals.

MANAGEMENT

To ensure our workforce has the leadership and technical skills to respond to evolving customer needs, we provide in-person, virtual and self-paced learning opportunities to develop critical program management skills. Our curriculum educates 800 to 1,000 program managers and team members each year on corporate and business segment management skills.

The Program Management Talent Initiative (PMTI) cultivates underrepresented candidates with executive leadership potential. We track the career paths of current and graduate PMTI participants to ensure we give qualified diverse talent opportunities to become executives in our key customer programs.

GOALS

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

Progress: We achieved a lower attrition rate among top performing employees compared to lower performing employees in 2016.

Increase succession planning for senior executives.

Progress: In 2016, we increased the focus on the validity of succession plans for senior executives, which were used for many of our vice president placements. As a result of upgrading our talent management technology, in 2017 the business will have enhanced capabilities in managing succession plans and talent development initiatives.



INVESTING IN LEADERSHIP

INNOVATION

In 2016, we worked with an external partner to create a program for our executive leaders that simulates real-world challenges and opportunities in the daily operations of each function and business segment. Participants learn how the corporation works outside their roles, which increases their strategic perspective and ability to work across organizational boundaries.

▲ We are developing our employees' leadership skills through simulation-style training.

IMPACT

As our employees take on more responsibilities, they are expected to make decisions with a holistic view, which is why our leadership program has cultural priorities intertwined with business strategy. We emphasize self-awareness, learning agility and communication skills to help leaders model and enhance our corporate culture. Ninety-one percent of those in the program reported positive personal impact, specifically mentioning an increased awareness of how their behaviors affect others, improved use of feedback to make changes, and an overall increase in leadership effectiveness.

HIGHLIGHT

Lockheed Martin provides employees with thousands of hours of training covering a variety of topics including leadership development, regulatory compliance, program management, and technical skills.

95%

In 2016, more than 95 percent of Lockheed Martin team members participated in formal training.

DIVERSITY AND INCLUSION

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

CHALLENGE

Creating a diverse, inclusive workplace requires an enterprise-wide shift in culture and innovative approaches to employee recruitment, engagement and development. Diversity is more than just the numbers; it means managing everyday practices and blending different backgrounds, experiences and perspectives to drive improved business performance. We address this challenge on multiple fronts by balancing long-term efforts to build STEM talent through our K-12 and college recruiting efforts, while actively expanding our recruiting of diverse talent among experienced STEM professionals, all in a difficult talent market.

MANAGEMENT

Diversity encompasses the attributes employees possess based on characteristics from birth, their life experiences and decisions they've made. Our diversity initiatives focus on creating a workplace where employees feel welcome,

respected, engaged and encouraged to bring their full selves to work to drive business success. This means all employees are treated fairly, inclusively and without discrimination; where a range of nationalities and cultures are represented; and where there are equal professional opportunities regardless of gender, race, age or ability.

Our Chairman, President and CEO Marillyn Hewson leads the Executive Inclusion Council (EIC), a team of senior leaders championing our diversity and inclusion efforts. Supported by the EIC, key initiatives, such as diversity and inclusion education and expanded Employee Resource Groups (ERGs), help all Lockheed Martin employees feel equally respected and valued. The Global Diversity and Inclusion team conducts focus groups and surveys across the corporation to get stakeholder feedback on our inclusion initiatives. The EIC closely examines stakeholder feedback and executes plans to enhance and mature these efforts.

GOALS

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

Progress: Employee representation of women and veterans slightly declined, while minorities and disabled employees were virtually unchanged compared to the baseline, primarily due to the Sikorsky acquisition and divestitures of other lines of business. We are applying more resources to support retention, mentoring and outreach.

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

Progress: Employee-led implementation of professional development series and mentoring programs contributed to increased participation in Leadership Forum and Employee Resource Group (ERG) events. Participation in external core diversity events also increased and we saw a record number of same-day employment offers made at these engagement and recruiting activities.



EMBEDDING INCLUSION THROUGH EXPERIENTIAL LEARNING INNOVATION

In 2016, we expanded our Effective Leadership of Inclusive Teams (ELOIT) program, originally only for executives, to reach more employees. Managers were invited to join any of our ELOIT training labs and experiential workshops. The program's unique and realistic learning environment encourages open, honest discussions on diversity and prepares leaders to have these conversations with their teams. This dialogue complements our Leading Diverse Teams video series, a required leader activity that provides a structured framework for team discussions about diversity.

After a 2015 pilot, we rolled-out our Managing Unconscious Bias online training as a requirement for all leaders and human resources professionals in 2016. We also piloted a half-day experiential training in Canada and the U.K. to help employees understand and manage unconscious bias, an issue growing in importance as we expand our global footprint. The goal is to prepare our non-U.S. employees to recognize various forms of bias and their impacts.

IMPACT

Through experiential learning and engagement, we matured our U.S.-based inclusion efforts and expanded our reach to non-U.S. populations. Of U.S. leaders, 98 percent completed the Managing Unconscious Bias training. Ninety-seven percent of leaders self-certified viewing our Leading Diverse Teams videos. We increased the number of executives who participated in at least one ELOIT Lab in 2016.

▲ Employees can access a number of different diversity and inclusion trainings and networks.

