

# 2015 SUSTAINABILITY REPORT

## SCIENCE OF CITIZENSHIP

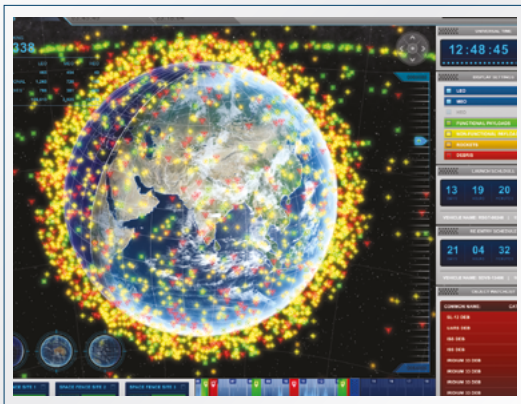
LOCKHEED MARTIN



# ABOUT THIS REPORT

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## ABOUT THIS REPORT

**This is Lockheed Martin's fifth sustainability report. We publish a report annually in April on [www.lockheedmartin.com/sustainability](http://www.lockheedmartin.com/sustainability).**

Unless otherwise noted, this report includes global data and activities for the calendar year 2015 from Lockheed Martin corporate offices and five business segments: Aeronautics, Information Systems & Global Solutions, Missiles and Fire Control, Mission Systems and Training, and Space Systems. This report does not include data from Sikorsky operations, acquired in November 2015, or Sandia National Laboratories, except where noted. The report provides environmental, social and governance data from the past five years, when available.

This is our fourth year using the Global Reporting Initiative's (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.

An independent third party, DNV Global, assured this report, including the Lockheed Martin Sustainability Management Plan performance indicators and select GRI indicators. Details of the verification are in the [letter of assurance](#).

We invite you to contact us with questions or for more information at [sustainability.lm@lmco.com](mailto:sustainability.lm@lmco.com).

## ABOUT THE COVER:

From spent rocket boosters and inactive satellites to stray hardware and paint flecks, there are hundreds of thousands of pieces of debris orbiting Earth at up to 17,500 mph. If orbital debris collides with functioning space technology, even the smallest piece could critically damage satellites that provide us with information we rely on, such as weather forecasts, GPS navigation, defense intelligence, banking security and more.

Lockheed Martin is building Space Fence (shown on the cover and at left), a ground-based radar system that will provide the U.S. Air Force with uncued surveillance, detection, and tracking of space objects. Compared to its predecessor, Space Fence will quicken response times with improved accuracy and expanded surveillance coverage. Space Fence can track objects down to the size of a marble, bringing unprecedented situational awareness of our critical space-based communication and security infrastructure.

# OUR COMPANY

## OVERVIEW

**Lockheed Martin is a global security and aerospace company that employs about 126,000 people worldwide, including the acquisition of 15,000 Sikorsky employees in November 2015.**

Our scientists and engineers research, design, develop, manufacture, integrate and sustain advanced technology systems, products and services. We also provide a broad range of management, engineering, technical, scientific, logistics and information services. Lockheed Martin primarily serves United States (U.S.) and allied government institutions that have charters to protect and provide essential services to billions of citizens worldwide. We also serve commercial customers in sectors such as energy, financial services and hospitality. The Corporation's net sales for 2015 were \$46.1 billion. This report covers our significant activities related to sustainability in the U.S., Australia, Canada and the United Kingdom (U.K.).

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

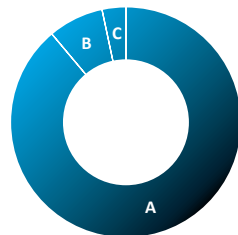
### NUMBER OF EMPLOYEES BY LOCATION

<b>93,900+</b>	<b>2,500+</b>	<b>1,000+</b>	<b>800+</b>	<b>200+</b>
U.S. <sup>1</sup>	U.K. <sup>2</sup>	Australia <sup>2</sup>	Canada <sup>2</sup>	New Zealand

<sup>1</sup> As of Dec. 31, 2015. Does not include Sandia, Sikorsky, contract workers, interns or employees of certain subsidiaries or joint ventures.

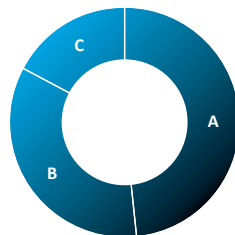
<sup>2</sup> Local Country Nationals.

### ECONOMIC IMPACT (\$46.1 BILLION)



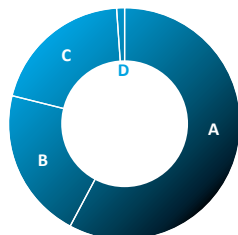
A. Cost of Sales <sup>3</sup>	\$40,932M
B. Profit	\$3,605M
C. Federal/Foreign Taxes <sup>4</sup>	\$1,418M

### SOCIAL IMPACT (\$55.81 MILLION)



A. Charitable Contributions	\$26.98M
B. Employee Giving	\$19.18M
C. Sponsorships	\$9.65M

### CUSTOMERS (% OF \$46.1 BILLION NET SALES)



A. U.S. Department of Defense	58%
B. International <sup>5</sup>	21%
C. U.S. Civil, National Aeronautics and Space Administration (NASA) and Intelligence Agencies	20%
D. U.S. Commercial and Other	1%

<sup>3</sup> Includes salaries, global supply chain and other expenses.

<sup>4</sup> Reflects recognized income tax expense, a 28.2% effective tax rate.

<sup>5</sup> Foreign military sales and direct commercial sales to governments.

## BUSINESS SEGMENTS IN BRIEF

We operate in five business segments based on the nature of the products and services offered. Our workforce also supports Lockheed Martin International and Enterprise Operations. Lockheed Martin International enables integrated business strategies for customers outside the U.S. to deliver products and services for national security and citizen services. Enterprise Operations is comprised of headquarters personnel, business function personnel and enterprise-wide shared services centers.

### AERONAUTICS

Engaged in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies.

### INFORMATION SYSTEMS & GLOBAL SOLUTIONS

Provides advanced technology systems and expertise, integrated information technology solutions and management services across a broad spectrum of applications for civil, defense, intelligence and other government customers.

### MISSILES AND FIRE CONTROL

Provides 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.

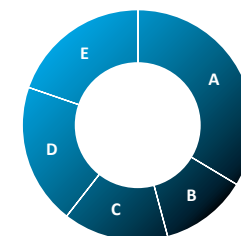
### MISSION SYSTEMS AND TRAINING

Provides design, manufacture, service and support for a variety of military and civil 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

Engaged in the research and development, design, engineering and production of satellites, strategic and defensive missile systems, and space transportation systems.

### SEGMENT SALES AND PERCENTAGES



#### A. Aeronautics

**\$15.6B; 34%**

#### B. Information Systems & Global Solutions

**\$5.5B; 12%**

#### C. Missiles and Fire Control

**\$6.7B; 14%**

#### D. Mission Systems and Training

**\$9.1B; 20%**

#### E. Space Systems

**\$9.1B; 20%**



# LEADERSHIP PERSPECTIVE



Lockheed Martin Chairman, President and Chief Executive Officer, Marillyn A. Hewson, tours an S-97 Raider Helicopter. She welcomed employees at the Sikorsky facility in Stratford, Connecticut to the Lockheed Martin family on November 6, 2015.

**At Lockheed Martin, our core values — to do what's right, respect others and perform with excellence — guide our decisions and define our actions. Our sustainability strategy is a clear demonstration of those values, and we're proud of the progress we've made in building a more sustainable future for our company, our customers and our planet.**

I believe no other industry is more focused on solving the problems of the future than ours. The aerospace and defense industry builds platforms to last for decades. Therefore sustainability is an inherent and essential part of our business model.

Our industry's commitment to the future also comes from working directly with governments responsible for promoting strong, safe and productive societies. More and more, international leaders agree that global and regional security is built on sustainable development. At Lockheed Martin, we know firsthand how to deliver environmental and social benefits to power a safer and more prosperous world.

As an industry, we also play an important role in setting the standards for ethics and integrity in business. Our business conduct builds trust with foreign governments and commercial clients who want and need long-term partners, not short-term contractors. Our core product offerings adhere to strict procurement rules because they must perform when it matters most. There is no room to cut corners — and we make it a priority to reinforce that message to our suppliers and global business partners, alike.

Thanks to the hard work and commitment of our 126,000 employees around the world, we achieved or exceeded 95 percent of our sustainability commitments in 2015. While we are very proud of this progress, we know we can — and must — do even better in the years ahead. That's why we've set ambitious goals and continue to provide updates to our stakeholders through this — our fifth annual sustainability report.

In this year's report, you'll see some of our most significant accomplishments, including progress on reducing our carbon footprint, enhancing diversity and workplace inclusion, building on our strong governance practices, and advancing our culture of workplace ethics.

This report gives our customers, employees, shareholders and others a fuller understanding of our efforts — well beyond our compliance record or the progress we've made against performance indicators. We want our stakeholders to understand what we've done to advance our goals, how we accomplished those milestones and what we are doing to raise the bar for the future.

At Lockheed Martin, we're used to facing complex challenges head-on and pursuing breakthrough solutions to the world's most difficult problems. We approach sustainability the same way and are helping to engineer a better future.

In 2015, we again pushed forward in building a stronger business and a better, more sustainable tomorrow. When we look back on our progress, we're proud of all we've accomplished. We're equally proud of how we've done it — by adhering to the core values that have made us successful for over a century. That's what has always set Lockheed Martin apart — and it is what always will.

Marillyn A. Hewson  
Chairman, President and Chief Executive Officer

## SUSTAINABILITY CORE ISSUES

### GOVERNANCE

**Objective:** Continually enhance efforts to uphold high standards and controls for ethical business conduct, compliance and transparency

### PRODUCT PERFORMANCE

**Objective:** Innovate to deliver optimal economic and performance value over the life cycle of our products

### TALENT COMPETITIVENESS

**Objective:** Foster a high-performance, inclusive culture that attracts, engages and develops talent to excel in our marketplace

### SUPPLIER SUSTAINABILITY

**Objective:** Partner with at least 90% of active suppliers to advance responsible sourcing practices and improve transparency

### RESOURCE EFFICIENCY

**Objective:** Optimize the use of natural resources in our operations to reduce carbon emissions through improved energy management

### INFORMATION SECURITY

**Objective:** Minimize the probability and impact of undesirable events associated with security incidents in our operations and for our customers' missions

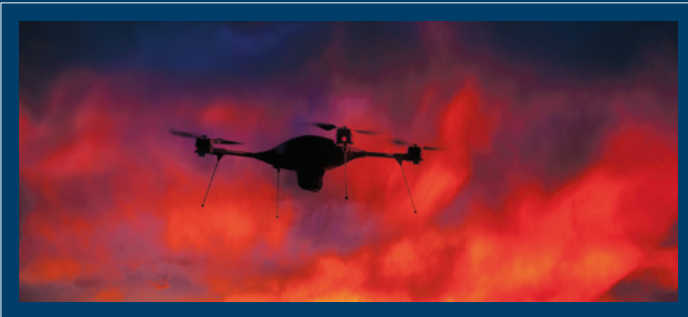


## OUR APPROACH: WE CREATE SOLUTIONS TO GLOBAL CHALLENGES FOR A BETTER TOMORROW

From deep space to deep sea, we innovate products that serve industries as diverse as aerospace, military, utilities, financial services, oil and gas, and telecommunications. We support customers who uphold national security, invest in advanced technologies and maintain global infrastructure.

**Our sustainability mission** is to foster innovation, integrity and security to protect the environment, strengthen communities and propel responsible growth. This is how we practice:

# THE SCIENCE OF CITIZENSHIP



*First responders who once relied on manned aircraft for aerial search and rescue operations can now reduce response time and increase time-critical search efficiency with Lockheed Martin's Indago™. This proven reliable drone weighs only five pounds and requires no assembly for quick deployment and operation. Indago provides high quality geo-location data and enhanced situational awareness.*

### INNOVATION

OUR TEAM OF LEADING SCIENTISTS, ENGINEERS AND EXPERTS  
PUSH THE BOUNDARIES OF INNOVATION AND DISCOVERY.

We use technological advancements to create solutions that address the world's most pressing challenges and consider the vital interactions between economic, environmental and social factors.



*Integrating Project Lifesaver's location device into our Indago small unmanned aerial system extends humanitarian search and rescue cover areas from approximately one-and-a-half miles to more than seven miles. This pairing greatly increases success in broad search areas and difficult-to-navigate terrain by further reducing response times and increasing efficiencies during the first critical hours of a search operation.*

### VALUE

OUR BREAKTHROUGHS STRENGTHEN GLOBAL SECURITY  
AND ESSENTIAL CITIZEN SERVICES.

We build and enhance advanced infrastructure crucial to sustainable development and society's future resilience. We integrate sustainability into our work to ensure ethical leadership, responsible operations and trusting relationships. By creating sustainable value for our business and society, we ensure our own long-term success.

# WE UNDERSTAND GLOBAL CHALLENGES

## ADDRESSING GLOBAL MEGATRENDS

**Businesses today operate in a complex, fast-changing landscape. Resource constraints and skills shortages put pressure on growth and global supply chains, while growing public distrust tests the confidence in business held by society. These challenges have far-reaching effects on companies, communities and the environment.**

With operations in over 70 countries, Lockheed Martin is a global leader in the advanced security and aerospace industries. We and our government customers know firsthand the pressing challenges facing society and international development. Together, we play a key role in developing solutions.

Lockheed Martin tracks global megatrends to identify future needs, and guide our sustainability and business strategy. We continually track and analyze existing and emerging trends. Below are several key megatrends that have an impact on our business today and present long-term opportunities.



### GEOPOLITICAL INSTABILITY

Allied governments routinely face aggression, terrorism, crime, resource shortages and other threats.

#### ACTION

Our products support the advanced infrastructure behind national safety, information networks, energy and telecommunications that enables well-functioning, prosperous societies.

### ENERGY RESILIENCE

Population growth, geopolitical instability and resource constraints overload the world's energy infrastructure.

#### ACTION

Our solutions, from utility-scale energy storage to smart-grid and renewable energy systems, help close the energy needs gap by optimizing energy use efficiency, integrating low-carbon sources and reducing costs.

### CYBER SECURITY

As digital communications proliferate, data protection and cyber security are essential to safety, good governance and trust.

#### ACTION

We invest in technology and talent to protect critical infrastructure for customers and our own complex supply chain.

### TRUST IN BUSINESS

Stakeholders expect greater corporate transparency and accountability across value chains.

#### ACTION

As a major supplier to governments, and because it's the right thing to do, we engage directly with diverse stakeholder groups and adhere to strict ethics and business conduct policies.

### STEM SKILLS GAP

In developed and developing markets, demand for talent in science, technology, engineering and mathematics (STEM) far outweighs supply.

#### ACTION

We promote interest in STEM education and careers to build a robust pipeline for our business and suppliers. This is particularly important in core markets where our operations require in-country citizenship.

# WE UNLOCK VALUE FOR SOCIETY

## MEETING COMPLEX CUSTOMER DEMANDS

Today's global challenges require scalable solutions. The societies of tomorrow will depend on businesses like ours to provide the infrastructures of global security, communications and clean, reliable energy to ensure their resiliency and progress. At the intersection of science and citizenship is where our advanced infrastructure solutions benefit society. We leverage our commitment to sustainability to meet these critical needs now and for decades to come through our important relationships with government customers.

Increasingly, our government customers face complex missions requiring greater ingenuity at lower costs. We must meet and surpass their expectations for better, smarter products by pushing the boundaries of innovation and being a responsible steward of resources.

The U.S. federal government is our largest customer, and its purchasing decisions greatly influence the way we advance sustainability. Working closely with domestic and foreign governments allows us the unique opportunity to contribute to sustainable development, and economic and social progress worldwide.

Sustainability has a dual meaning at Lockheed Martin. For customers and the public at large, it means we help build and maintain the architecture of a safe, productive society. For our business, sustainability means responsible growth for stockholders, employees and suppliers, so we can continue our important work.



*The Lockheed Martin Marlin® Autonomous Underwater Vehicle (AUV) System offers a range of civilian and military customers a quick and safe way to conduct subsea surveys and inspections.*



There is a reality of the global security situation today. There has to be some realization that the services you provide do, in fact, keep us secure.

— Feedback from a think tank, Lockheed Martin European Union (EU) stakeholder summit

<sup>1</sup> <http://www.iisd.org/library/why-infrastructure-key-success-sdgs>

## THE SECURITY-SUSTAINABILITY NEXUS

Our business combines complex systems engineering with a simple purpose: to engineer a better tomorrow. We are privileged to develop solutions that work together for national safety, economic security and essential citizen services. We call this approach The Science of Citizenship.

Lockheed Martin develops and secures advanced infrastructure such as energy, communication and national security that underpins daily life. Growing environmental and geopolitical challenges increase global infrastructure demands, which the United Nations emphasized in its Sustainable Development Goals. Societies need an estimated \$57 trillion in infrastructure investment by 2030 to accommodate population growth, migration and urbanization, especially in emerging economies<sup>1</sup>. We address these needs directly with alternative energy generation, power grid management, space-based communications and cyber security solutions, and indirectly through the application of unmanned systems, simulation and training, and



The idea that Lockheed Martin as a business is positioned to create the future that we want... that definitely makes sense within the global infrastructure framework.

— Feedback from an NGO, Lockheed Martin U.S. stakeholder summit

other technologies that strengthen productivity and safety for agriculture, healthcare, mining and transportation infrastructure.

Beyond defense, our solutions navigate deep space and deep seas to secure natural resources and protect human lives. As examples, we developed satellites to provide life-saving early weather warnings, wind measurement technology for aviation safety, commercial aircraft to transport humanitarian aid, and unmanned underwater inspection systems to prevent oil and gas rig accidents. We design these and all Lockheed Martin products with a purpose that contributes to our sustainability mission.

Sustainability propels responsible economic growth and scientific discovery. We factor in social, environmental and economic considerations to deliver value to customers and citizens. To succeed, we balance stakeholder expectations with financial viability. This means achieving our sales goals and delivering high-performing products to help customers meet their own sustainability objectives.



# WE ENABLE ADVANCED INFRASTRUCTURE

The world relies on a collection of complex assets, systems and networks to enable a well-functioning and secure society. These advanced infrastructure not only contribute to our daily convenience and safety, they enable global sustainable development. The mission of Lockheed Martin's customers and the technological capabilities of our products and services allow us to play a significant role in the advanced infrastructure of several countries.



## SPACE-BASED INFRASTRUCTURE

From banking security to defense missions, society depends on space capabilities. Our spacecraft and other space-based technologies enable global communication, navigation, predictive weather analysis and national intelligence systems.



## GLOBAL SECURITY

More than half the world's population has no direct access to paved roads. Systems built for unmanned operation and remote landing ensure the safe completion of rescue and defense missions and humanitarian relief, regardless of the terrain.



## ENERGY RESILIENCE

Global resource constraints and an increasingly diverse energy supply call for technological advances in energy generation, storage and consumption. We develop scalable solutions that optimize energy capacity and natural resources.

## WEATHER FORECASTING

The GOES-R satellite will aid lifesaving efforts and shelter local economies by providing more accurate real-time weather forecasts and earlier storm warnings.

## REMOTE CARGO DELIVERY

The C-130J aircraft lands in remote, low-infrastructure areas carrying more than 40,000 pounds of supplies to the harshest environments, including disaster relief areas.

## ENERGY MANAGEMENT

Our intelligent microgrids optimize energy management and distribution from diverse sources to deliver uninterrupted, high quality power in remote or campus locations.

## CLEAN ENERGY PRODUCTION

Our advanced gasification system serves the dual purpose of reducing biowaste and producing clean energy, emitting less GHGs than conventional energy production methods.

## UNMANNED AERIAL SYSTEMS

The K-Max helicopter completes unmanned precision tasks, reducing the possibility of casualties when delivering cargo to high risk areas or abating wild fires.

## SECURE NAVIGATION

GPS III satellites provide superior security, accuracy and reliability to keep security personnel more informed and bring first responders faster to areas of need.

# WE FOCUS ON SIX CORE ISSUES

## STRATEGIC SUSTAINABILITY

The Lockheed Martin Sustainability Management Plan (SMP) manages and measures performance of our six core issues and corresponding objectives (see right). Established in 2013, it outlines approximately 40 short- and long-term indicators of sustainability in our business decisions and practices.