ELOIT TRAINING MADE ME MORE EMPATHETIC AND OPEN-MINDED. I GAINED SOME UNDERSTANDING OF THE CHALLENGES OTHERS HAVE FACED, OVERCOME AND CONTINUE TO CONFRONT. IT HELPED ME FORMULATE AND ESTABLISH A DIVERSITY AND INCLUSION INITIATIVE WITHIN MY ORGANIZATION, WHICH HAS IMPROVED OUR TEAMWORK.

BOB TRONO

Vice President and Chief Security Officer

DIVERSITY AND INCLUSION

CONTINUED

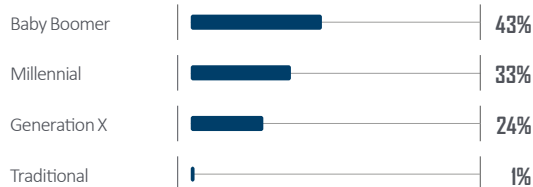
DIVERSITY AND INCLUSION MISSION

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

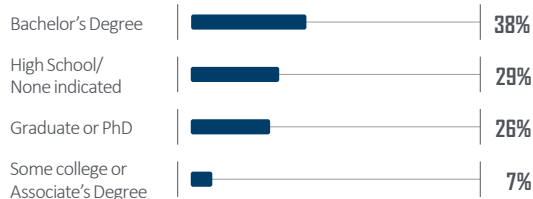
Workforce Profile 2016¹

■ All employees

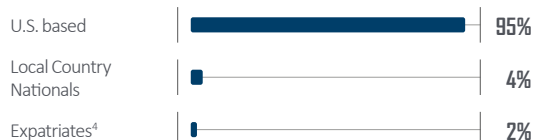
Generation²



Education²



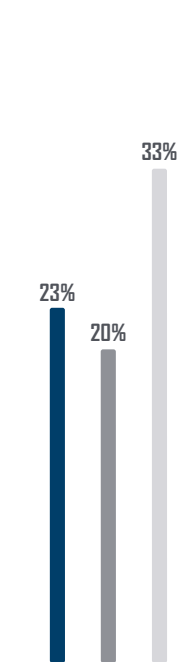
Region



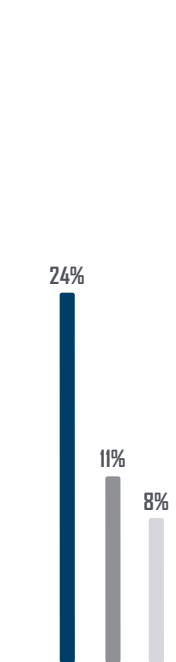
Company Demographics 2016²

■ Overall ■ Executives ■ Board of Directors

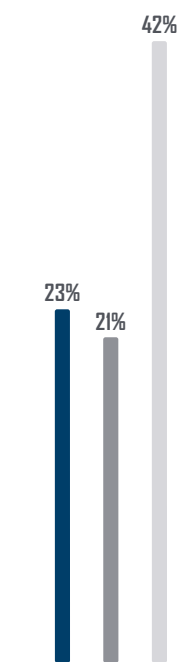
Women



Minorities³



Veterans³



HIGHLIGHT

Our company-wide ERGs engage employees as allies in diversity and inclusion. Groups have formed to raise awareness of particular concerns faced by their communities and to enhance experiences based on the following eight dimensions: African-American, Asian-American, and Hispanic heritage; and female, military and veteran, people with disabilities, and Lesbian, Gay, Bi-sexual and Transgender (LGBT) status.

HIGHLIGHT

We launched Allies for Inclusion networks in two of our business segments, an initiative that encourages people to celebrate their differences and commonalities by joining ERGs that represent cultural identities different from their own. We plan to expand the program to other business segments in 2017.

▲ We support an inclusive culture where every employee is equipped to perform his or her best.

¹ Excludes Sandia, casual and contract workers, interns and employees of certain subsidiaries. Sikorsky data are included for U.S. employees only.

² Based on U.S. population.

³ Excludes local country nationals.

⁴ Expatriates are people temporarily residing in a country other than that of their citizenship.



TALENT RECRUITMENT

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

◀ Orion engineer Karrie Abelein returned to her alma mater to inspire more than 140 Denver high schoolers.

CHALLENGE

We do substantial business supporting national security missions that require U.S. citizenship for employment. The exponential growth of the technology sector brings unprecedented competition for U.S. technical talent. As we continue to evaluate our retirement-eligible population over the next several years, it is creating a heightened need to recruit skilled workers.

GOAL

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

Progress: During the 2016 academic year, more than 1,400 interns accepted full-time positions at Lockheed Martin, leading us to exceed our intern conversion rate goal.

MANAGEMENT

We want to make Lockheed Martin the employer of choice for the best scientists, engineers and technologists in our sector and build a robust talent pipeline across all roles and teams. Our recruitment strategy encompasses our experienced professional, hourly, college and critical skill segments. This multi-prong strategy enables us to meet the current and future needs of the business.

In particular, our college recruitment and intern hiring are integral to our recruitment strategy in building our future pipeline of talent. We leverage partnerships with minority organizations, such as INROADS, the National Action Council for Minorities in Engineering, Ron Brown Scholarships and national organizations such as the National Society of Black Engineers, the Society of Women Engineers and Great Minds in STEM.

ENCOURAGING FUTURE ENGINEERS

INNOVATION

In 2016, our high school interns in the Aeronautics business segment enrolled in four-year universities as engineering majors. We developed the internship program with Project Lead the Way and a neighborhood public school district to complement students' existing academic and extracurricular engineering curriculum. After nine months of professional engineering experience, they transitioned from the high school internship program into our college internship program, also receiving monetary scholarships. These interns received paid part-time internships at one of our Aeronautics facilities during their senior year of high school, learning the technical operations of designing high-performance aircraft. They will return to the corporation every summer to continue their work as paid college interns and receive an additional scholarship each fall semester.