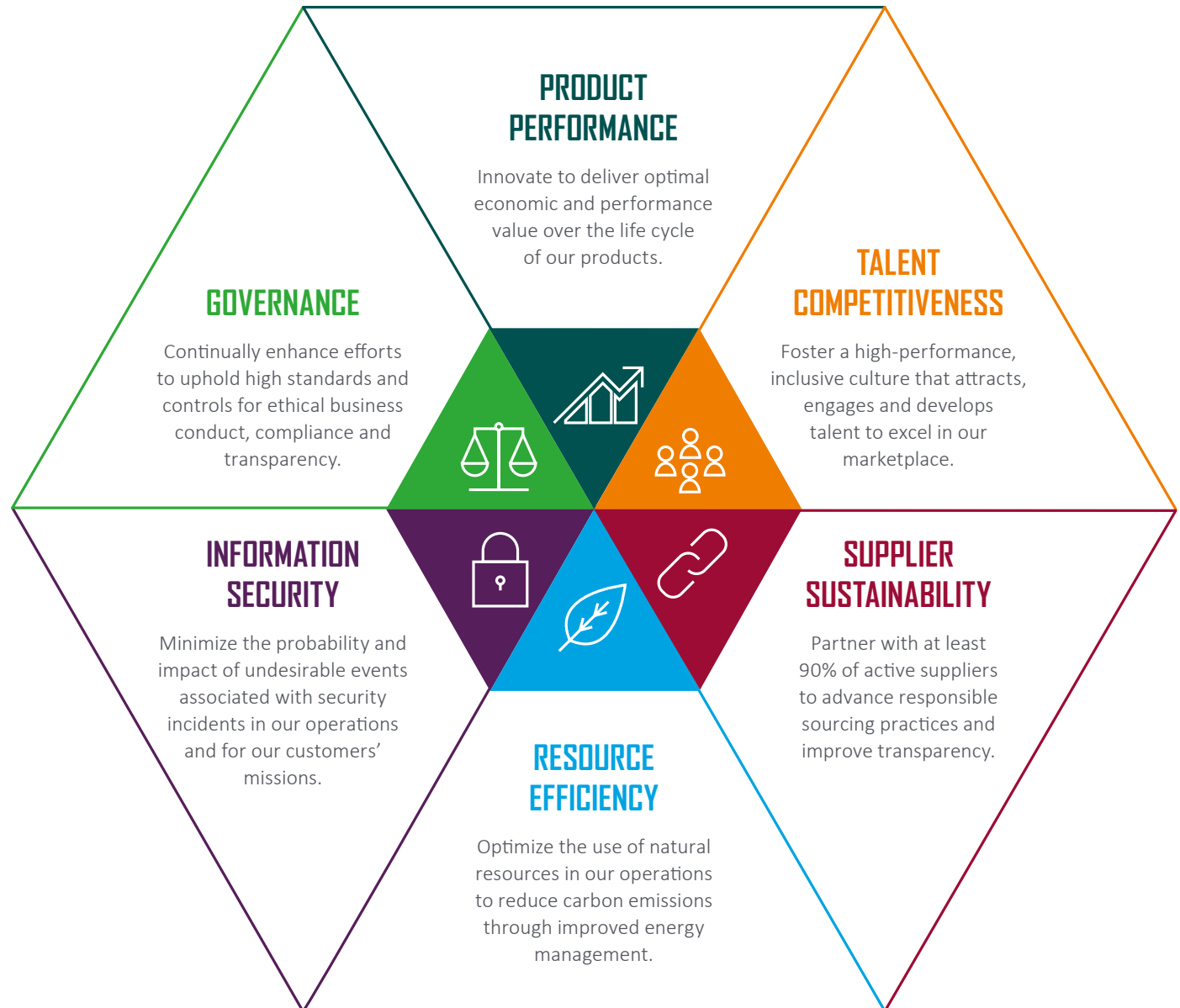
Our CEO and Executive Leadership Team review our mid- and full-year performance. The Ethics and Sustainability Committee of the Board of Directors reviews the implementation process.

The following sections describe our SMP strategies, goals and performance for each core issue.

## OUR SUSTAINABILITY MISSION

WE FOSTER INNOVATION, INTEGRITY AND SECURITY TO:

- » **Strengthen communities**
- » **Protect the environment**
- » **Propel responsible growth**



# WE PRIORITIZE SUSTAINABILITY FACTORS

## HOW WE CHOSE OUR CORE SUSTAINABILITY ISSUES

### CORE ISSUES ASSESSMENT

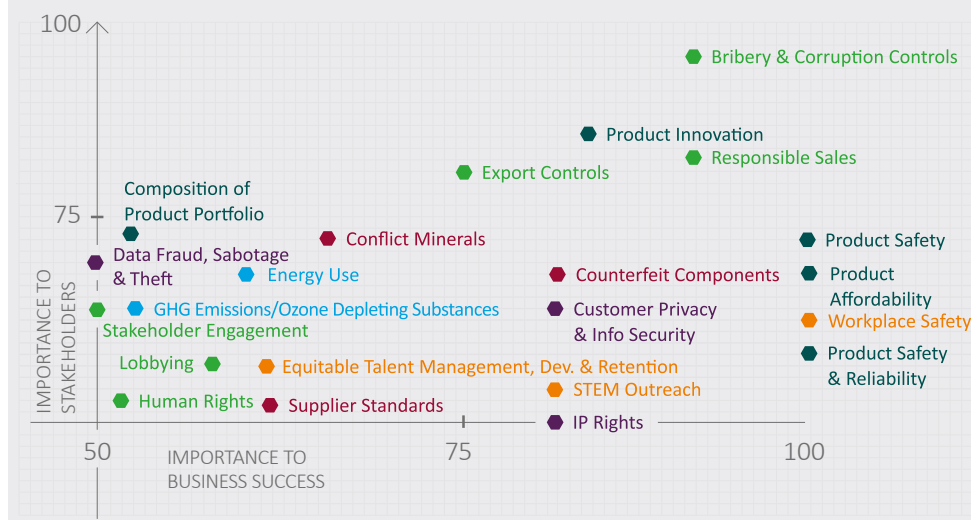
In 2013, we conducted a formal, four-step assessment of sustainability factors based on their importance to our business and stakeholders. We also looked for ways to improve related information disclosure. The six core issues we ultimately identified were reviewed by our Board of Directors. Our process:

1. Convened diverse internal and external stakeholders to collect viewpoints.
2. Plotted 41 factors by multiple dimensions of importance to stakeholders and business success.
3. Evaluated 20 factors that stakeholders deemed high priorities.
4. Agreed to cluster closely correlated factors.

This comprehensive process is the foundation of our sustainability decisions. It also includes:

- » Feedback from institutional stockholders and representatives of five other stakeholder groups on our business model, compliance requirements and competitive positioning.
- » Senior business leaders' perceptions of short-term, medium-term and emerging risks, and the World Economic Forum Global Risks Index.
- » Priorities identified by 35 Lockheed Martin employees from 10 business functions during internal workshops conducted by an independent third-party facilitator.

### PRIORITIZING FACTORS



### KEY:

- Governance
- Product Performance
- Talent Competitiveness
- Supplier Sustainability
- Resource Efficiency
- Information Security

- » Guidance from the Global Reporting Initiative (GRI) G4 Principles, the Ceres Roadmap to Sustainability, the Sustainability Accounting Standards Board and the International Integrated Reporting Council.

Business for Social Responsibility (BSR), a global non-governmental organization (NGO), determined our process “uses many elements of leading practice.” Our assessment showed connections between stakeholder priorities and our business strategy, risks and opportunities. It helped us allocate resources to the best opportunities for sustainable growth while mitigating potential risks. The six highest-ranked, most closely related issues were Governance, Product Performance, Talent Competitiveness, Supplier Sustainability, Resource Efficiency and Information Security.

### LOOKING AHEAD

As we concluded our SMP 2013-2015 commitments, we conducted an enhanced core issues assessment with increased stakeholder engagement. We focused on global megatrends and engaged 25% more external and internal stakeholders with U.S., European and global perspectives in structured discussions about their expectations and our priorities throughout 2015. We explored how our largest customer, the U.S. Department of Defense (DoD), defines sustainability through impacts such as reduced fuel consumption and energy-related risk avoidance. We learned that certain stakeholders would prefer more ambitious goals in some areas outside of our sphere of influence, including U.S. foreign policy doctrine. We also learned how sustainability efforts can address our international business growth strategy while adhering to circular economy principles.

These collaborative dialogues will lead to profound shifts in how we prioritize our product capabilities, characterize their impacts and improve our demonstration of those connections. In 2016, we'll finalize and make public a new set of goals and indicators that reflect the feedback we've received. We'll partner with customers, investors, suppliers and other stakeholders in our value chain to translate the biggest sustainability challenges of our time into meaningful goals and high-impact action. I look forward soon to sharing how we will advance The Science of Citizenship.

— Leo S. Mackay, Jr., Vice President, Ethics and Sustainability



# WE ENGAGE STAKEHOLDERS

## HOW WE ENGAGE

Sustainability engagement at Lockheed Martin is more than a biennial core issues assessment; it is day-to-day action on multiple continents. We include and encourage feedback from employees, customers, investors, analysts, community leaders, suppliers, regulators and NGOs to make sure our sustainability agenda and business strategy have a meaningful impact.

To reflect our geographic and product diversity, we decentralize stakeholder engagement to ensure more frequent and localized contacts. Global engagement information and activities coordinated by our corporate sustainability office are harmonized in this report. Significant outreach coordinated by this office in 2015 included, but was not limited to, actions listed in the table at right.

### SUSTAINABILITY ENGAGEMENT

- » **Action:** The Independent Insights Group (IIG) is a panel of experts in academia, business, sustainability, law and government that provides guidance on sustainability issues and best practices to our senior leadership team and key functional leaders. To preserve independent views, we reimburse travel expenses but do not otherwise compensate members.
- » **Value:** The group offered insight into our next core issues assessment by reviewing core issues and factors. They met with our senior leadership team and made recommendations to further incorporate sustainability into our business practices.
- » **Members:** Christopher Bell, Stockholder, Greenberg Traurig; Sheila Bonini, CEO, The Sustainability Consortium; Nabil Nasr, Associate Provost for Academic Affairs and Director, Golisano Institute for Sustainability, Rochester Institute of Technology; Elizabeth Schrayner, President, Schrayner & Associates; and Mohammad Zaidi, Strategic Advisory Board Member, Braemar Energy Ventures and former Executive Vice President and CTO, Alcoa.



Over the past two years as Lockheed Martin ramped up its sustainability office and strategy, it took an appropriate step in stakeholder engagement by convening an independent advisory panel. We have seen some of our recommendations put into action, such as identifying commercial applications of sustainability-oriented technologies and broadening awareness of sustainability in terms of our business outlook. Most notably, the company continues to move toward deeper integration of sustainable decision-making, such as evolving the IIG from a standalone sustainability advisory group into having members join the company's technology advisory group. — Nabil Nasr, IIG member

### STAKEHOLDER ENGAGEMENT

Core Issue	Lockheed Martin Action	Engagement Value
<b>Governance</b>	Members of our senior management team held 37 telephone conferences with large institutional investors and other significant stockholders. During these meetings, stockholders raised environmental, social and/or governance topics, a trend we see increasing.	In 2015, we solicited investor feedback on proxy access and informed our Board of Directors of possible actions. We enhanced disclosures of related party transactions as well as board composition, strategy and refreshment in our annual Proxy Statement.
<b>Product Performance</b>	We've held customer focus team meetings for more than a decade. A steering council, led by our CEO, and a management council review business segment initiatives, best practices, training and effectiveness.	Team meetings occur biannually at customer locations, which allow us to have candid conversations about challenges and how we can partner better. One result of these meetings is the U.S. Air Force Customer Collaboration Program to develop long-range planning.
<b>Talent Competitiveness</b>	We sponsored the Million Women Mentors® Movement, led by STEMconnector® search company, to engage one million STEM mentors. The goal is to increase the interest and confidence of girls and women to succeed in technical leadership fields.	We partner with organizations aiming to increase the number of students pursuing STEM careers because STEM-educated talent is critical to the aerospace and defense industry now and in the future.
<b>Supplier Sustainability</b>	Through our Supplier Wire website, we offer small businesses a wide range of educational resources, including free webinars, live chats, video tips and supplier testimonials.	We teach small businesses how to build, sustain and expand their business relationship with Lockheed Martin. In 2015 we attended 159 outreach events and held nine Supplier Wire webinars advising businesses how to fill the procurement requirements of our major programs.
<b>Resource Efficiency</b>	Each year, we honor employees' outstanding contributions to our environment, safety and health (ESH) goals through the ESH Excellence Awards. In 2015, all business segments participated with more than 30 nominations.	The winning team implemented a chromium-free structural bond primer for titanium parts resulting in an estimated \$100,000 of cost avoidance per year, and a reduction of environmental and health impacts.
<b>Information Security</b>	Lockheed Martin Cyber Security Alliance members are technology companies collaborating to integrate commercial cyber security offerings for the government. The Alliance combines domain knowledge and "systems-of systems" integration at the NexGen Cyber Innovation and Technology Center.	The center is a global security asset for innovation where members rapidly and virtually develop new capabilities. Members test solutions that can provide early threat detection, protection and multilayer self-healing capabilities.

# WE LEAD FROM THE TOP

## SUSTAINABILITY GOVERNANCE

Lockheed Martin's sustainability management structure ensures strong, ethical governance. In addition to monitoring the Corporation's adherence to our Code of Ethics and Business Conduct, in 2015 the Ethics and Sustainability Committee of the Board of Directors oversaw corporate responsibility, employee health and safety, ethical business practices, and diversity and inclusion.

Our Executive Leadership Team, the Corporation's highest governance body, governed and guided corporate-wide sustainability objectives. They reviewed corporate sustainability operations, reported three times in 2015, and met with the IIG on sustainability issues and best practices. The Vice President of Ethics and Sustainability, an elected corporate officer who reports to the CEO and the Ethics and Sustainability Committee, chaired the Sustainability Working Group. These functional leaders devise our strategic sustainability agenda, facilitate sustainability initiatives and coordinate sustainability stakeholder engagement and disclosures.

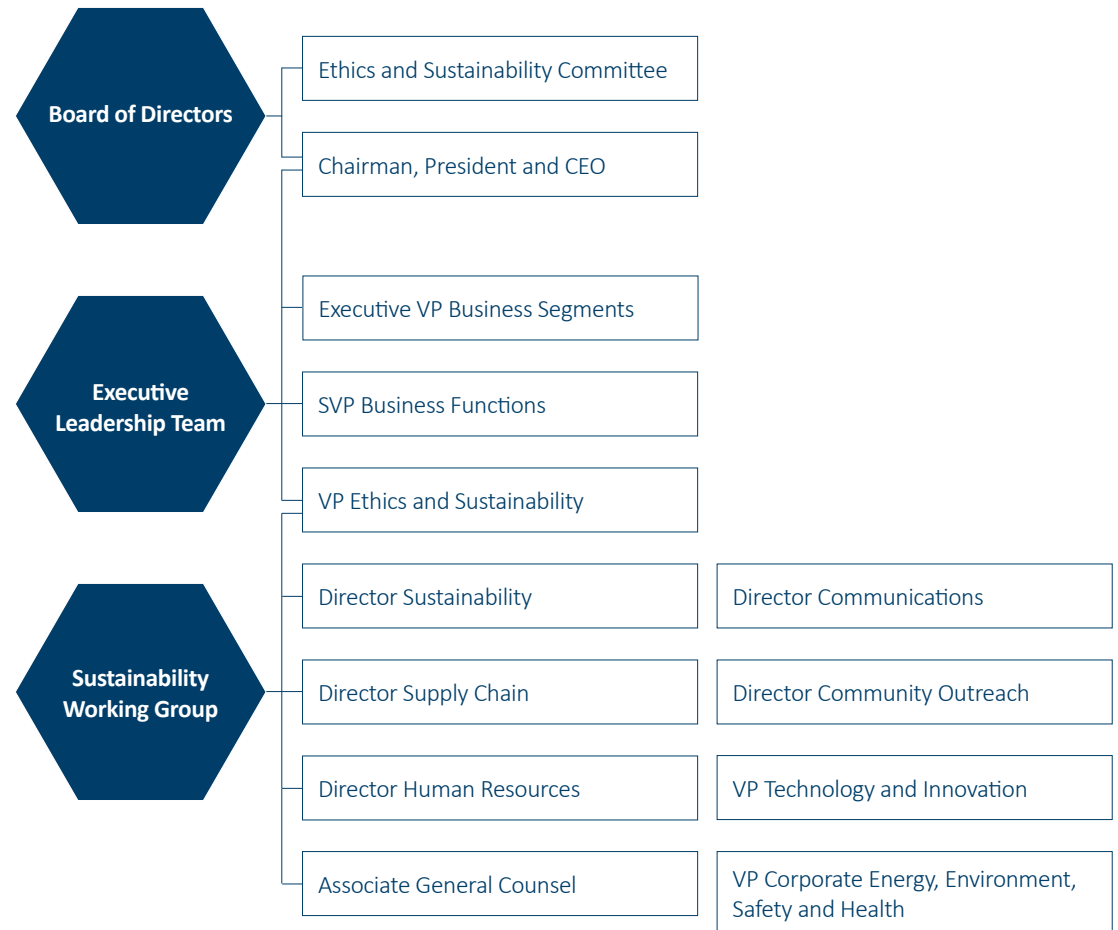
Lockheed Martin dedicates expert leadership councils to areas such as production operations, risk and compliance, supply chain and environment, and health and safety. These groups meet periodically to review our sustainability goals and evaluate performance based on their expertise in key business segments and functions.



Our corporate culture is steeped in strong governance. As we try to be a more global business, our ability to show how governance permeates from the company DNA in all activity is invaluable.

— Feedback from an employee, Lockheed Martin U.S. stakeholder summit

### SUSTAINABILITY GOVERNANCE STRUCTURE



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

# WE MEASURE PROGRESS

## HOW WE MEASURE PROGRESS

The Lockheed Martin Sustainability Management Plan (SMP) includes objectives and performance indicators for our six core issues. Approximately 40 short- and long-term indicators measure whether we are achieving our goals to protect the environment, strengthen communities and propel responsible growth.

Unless otherwise noted, all indicators include 2015 performance goals from a 2013 baseline. In our online [GRI Index](#), we report against GRI G4 guidelines and indicators, in line with the relevant issues we need to address.

### SMP SUMMARY

We completed the 2015 full-year performance metric collection and Executive Leadership Team review of the SMP commitments. This process helped create business value including to: identify better business opportunities, strengthen enterprise risk-management mechanisms, enhance stakeholder dialog, drive energy and natural resource efficiency, and maximize our investments of financial, human and natural capital.

The following tables summarize objectives, performance indicators, results and trends for our six core issues. An objective is “met or exceeded” if we achieved all indicators. An objective is “partially met” if we partially achieved one or more indicators. An objective is “not met” if we did not achieve one or more indicator. We describe our performance in more detail in the opening section of each core issue chapter.

## GOVERNANCE

### OBJECTIVE

**Continually enhance efforts to uphold high standards and controls for ethical business conduct, compliance and transparency.**

### BUSINESS VALUE

Our access to capital is facilitated by our rapport with major investors, some of whom integrate sustainability considerations into their investment decisions. As our company pursues international sales growth, it is critical that we are sensitive and responsive to business practices that could have an adverse impact on ethical standards along the value chain.

### FACTORS

Bribery and corruption controls; responsible sales; stakeholder engagement; import and export controls; lawful lobbying and political engagement; respect for human rights.

### STAKEHOLDER VALUE

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

### EXAMPLE

By tracking deviations from company anti-corruption policies, we were able to more quickly confirm whether international consultants completed necessary ethics training.



Met or Exceeded Objective

[Learn more in Governance](#)

## PRODUCT PERFORMANCE

### OBJECTIVE

**Innovate to deliver optimal economic and performance value over the life cycle of our products.**

### BUSINESS VALUE

Business opportunities increase when we meet and exceed customers' expectations for high-performing products that contribute to global security, environmental protection and sustainable economic development. We also go further with sales of products and services that help governments support their own sustainability objectives.

### FACTORS

Product innovation; product portfolio composition; quality, safety and reliability; affordability.

### STAKEHOLDER VALUE

We know some stakeholders perceive our core military platforms as contrary to a sustainable future. Other stakeholders expect us to be more accountable and transparent, given the breadth and global application of our portfolio to hyper connectivity, energy and government resilience.

### EXAMPLE

We rationalized and increased our use of streamlined life cycle assessment tools to help improve efficiency and consistency, while also expanding their use across our business.




Partially Met Objective

[Learn more in Product Performance](#)



# WE MEASURE PROGRESS

## TALENT COMPETITIVENESS

<b>OBJECTIVE</b> Foster a high-performance, inclusive culture that attracts, engages and develops talent to excel in our marketplace.	<b>BUSINESS VALUE</b> A culture of inclusion and well-being inspires employee engagement, enabling their best work.	<b>FACTORS</b> Equitable talent management, development and retention; workforce safety, health and wellness; STEM outreach.	 Met or Exceeded Objective
	<b>STAKEHOLDER VALUE</b> Eighty-five percent of our employees believe there are business-related benefits to focusing on sustainability, based on our 2014 random sample survey of 4,300 respondents. Employees would most like for sustainability efforts and resources to ensure our workforce is treated with respect (77%), cultivate a workplace supportive of employee health and wellness (77%) and ensure workplace safety in our direct operations (72%).	<b>EXAMPLE</b> We address safety and ergonomic challenges in the workplace by engaging employees in participative ergonomics teams and the Ergo Cup competition.	



After winning 2nd place in the 2014 Lockheed Martin Ergo Cup, the Missiles and Fire Control (MFC) competition team from our Grand Prairie, Texas and Camden, Ark., sites was selected to present their project at the 2015 Applied Ergonomics Conference. The Pneumatic Roll-in Backup Tool reduces injury risk and increases efficiency and quality for the process of drilling attachment holes in the PAC-3 launch tube.

## SUPPLIER SUSTAINABILITY

<b>OBJECTIVE</b> Partner with at least 90% of active suppliers to advance responsible sourcing practices and improve transparency.	<b>BUSINESS VALUE</b> For most of our contracts, we rely on suppliers to perform and provide materials, major components and products. Long-term viability of our supply chain's capabilities, resources and integrity is critical to meeting our customers' needs.	<b>FACTORS</b> Raising supplier standards, conflict mineral due diligence, preventing counterfeit components.	 Met or Exceeded Objective
	<b>STAKEHOLDER VALUE</b> We partner with a wide range of suppliers, large and small, public and private. We know our requests to suppliers to promote transparency, sustainability and good citizenship may be financially and otherwise burdensome, regardless of their good intent.	<b>EXAMPLE</b> By conducting due diligence for conflict minerals, we learned the benefit of financially supporting conflict-free smelters.	

# WE MEASURE PROGRESS



During the ISO 50001 certification process for our Amptill, U.K., site, we identified 15 energy efficiency opportunities with combined projected savings of \$250,000 and two million kWh annually. One of the projects we implemented during 2015 replaced more than 80 400 watt halogen bulbs with efficient T5 lighting, seen above, which is saving the company around \$4,000 a year.

## RESOURCE EFFICIENCY

### OBJECTIVE

Optimize the use of natural resources in our operations to reduce carbon emissions through improved energy management.

### BUSINESS VALUE

Energy and resource efficiency in Lockheed Martin offices and manufacturing operations reduces our carbon footprint and lowers operational costs.

### FACTORS

Optimizing energy use, reducing GHG emissions.

### STAKEHOLDER VALUE

We are a global company, but our stakeholders include local neighbors. They view environmental stewardship through local and regional uniqueness as well as universal impacts such as greenhouse gas (GHG) emissions.

### EXAMPLE

We completed over 40 energy efficiency and GHG emission reduction projects in 2015, resulting in 18% energy reduction and 23% GHG reduction from 2010-2015, and avoided an estimated \$26 million in costs.



Met or Exceeded Objective

Learn more in [Resource Efficiency](#)

## INFORMATION SECURITY

### OBJECTIVE

Minimize the probability and impact of undesirable events associated with security incidents in our operations and for our customers' missions.

### BUSINESS VALUE

Threats we face vary from attacks common to most industries to more advanced and persistent adversaries who target us because we protect national security information. If our security fails, our customers or governmental authorities could question the adequacy of our threat mitigation and detection procedures.

### FACTORS

Securing customer and employee privacy; mitigating data fraud, sabotage and theft; safeguarding intellectual property rights.

### STAKEHOLDER VALUE

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

### EXAMPLE

We shared an open source version of our internal cyber threats defense tool, Laika BOSS, launching it externally at a major cyber security conference (Black Hat).



Partially Met Objective

Learn more in [Information Security](#)

# GOVERNANCE



SCIENCE

CITIZENSHIP

OBJECTIVE

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

INNOVATION

We are driven to find creative ways to cultivate ethical thinking with employees at all levels and develop resources and tools that advance integrity across our industry.

VALUE

Conducting business with utmost integrity and trust encourages a high-performing and transparent work environment, which attracts more customers and the best talent, improving our profitability and competitive standing.

*About photo: The MH-60R is manufactured by Sikorsky, a Lockheed Martin company, and equipped with advanced mission systems and sensors created by other Lockheed Martin business segments. It is operational in Australia, Denmark and the U.S. Lockheed Martin's good governance standards apply globally. When we expand to new markets, work with new suppliers and acquire new companies, our Code of Ethics and Business Conduct always applies.*



# GOVERNANCE

## OVERVIEW

### 2015 marked 20 years of excellence in ethical governance at Lockheed Martin.

Ethics is a cornerstone of our business strategy and we're proud of the trust we've earned from customers, partners, suppliers and stockholders. We act with integrity to have a positive impact on society and the environment.

We address six factors that relate to this core issue:

## CORE ISSUE FACTORS

### Bribery and corruption controls

We support the most sensitive missions undertaken by governments around the world. We enforce zero tolerance anti-corruption policies and practices to protect mission, product and service integrity.

### Stakeholder engagement

We build relationships with customers, employees, NGOs, stockholders and suppliers who seek common ground on sound governance.

### Lawful lobbying and political engagement

We lawfully participate in the political process to communicate views on legislative and regulatory matters that have an impact on our business. Our lobbying activities adhere to high ethical standards, laws and regulations. We encourage research and development funding in a socially and environmentally responsible manner.

### Responsible sales

Our employees involved with securing new business carry out their responsibilities honestly, fairly and in accordance with our policies, which may be even stricter than local laws, cultures and regulations.

### Import and export controls

Adversaries working across national borders try to illegally access privileged, private and classified information. Our import and export controls reduce the risk of sensitive information falling into the wrong hands.

### Respect for human rights

We guard against human rights violations and have corporate policies to set clear principles and expectations, including the following:

- » promoting fair employment practices,
- » providing fair and competitive wages,
- » prohibiting harassment, bullying, discrimination, use of child or forced labor, and trafficking in persons for any purpose.



## SUSTAINABILITY MANAGEMENT PLAN PROGRESS compared to 2013 baseline

Goal

2015 Results

### ANTI-CORRUPTION CONTROLS

Monitor and measure anti-bribery and anti-corruption activities by maintaining or reducing deviations from corporate policies on international and domestic business conduct.



Trained 100% of international consultants

Anti-Corruption Policy Deviations



### SUPPLY CHAIN ETHICS

Increase ethics supplier mentoring relationships with small businesses.

Cumulative Totals



### BUSINESS COMPLIANCE TRAINING

Maintain 100% completion of Business Conduct Compliance Training for Sensitive Information and International Trade Compliance, and for International Business Practices.



100% completion of Business Conduct Compliance Training

Goal

2015 Results

### PRIVACY

Track the ratio of privacy observations to privacy impact assessments related to employees' personally identifiable information.

Read more in Information Security, [page 63](#).

Privacy Assessments Ratio

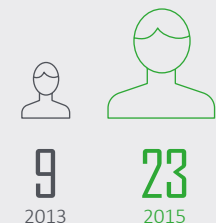


2015 results exclude reassessed and renewed systems, which would change the ratio to 1.33.

### STAKEHOLDER PARTICIPATION

Increase external stakeholder participation in our biennial sustainability core issues assessment.

External Stakeholders



### SUPPLY CHAIN MANAGEMENT

Increase participation rate for our Sustainable Supply Chain Management Voluntary Assessment, distributed in 2013 to suppliers that represented 46% of our supply chain spending.

Assessment Participation Rate



# GOVERNANCE

## MANAGEMENT

**Good governance builds stakeholder trust. We formally communicate our expectations of employee behavior in three ways: through our global Code of Ethics and Business Conduct, mandatory business conduct compliance training and behavior-based ethics awareness training.**

The Vice President of Ethics and Sustainability is an elected corporate officer who reports directly to the CEO and the Ethics and Sustainability Committee of the Board of Directors. This role has authority over our ethics and sustainability programs, and execution of our business conduct compliance training. A review board determines what disciplinary actions to take on substantiated policy violations.

### CODE OF CONDUCT: SETTING THE STANDARD

Our Code of Ethics and Business Conduct explains how we must conduct ourselves when representing our company and details the high expectations we set for employee behavior. We publish the Code in 17 languages and provide it to all Lockheed Martin employees worldwide, as well as to our Board of Directors, consultants, contract laborers and other agents acting on behalf of the Corporation. In 2015, our format enhancements of the Code won a NOVA Award, the company's highest honor, for going digital, interactive and mobile.



Our reputation of integrity is a strong selling point; a differentiator for our business model.

— Feedback from an employee, Lockheed Martin U.S. stakeholder summit



Workplace ethics has a significant impact on a company's reputation and ability to recruit and retain talent, which impact competitiveness, and ultimately, the bottom line.

— Marillyn A. Hewson, Lockheed Martin Chairman, President and CEO, as quoted in *National Defense*, May 2015



### CORPORATE POLICIES THAT DIRECT EMPLOYEE ACTION AND GOVERNANCE MANAGEMENT INCLUDE

- » Ethics and Business Conduct
- » Compliance with Anti-Corruption Laws
- » Disclosures to the U.S. Government
- » Export Controlled Information
- » Gifts, Hospitality, Other Business Courtesies and Sponsorships
- » Internal Investigations
- » International Trade Controls and Compliance
- » [Sustainability](#)
- » Political Activity
- » Compliance with the Anti-Kickback Act of 1986
- » Compliance with Antitrust Laws
- » Trafficking in Persons

### RISK MANAGEMENT

The Lockheed Martin Enterprise Risk Management (ERM) strategy identifies and manages existing and potential risks to our business. The process is guided by our Risk and Compliance Committee, which is made up of leaders from 14 lines of business and corporate functions including Ethics and Sustainability. We execute our ERM strategy through a continuous process to identify, assess, prioritize, mitigate and report on the most critical risks and their probability of achieving business objectives. We survey our senior executives and leaders across the Corporation to prioritize risk and make sure our mitigation strategies are understood throughout the enterprise.

We have taken practical steps towards bringing environmental and social factors into risk

management by adjusting the risk register and definitions, extending the ERM time horizon and collaborating on risk mitigation plans. Our risk management philosophy is to balance risk and reward within leadership's and the Board of Directors' risk tolerance. We accomplish this through risk management practices, core values and our Code of Ethics and Business Conduct, all of which reinforce a risk-transparent culture. We maintain an inventory of approximately 60 risk categories and seek to understand the connections between these risks. At the enterprise level, we actively monitor risk indicators and maintain action plans for 22 of these risks.



### EXECUTIVE COMPENSATION

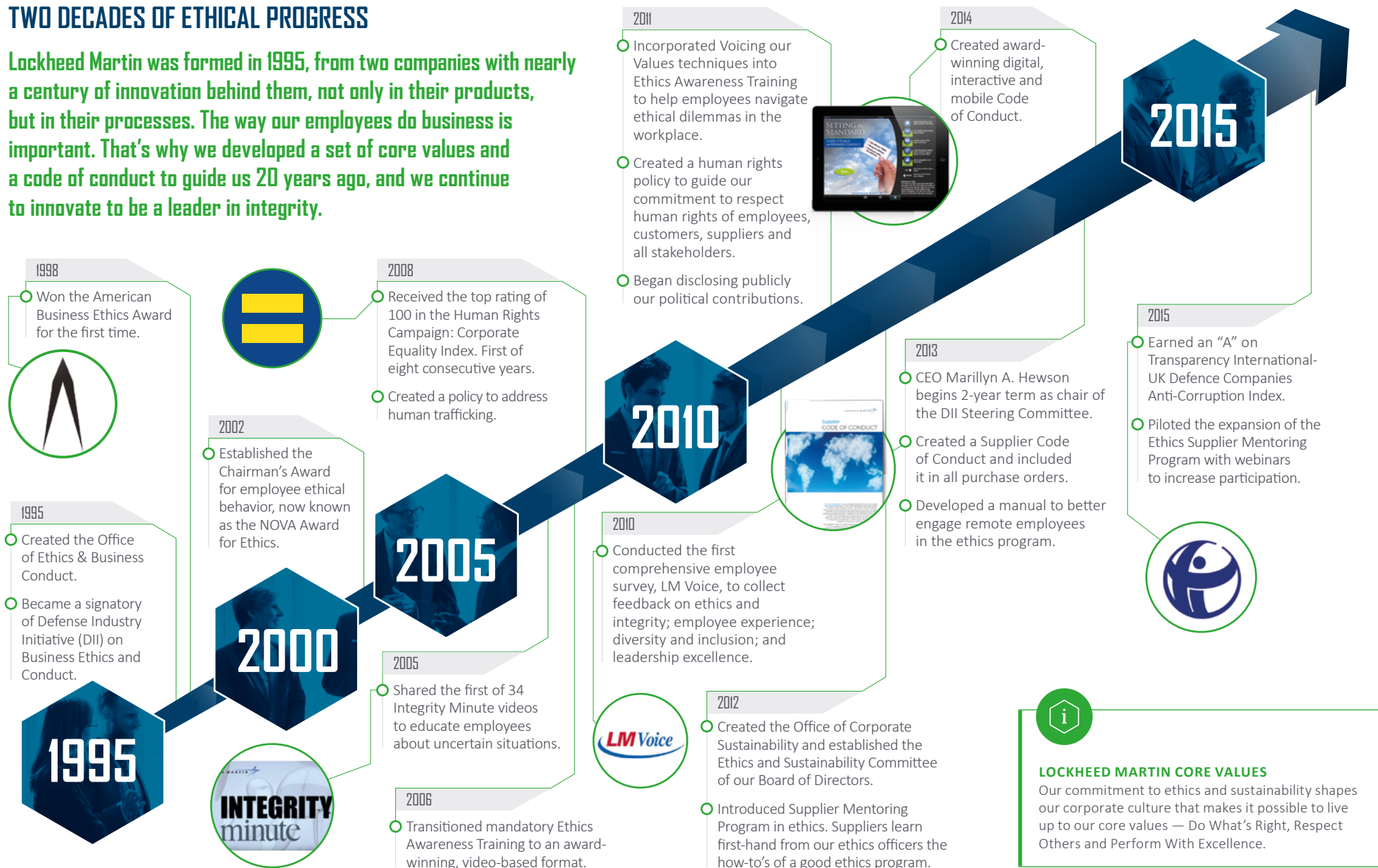
Lockheed Martin executive compensation programs are designed to be competitive with market practices to attract, motivate and retain top-tier talent, and to pay for performance. The Management Development and Compensation Committee is composed solely of independent directors.

In 2015, more than 94% of the say-on-pay votes cast by stockholders approved of the compensation of Lockheed Martin's named executive officers. Although the results of the say-on-pay vote do not bind the Corporation, the Board of Directors, as it does each year, reviewed the results carefully and engaged more than three dozen institutional investors to understand the issues related to executive compensation programs and corporate governance practices that matter most to them. During 2015, most institutional investors with whom we met reacted positively to our pay governance and executive compensation programs.

# GOVERNANCE

## TWO DECADES OF ETHICAL PROGRESS

Lockheed Martin was formed in 1995, from two companies with nearly a century of innovation behind them, not only in their products, but in their processes. The way our employees do business is important. That's why we developed a set of core values and a code of conduct to guide us 20 years ago, and we continue to innovate to be a leader in integrity.



# GOVERNANCE

## PROGRESS

In 2015, we addressed six sustainability factors that define our core issue of Governance:

- » Bribery and Corruption Controls
- » Responsible Sales
- » Stakeholder Engagement
- » Import and Export controls
- » Lawful Lobbying and Political Engagement
- » Respect for Human Rights.

Our actions responded to the global trend of a growing distrust in business.

## 1. BRIBERY AND CORRUPTION CONTROLS

We support the most sensitive missions undertaken by governments around the world. We enforce zero tolerance anti-corruption policies and practices to protect mission, product and service integrity.

### ONLINE TOOLS ADD RIGOR TO ANTI-CORRUPTION EFFORTS

#### INNOVATION

In 2015, we clarified Lockheed Martin's anti-corruption program by streamlining two policies: "Gifts and Business Courtesies" and "Compliance with Anti-Corruption Laws." We launched an online tool for employees to verify on a case-by-case basis whether their gift, hospitality and business courtesy practices are in line with our policies. For possible exceptions, employees enter the nature of the potential business courtesy, the parties involved and the country in which business will take place. The tool shows our policies and files any necessary exception or sponsorship requests.

#### VALUE

As a government contractor, we can have no ambiguity on exchanging gifts and business courtesies with customers and affiliates. Our new anti-corruption web tool simplifies verification and increases compliance.

#### FORECAST

We will introduce a gifts decision tree, available as an app, to help employees make decisions about giving and receiving business courtesies. We will also launch a new course in a game show format to increase understanding of these complex policies.

### ANTI-CORRUPTION IMPROVEMENTS EARN "A" RATING

#### INNOVATION

In 2015, we were one of only four aerospace and defense companies globally to earn an "A" rating from TI-UK's Defence Companies Anti-Corruption Index based on publicly available information. In the first edition of the Index, released in 2012, we earned a "C" rating. We improved by filling gaps in our external communications, including posting policies on our website. We also used the Index as a supply chain engagement tool by directly offering guidance and resources to suppliers rated "D" or below.

#### VALUE

We participate in the ongoing fight against corruption in the defense industry by providing resources to suppliers to improve their ethics programs, issuing our Supplier Code of Conduct with each purchase order so our standards are known, and leading industry-wide efforts to continually raise the bar for ethical business conduct.

#### FORECAST

We will share our experience in increasing transparency and encourage other industry stakeholders to do the same by participating in the Defense Industry Initiative (DII) on Business Ethical Conduct and the International Forum on Business and Ethics Conduct (IFBEC).

### INTERACTIVITY ENHANCES ETHICAL WORKFORCE TRAINING

#### INNOVATION

For the 21st consecutive year, 100% of our active employees met training requirements for business conduct compliance and for ethics awareness. We introduced a more interactive training approach, using gamification to enhance learner engagement and information retention. Leaders at all levels led live sessions to teach employees how to apply company values and demonstrated "speak-up" techniques to resolve realistic professional ethical dilemmas.

#### VALUE

Our creative training programs help employees maintain our ethical business and culture. Our mandatory annual ethics and compliance training keeps employees up to date on behavioral standards and anti-corruption laws.

#### FORECAST

We will continue to focus on new, engaging ways to refresh our training, with several significant course updates planned for 2016.



# GOVERNANCE

## 2. RESPONSIBLE SALES

Our employees involved with securing new business carry out their responsibilities honestly, fairly and in accordance with our policies, which may be even stricter than local laws, cultures and regulations.

### INDUSTRIAL COOPERATION CAN ENABLE CLEAN ENERGY

#### INNOVATION

We sell defense products and services to non-U.S. governments, through Foreign Military Sales programs and through direct sales to customers. These transactions are authorized by the Arms Export Control Act (AECA) and are fundamental parts of U.S. foreign policy. Sometimes, Lockheed Martin may be required by a government as a condition of a defense-related purchase of goods and services to provide a broad range of commercial and industrial benefits. These are called offset obligations, or industrial cooperation, and we meet these transparently through legitimate transactions.

Offset obligations can also represent opportunities to contribute to international sustainable development initiatives. As a result of an offset agreement, in 2015 the Lockheed Martin Canada Renewable Energy team turned on a 12-kilowatt Tilt Roller Solar Tracker system in Swift Current, Saskatchewan, to provide electrical power to an off-grid community. This system will be our Western Canadian demonstration site to showcase our product and the benefits of tracked solar. The project is expected to provide a more efficient and alternative form of energy.

#### VALUE

Lockheed Martin's Tilt Axis Solar Tracker and Solar Diesel Battery Microgrid System technologies offer a solution to Canada's climate challenges while providing opportunities to build capacity and realize financial savings in northern Canada and First Nation communities. The expected savings for one of the four typical North Manitoba projects is 42 percent in fuel savings and nearly 80 percent less diesel generator run time.

#### FORECAST

The project is expected to generate approximately 28,000 kilowatt hours per year of renewable energy to the local area and reduce carbon dioxide emissions by the equivalent of 28 metric tons per year.

## 3. STAKEHOLDER ENGAGEMENT

We build relationships with customers, employees, NGOs, stockholders and suppliers who seek common ground on sound governance. Engaging for good governance is a continual journey as every stakeholder's actions can impact success in the industry.

### ETHICAL LEADERSHIP FOCUSES ON SMALL SITES

#### INNOVATION

In 2015, we held an internal workshop to brainstorm best practices to help our small sites adhere to our ethical standards. As a result, we revised our manual, *Small Site Engagement — A Playbook for Program Managers, Site Leads, Ethics and Functional Organizations*. The updated manual expands our definition of "small site" to include all Lockheed Martin locations with minimal on-site ethics support, which broadened our engagement threshold. We updated our potential risk factors, standardized visit agenda templates and strengthened guidance for international small sites.

#### VALUE

Devising a creative engagement strategy for small and remote sites decreases the chance of unreported ethical leadership lapses.

#### FORECAST

In 2016, we will update the playbook to incorporate lessons learned and best practices, and to make it more user-friendly and easily searchable. We will also update our reporting with standalone international metrics to better understand our international site management effectiveness. We will introduce a tool that uses data analytics to help identify and rank potential ethics risks across our sites.

### ETHICS REPORTING BY THE NUMBERS

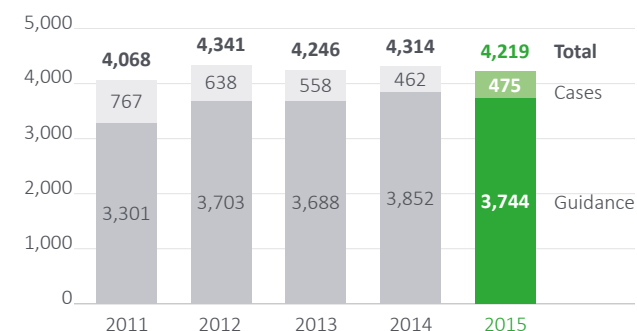
#### INNOVATION

The Lockheed Martin Voicing Our Values technique encourages employees to reach out to an ethics officer when in need of guidance. We define an ethics contact as a request for guidance or a report of misconduct. We give employees, contractors, suppliers and the public multiple ways to make ethics contacts, including a confidential, toll-free corporate ethics helpline and e-mail address; business segment helplines and e-mails; on-site Ethics Offices; and an anonymous online reporting tool known as *Ask Us*. In 2015, we received 4,219 ethics contacts worldwide, down from 4,314 in 2014. About 41.9% of the cases investigated in 2015 were substantiated. Ethics reporting does not include inquiries to Human Resources, Security, Equal Employment Opportunity/Affirmative Action, Legal or any other Lockheed Martin organization.