IMPACT

National data show students' academic interest in STEM drops off steeply once they enter college. Our newest internship program creates positive, highly personal STEM-based relationships with high school students and continues the engagement throughout their collegiate years, when they are more likely to shift academic focus. We are looking at how to grow the Aeronautics program in the future.

In addition to the Aeronautics program, we hire high school interns across the enterprise providing them hands-on, real-world experience to inspire and guide them to pursue engineering and other technical degrees. Giving high school seniors academic sponsorship and work experience shows them the benefits of continuing STEM education and working at Lockheed Martin after college.

25

organizations

In 2016, we partnered with over 25 national organizations that represented a broad cross section of talent with respect to women, minorities, veterans and people with disabilities to help increase diversity in our talent pipeline and help us hire the best diverse talent.

[Join our team.](#)

Learn more about working at Lockheed Martin.

TIER 2 FACTOR

This is a factor we manage and monitor as a secondary priority of our sustainability strategy based on stakeholder feedback.

STEM EDUCATION

Efforts to support STEM education in communities to develop and recruit engineers and scientists for our workforce.

MANAGEMENT

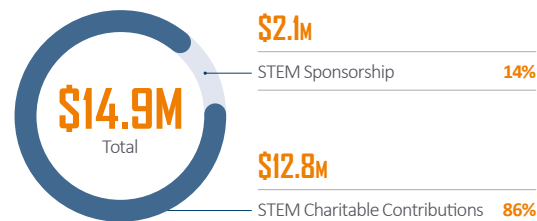
We partner with school districts, universities, communities and NGOs to contribute to science, technology, engineering and math (STEM) education. We provide financial resources, skilled volunteers, professional opportunities and immersive academic experiences. Our STEM strategy engages kindergarteners through college students, tailoring learning experiences to meet students at their grade and skill level to foster or renew interest in STEM subjects. Our actions go beyond philanthropy; we know every student we engage is a potential future employee capable of innovating the next scientific or technological breakthrough.

In 2016, our Community Relations and CETO organizations reviewed current STEM efforts from kindergarten through early career and decided to redevelop our corporate STEM strategy. The new strategy will align funded STEM programs to our overarching technology and workforce strategies to better secure the long-term, diverse talent pipeline needed to sustain the organization.



◀ We were the Presenting and Expo Sponsor of the largest celebration of STEM in the U.S. About 365,000 people attended the USA Science & Engineering Festival.

Charitable giving for STEM outreach¹



Employee volunteerism¹



¹ Includes IS&GS.

The background of the page features a composite image. On the left, a close-up of a man's face with a beard and mustache, looking slightly to the right. On the right, a futuristic aircraft, identified as the Hybrid Wing Body concept, is shown in flight against a cloudy sky. The aircraft has a blended wing-body design with a single large engine mounted on the upper surface of the wing.

RESOURCE EFFICIENCY

Future transport aircraft, like the Hybrid Wing Body concept shown here, will incorporate advanced composite and metallic materials, and manufacturing technologies to lighten the structure and reduce fuel consumption.

RESOURCE EFFICIENCY

OBJECTIVE

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

SCIENCE

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

CITIZENSHIP

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

IMPORTANCE

Our life-cycle-based assessments show our operations' biggest opportunities are to reduce energy use and greenhouse gas (GHG) emissions. Our largest overall GHG challenge is the environmental footprint of our products during the customer-use phase, constituting nearly 70 percent of our impact. Financially, we could be affected by future remediation requirements or regulations developed in response to federal, state, local and global concerns for climate risks, other aspects of the environment or natural resources. We reduce our footprint, and that action results in industry-leading outcomes. The Board of Directors and the Executive Leadership Team review our environmental performance at least twice annually.

SUSTAINABILITY FACTORS

Through our biennial assessment of sustainability issues, we classified two tiers of priorities: Tier 1 performance factors where we seek to accelerate progress by setting targets for 2017 and 2020; and Tier 2 factors that we will advance through continued management and disclosure, without setting new Sustainability Management Plan (SMP) goals. We define Resource Efficiency through these factors:

Tier 1 Factor

- Energy and carbon management

Tier 2 Factors

- Hazardous materials and chemicals management
- Remediation



IN ADDITION TO THE COMPANY'S OPERATIONAL FOOTPRINT, THE RESOURCE IMPACT OF ITS TECHNOLOGIES SHOULD BE REFLECTED IN THIS CORE ISSUE.

Insight from stakeholder engagement summit

EVOLUTION

Since our last reporting cycle, we evolved our Resource Efficiency core issue as a result of our stakeholder engagement-led issue assessment. We combined our energy use and GHG emissions factors because their performance and management are closely linked. We elevated remediation to a Tier 2 priority to reflect associated financial disclosure requirements. We added hazardous materials and chemical management to Tier 2 due to their potential to impact business compliance and engineering practices. While some measures previously included are no longer in the SMP, they remain important factors we value and manage.

ENERGY AND CARBON MANAGEMENT

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

◀ We built our 1 megawatt solar farm on seven acres at the Lockheed Martin Skunk Works® site.

CHALLENGE

As we increase rates of production on several products, we require more energy for our operations. We strive to implement energy and water efficiency improvements that help us meet ambitious financial targets. In some cases, we manage government-owned facilities on behalf of the government and lease other facilities, which limit our control over potential efficiency projects.

MANAGEMENT

Our operational carbon emissions primarily come from energy use and call for a combined management approach. In the U.S., a significant amount of water is used to generate electricity,

creating a vital link between water usage and energy reliability. In 2016, our energy efficiency efforts produced indirect water savings of over 5.7 billion gallons through reductions in electricity consumption at our facilities compared to 2010².

Our ESH Leadership Council and Facilities Leadership Team implement an energy strategy that encompasses energy management and procurement to drive efficiency, cost avoidance and carbon emissions reductions. When possible, we pilot energy-saving products at our facilities to reduce energy consumption and showcase the value of renewable energy solutions. Our management system is company-wide and aligns with globally recognized standards such as ISO 14001.

REDUCING OUR ENVIRONMENTAL FOOTPRINT INNOVATION

Our Aeronautics facility in Palmdale, California, is an elevated site in a desert climate with over 300 days a year of sunny, mostly cloudless skies. To take advantage of this environment, we built a seven-acre solar farm in June 2016. The 1 megawatt (MW), ground-mounted, single-axis solar tracking system allows over 3,000 solar panels to follow the sun's east-to-west path during the day, maximizing sun exposure and energy capture. This installation is the corporation's fifth on-site renewable project of 500 kilowatts or greater.

IMPACT

The solar farm alleviates some of the burden on the local electrical grid by supplementing our facility's power during summertime peak electricity demand when air conditioning use increases and the local power supply is strained. Annually, it will yield a 10 percent reduction in power purchased from the grid and a more than \$350,000 savings in utility costs.

\$25.6 million

cost avoidance³

We achieved annual energy and water cost avoidance of \$25.6 million compared to 2010.

² Water savings is calculated using the United States Geological Survey's "Estimated Use of Water in the United States in 2010" average thermoelectric power water usage rate of 19 gallons per kilowatt hour, assuming Lockheed Martin's thermoelectric supply is approximately 76 percent of total electricity purchased, which is derived from Energy Information Administration data on total electricity produced in the U.S. These figures are calculated against cumulative savings from the Go Green baseline year of 2010.

³ Includes water, electricity and natural gas cost avoidance. Water costs are estimated at a cost of 4.5 cents per gallon, based on a sampling of average water rates (purchase and sewer) at major facilities.

GOALS

Reduce energy use by 25 percent, scope 1 and 2 carbon emissions by 35 percent and water use by 30 percent.

Progress¹: Since 2010, we have reduced energy use by 21 percent, carbon emissions by 29 percent and water use by 24 percent.

¹ Excludes Sikorsky, includes IS&GS.

Increase square footage of facilities with green building certifications.

Progress: In 2016, we operated 20 Leadership in Energy and Environmental Design (LEED), one Building Research Establishment Environmental Assessment Methodology (BREEAM) and nine Energy Star-certified buildings, totaling 2.5 million square feet of green buildings, compared to 1.9 million square feet in 2015.

Increase annual renewable energy consumption.

Progress¹: In 2016, we consumed 300,000 MWh of clean energy, comprising 292,835 MWh of renewable energy certificates (RECs) and 7,165 MWh of on-site energy generation. In 2015, we consumed 298,420 MWh of renewable energy.

Help our energy customers reduce their carbon emissions by at least twice the carbon impact of our business operations.

Progress¹: In 2016, Lockheed Martin Energy enabled carbon emissions savings of 1.1 million metric tonnes of carbon dioxide equivalent (MtCO₂e) for our customers, compared to our operational emissions, net of RECs, of 804,245 MtCO₂e.

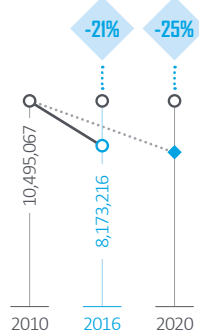
ENERGY AND CARBON MANAGEMENT

CONTINUED

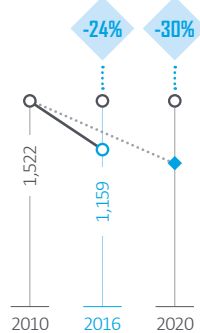
Operations Goals and Progress¹

○ 2010 Baseline ○ 2016 Result ◆ 2020 Goal

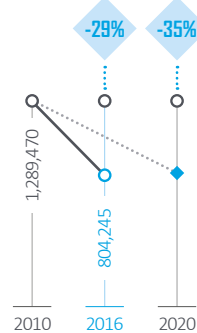
Energy³
MMBTU



Water⁵
Million gallon



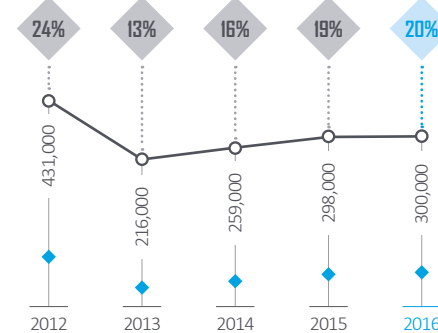
Carbon Emissions^{3,4}
MTCO₂e



Renewable Energy Credits²

○ RECs Purchased ◆ Percent of Scope 2 Carbon Emissions avoided by REC use

RECs Purchased
MWh



HIGHLIGHT

Our latest 2015 results outperform a science-based threshold to stabilize atmospheric carbon emissions. Using the [Center for Sustainable Organizations' Context-Based Carbon Metric methodology](#), we produce less than our calculated threshold of emissions based on our contribution to gross domestic product (GDP). See the results on our [website](#).