#### VALUE

Our ethics staff responds to every request for policy guidance and investigates all reports of misconduct. This open communication gives stakeholders the security to use our resources and processes. We do not set goals for ethics contacts; however, we monitor them and take action when allegations increase.

#### ETHICS CONTACTS



# GOVERNANCE

## 3. STAKEHOLDER ENGAGEMENT



### VOICING OUR VALUES

We began using the Voicing our Values methodology in 2011 as the basis for our annual Ethics Awareness Training. It teaches employees how to speak up—by asking questions, talking to others, obtaining data or reframing the issue—while also reinforcing the necessity of reporting violations. Qualitative feedback and the quantitative data below correlate with expected outcomes:

- » Rate of anonymous reporting decreased from 17% in 2010 to 16% in 2015
- » Guidances per 1,000 employees increased from 29 in 2010 to 37 in 2015
- » Cases per 1,000 employees decreased from 7 in 2010 to 5 in 2015
- » Rate of substantiated cases increased from 37% in 2010 to 42% in 2015.

While not conclusive in and of itself, this data trend supports the assertion that Voicing Our Values increases employees' ability and willingness to resolve ethics issues themselves, including asking for guidance from the Ethics Office. Contact volume is up, with fewer issues requiring investigation as cases, but a higher percentage of cases being substantiated. The consistently low anonymous rates indicate that we are a high-trust organization.



**TAKE ACTION:** Ask Questions • Obtain Data • Talk to Others • Reframe the Issue • Report Violations

### FEEDBACK SURVEYS INCREASE INVESTIGATION ACCOUNTABILITY

#### INNOVATION

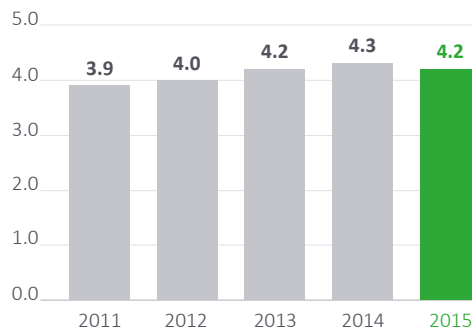
It takes courage for employees to report possible ethics violations. Since 2011, we have sent feedback surveys to employees whose allegations are investigated by the Ethics Office to evaluate their satisfaction with the ethics process. In 2015, we began sending feedback surveys to the subjects of ethics investigations and scored 4.5 out of 5.

#### VALUE

We never want employees to fear contacting the Ethics Office. Feedback from investigation subjects increases investigations team accountability and improves our investigation process.

### REPORTING PARTY FEEDBACK SCORES

Survey Results



### MENTORING SPURS SUPPLIER ETHICS PROGRAMS

#### INNOVATION

Thirty-three suppliers to all our business segments have participated in our Ethics Supplier Mentoring Program since it began in 2012. In this program, suppliers work one-on-one with Lockheed Martin ethics officers over six months to create or enhance an ethics program. In 2015, we revamped our website to make more resources available to suppliers and updated the supplier self-assessment tool that any supplier can use to identify gaps in their ethics program.

We piloted a “Fast Track” version of our traditional Ethics Supplier Mentoring Program in the Missiles and Fire Control business segment to reach more suppliers than the one-on-one program could accommodate. The Fast Track program features interactive webinars on the elements of an effective ethics and compliance program, and suppliers can choose which sessions to attend. Twenty-five additional suppliers participated in at least one of six Fast Track pilot sessions.

#### VALUE

More engagement options help us reach more suppliers and positively impact our supplier base. We more than doubled the number of suppliers touched per year by our supply chain engagement efforts in 2015, due to the Fast Track program.

#### FORECAST

We will expand the Fast Track program to all business segments.

# GOVERNANCE

## 4. IMPORT AND EXPORT CONTROLS

The Lockheed Martin Trade Compliance program is designed to ensure the company complies with the trade compliance regulations which control the international shipment or transfer of goods, services, and technical data and information. Our goal is to protect sensitive, controlled or classified information and to provide goods, services and information to our customers and partners consistent with applicable regulations. Our comprehensive international and global import and export control program significantly reduces the risk of transferring controlled goods and information in a manner inconsistent with import and export regulations.

### TECHNOLOGY CALLS FOR VIGILANT INTERNATIONAL TRADE COMPLIANCE

#### INNOVATION

Our domestic and international government customers enforce stringent import and export regulations for chemical substances, sensitive military and intelligence technology, and commercial goods. We maintain corporate and business segment import and export policies, procedures, control plans and training, in keeping with the technological innovations we offer our customers. We regularly conduct internal audits and self-assessments. We also investigate and disclose potential compliance violations to government authorities.

Our Corporate International Trade Compliance Office manages our licensing and compliance software tools. They also manage global trade compliance initiatives to ensure regulatory compliance in our international subsidiaries and field offices. In 2015, we updated our licensing, training modules and compliance software tools to align with U.S. export control reforms.

#### VALUE

Lockheed Martin's international business is highly regulated. We collaborate with U.S. and non-U.S. government authorities and industry partners to adapt to regulatory changes and implement best practices for compliance with these controls.

#### FORECAST

To further comply with continuing export control changes, Lockheed Martin continues to reclassify parts and components while analyzing, amending, replacing or terminating licenses, as applicable, and when reviewing and implementing best practices to support compliance consistent with regulatory changes.

## 5. LAWFUL LOBBYING AND POLITICAL ENGAGEMENT

We lawfully participate in the political process to communicate views on legislative and regulatory matters that have an impact on our business. Our lobbying activities adhere to high ethical standards, laws and regulations. We encourage research and development funding in a socially and environmentally responsible manner.

### INCREASING TRANSPARENCY ON POLITICAL PARTICIPATION

#### INNOVATION

The global security industry is highly regulated and Lockheed Martin operations are affected by government officials at many levels. We participate in political and public policy processes through advocacy at the federal and state levels, thought leadership on global security trends, and educational outreach and promotion. Our [Political Disclosures website](#) reports our contributions, associations, employee political action committee activities and lobbying activities.

We provide further transparency by participating in the CPA-Zicklin Index on Corporate Political Disclosure and Accountability. The index is produced by the Center for Political Accountability in conjunction with the Zicklin Center for Business Ethics Research at The Wharton School at the University of Pennsylvania. Issued annually, it benchmarks policies and practices of leading U.S. public companies. We scored 55 out of 70, ranking in the top quartile of the index in 2013, 2014 and 2015.

#### VALUE

Transparent and responsible political participation maintains trust from government customers and our nation's taxpayers. It supports our license to operate.

## 6. RESPECT FOR HUMAN RIGHTS

We guard against human rights violations and have corporate policies to set clear expectations.

### STRONG STANDARDS PROTECT AND UPHOLD HUMAN RIGHTS

#### INNOVATION

Because of the nature of our production operations, and with 93% of our employees being in the United States, we operate in an environment with an overall lower risk of human rights abuses, including human trafficking, than many other companies. Nevertheless, we take human rights controls and due diligence as seriously as other risks. Our ethics helpline is available for anonymous use by employees, suppliers and the public. We communicate our anti-human trafficking standards to employees through our Combating Trafficking in Persons policy and to suppliers on our [website](#), and within the Supplier Code of Conduct, which can be found on every purchase order.

In March 2015, the U.S. government updated the "Combating Trafficking in Persons" clause. Government contractors must implement compliance plans to prevent employees from engaging in an extended list of illicit recruitment and contracting activities known to be conducive to human trafficking. Furthermore, government contractors must cascade the new rule to applicable subcontractors and agents, and report known violations. Our new Combating Trafficking in Persons Compliance Plan details our multifaceted approach to the issue.

#### VALUE

Our stakeholders, including customers, prioritize human trafficking risk mitigation. Our compliance policies along with our culture of integrity, recruiting practices and supply chain controls help prevent human trafficking in our operations and our supply chain.





# PRODUCT PERFORMANCE



SCIENCE

CITIZENSHIP

OBJECTIVE

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

## INNOVATION

As a system integrator, our company finds ways to continually improve the efficiency and functionality of bringing together different subsystems and software for critical customer missions.

## VALUE

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

*About photo: Launching in late 2016, the Geostationary Operation Environmental Satellite-R series, GOES-R, is the first of four next-generation geostationary weather satellites. It will significantly improve the quality and timeliness of weather data collected from the current system monitoring weather over North America. Managed by the National Oceanic and Atmospheric Administration (NOAA), these satellites will detect weather phenomena that affect public safety, property protection and our nation's economic prosperity.*



# PRODUCT PERFORMANCE

## OVERVIEW

**Embedding sustainability into our systems and products is both a challenge and an opportunity.**

Our 60,000 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 that provides national security and citizen services.

Customers measure our value through product quality, cost and reliability. We consider their needs first and foremost, and factor in our products' impact on society and the environment. We build safety and sustainability into each phase of the product life cycle, from design to disposal.

We address four factors that related to this core issue:

## CORE ISSUE FACTORS

### Product innovation

We work closely with customers during conception, design, execution and maintenance to develop products that evolve their social and environmental benefits and meet mission requirements.

### Quality, safety and reliability

Aerospace and defense customers require highly customized solutions. We meet their stringent demands for quality, reliability and safety.

### Product portfolio composition

We enhance business performance by embedding sustainability into our portfolio to bring new technologies to new markets.

### Affordability

Recognizing government budget constraints in the U.S. and other countries, we optimize funding, schedules and talent to deliver value-added capabilities to customers and taxpayers.



## SUSTAINABILITY MANAGEMENT PLAN PROGRESS compared to 2013 baseline

Goal

2015 Results

### SUPPLY CHAIN SAVINGS

Increase supply chain savings among key suppliers.

**8.9%**

Through collaboration and innovation we reduced by 8.9% spending commitments with the top 15 suppliers across the top 20 programs since 2013.

Goal

2015 Results

### IP MONETIZATION

Track monetization of sustainability-based intellectual property (IP).

We validated a need to track the rate at which our sustainability-related IP is licensed or sold for commercial use, but our efforts to adopt a process were superseded by a new corporate technology strategy in mid-2015.

### COST IMPROVEMENTS

Increase company realized savings and customer savings.



Based on internal assessments compared to a 2013 baseline.

### MANUFACTURING EFFICIENCY

Decrease the rate of in-process defects, scrap, rework and repair in manufactured products.

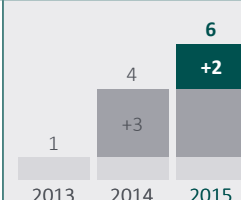


Target achieved

For proprietary reasons, we do not disclose performance data.

### LIFECYCLE ANALYSES

Increase investment in lifecycle analysis (LCA)-based methodology, as measured by completed LCA projects.



### PRODUCT QUALITY

Decrease frequency of repeat corrective actions to remedy quality escapes.



Target achieved

For proprietary reasons, we do not disclose performance data.

# PRODUCT PERFORMANCE

## MANAGEMENT

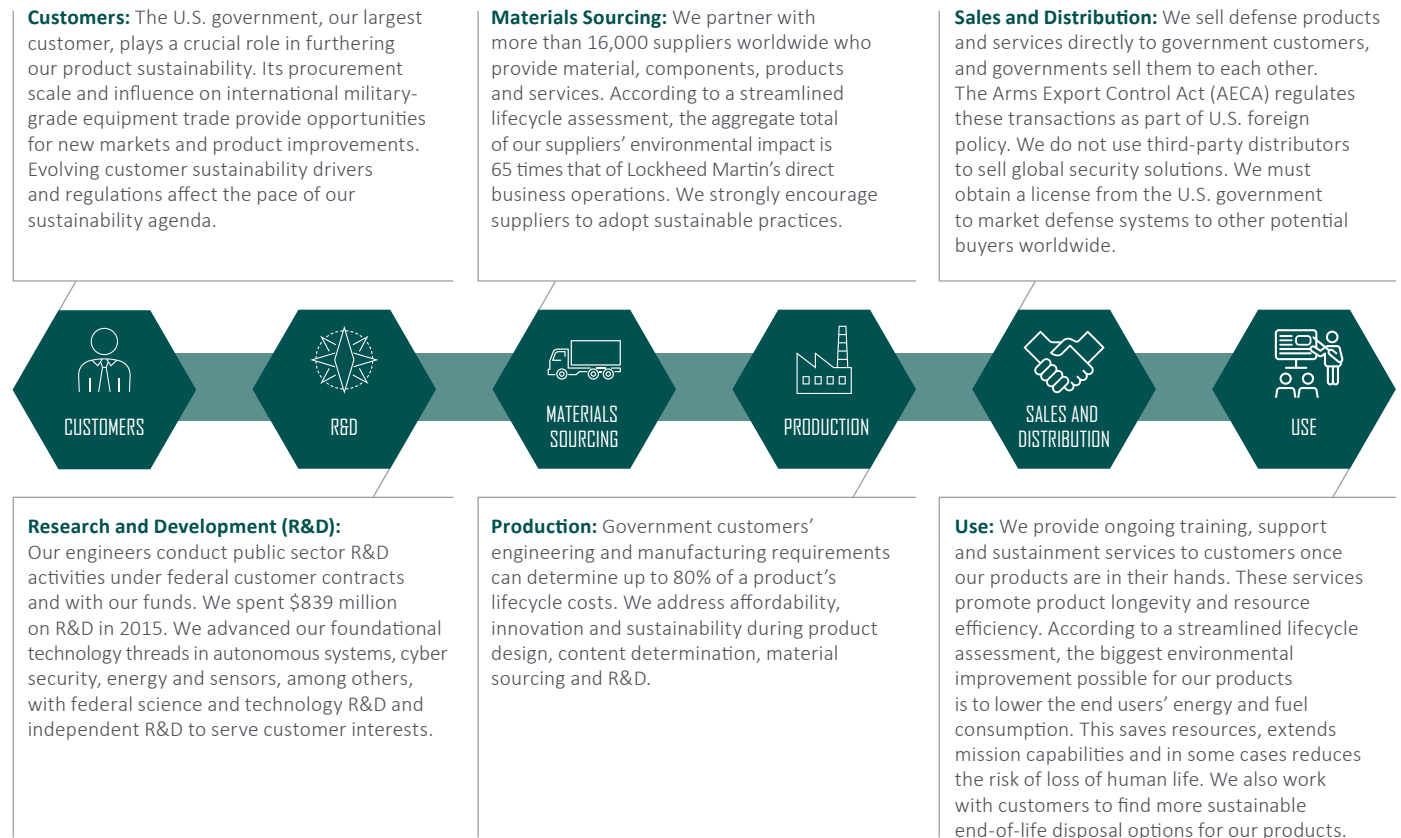
Lockheed Martin is structured for innovation, which allows us to integrate The Science of Citizenship into our products and services. Our business segments team up through five corporate-level councils for collaborative product development:

- » Engineering and Technology
- » Production Operations
- » Program Management
- » Supply Chain
- » Logistics and Sustainment.

Councils meet quarterly and hold an annual multi-council meeting to share best practices and address policy matters, personnel development and programmatic issues. These teams optimize resources at the best possible prices and promote efficient production with sustainability and Lean Six Sigma principles in mind.

### SUSTAINABLE PRODUCT INFLUENCERS

We work across the value chain to promote sustainability in our industry.



When you talk about the infrastructure of global civilization, one precursor for that is security. You can't build and do research unless you have some measure of security. We make products that allow governments to do that.

— Feedback from an employee, Lockheed Martin U.S. stakeholder summit

# PRODUCT PERFORMANCE

## PARTNERING FOR TECHNOLOGY DEVELOPMENT

To accelerate innovation around complex issues, we work with notable partners, from DoD laboratories to universities. For example, we are a founding Tier 1 member of the National Network for Manufacturing Innovation (NNMI). NNMI provides research infrastructure for U.S. industry and academia to collaborate to increase commercial productivity, to pool public and private sector resources to prototype cutting-edge technology and to build a talent pipeline to support advanced manufacturing. We have a significant leadership role on the Board of Directors, Governance Board and Technology Working Group. We are active across a number of the NNMI institutes.

- » **Advanced Composite Materials:** Through the Institute for Advanced Composites Manufacturing Innovation, we made a five-year commitment to accelerate adoption of advanced composite materials and production processes, including those to reduce the weight and cost of structural parts on aerospace and defense platforms.
- » **Energy Efficient Electronics:** We partnered with the Power America Institute for Manufacturing Innovation to develop a new generation of power-efficient microelectronic devices. These will reduce energy loss across the power grid and enhance future aerospace system performance.

- » **Additive Manufacturing Innovation:** At the 2015 Defense Manufacturing Conference, we presented our Multi-Robotic Additive Cluster, the world's first large-scale multifunctional robotic additive manufacturing cell. The structure optimizes manufacturing efficiency by combining three types of 3-D printing with advanced machining, scanning and inspection capabilities into one manufacturing cell. This innovation is one more thread in our Digital Tapestry effort to seamlessly connect digital technology at every stage of the product design and production process to create a fluid product development environment.

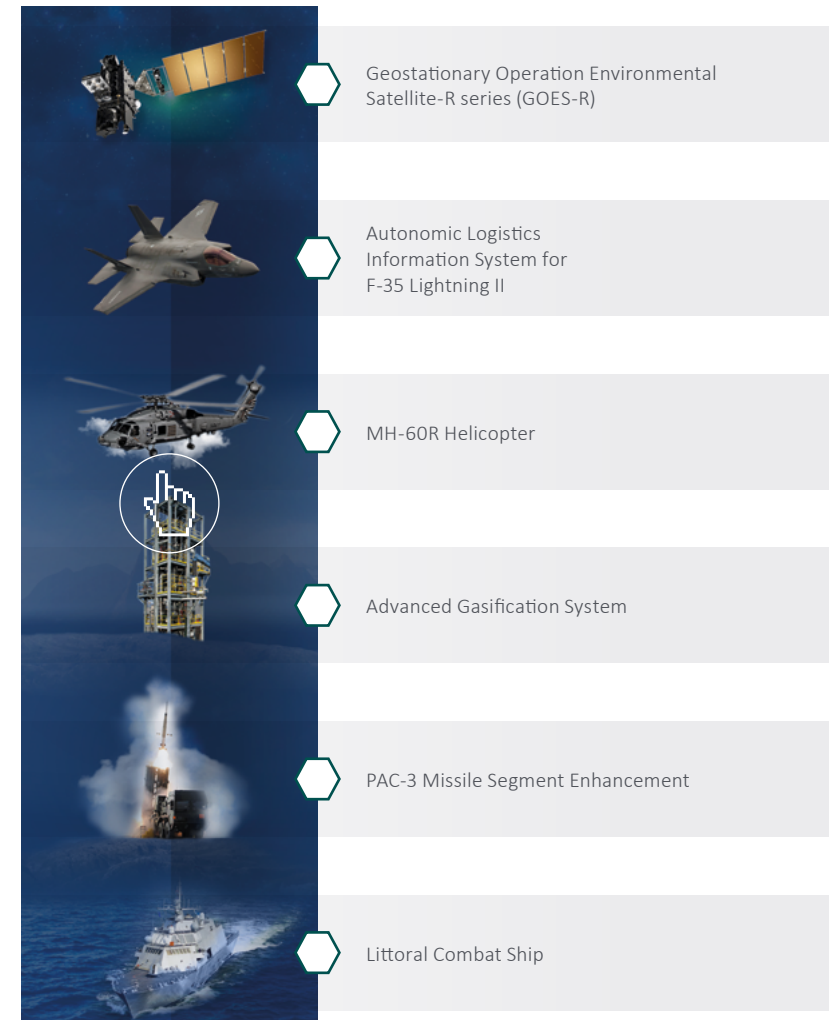


### CORPORATE POLICIES THAT DIRECT EMPLOYEE ACTIONS AND PRODUCT PERFORMANCE MANAGEMENT

- » Program Performance Management
- » Quality, Mission Success and System Safety
- » Risk/Opportunity Management
- » [Sustainability](#)

## A PORTFOLIO FROM SEA TO SPACE

From sea to space, we innovate products that serve industries as diverse as aerospace, military, utilities, financial services, oil and gas, and telecommunications. We support customers who uphold national security, invest in advanced technologies and maintain global infrastructure.



# PRODUCT PERFORMANCE

## PROGRESS

In 2015, we addressed four sustainability factors that define our core issue of Product Performance:

- » Product Innovation
- » Product Portfolio Composition
- » Quality, Safety and Reliability
- » Affordability.

Our actions respond to the global megatrends of geopolitical instability, energy security and cyber security.

## 1. PRODUCT INNOVATION

We work closely with customers during conception, design, execution and maintenance to develop products that evolve their social and environmental benefits and meet mission requirements.

### AFFORDABLE SENSORS ADVANCE NATIONAL SECURITY

#### INNOVATION

Technology such as night navigation and targeting systems are important to the offensive and defensive abilities of the world's allied military organizations. Increasingly, our customers' missions require more maintainable and more affordable sensor systems.

Our sensors must address multiple missions in one package. We developed an open architecture processor to replace several computers that manage sensors and display imagery. Our ARCUS-IR tracks hostile vehicles with a wide-area surveillance sensor that sees more detail than any infrared sensor in existence.