60+

efficiency projects

We implemented more than 60 total energy-efficiency and carbon reduction projects in 2016 including HVAC, lighting, building control systems, building envelope, renewable energy projects and retro-commissioning.

11 MWh

energy-use reduction

We completed more than 15 HVAC-related projects in 2016, resulting in approximately 11 million kWh of annual energy-usage reduction and over \$1 million in recurring annual cost avoidance.

1 MW

storage

We installed a 1 MW GridStar™ Lithium energy storage system at our Syracuse, New York, facility in 2016. It will reduce electricity bills and emissions for our operations.

¹ Includes IS&GS, excludes Sikorsky. Reflects performance from November 2015 through October 2016.

² As reported to the EPA Green Power Partnership, percent of green power is calculated as renewable electricity divided by the total electricity consumed. Includes unbundled RECs, an off-site power Purchase Agreement and on-site renewable generation.

³ Reported for our largest active 72 facilities in the United States, United Kingdom, Canada and Mexico.

⁴ Reflects Scope 1 and 2 emissions plus an estimate for leased facility space where we do not collect actual data. Reflects unbundled RECs, an off-site power Purchase Agreement and on-site renewable generation. Percent reduction reflects a more conservative calculation based on a lower baseline than is shown here. The lower baseline includes cumulative adjustments to our facilities' footprint and carbon emissions factors, to best represent current operations. We will re-baseline to incorporate Sikorsky and current emissions protocol in future reporting.

⁵ 2016 water data is reported for our largest 44 facilities in the United States.



SITE-WIDE ENERGY MANAGEMENT

INNOVATION

In 2016, we integrated the energy management systems for seven buildings at our 3,800-acre manufacturing site in Troy, Alabama. The integrated system allows facilities staff to monitor and control manufacturing equipment, lighting and air conditioning systems across the entire site through one web-based user interface. The primary objectives of the integration project were to secure the system and control operating hours to reduce power consumption during off-peak and non-production hours to enhance energy efficiency. We achieved this by aligning building mechanical schedules with production schedules to allow equipment downtime. Smart phone monitoring allows real-time temperature and humidity control, ensuring production conditions meet quality control and product specifications.

IMPACT

Before we reviewed and integrated our building management systems at this site, various buildings experienced freezing pipes, out-of-specification conditions in manufacturing areas, and wasted energy from unnecessary round-the-clock building operation. Coordinating building operations and improving system monitoring has not only resulted in enhanced control systems, we have also extended the life of our major mechanical equipment by reducing our operating schedule. Streamlining the way we track building environments into one system also helped product quality during the manufacturing stage.

TIER 2 FACTORS

Other factors we manage and monitor as secondary priorities of our sustainability strategy.

REMEDIATION

Efforts to alleviate impacts on the environment and resolve environmental liabilities derived from legacy operations or acquisitions.

MANAGEMENT

We participate in environmental remediation activities at some of our present and former facilities, and at third-party sites where we are potentially responsible for environmental conditions. With a century of operational history, some activities conducted by Lockheed Martin and our legacy businesses over the years, although compliant with laws at the time, resulted in soil or groundwater contamination. We work diligently with nearby communities and governmental authorities to remedy these effects and apply learnings to existing and new remediation sites. We conduct quarterly reviews of our remediation projects to ensure our clean-ups are effective and comply with today's laws. Where possible, we seek sustainable remediation solutions consistent with efficient resolutions and closure. For examples of our activities and results, see our [Environmental Remediation](#) page.



▲ We conduct environmental monitoring and clean-up activities on this former rocket motor and ballistics testing facility in Beaumont, California.

HAZARDOUS MATERIALS AND CHEMICAL MANAGEMENT

Efforts to manage and reduce hazardous materials and chemical substances throughout our operations and across our value chain, consistent with internationally recognized standards.

MANAGEMENT

Our product development cycles may last years or even decades. The materials we select today must be viable when a product is sold in the future and throughout the product lifespan, including maintenance and disposal. Any substitutions we propose for materials or chemical substances must pass rigorous testing to meet stringent customer performance standards.

We developed a formal process to identify chemicals that may be substituted with less hazardous alternatives for safety and environmental benefits. When identifying and implementing alternative chemicals, we consider emerging compliance challenges, materials' published toxicities, sustainable business practices and customer requirements. In 2015, we identified our use of chemicals of concern to enable our assessment of steps to reduce or eliminate them. We are working through the [International Aerospace Environmental Group](#) and [IPC Association Connecting Electronics Industries](#) to develop a chemical substance reporting standard for aerospace and defense suppliers to more fully assess and mitigate risk in the supply chain related to hazardous materials use. [Learn more here](#).

Incidents of non-compliance (INCs) are our record of violations of environmental or safety laws. In 2016, we recorded three significant environmental, safety, or health INCs and no significant environmental releases. Two INCs were related to hazardous materials transportation and the third INC was related to compliance with water discharge and hazardous waste permit requirements, with a total of \$27,500 in fines¹.

¹ This summary includes any ESH incident deemed significant through our ESH Management System. We consider an incident or release 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 reporting requirements of the U.S. Federal Awardee Performance and Integrity Information System and disclosure requirements of the Securities Exchange Commission.