#### VALUE

Our open architecture processor saves space, weight and power, and keeps pace with rapidly changing technology updates. The ARCUS-IR can enable life-saving at-sea rescues and locate people trapped by forest fires.

#### FORECAST

To mitigate helicopter losses related to degraded visual environments, we're testing technology that allows pilots to see through dust, fog, smoke and snow by fusing imagery from different sensors.

### AIRCRAFT CONVERSIONS SERVE CIVILIANS



#### INNOVATION

We are converting aircraft used by our government customers to provide broader society with reliable, agile aircraft such as the LM-100J airplane and S-76 and S-92 helicopters. We have more than a century of experience with military-grade requirements and testing to deliver quality aircraft.

#### VALUE

These commercial vehicles can support civilian solutions for aerial firefighting, medical evacuation, oil and gas exploration, humanitarian relief and search and rescue.

### SOLID OXIDE FUEL CELL INCREASES RANGE OF UNMANNED AIRCRAFT

#### INNOVATION

We upgraded Stalker, our small, silent, track-and-drop unmanned aircraft, with a solid oxide fuel cell that provides more than eight hours of continuous operation. The fuel cell in Stalker eXtended Endurance, or Stalker XE, converts propane to electricity without mechanical motion. It consumes fuel and oxygen, and produces water and carbon dioxide. Stalker XE has been on more than 80 missions in Afghanistan.

#### VALUE

Stalker XE's solid oxide fuel cell enhances defensive situational awareness by increasing soldiers' range of vision to cover entire patrols, convoys and bases. Because propane is available in all regions of the world, Stalker XE has relatively few refueling limitations.



# PRODUCT PERFORMANCE

## C-5M SUPER GALAXY MODERNIZATION

As one of the world's largest airlifters, the C-5 Galaxy presents unparalleled capabilities in rapid global response. From supplying warfighters to providing humanitarian relief, our customers have used the C-5 to play a critical role in military and aid missions across the world since 1970. The modernization of the C-5M enables more cargo to be carried over greater distances faster and more reliably to reach individuals in need.

### ENVIRONMENTAL



**8-20%**

REDUCED FUEL CONSUMPTION  
Savings on operational missions

**1M tons**

REDUCED HYDROCARBON EMISSIONS  
Hydrocarbons saved over aircraft life

### OPERATIONAL CAPABILITY



**27%**

GREATER RANGE  
Greater unrefueled range at 120,000 lbs of payload

**2x**

GREATER GLOBAL ACCESS  
Operates from up to 2x number of airfields

### AFFORDABILITY



**\$15B**

OPERATING COST SAVED  
Reduced operating cost versus baseline year 2000

**\$8.9B**

REDUCED LIFECYCLE COST  
Reduced lifecycle cost net Air Force cost versus baseline year 2000

### RELIABILITY



**3x**

REDUCED MAINTENANCE  
Reduction in maintenance man-hours per flight hour

**75%**

INCREASED MISSION CAPABLE RATE  
Increased by more than 75% the ability to meet wartime performance demands

## HUMANITARIAN AND SECURITY MISSIONS

**1970**

Supported U.S. military operations and troop safety in every major conflict since Vietnam. Just 20 C-5's could do the work of 88 other aircraft.

**1979**

Supported British-led peacekeeping mission in Zimbabwe.

**1994**

Airlifted humanitarian relief supplies to a war-torn Rwanda.

**1998**

Thirteen C-5 missions deployed civilian workers and their equipment to New York and Maine after an ice storm left 500,000 households without electricity.

**2000**

Transported Navy passengers and more than 160,000 pounds of equipment for search and rescue activities following an MD-83 Alaska Airlines crash.

**2002**

Flew to Uzbekistan with 40 Physicians With Heart volunteers and \$10M in medical supplies to celebrate the 10-year partnership with U.S. State Department and \$250M in medical aid provided globally.

**2010**

Delivered to NASA a 7.5 ton particle detector for a space shuttle mission.

**2015**

Carried 90,000 pounds of cargo for a children's hospice, pediatric unit and cancer clinic in Guatemala.

# PRODUCT PERFORMANCE

## I. PRODUCT INNOVATION



### F-35 INNOVATIONS

In 2015, we continued to collaborate with our F-35 partners to drive innovation in manufacturing efficiency under the Blueprint for Affordability plan.

We tested cryogenic machining for cooling drill bits that substitute compressed liquid nitrogen for oil-based chemicals. These changes would eliminate chemical byproducts and lengthen drilling equipment life.

We saved more than 4,500 pounds of aluminum on each F-35A variant by ordering metal pieces that are closer to our intended size and require less forging. Less raw material, energy and coolant consumption in our supply chain reduces our upstream environmental impacts.

We partnered with our subcontractor, Kongsberg Defense Systems, to improve manufacturing of the jet's rudder. Instead of whittling down a plate of material, Kongsberg uses less wasteful techniques such as forging and machining.

## 2. PRODUCT PORTFOLIO COMPOSITION

We enhance business performance by embedding sustainability into our portfolio to bring new technologies to new markets.

### ADVANCEMENTS IMPROVE SAFETY MEASURES FOR SOCIETIES

#### INNOVATION

Links between security and sustainability continue to grow with stable governments delivering the infrastructure necessary for societal development. U.S. and allied militaries respond with humanitarian aid after disasters occur, and protect their citizens from enemies of freedom.

- » We continued production of our Paveway II *Plus*™ laser-guided bomb kits. Paveway II *Plus* uses an advanced guidance system that converts conventional gravity bombs into precision-guided munitions, significantly increasing precision and reducing unintended injury risk in complex conflict zones where communities reside.
- » 2015 marked the 60th anniversary of the C-130, an aircraft with a sound first-response humanitarian relief track record. Throughout the year, the C-130J delivered aid workers and equipment to support the Vanuatu cyclone and Nepal earthquake recovery efforts, and fought forest fires in California and Thailand.
- » We adapted the self-flying K-Max™ helicopter to excel at fighting wildfires. Without a pilot at risk, K-Max can repeatedly fill a receptacle with more than 2,700 liters of water, fly to a fire site and dump the water in a continuous line, creating a wet barrier to stop wildfires.

#### VALUE

A sustainable world isn't possible without secure and stable governments. We develop products that help governments provide physical and infrastructure security, which is necessary for global development.

- » Cost-effectively sharpening munitions precision allows governments to improve their defense strategies and lessen unintended casualties and collateral damage.
- » Natural disasters and epidemics hinder society on many levels. Our K-Max and C-130J improve humanitarian and relief efforts to those in need without jeopardizing the safety of others.



*The unmanned K-MAX power lift helicopter is capable of aerial fire suppression 24/7, and offers hotspot detection. K-MAX maintains its capabilities in hot temperatures, delivering a measurable performance advantage for operators.*



### FREE DISASTER RELIEF APP WILL HELP SAVE LIVES

Lockheed Martin supports the World Economic Forum's Global Agenda Council on Space which is developing an open-source software application that will enable better, faster disaster response. This free app uses geospatial imagery and data from aid organizations to give first responders the information they need to be most effective. Currently in beta testing, the HelpNow app harnesses the power of space for improved disaster relief. [Watch a video](#) on the HelpNow app to learn how space-based technology can aid disaster relief efforts.

# PRODUCT PERFORMANCE

## 2. PRODUCT PORTFOLIO COMPOSITION

### LOCKHEED MARTIN ENERGY POWERS THE FUTURE



In 2015, Lockheed Martin notably demonstrated our commitment to energy solutions by combining several commercial energy products and service businesses into a single organization. Lockheed Martin Energy now delivers a comprehensive portfolio to help customers generate renewable, clean energy; store and distribute power more efficiently; and harness nuclear energy sources more safely.

#### BIDENERGY

##### INNOVATION

We partnered with Concord Blue to advance our bioenergy technology that converts nearly any kind of organic waste, including sewage, manufacturing waste, waste plastics, waste wood, and agricultural waste, into a clean synthetic gas. The gas can be used to create green electricity, transportation fuels, specialty chemicals or extract the nearly 50% hydrogen in synthetic gas for fuel cells in cars.

##### VALUE

This advanced gasification plant at our facility in Owego, New York, pictured left, will generate 250 kilowatts (kW) of power for the facility by converting waste wood into clean energy.

##### FORECAST

Our Owego facility is only the beginning for Lockheed Martin bioenergy technology. We signed a contract with Concord Blue to build a 5-megawatt (MW) bioenergy facility in Herten, Germany.

#### OCEAN ENERGY

##### INNOVATION

We made progress on our tidal energy technologies. Supporting Atlantis Resources Ltd., we advanced our AR1500 turbine to harness the ebb and flow of ocean tides to generate electricity.

##### VALUE

Tidal turbine work in Scotland has the potential to generate 398 MW of power for 200,000 homes, making it the world's largest tidal stream project in development.

##### FORECAST

Following the multi-phase tidal stream project in Scotland, there are widespread applications for tidal turbines in North America, Asia and India.

#### ENERGY STORAGE

##### INNOVATION

We offer turn-key energy storage solutions that improve the efficiency of the electrical grid and enable increased use of renewable, solar and wind energy power. We are harnessing our engineering and technical expertise to create best-in-class energy storage offerings for utility, commercial and industrial applications.

##### VALUE

Energy storage is key to improving the efficiency of our electrical grid and increasing the use of intermittent and variable renewable solar and wind energy.

##### FORECAST

To address the enormous demand for long-duration energy storage, we are investing significantly in developing proprietary battery technology that will allow us to offer energy storage for daily deep-discharge that is durable, scalable, safe and optimized for low total cost of operation.

#### ENERGY MANAGEMENT

##### INNOVATION

We completed an energy efficiency project with the U.S. Embassy in Nicaragua to significantly reduce the facility's energy usage. Projects included the construction of 1 MW ground mounted and carport canopy mounted solar photovoltaic panels; installation of more than 2,000 LED retrofit lights; heating, ventilation and air conditioning upgrades; and enhanced automation systems.

##### VALUE

Our energy efficiency work in Nicaragua resulted in a 50% reduction in energy usage across nine buildings, which translates to an estimated cost savings of \$1.6 million per year.

##### FORECAST

Following our success at the U.S. Embassy in Nicaragua, the U.S. State Department asked Lockheed Martin Energy for a proposal to potentially deploy another 750 kW solar photovoltaic system, battery storage and microgrid solution to reduce the Embassy's energy dependency by an additional 48%.



# PRODUCT PERFORMANCE

## 2. PRODUCT PORTFOLIO COMPOSITION

### NEW SPACE TECHNOLOGY PROTECTS SOCIETAL INFRASTRUCTURE

#### INNOVATION

We design, modernize and protect critical space-based infrastructure such as global communication equipment, climate monitoring technology and infrastructure defense systems. In 2015 we accomplished the following:

- » We assembled the first GPS (global positioning system) III satellite, a spacecraft with three times better accuracy, up to eight times improved anti-jamming capabilities and 25% longer working life than current GPS models.
- » We assembled the first Geostationary Operation Environmental Satellite-R series (GOES-R) advanced weather satellite, which will provide higher-resolution images of severe storms five times faster than NOAA's existing GOES series.
- » Our Space Fence space debris monitoring system passed 5,000 hours of stress testing, qualifying it as long-term reliable. Spacecraft are threatened by about half a million pieces of trackable satellite debris orbiting earth at more than 17,500 miles per hour. At that speed, debris the size of a marble can destroy critical equipment. Space Fence is a radar system that detects and tracks even minuscule objects in orbit, allowing safer U.S. space system placement.

#### VALUE

Knowing about severe weather events sooner and with more accuracy allows better preparation and saves more lives. Space technology that enables navigation and surveillance is also vital to military success. Satellite data increase mission safety and efficiency, which in turn better protect societies.

#### FORECAST

The first GOES-R and GPS III satellites are scheduled to launch in 2016 and 2017, respectively. Space Fence is scheduled to be in use in 2018.

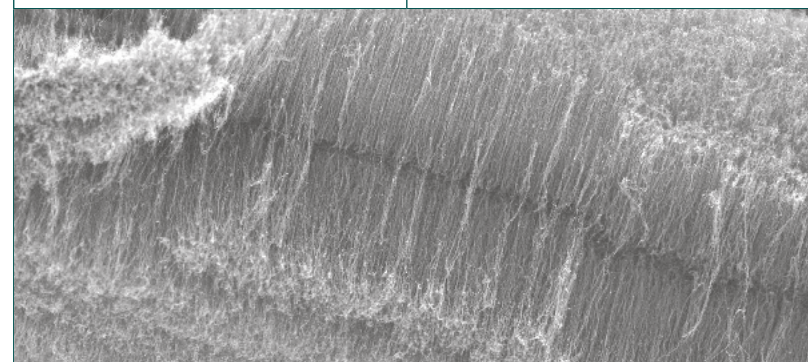


*GPS III satellites will deliver signals three times more accurate than current GPS spacecraft and provide military users up to eight times improved anti-jamming capabilities, while enhancing the spacecraft's design life by 25%. GPS III also features a new civil signal designed to be inter-operable with other emerging international global navigation satellite systems.*

## 3. QUALITY, SAFETY AND RELIABILITY

Aerospace and defense customers require highly customized solutions. We meet their demands for stringent quality, safety and reliability specifications.

### ADVANCED MATERIALS REVOLUTIONIZE PRODUCT DESIGN



#### INNOVATION

Lockheed Martin subsidiary Applied NanoStructured Solutions (ANS) produces carbon nanostructures (CNS), shown above in microscopic view, which are made of material 100 times stronger than steel at one-sixth the density.

In 2015, ANS began full-scale manufacturing with its unique CNS infusion process, advancing the use of stronger, enhanced-capability composite nanomaterials. These can potentially revolutionize product design with next-generation energy storage, high-performance electronics and multifunctional materials.

#### VALUE

Advanced composite materials are 25% stronger and feature multifunctional traits such as enhanced mechanical properties and metal-like thermal and electrical conductivity. This technology can increase product quality and durability and reduces material use through decreased size and weight for a wide range of industries' products.



# PRODUCT PERFORMANCE

## 3. QUALITY, SAFETY AND RELIABILITY

### SIMULATIONS PROVIDE SAFE TRAINING GROUNDS



#### INNOVATION

The TOPSCENE Tactical Terrain Visualization System (TTVS) is a mission rehearsal system for the U.S. Navy, Air Force, Army and Special Forces. Its virtual environments put users in the pilot's seat of planes and helicopters, and at the controls of ground vehicles and guided missile seekers. The technology converts geospatial intelligence from multiple sources into interactive, 3-D scene visualization. Warfighters can repeatedly rehearse all elements of a mission including aircraft and vehicle routes, sensor predictions, target details, and weather and tactical intelligence.

#### VALUE

The TTVS increases warfighters' situational awareness of the mission operating environment before executing combat or training missions. Rehearsal and visualization with realistic representation of the terrain and targets increase a mission's probability of success.

### eCASS SYSTEM BOOSTS AIRCRAFT RELIABILITY

#### INNOVATION

In January 2015, we delivered the first electronic Consolidated Automated Support System (eCASS) to the U.S. Navy. It will use eCASS diagnostic and repair functions at-sea and ashore to detect electronic maintenance needs before malfunctions or systemic issues arise.

#### VALUE

eCASS helps the Navy return aircraft to operational status quickly and efficiently. This makes more aircraft available for security missions worldwide and will save more than \$1 billion in costs annually.

#### FORECAST

The Navy has ordered 38 eCASS stations and will purchase another 29. It plans to field 341 stations.



[Learn more here](#)

### LESS HAZARDOUS CHEMICALS LEAD TO MORE SUSTAINABILITY BENEFITS

#### INNOVATION

The aerospace and defense industry faces unique challenges when identifying replacement technologies. Our product development cycles may last years or even decades, so the chemicals we select today must be viable when a product is released in the future.

For our products and processes, we developed a formal process to identify chemicals that may be substituted with less hazardous alternatives for safety and environmental benefits. We consider materials' published toxicity along with sustainable business practices and customer requirements when identifying and implementing alternative chemicals. In 2015, we determined our usage baseline for chemicals of concern to assess next steps toward reduction or elimination.

Our cross-functional Restricted Substances Working Group focuses on identifying the riskiest chemicals and less hazardous alternatives, developing corporate policies and guidance, and leveraging best practices from across the company and the industry.

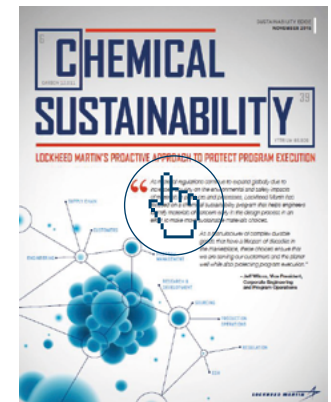
#### VALUE

Through our newly integrated approach, we are collaborating across products to identify opportunities to implement replacement technologies throughout the enterprise that meet performance specifications. For example, Aeronautics Advanced Development Program engineers found an alternate outer mold line coating for the F-35, which has multiple performance, environmental and safety improvements.

#### FORECAST

We will continue to actively monitor changes in global chemical regulations that could impact chemical availability. We collaborate with our peer companies and customers through industry and customer working groups to identify industry-wide solutions related to chemical sustainability. The International Aerospace Environmental Group is working with IPC, a global trade association, to develop an aerospace and defense materials declaration standard, which they plan to pilot with selected suppliers in 2016.

[Learn more here](#)



# PRODUCT PERFORMANCE

## 4. AFFORDABILITY

Recognizing government budget constraints in the U.S. and other countries, we optimize funding, schedules and talent to deliver value-added capabilities to customers and taxpayers.

### EXTENDING PRODUCT LIFESPANS SAVES RESOURCES

#### INNOVATION

Through thousands of sustainment contracts, our logistics and sustainment teams practice lifecycle thinking to continually improve the effectiveness of the repair, overhaul, upgrade and remanufacture of system components for customers. In 2015, our work in this area expanded to new markets when we received a \$262.8 million contract to sustain and upgrade the Kingdom of Saudi Arabia's F-15 sensor suite.

#### VALUE

Typically around 70% of a military system's lifecycle costs occur in the sustainment phase, which is why logistics and sustainment are a key focus of our business model. Our sustainment programs save billions of dollars for our customers, enabling defense systems to extend their useful life without diminishing mission-ready capability.

#### FORECAST

In January 2016, we worked with the Kingdom of Saudi Arabia and our partner Advanced Electronics Company to open the Sniper Expanded Repair Capability facility in Saudi Arabia. The facility is part of an existing offset agreement between the Saudi Arabia Economic Offset Committee and Lockheed Martin that supports growth of local jobs and manufacturing.

### BUSINESS SEGMENTS ACCELERATE SUPPLY CHAIN SAVINGS

#### INNOVATION

Our Sustainability Management Plan challenges us to increase supply chain savings among key suppliers, a goal each of our business segments tackled. The Mission Systems and Training (MST) supply chain function set the goal to save \$480 million and more than 13% in overall cost savings in 2015. MST launched the Accelerating Affordability Transformation (AAT) program and achieved successful results.

#### VALUE

MST set out to have best-in-class affordability according to the 2015 first quarter CAPs Research industry benchmark for aerospace and defense companies. During our first 12 pilots programs utilizing AAT, we achieved more than \$200 million in affordability to be realized in 2015 and beyond. MST exceeded our year-end targets by achieving more than \$550 million in savings. We are embedding this culture of affordability through cross-functional steering committees and training. AAT success is driven in part by our employees' willingness to learn and improve techniques and processes.

#### FORECAST

The AAT is a three-year journey that will continue as we train more teams in should-cost tactics, use of data analytics for negotiations and value engineering. In 2016, we will strive for more than half a billion dollars in affordability savings. We will incorporate our new acquisition, Sikorsky, and other business realignments into the MST AAT process.

### THE A2100 IS MODERNIZED FOR AFFORDABILITY



#### INNOVATION

We modernized our A2100 satellite to create a better performing, more affordable commercial and government spacecraft. A2100's new compact solar arrays offer a unique side-by-side dual launch option for the lowest cost to orbit with the highest payload accommodation: 16 kW and up. We optimize this capacity through our new flexible payload technology, capable of dynamically shifting bandwidth and frequency to areas of peak demand and reprogramming satellites in orbit. The spacecraft's electric propulsion variant has Hall current thrusters that reduce orbit-raising time by 50% compared to other electric systems. We co-located facilities to realize economies of scale and used common components in the satellite's core structure to reduce part types by 56%.

#### VALUE

Technology innovations and investments in the A2100 modernization programs help us reduce costs by 35% and speed customer delivery by 25%. Co-locating facilities reduces travel needs, which reduces program-related GHG emissions.

#### FORECAST

The first modernized A2100 is scheduled to launch in 2018.





# TALENT COMPETITIVENESS



SCIENCE

CITIZENSHIP

## OBJECTIVE

**FOSTER A HIGH-PERFORMANCE, INCLUSIVE CULTURE THAT ATTRACTS,  
ENGAGES AND DEVELOPS TALENT**

## INNOVATION

Our future relies on people with skills, passion and innovative minds to serve business needs today and tomorrow. We motivate employees, not only through our development programs, culture of wellbeing and benefits, but also through our mission to innovate a better future.