A composite image featuring a close-up of a woman's face on the left and a K-MAX self-flying helicopter in flight on the right. The woman is looking slightly off-camera with a thoughtful expression. The helicopter is shown from a side profile, flying towards the right. The background is a cloudy sky with a hint of a mountain range at the bottom.

INFORMATION SECURITY

Our K-MAX self-flying helicopter, shown here, collaborates with other autonomous vehicles to perform rescue, firefighting and national security missions.

INFORMATION SECURITY

OBJECTIVE

To minimize the likelihood and impact of adverse cyber security incidents to protect data and expand access to cyber security technology within our business operation and for our customers' missions.

SCIENCE

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

CITIZENSHIP

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

IMPORTANCE

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

Lockheed Martin systems and products safeguard crucial information for customers. Our IT infrastructure is routinely threatened by hacktivists, cyber criminals, insider threats and advanced persistent threats. Our ability to protect employee personal information is integral to mission success and trust. With thousands of our scientists and engineers developing patented solutions, the health of our business depends on protecting intellectual property (IP) and sensitive data.

SUSTAINABILITY FACTORS

Through our biennial assessment of sustainability issues, we classified Tier 1 performance factors where we seek to accelerate progress by setting targets for 2017 and 2020. We define Information Security through these factors:

Tier 1 Factors

- Customer information systems and network security
- Employee privacy and data protection
- Sensitive data and IP protection



INFORMATION SECURITY IS NOT ONLY ABOUT THE CUSTOMER AND THE COMPANY; THERE IS ANOTHER STAKEHOLDER — THE PUBLIC. EVERYONE BENEFITS FROM DEPENDABLE DIGITAL INFRASTRUCTURE.

Insight from stakeholder engagement summit

EVOLUTION

Since our last reporting cycle, we evolved our Information Security core issue as a result of our stakeholder engagement-led issues assessment. While there remains an interconnection between the factors, they are now aligned by stakeholder to better delineate our management approaches and sustainability values.

SENSITIVE DATA AND INTELLECTUAL PROPERTY PROTECTION

Efforts to ensure the protection of company and supplier proprietary information to prevent the likelihood of data fraud, loss, sabotage and theft.

CHALLENGE

We rely heavily on a complex cyber ecosystem vulnerable to risk. We have 16,000 direct suppliers and even more indirect small and large suppliers with a wide variety of systems and cyber security capabilities. We must prevent adversaries from exploiting possible weak links in our supply chain to access our sensitive data or enter our cyberspace.

MANAGEMENT

Our chief information officer and chief information security officer lead our IT strategy and detection and deterrence programs, and collaborate with the chief security officer and counterintelligence team to assess insider threats. Our Enterprise Risk Management Program includes threat detection and cyber security mitigation plans. We monitor our risk management effectiveness against strategic indicators and operational metrics, and we report on our performance quarterly to our Executive Leadership Team and chief risk officer. The Classified Business and Security Committee of our Board of Directors reviews procedures and new techniques for maintaining data and information security for our customers and our own business operations. Our cyber security systems allow us to anticipate, preempt and respond to any threat to our resources while managing digital forensics for investigations.

Collaboration is key to cyber security success. Several years ago we formed the Defense Security Information Exchange (DSIE), a forum for analysts to exchange adversarial information to enable a better security posture. In 2016, we formed a partnership with Exostar and leading aerospace and defense companies to understand our collective supply chain cyber security capabilities and increase our suppliers' cyber threat awareness. Our first step was to deploy self-assessment surveys through our supplier portal. Aligned with widely adopted standards, these tools are readily available to our supply chain to encourage compliance and reduce the risk of cyber security breaches. With a thorough understanding of a supplier's cyber security health, we can make educated decisions to protect the corporation.

GOALS

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

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

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

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



PROTECTING OUR SUPPLIERS INNOVATION

We've partnered with government and private industry in India for more than 25 years, including a joint venture to manufacture airframe components for the C-130J airlifter and the S-92 helicopter. To keep pace with India's ability to innovate and grow its technology sector, its businesses have identified a pressing need to improve online security education. In 2016, we worked with the Data Security Council of India (DSCI) to launch a new cyber security education program for small and mid-size businesses (SMBs) in India. The Cyber Security Awareness Program seeks to minimize risk from online threats by promoting responsible internet behavior, providing guidance on designing secure IT systems and teaching SMBs how to securely manage their online presence. The education initiative includes the development of CyberAware, an interactive educational web portal featuring computer-based training modules on cyber threats and Internet security awareness, cyber security games and videos that showcase real life IT and cyber security scenarios. To increase use of CyberAware, DSCI will work with industry bodies, development centers and technical education boards.

IMPACT

India's 50 million SMBs generate more than one-third of the country's manufacturing output, yet research indicates only 23 percent of organizations are prepared to respond effectively to a cyber incident. That puts India-based businesses at risk, which could in turn affect the quality or reliability of our products. The Cyber Security Awareness Program helps India's SMBs support the Digital India initiative, a development goal emphasizing national empowerment by improving online infrastructure and expanding internet connectivity.

On September 16, 2016, Tata Lockheed Martin Aerostructures Limited (TLMAL) delivered the 50th C-130J Super Hercules empennage assembly. TLMAL is an India-based joint venture between Tata Advanced Systems Limited and Lockheed Martin Aerostructure Corporation.

HIGHLIGHT

Our I Campaign™ program helps employees combat spear-phishing, a common attack source that uses phony email requests to gain unauthorized access to systems and information. We added a gamification course to our sensitive information training and saw:

49%

increase in the number of employees who reported suspicious emails.



CUSTOMER INFORMATION SYSTEMS AND NETWORK SECURITY

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

◀ Optionally piloted SARA (left) flies to the missing camper while K-MAX monitors the situation.

CHALLENGE

As we expand data sharing and collaborative capabilities in our products and services, they become targets for increasingly sophisticated cyber adversaries. Our challenge is to anticipate and prevent fatal breaches and surveillance failures, tasks that require round-the-clock technology research and development.

GOALS

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

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

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

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

MANAGEMENT

As our products and platforms become more connected, they also become more susceptible to cyber security attacks and vulnerabilities. We formed a corporate-wide Embedded Cyber Team to ensure our platforms and production lines are cyber resilient. The team develops and implements programs to create state-of-the-art security for our customers and the entire corporation, and integrates its methodology into our products and services using threat modeling to discover existing and future risks. Our cyber security practitioners then deliver a unique defense architecture to the product to harden it against possible attacks.

PROTECTING OUR CONNECTED SOLUTIONS

INNOVATION

In 2016, we showed that four of our autonomous and unmanned aircraft systems (UAS), ranging from small, lightweight drones to full-sized military-grade helicopters, can work together to help our customers execute complex humanitarian missions. Their objective was to simulate the ability of these UAS to autonomously locate and suppress a wildfire, then locate and rescue a missing camper displaced by the fire. The UAS used datalinks to create a common operational database and share information.

- Indago 2 flew out first and used infrared sensors to identify hotspots in the fire and shared the information with an unmanned K-MAX helicopter.
- K-MAX then flew to a nearby pond to fill its bucket with about 4,000 pounds of water, then dropped the water on the fire to abate it.
- Desert Hawk 3.1 used heat-seeking capabilities to locate the lost camper and communicated the location to the Sikorsky Autonomy Research Aircraft (SARA), an optionally piloted S-76 helicopter.
- SARA found the camper, then located a safe place to land nearby. K-MAX stayed in the air to keep eyes on the target area until the camper could board SARA.

This collaboration demonstrates the value of cyber hardening for our growing portfolio of unmanned systems. Hardening involves applying multiple cyber models to sensors, platforms and network systems to help customers defend their networks and protect their data. For instance, we can secure these vehicle-to-vehicle datalinks using on-board encryption to protect classified information being transmitted wirelessly. When using ground control as the main communication point for receiving and transmitting data, we can also ensure various levels of physical network separation, or use virtual private networks to create a secure ground network.

IMPACT

Collaborative unmanned systems can revolutionize the way first responders fight fires and execute humanitarian relief missions. Keeping these networks secure and stable protects the infrastructure we depend on daily. We apply multiple cyber models to our integrated solutions to harden our customer networks against cyber attacks. Primarily, we apply our Intelligence Driven Defense® methodology to minimize network vulnerabilities, prevent system access and mitigate adversarial attacks.

\$2 billion

Each year the U.S. spends about \$2 billion fighting wildfires.

20

About 20 firefighters lose their lives fighting wildfires annually.

K-MAX can reduce costs and save lives by abating fires around the clock via remote piloting.

[Hear directly from our engineers and operators working on unmanned systems every day](#)

In 2016, Lockheed Martin entered two strategic partnerships to advance our unmanned technology: Defense Advanced Research Projects Agency (DARPA), a Department of Defense (DoD) agency, selected us to co-lead the development of technology to allow existing unmanned aircraft to collaborate with one another on missions in the field.

We also signed a master agreement with Massachusetts Institute of Technology (MIT) to advance human-machine teaming technology and refine autonomous navigation capabilities in complex environments.

EMPLOYEE PRIVACY AND DATA PROTECTION

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

CHALLENGE

In our increasingly connected world, data protection and privacy are among society's greatest challenges. We have an obligation to continually educate employees about the unique cyber responsibilities that come with working at Lockheed Martin. They must be as vigilant in their personal lives as they are at work.

GOAL

Achieve desired thresholds for identifying vulnerabilities to personal information exposure within our IT systems.

Progress: We conduct Privacy Impact Assessments on internally developed and commercial off-the-shelf systems used to process personal information within the corporate network. This process evaluates the privacy controls in both

new and updated internal systems that collect, store and process employee personal information to ensure proper handling. We identified an average of 2.0 potential privacy vulnerabilities per assessment in 2016. To mitigate privacy risk, the Corporate Privacy Office drives continual process improvement, including coordinating with our supply chain function to embed privacy-related questions in the vendor evaluation process.

MANAGEMENT

Three business functions coordinate employee privacy and data protection: Corporate Information Security detects cyber intrusion risks and devises technical defenses, Counterintelligence Operations and Corporate Investigation investigates insider threats and minimizes repeatable events, and Privacy determines methods and governance for the proper use of personal data. Together these teams secure our corporate and employee data.

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



HELPING EMPLOYEES WHO FACE A PERSONAL DATA BREACH

INNOVATION

We address many forms of potential privacy and data protection issues. Our approach of cross-functional coordination helped us be resilient after the U.S. Office of Personnel Management (OPM) announced in 2015 that a data breach compromised the personal information of more than 20 million people. While there was no direct impact to Lockheed Martin, a significant percentage of our employees are former or retired federal workers, and therefore might have been affected. Our Privacy, Corporate Information Security and Counterintelligence Operations, and Corporate Investigation teams collaborated as focal points for employee questions. Despite having no culpability in the breaches, we released a series of informative communications and provided free identity protection for affected employees. We increased outreach on data protection and privacy and continue to emphasize the warning signs of, and mitigating actions for, identity theft.