## VALUE

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

*About photo: The Littoral Combat Ship is designed for dominance of near-shore environments. It meets and exceeds the survivability requirements for the three ship classes it will replace. Currently in full-rate production, we are driving down costs. The average ship cost is \$360 million, which is about half of the first ship completed. Our systems engineering approach to sustainment emphasizes affordability and flexibility.*

# TALENT COMPETITIVENESS

## OVERVIEW

**Investing in employee development is an investment in our business success.**

Healthy, engaged employees are integral to growth and innovation. We rely on them to design and build infrastructure we need today and solutions we imagine for tomorrow.

Our employees work across diverse industries to create smart, sustainable solutions to some of the world's biggest challenges. A diverse talent pipeline is central to our growth and long-term stability. We prioritize talent management, workforce safety, and science, technology, engineering and mathematics (STEM) education outreach to meet customer needs and innovate for the future.

We address three factors that related to this core issue:

## CORE ISSUE FACTORS

### Equitable talent management, development and retention

We invest in our employees and they invest in our success. We strive to create an inclusive culture where every employee is equipped to perform at his or her best.

### Workplace safety

We strive for an injury-free, safe workplace that supports overall employee health and wellbeing. This fosters personal resilience and a better quality of life for employees, which results in improved job performance, product excellence and mission success for customers.

### STEM outreach

The number of technical and engineering jobs exceeds the number of qualified candidates in our industry. We invest in building a STEM talent pipeline and encourage students to develop these skills throughout their school years and into their careers.



## SUSTAINABILITY MANAGEMENT PLAN PROGRESS compared to 2013 baseline

Goal

2015 Results

### EMPLOYEE RETENTION

Maintain a lower voluntary attrition rate among top-performing exempt employees compared to exempt employees with lower ratings.

Voluntary Attrition Rate

**4.16% < 4.52%**  
Top performing employees All other employees

### DIVERSITY AND INCLUSION SATISFACTION

Maintain the diversity and inclusion component score at 2012 levels, as measured responses to LM Voice, our biennial employee survey covering topics such as diversity and inclusion, ethics, career development, leadership and job satisfaction.

Diversity and Inclusion Score (of 100)

**71.55 < 72.45**  
2013 2015

### WORKFORCE SAFETY

a. Achieve or exceed day away case rate goals of <0.18

**0.15** Day away case rate

b. Achieve or exceed recordable rate goals of <1.18

**0.92** Recordable rate

c. Achieve or exceed severity (lost days) rate goals of <4.40

**3.75** Severity (lost days) rate

Goal

2015 Results

### SUPERVISOR ENGAGEMENT FOR SAFETY

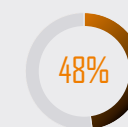
Reduce average time to complete manager one-over-one discussions following a work-related injury.

Reduced average time to complete manager discussion compared to our 2013 internal baseline.

### CHARITABLE GIVING

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

\$27M in Charitable Contributions



\$13M in STEM Contributions

### STEM VOLUNTEERISM

Increase number of employee volunteer hours in STEM education and increase percentage of total employee volunteer hours that are dedicated to STEM education.

Total Volunteer Hours

2013 94K  
2014 114K  
2015 **109K**

Percentage of STEM Volunteerism

11% 12% 12%  
2013 2014 2015



# TALENT COMPETITIVENESS

## MANAGEMENT

**Our talent competitiveness goals are to be the employer of choice for the best scientists, engineers and technologists in our sector and to build a pipeline of future leaders. We have multiple programs in place to achieve these goals.**

### LEADERSHIP DEVELOPMENT

We continually refine our learning and development programs to equip our workforce to respond to changing customer needs. In 2015, as part of our Customer Focus initiative, we expanded skills development for leaders and team members who work directly with external customers. Our newly upgraded mid-level leadership development program provides people and program managers who are first-time leaders of leaders with engaging learning and immediate application through simulations. This program builds on existing first-line leader preparation.

Our Full Spectrum Leadership model lays out the high standards to which we hold leaders accountable. We refined the model to increase effectiveness, reinforce leadership standards and promote inclusiveness. We simplified leadership levels and streamlined competencies to focus on factors that truly make a difference. Most importantly, we tied all actions to our primary objective of delivering results to customers.

### WORKFORCE TRANSFORMATION

Finding the best people with the right talent requires us to tap into several different markets. In 2015, we expanded our college recruiting practices, resulting in a more than 50% increase in recent graduate hiring from 2014. We partnered with more than 50 professional development affinity organizations and increased recruitment in talent pools such as returning veterans, candidates with disabilities and minorities. We work through our employee resource groups and leadership forums to build internal networks, identify development opportunities and create external pipelines for future talent.

We streamlined our onboarding experience so new employees understand their roles and become more productive in less time. Our survey of those newly hired in 2015 showed a 91% satisfaction rating with our onboarding and assimilation experience, and 94% satisfaction with the decision to join Lockheed Martin. We implemented knowledge-transfer mechanisms to bridge multiple generations in our workforce. The goal is to foster our culture of learning while infusing new thoughts and ideas into the business.

### SAFETY

The Lockheed Martin Environment, Safety and Health (ESH) Leadership Council governs our safety and health management strategy. The group includes senior leaders across all business segments responsible for ESH and from our corporate functions critical to ESH programs. They meet at least four times a year to develop and monitor our environment, safety and health strategies, and ESH Management System performance. In 2015, the ESH Leadership Council oversaw the systematic alignment of newly acquired sites with our ESH Management System.

A safe, healthy work environment is vital to sustainable business. We invest in a sophisticated safety management system and initiatives such as Target Zero and holistic ergonomic activities, which aim for an injury-free workplace. We stress leadership engagement, workforce involvement and training to protect employees and contractors, create a culture of safety and wellbeing, and adherence to our ESH policy.

### WELLNESS

Our *LM HealthWorks* initiative combines employee medical benefits coverage with wellness resources, information and environments. The Health and Wellness organization motivates employees to make sustainable healthy lifestyle changes that will help build resilience and expand their capacity to perform. Employees have access to on-site health-related programs, resources and amenities including flu shots, wellness centers, walking paths and healthy food services at a number of locations.



### SAFETY AND WELLNESS PARTNERSHIP

We believe whole employee wellness and workplace safety are inextricably linked, especially for work that is mentally or physically strenuous or repetitive. National Institute for Occupational Safety and Health research indicates healthy employees may be more aware, less prone to errors and able to make better decisions<sup>1</sup>. Therefore, we provide employees with tools and resources that not only promote safety, but also support optimum wellness and personal resilience, including at home.

<sup>1</sup> <https://ohsonline.com/Articles/2013/09/01/Safety-and-Wellness-The-Critical-Connection.aspx?Page=2>

# TALENT COMPETITIVENESS

## DIVERSITY AND INCLUSION

We see diversity as the attributes people bring based on their backgrounds, experiences, capabilities and perspectives. Our Board of Directors and Executive Leadership Team facilitate more enlightened decisions and set the tone for diversity and inclusion throughout our organization. Our inclusive culture makes employees feel welcome, respected, engaged and able to bring their full selves to work. Our Executive Inclusion Council, comprised of leaders from across the enterprise, is evidence of this commitment. The Council oversees a comprehensive diversity and inclusion strategy, and reviews our goals and progress annually.



At Lockheed Martin, we've found that when there is more diversity around the table, it inspires more innovation and creativity, and that translates to better products to meet our customers' needs.

— Marillyn A. Hewson, Chairman, President and CEO

Learn more about working at [Lockheed Martin](#)

## OUR TALENT PIPELINE

The U.S. demand for technical and engineering jobs is nearly 2.5 times the number of qualified, available people. We support K-12 and higher education programs through volunteerism and financial resources, with STEM as a primary focus.

We work with partners dedicated to promoting STEM knowledge and achievement among women and minorities. These include our own internship programs, and minority-serving higher education and professional institutions. Details are available on our [STEM website](#).

To manage our STEM outreach, we:

- » track our charitable contributions and volunteer hours through an online database;
- » review metrics from STEM grantees above \$100,000, including beneficiary survey results, twice per year; and
- » encourage our five business segments and Lockheed Martin International to address their local communities' and employees' needs.



With talent competitiveness, we need to look at what attracts people to us. We need to change the culture from a place where people just happen to come to work, to a community of people working together to solve some really big global challenges. When I started here 20 years ago, I came to Lockheed Martin because I figured the sky's the limit.

— Feedback from an employee, Lockheed Martin U.S. stakeholder summit



## CORPORATE POLICIES THAT DIRECT EMPLOYEE ACTIONS AND MANAGEMENT

- » Equitable Talent Management
  - Good Corporate Citizenship and Respect for Human Rights
  - Harassment-Free Workplace
  - Military Leave
  - Non-discrimination — Equal Employment Opportunity
  - Providing Reasonable Accommodations
  - Recruitment and Hiring
- » Workplace Safety
  - Drug-Free Workplace
  - Environment, Safety and Health
  - Ergonomic Program Guidance
  - Medical Response
  - Tobacco- and Smoke-Free Environment
  - Workplace Security-Maintaining a Safe and Respectful Workplace Free from Threats and Violence
- » STEM Outreach
  - Charitable Contributions

# TALENT COMPETITIVENESS

## PROGRESS

In 2015, we addressed three sustainability factors that define our core issue of Talent Competitiveness:

- » Equitable Talent Management, Development and Retention
- » Workplace Safety
- » STEM Outreach.

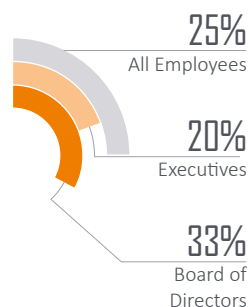
These actions responded to the global megatrend of the STEM skills gap and increase our human capital contributions to address the global megatrends of geopolitical instability, energy security and cyber security.

## 1. EQUITABLE TALENT MANAGEMENT, DEVELOPMENT AND RETENTION

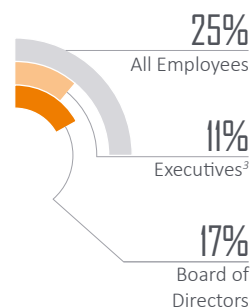
We invest in our employees and they invest in our success. We create an inclusive culture where every employee is equipped to perform at his or her best.

### COMPANY DEMOGRAPHICS 2015<sup>1</sup>

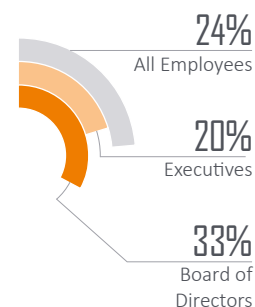
#### WOMEN



#### MINORITIES<sup>2</sup>



#### VETERANS<sup>2</sup>



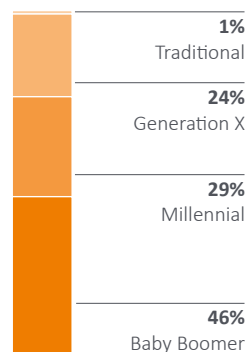
<sup>1</sup> Data exclude Sandia, Sikorsky, contract workers, interns and employees of certain subsidiaries or joint ventures.

<sup>2</sup> Minority and veteran data exclude local country nationals

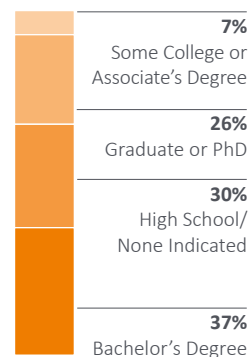
<sup>3</sup> Executives are directors and above

### WORKFORCE PROFILE 2015<sup>4</sup>

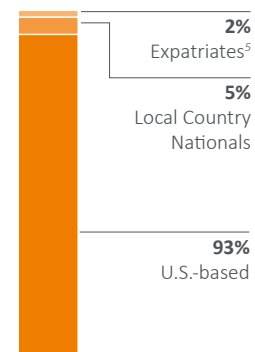
#### GENERATION



#### EDUCATION<sup>4</sup>



#### REGION



<sup>4</sup> Education data exclude local country nationals

<sup>5</sup> Expatriates are people temporarily residing in a country other than that of their citizenship

### 2015 LEARNING AND DEVELOPMENT

**93%**

Employees participated in formal training

**21 hours**

Average training hours for each employee

Topics included beyond-compliance ethics, leadership and technical training.



#### IDENTIFYING WITH YOUR COMMUNITY

In response to updated government regulations, we modified our self-identification reporting model for people with disabilities. We used the law as a catalyst to give our military service and lesbian, gay, bisexual and transgender (LGBT) communities the opportunity to self-declare their statuses. We keep this information confidential and use it only for legitimate, non-discriminatory business purposes.

# TALENT COMPETITIVENESS

## I. EQUITABLE TALENT MANAGEMENT, DEVELOPMENT AND RETENTION

### ROBUST TRAINING PREPARES LEADERS FOR COMPLEX DEMANDS

#### INNOVATION

Our First-Line Leader Program is mandatory training that gives first-time leaders a strong foundation. Since its inception in June 2013, approximately 1,200 U.S. and 250 non-U.S. leaders have completed the program. Participants practice new leadership skills during collaborative virtual sessions before meeting in person for hands-on learning exercises. We train 800 to 1,000 employees per year on our program management curriculum developed for early-career, established and aspiring program managers. We offer in-person courses and an online program management learning network with materials, forums and continuous learning opportunities.

In 2015, we launched a simulation learning program for mid-level leaders with the important role of leading other leaders. The program includes modules on decision making, coaching, delegation and situational responses. In-class training requires participants to operate as a team to apply skills to fast-paced, real-world situations with evolving consequences. The goal is to prepare leaders to lead organizational growth in an ever-changing and complex environment. For the first time, we integrated sustainability concepts into this training.

#### VALUE

Being a leader involves continuous learning, which is why we offer training for every leadership level and scope. Focused leadership training accelerates professional development and strengthens career opportunities. The learning curriculum is aligned with our strategic cultural priorities: Full Spectrum Leadership, Ethics, and Diversity and Inclusion. These concepts and skills are woven into content and applications throughout our leadership curriculum.

### DIVERSITY AND INCLUSION PROGRAMS EXPAND GLOBALLY

#### INNOVATION

Cultural experiences and identities vary by region, which is why we launched Lockheed Martin International Inclusion Councils in Australia, Canada and the U.K. Council members received unconscious bias training to deliver to leaders in their countries. We conducted 15 focus groups with 130 employees at our U.K. sites to learn what diversity and inclusion mean to employees there. We learned our employee resource groups, special events, and diversity and inclusion do not have the same meaning in the U.K. culture. Our efforts also affirmed that diversity and inclusion is considered one of several factors positively contributing to the business.

#### VALUE

The focus groups led us to create the three key areas of Communicate, Collaborate and Connect, for which several actions are being implemented. We consider diversity and inclusion critical to optimal business outcomes. As our non-U.S. presence grows, we will expand our diversity and inclusion outreach to ensure all sites understand our philosophy on these matters.

#### FORECAST

Lockheed Martin Canada is exploring conducting similar diversity and inclusion focus groups in 2016.



#### KNOWLEDGE CONTINUITY

Lockheed Martin recognizes the importance of knowledge sharing for short- and long-term business continuity as we reshape operations and evolve our culture. For example, our Missiles and Fire Control business segment designed and executed a technique called TOPIC — teaching, observing, partnering, implementing and coaching — experiential learning to help our experts teach the next generation. In 2015, TOPIC resulted in 104 active transfer plans, with 17 plans completed. Across the company, more than 400 plans, ranging from skills mentoring and training to simulations and video capture, have been completed.



#### OUR DIVERSITY AND INCLUSION MISSION

Seek to empower a diverse workforce and inclusive workplace that provide equal opportunity for our people to contribute fully in delivering company success and customer value.



# TALENT COMPETITIVENESS

## 2. WORKPLACE SAFETY

We strive for an injury-free workplace and one that supports overall wellbeing. This fosters personal resilience and a better quality of life for employees, higher job performance, product excellence and mission success for customers.

### EMERGENCY PLAN PROVES SUCCESSFUL IN CRISIS EXERCISE

#### INNOVATION

In October 2015, our Crisis Management, Business Continuity, Health and Wellness and Global Emergency Operations Center (GEOC) teams worked together to evaluate our Fort Worth, Texas, site's ability to safely navigate a pandemic outbreak. We practiced our Health and Wellness Medical Response Plan and communication between the local public health department and GEOC. We piloted a mass vaccination process by delivering flu shots to more than 2,000 employees, more than doubling our goal.

#### VALUE

In the event of a medical disaster, we want employees to feel safe at work and to limit disruption to them and our business. Reviewing the practicality of our business continuity plan and emergency protocols provides a sense of security to our workforce and workplace.

#### FORECAST

We will share our medical response and vaccination plan with other business resiliency teams. We will conduct pandemic mass vaccination exercises in at least one other multi-facility location in 2016, based on the insights gained in Fort Worth.

### WORKFORCE PRODUCTIVITY IMPROVES FROM WELLNESS

#### INNOVATION

We strive to help employees be resilient and stay well at work and at home. Research from The National Business Group on Health shows that across industries approximately one in three employees are experiencing high stress levels, which can lead to serious health issues, injury, an increase in health care costs and a reduction in employee performance.

On average, 27% of Lockheed Martin employees report having problems concentrating or doing their best at work due to personal problems or worries, and 29% report experiencing substantial daily stress. In response, we initiated a resilience strategy to provide employees with the tools to thrive in the face of stress.

We released six communication toolkits on resilience topics with webinars and information sessions. We emphasized health management coaching services in our Wellness Centers and conducted an Eat for Energy nutrition improvement campaign.

#### VALUE

Our leave of absence and productivity data show improvements from our healthy interventions. From 2011 to 2015, we have seen a 5% increase in those who say it is easy to eat fresh fruits, vegetables and other low-fat foods when they are at work and a 14% increase in employees who say the workplace would support their efforts to be emotionally healthier.

#### FORECAST

In 2016 we will address preventive care and condition management, and we will continue to focus on resilience by implementing a comprehensive strategy to teach employees how to make healthy choices, making it easier to eat right, be active and recharge.

### ERGO COMPETITION GENERATES NOVEL IDEAS

#### INNOVATION

The Ergo Cup competition encourages employees to identify ways to minimize workplace ergonomic stressors. Our internal LM Ergo Cup competition is open to all employees and judged on criteria including ergonomic risk reduction, innovation, simplicity and cost savings. In 2015, there were 27 submissions encompassing all five business segments. The top three solutions were then entered and accepted for the Applied Ergonomics Conference (AEC) Ergo Cup® competition in March 2016.

#### VALUE

Projects submitted for the AEC Ergo Cup competition addressed employee injury reductions, increased productivity and reduced costs.

- » Missiles and Fire Control designed a better clocking and torquing fixture for PAC-3 and THAAD cables to eliminate painful pressure points and bad posture, with more than \$125,000 cost avoidance over two years and greater than 70% time reduction per connector.
- » The Mission Systems and Training TB-37 Array Integration program for anti-submarine warfare sensors designed an automated reeling and unreeling mechanism to increase workplace safety and alleviate back, shoulder and arm pain.
- » Aeronautics designed a wing plank dolly for the U-2 to mitigate awkward postures and overexertion while freeing up employees for more value-added tasks. The improvement resulted in approximately \$60,000 in injury cost avoidance.
- » Mission Systems and Training developed an enterprise-wide process to reinforce ergonomic principles and provide easy access to ergonomic controls with the potential to avoid approximately \$13,000 in injury costs.

# TALENT COMPETITIVENESS

## 2. WORKPLACE SAFETY

### U.S. LOCATIONS SURPASS WORKFORCE SAFETY GOALS

#### INNOVATION

Lockheed Martin's safety programs emphasize leadership involvement and workforce engagement to strengthen our safety culture. We established annual workforce safety performance goals for our U.S. locations focused on year-over-year incident reductions. We surpassed our 2015 goals in reducing day away case rates, recordable rates and severity (lost days) rates. The following projects are some examples of how we achieved our success:

- » We held seven multiday structured improvement events in 2015 to address ergonomic risks, worker health risks and wellness on and off the job. These cross-business segment events gave multidisciplinary, employee-engaged teams the tools to identify risks and promptly implement low-cost mitigations that are highly visible, and have high impact.
- » As part of the cooperation between our safety and wellness strategies, several of these events used a total worker health approach to improve employees' wellness on and off the job and encourage them to share tools with colleagues. As a result of these structured improvement events, we implemented high impact ergonomic and wellness improvements across six sites.
- » MST's Target Zero boot camp delivered nine customized interactive training sessions to more than 140 line managers in areas prone to higher injury rates. This supported a measurable decrease in safety incidents. From 2014 to 2015, MST achieved a 23% improvement in day away case rates, a 24% improvement in recordable incident rates and an 8% improvement in severity (lost days) rates.
- » Watch a [Participative Ergo Safety Moments video](#) to gain a unique perspective on how one site implemented and engaged employee-based teams to solve ergonomic issues across multiple manufacturing processes.

#### VALUE

Since launching Target Zero<sup>1</sup> in 2004, we've achieved a 64% improvement in day away case rates, a 67% improvement in recordable rates and a 77% improvement in severity (lost days) rates.

#### FORECAST

In 2016, our goals are 0.20, 1.09 and 5.41 for day away case rate, recordable rate and severity (lost days) rate, respectively, based on a 2% improvement over the average of our previous three years of performance.