IMPACT

Our swift, coordinated response helped tens of thousands of vulnerable employees feel assured, allowing them to return their focus to their jobs. Ongoing educational communications help each employee understand his or her role to proactively protect, properly handle and share personal information. Valuing the privacy and security of our data builds trust among employees, customers and suppliers.

▲ Policies and diligent teams help protect employees who are increasingly adopting mobile apps.

HIGHLIGHT

In the U.S., data breaches related to privacy information totaled nearly 1,100 in 2016, a 40 percent increase over 2015 and an all-time high since 2005. [Identity Theft Resource Center report.](#)

RECOGNITION

SUSTAINABILITY

Dow Jones Sustainability World Index: Named to the index for the third straight year and achieved the RobecoSAM Gold Award for scoring highest in our industry.

CR Magazine: Honored as 100 Best Corporate Citizens 2016: 8th; 2015: 10th; 2014: 14th.

BUSINESS INTEGRITY

Sustainable Purchasing Leadership Council: 2016 Supplier Engagement Award.

Department of Defense, Nunn-Perry Award: For our partnership with Crowley Fabricating & Machining, a veteran-owned and service-disabled veterans-owned small business.

DiversityBusiness.com: Named among the Top 50 Organizations for Multicultural Business Opportunities.

Bronze Brandon Hall Award: For gamified business conduct and compliance training course about gifts and hospitality.

PRODUCT IMPACT

Aviation Week: Program Excellence Awards Special Projects Winner for Mobile User Objective System Program (MUOS). MUOS revolutionizes secure ultra-high frequency (UHF) satellite communications (SATCOM) for mobile U.S. Navy forces.

Aviation Week: Program Excellence Awards Sub-System Sustainment Winner for Javelin Life Cycle Contract Support (LCCS). The award recognized the sustained level of high performance of the LCCS Performance Based Logistics Team. Contract restructuring created a product that is more affordable and flexible for the customer. The resulting savings were reallocated towards future Javelin product development.

EMPLOYEE WELLBEING

U.S. Chamber of Commerce Foundation: Citizens Award for Best Commitment to Education for sponsoring Imagine Science, in which four of the nation's largest youth development organizations — National 4-H Council, Girls Inc., Boys and Girls Clubs of America and the YMCA — joined forces for the first time to inspire underserved children to participate in STEM programs.

Human Rights Campaign's Corporate Equality Index: Received a perfect score of 100 percent on the index, earning the title of "Best Place to Work for LGBT Equality" for the 9th consecutive year.

RESOURCE EFFICIENCY

CDP: Recognized with a spot on the Climate A List for progress in managing our carbon footprint for the past six years.

U.S. Environmental Protection Agency (EPA) Green Power Partnership: In the top 25 on the Top 100 Partners list of green power purchasers as of November 2016.

Alliance to Save Energy: Received the Industry & Manufacturing Stars of Energy Efficiency Award for comprehensive environmental stewardship and sustainability.

INFORMATION SECURITY

Defense Security Service: Honored two of our sites with the 2016 James S. Cogswell Outstanding Industrial Security Achievement Award for handling U.S. DoD security clearances.

Aviation Week: Program Excellence Awards Special Projects winner for National Cyber Range, which enables the DoD, intelligence community and other government agencies to conduct realistic cyber security testing, evaluation and training events.

OTHER SOURCES OF INFORMATION

More about sustainability at Lockheed Martin, including the 2016 Global Reporting Initiative (GRI) Index, the Executive Summary and historical reports, can be found online at: www.lockheedmartin.com/sustainability.

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are based on our current expectations and assumptions, are not guarantees of future performance, and are subject to risks and uncertainties. Actual results could differ materially due to factors such as (i) the availability of funding for the programs described in this report; (ii) changes in our priorities as well as changes in the priorities of our customers and suppliers; (iii) the accuracy of our estimates and assumptions; (iv) the future effect of legislation, rule-making and changes in policy; (v) the impact of acquisitions or divestitures or other changes in our employee or product and service base; (vi) the competitive environment; (vii) the ability to attract and retain personnel and suppliers with technical and other skills; (viii) the success of technologically developed solutions; (ix) the willingness of suppliers to adopt and comply with our programs; and (x) global economic, business, political and climate conditions.

These are only some of the factors that may affect the forward-looking statements contained in this report. For further information regarding risks and uncertainties associated with our business, please refer to our U.S. Securities and Exchange Commission filings including our Annual Report on Form 10-K for the year ended Dec. 31, 2016 and our 2017 Quarterly Reports on Form 10-Q, which may be obtained at the corporation’s website <http://www.lockheedmartin.com/investor> or through the website maintained by the SEC <http://www.sec.gov>. The forward-looking statements in this report are intended to be subject to the safe harbor protection provided by federal securities laws.

FOLLOW US



[linkedin.com/company/lockheed-martin](https://www.linkedin.com/company/lockheed-martin)



facebook.com/lockheedmartin



twitter.com/lockheedmartin



youtube.com/user/LockheedMartinVideos



flickr.com/photos/lockheedmartin



plus.google.com/+lockheedmartin

©2017 LOCKHEED MARTIN CORPORATION

Designed and produced in partnership
with SALTERBAXTER MSLGROUP

Printed by Tray Inc.