### TARGET ZERO RESULTS AND GOALS PERFORMANCE<sup>1</sup>

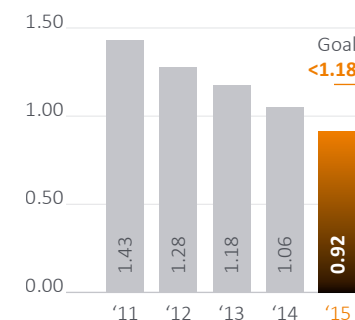
Day Away Case Rate



Severity (Lost Days) Rate



Recordable Rate



<sup>1</sup> Target Zero metrics are reported by calendar year and include all U.S. Lockheed Martin facilities and Sandia. Sikorsky and employees operating in-theater (war zones) are not included in this data. Each rate is calculated per 100 employees, working 40 hours per week for 50 weeks per year.



#### PAN-U.K. BUSINESS RESILIENCY EXERCISE

In October 2015, we conducted a country-wide resiliency exercise at multiple locations in the U.K. to assess our ability to deal with country-wide threats that could have an impact on critical operations. The half-day scenario simulated the 1963 "big freeze" across the U.K., calling on participants to plan for and react to a two-week extreme blizzard. As a result, we're streamlining our crisis action plans and increasing awareness of business resiliency processes.



#### OHSAS 18001 AND VPP-CERTIFIED SITES

Several of our sites participate in, or are certified to, external health and safety programs, including 28 sites certified to the OHSAS (Occupational Health and Safety Assessment Series) 18001 standard for occupational health and safety management systems and nine sites included in the U.S. Occupational Safety and Health Administration's (OSHA) or state Voluntary Protection Programs.

# TALENT COMPETITIVENESS

## 2. WORKPLACE SAFETY

### EXOSKELETONS BRING ERGONOMIC BENEFITS

#### INNOVATION

FORTIS® is an unpowered, lightweight exoskeleton that enhances user strength and endurance by transferring weight through the exoskeleton to the ground when the user is standing or kneeling. A mechanical arm allows operators to effortlessly hold heavy hand tools, increasing productivity by reducing muscle fatigue. In 2015 FORTIS earned both the Good Design and Green Good Design Awards from the Chicago Athenaeum Museum of Architecture and Design, and the Red Dot “Best of the Best” Award in an international design competition.

#### VALUE

An advanced ergonomic design moves naturally with the body and adapts to different body types and heights. Easing fatigue and strain has the potential to reduce user injuries. We inspired students with its potential; for example, participants at a robotics camp demonstrated its capabilities as a part of STEM education. In 2015, we piloted the exoskeleton in Marietta C-130 production operations. This collaboration fed information back into the iterative design of the exoskeleton and led to a number of incremental improvements.

#### FORECAST

In 2016, we will measure FORTIS’ impact on productivity and ergonomic-related injury risk reduction.



*The latest version of FORTIS has increased functionality and an ergonomic design to potentially reduce injuries.*

## 3. STEM OUTREACH

Our long-term sustainability depends on attracting and retaining a talented team. The number of technical and engineering jobs far exceeds the number of qualified candidates. This makes STEM talent development critical. We invest in building a STEM talent pipeline and encourage students to develop these skills throughout their school years and into their careers.



### EMPLOYEE VOLUNTEER HOURS 2015

Employees volunteered for 1,034,760 hours with nearly 110,000 hours volunteered for STEM Outreach.<sup>1</sup>

Over the last decade, employees have volunteered nearly 12 million hours of their own time in service to their communities.

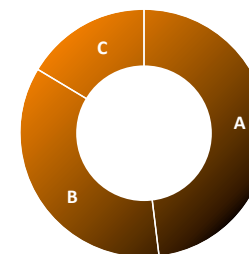
<sup>1</sup> Total volunteer hours includes Sandia and Sikorsky since acquisition. STEM hours exclude Sandia and Sikorsky.



### ADVANCING STEM RESEARCH IN MASDAR CITY

In 2015, we opened the first international Center for Innovation and Security Solutions (CISS) in Masdar City, Abu Dhabi’s low-carbon, sustainable urban development. CISS enables cooperation between Lockheed Martin and the United Arab Emirates (UAE) government, industry and academia to advance scientific discovery and solutions to address challenges from climate change to resource scarcity.

### TOTAL CHARITABLE CONTRIBUTIONS 2015



A. STEM outreach	\$13.0M
B. Military/veteran causes	\$9.6M
C. Community outreach	\$4.3M

# TALENT COMPETITIVENESS

## ADDRESSING INDUSTRY-WIDE STEM NEEDS

In developed and developing markets, demand for talent in the science, technology, engineering and mathematics (STEM) fields far outweighs supply. The long-term sustainability of our business depends on attracting and retaining the most talented team.

We invest in programs that build the pipeline of talent across the fields of STEM with an emphasis on early education programs that encourage interest in the fields before the gaps develop.



When I was a student, STEM programs played a major role in my career decision. Now I am honored to be part of a company that helps young girls chart their course in engineering and technology. There's nothing more rewarding than to be part of building students' courage and excitement in STEM.

— Mechanical Engineer, Lockheed Martin, U.S.

### THREE WAYS TO GROW THE STEM WORKFORCE



ENGAGE

#### 39 LOCKHEED MARTIN U.K. APPRENTICESHIP PROGRAM

Four-year apprenticeship program that gives early career professionals hands-on training and experience equivalent to a university degree. 39 participants engaged in this program in 2015.

#### 115 LOCKHEED MARTIN ENGINEERING LEADERSHIP DEVELOPMENT PROGRAM

Develops entry-level engineers into future technical and engineering leaders through specialized technical training. 115 graduates joined the approximately 2,000 alumni in 2015.

#### 1,270 EDUCATION ASSISTANCE

Cultivates a dynamic workforce with the skills needed to innovate and perform at the highest levels. Has helped employees in pursuit of 65+ STEM Ph.D.'s and 1,270+ STEM Masters Degrees.



EDUCATE

#### #1 CAREER COMMUNICATIONS GROUP

Named the #1 supporter of HBCU engineering programs by Career Communications Group for the second year in a row.

#### 300 LEADERSHIP RETREAT CONFERENCE

100 student diversity leaders from local universities attended the Maryland Leadership Retreat; 200 students attended the California Leadership Retreat.

#### 100 LOCKHEED MARTIN SCHOLARS PROGRAM

Our five-year program funds 100 Scholars at the University of Puerto Rico-Mayagüez, giving STEM majors scholarships and research opportunities.



EXCITE

#### GIRLS INC.

400

"Operation SMART" program reached 400 girls at 10 sites. Our volunteers mentored the girls and provided STEM support.

#### IMAGINE SCIENCE

5,000

Helped serve nearly 5,000 disadvantaged youth through STEM education pilot programs.

#### NATIONAL 4-H COUNCIL

\$3M

Our \$3 million grant supports the 4-H Career Pathway for STEM that will reach 30,000 youth through 2017.

#### NATIONAL SCIENCE TEACHERS ASSOCIATION

3,000

Supports 36 science teachers to help lower teacher turnover rates. Those teachers reach about 3,000 students.

#### NATIONAL YOUTH SCIENCE FORUM

500

We help fund 500 Australian and other non-U.S. students annually in intensive STEM training and industry access.

#### PROJECT LEAD THE WAY

\$6M

Our four-year, \$6 million grant implements Project Lead the Way K-12 STEM curriculum.

STEM SKILLS GAP

#### CAREER

By 2020, it is estimated that there will be a supply demand gap of 1.3 million STEM talent in the U.S.<sup>1</sup>

<sup>1</sup> [www.ed.gov/stem](http://www.ed.gov/stem)

#### COLLEGE

28% of bachelor's degree candidates choose a STEM major, but nearly half leave the STEM field before graduating.<sup>2</sup>

<sup>2</sup> <http://nces.ed.gov/pubns2014/2014001rev.pdf>

#### K-12

Only 16% of U.S. high school seniors are both proficient in mathematics and interested in a STEM career.<sup>3</sup>

<sup>3</sup> [www.ed.gov/sites/default/files/stem-overview.pdf](http://www.ed.gov/sites/default/files/stem-overview.pdf)



# SUPPLIER SUSTAINABILITY



SCIENCE

CITIZENSHIP

## OBJECTIVE

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

## INNOVATION

We partner with large and small businesses across the world to bring to market innovations that make our products more competitive and our manufacturing processes more efficient.

## VALUE

Sharing our high standards with trusted partners worldwide helps us execute forward-thinking solutions.

*About photo: In 2015, the U.S. Army accepted the first PAC-3 Missile Segment Enhancement (MSE) interceptors built by Lockheed Martin. With improved mobility and range, the PAC-3 MSE missile is a hit-to-kill interceptor that defends against tactical ballistic missiles, cruise missiles and aircraft. Lockheed Martin enhancements increased the missile's reach and improved maneuverability against today's faster and more sophisticated missile threats.*

# SUPPLIER SUSTAINABILITY

## OVERVIEW

**Among the biggest sustainability challenges for our industry is managing global supply chains.**

A broadening set of stakeholders demand increased transparency into where and how products are made. This requires due diligence and strong partnerships across the value chain.

Managing finite resources, human rights and other supply chain risks is vital to our integrity and profitability. We work with our suppliers regularly to share best practices, ensure regulatory compliance and assess management practices. With more than 16,000 companies in our direct supplier network, we have an incredible opportunity to address environmental, social and governance issues at scale.

We address three factors that relate to this core issue:

## CORE ISSUE FACTORS

### Raising supplier standards

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

### Preventing counterfeit components

Counterfeit parts can have a direct impact on product quality and performance. Our strategy- and risk-based approach minimizes counterfeit work that can compromise product and service integrity, which can in turn impact mission success and national security.

### Conflict minerals due diligence

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. These minerals are used in many manufacturing processes and associated products. We perform reasonable country of origin inquiries with relevant suppliers and exercise due diligence practices to verify sources of raw materials used in our products.



## SUSTAINABILITY MANAGEMENT PLAN PROGRESS compared to 2013 baseline

Goal

2015 Results

### CODE OF CONDUCT

Distribute Supplier Code of Conduct to active suppliers via open purchase orders, which are typically required for a supplier to receive payment.

Active suppliers who received Supplier Code of Conduct

2013	18%
2014	77%
2015	100%

### COUNTERFEIT TRAINING

Ensure all eligible purchasing, quality and other affected employees complete Counterfeit Parts Awareness Training.

Counterfeit Parts Awareness Training

2013	68%
2014	99%
2015	100%

### COUNTERFEIT CONTROLS

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



Target achieved

For proprietary reasons, we do not disclose performance data.

Goal

2015 Results

### SUPPLY CHAIN RISK MANAGEMENT

Assess top 500 suppliers with low Dun & Bradstreet Supplier Stability Indicator scores and develop risk mitigation plans as necessary.



Assessed 100% of affected suppliers

### SUSTAINABILITY ASSESSMENT

Increase participation rate for our Sustainable Supply Chain Management Voluntary Assessment, distributed in 2013 to suppliers that represented 46% of our supply chain spending.

Assessment Participation Rate

2013	52%
2014	84%
2015	84%

# SUPPLIER SUSTAINABILITY

## MANAGEMENT

**Strong global supply chain management is essential to product quality, timeliness and affordability. It is also an opportunity to expand The Science of Citizenship beyond Lockheed Martin operations.**

**Our senior Vice President of Corporate Engineering, Technology and Operations (CETO), who reports to the CEO, leads the effort to coordinate supply chain decisions and engineering and innovation strategies. We convene a Supply Chain Council of Vice Presidents from each business segment to work with our CETO councils: Engineering and Technology, Production Operations, Program Management, Supply Chain, and Logistics and Sustainment. The Supply Chain Council chair is a member of the Corporation's Sustainability Working Group.**



With suppliers in more than 50 countries, we must monitor emerging regulations worldwide. A practice considered beyond compliance in one country may be a requirement in another.

— Feedback from an employee, Lockheed Martin U.S. stakeholder summit

## SUPPLIER AUDITING

The National Aerospace and Defense Contractors Accreditation Program (Nadcap) conducts best-practice supplier quality audits using industry-approved auditors and checklists. Despite being a member of Nadcap for more than 10 years, our accreditation implementation has been inconsistent.

In 2015, we held a formal internal session with our business segment Supplier Quality and Supply Chain leaders and employees to present the business case for Nadcap adoption and collaboration to address concerns. We established a plan to increase Nadcap utilization. Our long-term goal is to implement these auditing protocols to reduce the number of on-site audits required at supplier facilities, saving labor and costs for our suppliers and auditing team.

## SUSTAINABLE PURCHASING LEADERSHIP COUNCIL

We are among the Founders Circle of the Sustainable Purchasing Leadership Council (SPLC), whose purpose is to standardize sustainable procurement. The organization brings together professionals from institutions, suppliers, governments, standards bodies and NGOs worldwide to drive social, environmental and economic sustainability. As a member of the SPLC, we provide financial and technical support and advice on the Council's pilot rating system. In 2015, the SPLC recognized five outstanding case studies of Lockheed Martin supplier management: Sustainable Supply Chain Management Program, Ethics Supplier Mentoring, Reusable Returnable Container Fixtures, Supplier Spend Analysis and E-Waste Stewardship.

In May 2015, we were a featured speaker at the SPLC annual Summit, where members learn best practices, share knowledge and build relationships.

Our presentation, "Partnering on Sustainability: How to Overcome Barriers and Establish a Sound Supply Chain," outlined steps to establishing a supply chain sustainability program.

## BETTER PLANTS PROGRAM

In 2010, we joined the U.S. Department of Energy's (DOE) Better Plants Program, a voluntary initiative whereby manufacturers and industrial-scale energy-using organizations commit to reduce energy consumption by 25% over a 10-year period. In 2014, the DOE extended the program to include participants' supply chains. In 2015, we invited 34 of our small business suppliers to take advantage of the program's financial assistance to set energy saving goals, develop energy management plans and track and report progress. In 2015, seven of our suppliers joined the Better Plants Program. Their participation will help us understand our upstream energy footprint, reduce GHG emissions in our value chain and potentially lead to more affordability for our customers.



## CORPORATE POLICIES AND ACQUISITION PROCEDURES THAT DIRECT EMPLOYEE ACTIONS AND MANAGEMENT OF SUPPLIER SUSTAINABILITY

- » Acquisition of Goods and Services
- » Counterfeit Electronic Parts and Material
- » Lockheed Martin Acquisition Procedures
- » Supplier Code of Conduct
- » Supplier Diversity Program
- » Anti-Corruption
- » Combating Trafficking in Persons
- » REACH Regulations

## HUMAN TRAFFICKING CONTROLS

Learn how we strengthened our human trafficking controls in the Progress section of the [Governance](#) chapter.

# SUPPLIER SUSTAINABILITY

## PROGRESS

In 2015, we addressed the three sustainability factors that define our core issue of Supplier Sustainability:

- » Raising Supplier Standards
- » Conflict Minerals Due Diligence
- » Preventing Counterfeit Components.

These actions responded to the global megatrends of trust in business, geopolitical instability, energy security and cyber security.



### DIRECT SUPPLIERS

In 2015, Lockheed Martin had direct orders with more than 16,000 active suppliers from 52 countries.

Of our direct suppliers:

- » **93%** were based in the U.S.
- » **4%** were based in the EU and the U.K.
- » **42%** were manufacturers, **27%** provide services and **13%** are distributors
- » **64%** were small businesses, representing a **1%** increase from last year.

## 1. RAISING SUPPLIER STANDARDS

We expect suppliers to uphold the same business conduct standards as our employees, as stated in our Supplier Code of Conduct. Helping suppliers live these values improves environmental and social conditions worldwide.

### LEADING CHEMICAL USE COMPLIANCE

#### INNOVATION

We work with our industry peers, supply chain and network of stakeholders to maintain REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) industry leadership. The EU regulation aims to protect human and environmental health from the negative effects of hazardous chemicals. Our program involves supply chain management to ensure partners understand and comply with the law and manage risk.

#### INDUSTRY LEADERSHIP

- » Led the Aerospace Industries Association (AIA) Chemicals Subcommittee for the sixth consecutive year
- » Served as the formal liaison between the Department of Defense (DoD) REACH Working Group and the AIA Chemicals Subcommittee
- » Spoke on materials substitution and REACH compliance at the SAE International (Society of Automotive Engineers International) Aerospace Standards Summit
- » Responded to the European Defense Agency public questionnaire on REACH defense exemptions

#### INTERNAL ENGAGEMENT

- » Updated our REACH computer-based training module to reflect recent changes to the law
- » Hosted monthly REACH teleconferences for Lockheed Martin employees
- » Conducted specialized monthly training on REACH Focal Points
- » Held a live one-day REACH training session for Lockheed Martin U.K. employees
- » Held a formal REACH self-assessment at the headquarters of our largest business area

#### VALUE

In 2015, our mitigation actions with suppliers in response to REACH regulations contributed to zero instances of non-compliance.

#### FORECAST

In early 2016, we will issue a REACH letter and survey to our EU suppliers, as well as a Biocidal Products Regulation awareness letter. This helps ensure our suppliers understand their potential legal obligations to the laws and helps mitigate risks of chemical obsolescence and material availability.



### spent with U.S. small businesses

Our partnerships with small, diverse suppliers foster product innovation.

#### SMALL BUSINESS INVESTMENT

	2015 \$ billion
Historically Underutilized Business Zone Small Businesses	0.3
Service Disabled Veteran-Owned Small Businesses	0.4
Veteran-Owned Small Businesses	0.8
Small Disadvantaged Businesses	1.0
Woman-Owned Small Businesses	1.0
Total <sup>1</sup>	\$4.7

<sup>1</sup> Enterprises can span multiple categories

#### SMALL BUSINESS SUPPLIER OUTCOMES

	2013	2014	2015
Outreach Events	111	136	159
Small Business Innovation Research (SBIR) Partnerships	3	3	3
Supplier Payment Turnaround	19.8 days	20.9 days	14.8 days



# SUPPLIER SUSTAINABILITY

## I. RAISING SUPPLIER STANDARDS

### SUPPORTING DIVERSE SUPPLIERS FOSTERS INNOVATION

#### INNOVATION

A diverse range of U.S. small business suppliers is an important part of our supply chain strategy. We employ 34 supplier diversity representatives across the Corporation to guide our small business outreach and reporting practices. We participate in government outreach and development programs including the DoD's Mentor-Protégé Program (MPP) and the Small Business Innovation Research (SBIR) Program. In 2015, we achieved three Phase III commercialization successes working with SBIR firms, including a flight demonstration of autonomous air evacuation of human casualties. We also hosted a joint Lockheed Martin-Missile Defense Agency Innovation Day, where we met with 30 SBIR firms.

#### VALUE

We work closely with small businesses and diverse suppliers to foster product innovation and deepen community ties. We provide developmental assistance with an emphasis on participation in MPP and SBIR programs and give maximum procurement opportunities to small, diverse businesses. In 2015, helping small businesses advance technologies helped us reduce physical waste and resource consumption, and improve energy efficiency in various manufacturing production. It also helped us improve product use safety features.

#### FORECAST

We will continue to aggressively seek small businesses of all types and help them compete for opportunities in our programs. Additionally, we will integrate sustainability as a mentoring topic for some government outreach and development program participants.

### SHAPING A UNIFORM SUPPLIER CODE OF CONDUCT

#### INNOVATION

When we published our first Supplier Code of Conduct in 2013, we learned from stakeholders that a single code for the aerospace and defense industry would be more efficient. To facilitate that solution, we shared key lessons with the Defense Industry Initiative (DII) on Business Ethics and Conduct which led to the creation of the [DII Model Supplier Code of Conduct](#) and resource toolkit. For global industry members, we co-led development of the [IFBEC Model Supplier Code of Conduct](#).

#### VALUE

Beyond compliance with laws, codes of conduct express expectations of ethical behavior when doing business. They are important foundations for integrity in the aerospace and defense industry. A common code sets the bar across all companies and eliminates the need to agree to numerous codes.

#### FORECAST

We continue to work with DII signatories and IFBEC members toward full implementation of a common code. We are developing supplier mentoring and training within DII. We plan to launch these resources in 2016.

### ASSESSING SUSTAINABILITY PRACTICES

#### INNOVATION

We factor sustainability criteria into our purchase of goods and services, going beyond conventional cost and quality considerations. Our acquisition procedures instruct our buyers to consider sustainability in technical criteria when evaluating offers. Our supplier registration portal asks suppliers to disclose sustainability-related information including socioeconomic status, cyber security maturity and anti-corruption measures. In 2013, we distributed our first voluntary sustainability assessment to 25 suppliers who represented nearly half of our supply chain spending.

#### VALUE

Voluntary assessment responses showed how key suppliers ranked environmental, social and governance risks, which complemented other supplier risk modeling. A 2013 analytical framework used a combination of lifecycle assessment techniques to determine that our annual procurement accounts for 13% of our overall environmental and public health impacts, compared to around 1% from our direct operations and 85% from product use. Increasing transparency of our supply chain will identify opportunity areas and actively mitigate risk.

#### FORECAST

In 2016, we plan to release the second voluntary sustainability assessment to a subset of suppliers to get additional insights on the standards in our value chain.

### COMMON PERFORMANCE EVALUATIONS BENEFIT SUPPLIERS

#### INNOVATION

In previous years, each of our business segments had a different algorithm for evaluating supplier quality and delivery performance, which confused and frustrated suppliers who support programs in multiple businesses.

Now, our business segment Supplier Quality and Supply Chain teams have established a common performance evaluation algorithm that meets all business segments' needs and operating models. This algorithm stresses flawless execution and mission success by focusing on critical part defects.

#### VALUE

All parties benefit when our suppliers understand how we measure them. Suppliers take more ownership of their report cards and defects, late deliveries and potential customer issues. We, in turn, deliver more reliable products to our customers.

#### FORECAST

Our Supplier Quality and Supply Chain teams will continue to improve the algorithm as unique cases arise.

# SUPPLIER SUSTAINABILITY

## 2. CONFLICT MINERALS DUE DILIGENCE

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. These minerals are used in many manufacturing processes and associated products. We perform reasonable country of origin inquiries with relevant suppliers and exercise due diligence practices to verify sources of raw materials used in our products.

### VALIDATING OUR SUPPLY CHAIN

#### INNOVATION

We are a member of the Conflict-Free Sourcing Initiative (CFSI). In 2015, we funded audits of two smelters to help them become validated as conflict-free. The CFSI's Conflict-Free Smelter Program (CFSP) allows us to determine which smelters and refiners can be validated as conflict-free, in line with current global standards. We analyzed over 800 supplier-identified smelters and mines using the CFSP database and analysis tools.

#### VALUE

The CFSI has grown into one of the most utilized and respected resources for companies from a range of industries addressing conflict minerals issues in their supply chains. Our funding of two smelter audits in 2015 benefited Lockheed Martin and the ultimate objective of the Dodd-Frank Act, Section 1502, by helping increase the percentage of smelters validated as conflict-free.

### DIGGING DEEPER INTO SUPPLIER PRACTICES

#### INNOVATION

Smelters, suppliers who work with raw materials used in our product parts, are furthest from our direct suppliers, and we have low visibility into their practices. In 2015, we worked toward a better conflict minerals program by enhancing smelter data and verification processes, increasing supplier outreach and education and conducting a detailed product analysis on several sub-assemblies. Our internal and external auditors performed detailed program assessments of our processes and helped develop strategies for effective conflict minerals report writing.

#### VALUE

Increasing visibility into our conflict mineral program helps us understand friction points in our complex global supply chain. This allows us to make improvements to yield the greatest positive change.

## 3. PREVENTING COUNTERFEIT COMPONENTS

Counterfeit parts can directly impact product quality and performance. Our strategy and risk-based approach minimizes counterfeit work that can compromise product and service integrity, which can in turn impact mission success and national security.

### COUNTERFEIT PARTS STRATEGY MINIMIZES RISK

#### INNOVATION

We have processes to prevent, detect, mitigate and remedy counterfeit parts issues. In 2015, we updated our corporate policy to improve controls for counterfeit prevention. We improved our prevention techniques by updating our acquisition procedures to now require risk mitigation plans when procuring from non-authorized supply sources. We also created a function-based counterfeit work prevention training course for supply chain professionals.

#### VALUE

Preventing counterfeits from entering our supply chain helps ensure our products are of the highest quality. Our processes and training on counterfeit prevention and mitigation allow us to minimize the possibility of counterfeit parts entering our supply chain.

#### FORECAST

We engage with AIA and other industry associations to develop common strategies for reducing the risk of counterfeit parts. We will continue to build awareness of counterfeits by sharing information and training. We will refine our processes and metrics focusing on continuous improvement for counterfeit prevention and mitigation.



### U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO) SURVEY

We responded to the GAO's counterfeit parts survey request in September 2015. The GAO was commissioned by the DoD under the 2015 National Defense Authorization Act to conduct an independent study on the effects of recently-issued Defense Federal Acquisition Regulation Supplement (DFARS) related to counterfeit prevention. As a follow-up to the survey, we met with the GAO to address additional questions concerning effective means of detecting, mitigating and remediating counterfeits. Our participation along with other companies supports a report to Congress scheduled for completion in early 2016.



### CONFLICT MINERALS REPORT

In accordance with SEC regulations, in May 2015, we submitted a Conflict Minerals Report and Specialized Disclosure Report for the 2014 reporting year.

The report, which includes details on supplier exposure to conflict minerals based on our due diligence practices, is published on our [Conflict Minerals webpage](#).



### RECYCLING GOLD

Our precious metal reclamation program at Aeronautics has recovered and sold scrap gold for more than \$400,000 since 2013. Beyond financial outcomes, our reclaiming efforts contribute to avoided social and environmental pressures from mining and increased recycling rates of previous metals available for reprocessing.



# RESOURCE

## EFFICIENCY



SCIENCE

CITIZENSHIP

OBJECTIVE

**OPTIMIZE NATURAL RESOURCES IN OUR OPERATIONS TO REDUCE  
CARBON EMISSIONS THROUGH IMPROVED ENERGY MANAGEMENT**

INNOVATION

We not only help customers shape and achieve their sustainability goals, we lead by example. We optimize our own operations to reduce our environmental impact by setting and achieving targets and piloting energy solutions.

VALUE

Aligning with government, industry and societal expectations for environmental stewardship positions us as a responsible citizen and reduces costs for ourselves and our customers.

*About photo: The 250-kW Advanced Gasification Plant at the Lockheed Martin Owego, N.Y., facility, developed in partnership with Concord Blue, will convert wood chips into clean energy. The conversion process does not use combustion and therefore is more environmentally friendly. This plant will demonstrate the feasibility and scalability of sustainable waste disposal and clean energy generation, two global resource challenges we face head on.*

# RESOURCE EFFICIENCY

## OVERVIEW

We look beyond compliance to reduce our environmental footprint by identifying resource efficiencies across our operations.

As a result of our ambitious targets and robust management processes, we are a leader in energy efficiency and greenhouse gas (GHG) emissions reduction. Our lifecycle-based assessments show our biggest opportunities within our operations are to reduce energy use and GHG emissions.

We address two factors that relate to this core issue:

## CORE ISSUE FACTORS

### Optimizing energy use

We optimize energy use in our operations through efficiency programs and a renewable energy strategy for the Corporation.

### Reducing GHG emissions

GHGs trap heat in the atmosphere. We strive to reduce GHG emissions from our operations.



## SUSTAINABILITY MANAGEMENT PLAN PROGRESS

compared to 2013 baseline, except where noted

Goal

2015 Results

### REDUCTION TARGETS

Achieve a 25% reduction in energy, a 30% reduction in water use and a 35% reduction in carbon emissions by 2020 from a 2010 baseline.

**-18%** Energy use  
**-25%** Water use  
**-23%** Carbon emissions

### WASTE AND RECYCLING

Suspend waste-to-landfill reduction focus to identify and establish total waste reduction and recycling targets.

We will report annual progress on these goals in 2016.

Targets Set:



**-7%** Reduce total waste from 2014 to 2020 by 7%



**8%** Increase recycling from 2014 to 2020 by 8%

### DATA CENTER EFFICIENCY

Achieve carbon usage effectiveness (CUE) and power usage effectiveness (PUE) targets for all enterprise-managed data centers, as measured by electricity consumption per IT load thresholds.

**>1.65** CUE  
**>1.8** PUE

100% of our enterprise-managed data centers are meeting CUE and PUE targets.

### ENERGY INTENSITY

Track energy usage to revenue.

**204** 2013  
**187** 2015

(MMBTU/\$1 Million Revenue)

Goal

2015 Results

### GREEN IT EFFICIENCY

Identify and establish green information technology efficiency targets.

We assessed the top 12 data centers by energy consumption and identified PUE as the indicator for setting future targets. Due to projected costs and data center planning, we need to re-evaluate implementing future targets.

### RISK-BASED WATER EFFICIENCY

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

We conducted water balances for our three largest California sites. Few water reuse opportunities exist, particularly for irrigation. We need to re-evaluate implementing future targets.

### GREEN BUILDINGS

Identify and establish green square footage footprint or green building targets.

Target Set: Increase Annually

**1.2<sup>1</sup>** 2013  
**1.5<sup>1</sup>** 2014  
**1.9<sup>1</sup>** 2015

(Million sq. ft.)

<sup>1</sup> Adjusted for facility closures

### ON-SITE RENEWABLE ENERGY

Develop business case for on-site renewable energy generation for each Lockheed Martin business segment.

**10**

Total business cases completed by all business segments, with four approved for capital funding through the end of 2015.



# RESOURCE EFFICIENCY

## MANAGEMENT

Our sustainability strategy includes voluntary measures to minimize GHG emissions, energy use, water use and waste generation. These activities, called Go Green 2020, are overseen by the Environment, Safety and Health (ESH) Leadership Council and the Facilities Leadership Team, which are chaired by the Vice President of corporate Energy, Environment, Safety and Health (EESH) and the President of LMC Properties, Inc., the senior property management executive, respectively. The groups track and assess our resource efficiency efforts throughout the year.

## STANDARDS AND STAKEHOLDER REVIEWS

The Lockheed Martin ESH Management System defines programs to address the ESH aspects of our global operations. It provides direction based on the potential risks of regulatory non-compliance, reputation loss and business growth restraints. To ensure these programs are executed consistently across the enterprise, the ESH Management System consists of design, implementation and oversight processes of common in-country systems. Our system stands up to rigorous internal scrutiny, including peer assessments of selected ESH programs, and our primary means of verifying our management system is our Self-Assessment process. In this process, internal compliance experts evaluate conformity to ESH standards in operations outside their home sites.

Our ESH Management System requirements align with globally recognized management system standards such as ISO 14001 and OHSAS 18001, and in 2015 we revised the requirements to further improve alignment. Fifty Lockheed Martin sites are certified to the ISO 14001 international standard for environmental management systems, and one facility earned certification to ISO 50001.



The bottom line will improve if you deliver energy-efficient solutions to your customer. It is not only what you spend in your manufacturing process; it's the whole picture.

— Feedback from a supplier, Lockheed Martin U.S. stakeholder summit

## ESH INCIDENTS OF NON-COMPLIANCE

Incidents of non-compliance (INCs) are our record of violations of environmental or safety laws. In 2015, we recorded two significant environmental, safety or health INCs and no significant environmental releases. One INC was related to safety warning sign postings and the second INC was related to compliance with hazardous waste management requirements.

### ESH SIGNIFICANT INCIDENTS OF NON-COMPLIANCE<sup>1</sup>

	2011	2012	2013	2014	2015
Frequency	2	1	—	1	2
Value of Fine(s) Paid	\$182,420	\$60,000	—	\$6,800	\$177,700

<sup>1</sup> This summary includes any ESH incident deemed significant through our ESH Management System. We consider an INC 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.



### CORPORATE POLICIES THAT DIRECT EMPLOYEE ACTIONS AND MANAGEMENT OF RESOURCE EFFICIENCY

- » Energy
- » Environment, Safety and Health
- » Green Buildings
- » Sustainability
- » Waste Disposal and Recycling

# RESOURCE EFFICIENCY

## PROGRESS

In 2015, we addressed two sustainability factors that define our core issue of Resource Efficiency:

- » Optimizing Energy Use
- » Reducing GHG Emissions.

These actions result in GHG reductions and cost avoidance, which makes business sense, while also addressing the global megatrend of energy security.

## 1. OPTIMIZING ENERGY USE

We optimize energy use in our operations through our Go Green 2020 program, which includes energy efficiency and renewable energy projects.



### ENERGY MANAGEMENT DATA SAVE RESOURCES

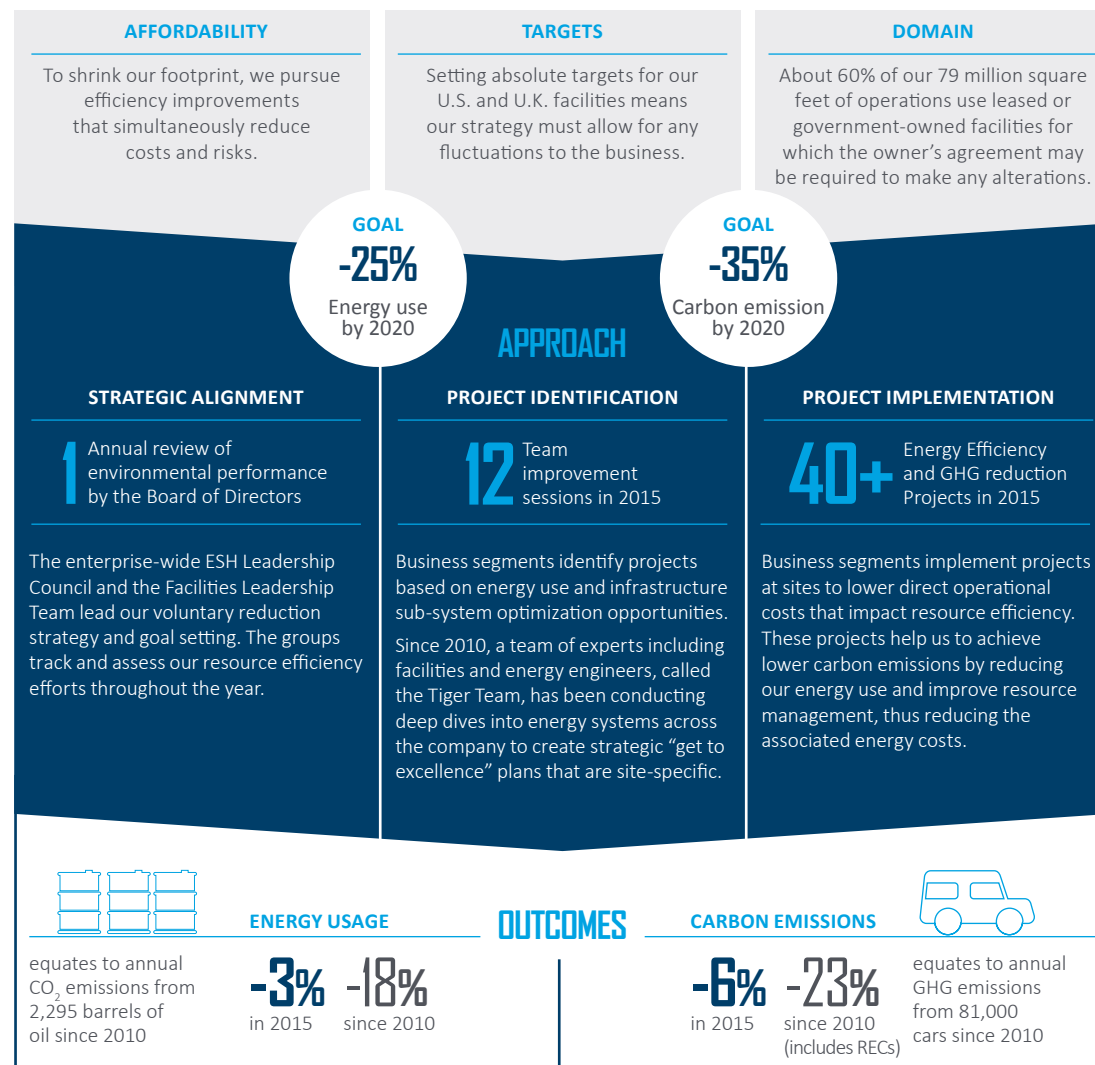
Responsible management of our environmental impacts means actively monitoring consumption. We incorporate our own products to help us optimize energy management. Internally developed software, known as SEEvie, provides near-real-time situational analysis of utility use, manages building control system data, and integrates key operational and business systems.

- » Sixty Lockheed Martin monitored sites in the U.S. and U.K. represent 97% of the Corporation's electricity use, 98% of natural gas use, and 97% of total Scope 1 and Scope 2 GHG emissions.
- » Those sites use SEEvie, along with more than 1,000 real-time energy meters.
- » A four-month glitch in monitoring by the local utility at our King of Prussia, Pa., facility prompted that utility to recommend using the previous year's data for billing purposes. However, using SEEvie consumption data provided more accurate results, reducing costs by more than \$250,000.

## GLOBAL ENERGY SECURITY CHALLENGE

The world faces energy resource constraints compounded by environmental impacts.

## LOCKHEED MARTIN'S CHALLENGES



# RESOURCE EFFICIENCY

## I. OPTIMIZING ENERGY USE

### ENERGY MANAGEMENT PROJECTS SAVE RESOURCES AND DOLLARS

#### INNOVATION

We implement projects that reduce GHG emissions and facility energy usage, while also helping us to achieve business performance goals. During 2015, our facilities completed more than 40 energy-efficiency and GHG reduction projects including improvements in heating, ventilation and air conditioning (HVAC), lighting, building envelopes, retro commissioning and renewable energy. Examples include:

1. Completed approximately 12 HVAC-related projects, resulting in about 13.9 million kWh of annual energy usage reduction and \$1 million in estimated recurring annual cost avoidance.
2. Completed approximately 19 lighting projects, resulting in about 5.3 million kWh in annual energy usage reduction and \$595,000 in estimated recurring annual cost avoidance.
3. Installed solar panels at our Clearwater, Fla., facility, which will result in approximately 1,800 metric tons of carbon dioxide equivalent (MTCO<sub>2</sub>e) of annual carbon emissions reduction and over \$350,000 in estimated recurring annual cost avoidance.
4. Added an indoor truck unloading center at our Fort Worth, Texas, facility to minimize heating and cooling losses from the building, which will result in approximately 13.6 million kWh of annual energy usage reduction and \$776,000 in estimated recurring annual cost avoidance.
5. Installed variable speed frequency drives to improve building energy management at our Marietta, Ga., facility, which will result in approximately 3.5 million kWh of annual energy usage reduction and \$90,000 in estimated recurring annual cost avoidance.

#### VALUE

We reduced energy used by our facilities by 18% and GHG emissions from our operations by 23% from 2010 to 2015 and avoided an estimated \$26 million in costs.

#### FORECAST

We will continue to implement projects to achieve a 25% total reduction in energy use by 2020 from our 2010 baseline.

### ENERGY MANAGEMENT UPGRADES DELIVER SIGNIFICANT RETURNS

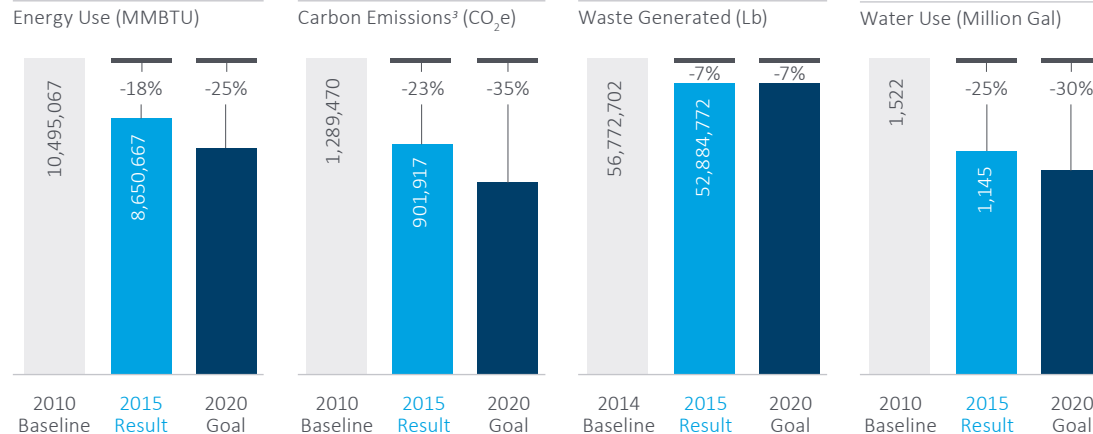
#### INNOVATION

Our Amptill, U.K., facility achieved ISO 50001 energy management certification in June 2015, becoming the first Lockheed Martin site certified to the international standard. ISO 50001 processes identified 15 energy efficiency opportunities with combined projected savings of more than \$250,000 and 2 million kWh annually. In 2015, we initiated two projects with the highest savings potential: adopting a comprehensive energy management and metering system, and replacing gas oil heating systems with electric heat pump systems.

#### VALUE

These two energy efficiency projects at our Amptill site are expected to reduce energy use and emissions by approximately 133,000 kWh and 71 MTCO<sub>2</sub>e annually.

### GO GREEN 2020 GOALS AND PROGRESS<sup>1,2</sup>



<sup>1</sup> Go Green 2020 metrics reflect performance from November 2014 through October 2015. 2015 carbon and energy data are reported for our largest 75 facilities in the United States, United Kingdom, Canada and Mexico, representing 82% of our global occupied space within our operational control boundary. 2015 water data are reported for our largest 45 facilities in the United States, representing 76% of our global occupied space within our operational control boundary. 2015 waste data are reported for our largest 50 sites in the United States, United Kingdom and Mexico, representing 77% of our global occupied space within our operational control boundary. All Go Green 2020 data exclude Sandia and Sikorsky.

<sup>2</sup> Performance data have been adjusted in 2015 to take into account significant operational footprint changes.

<sup>3</sup> Carbon emissions reflect total Scope 1 and 2 emissions plus an estimate for the leased facility space where we do not collect actual emissions data. The total reflects the avoided emissions of purchasing renewable energy credits (RECs).

# RESOURCE EFFICIENCY

## 2. REDUCING GHG EMISSIONS

We strive to improve the energy efficiency of our operations, which reduces GHGs and results in cost avoidance.

We have worked to improve the energy efficiency of our operations since 2002, when we collaborated with the U.S. Environmental Protection Agency (EPA) as a founding partner of the Climate Leaders Program, which collects and reports leading companies' environmental information. Our engagement continues with the EPA and other key stakeholders.



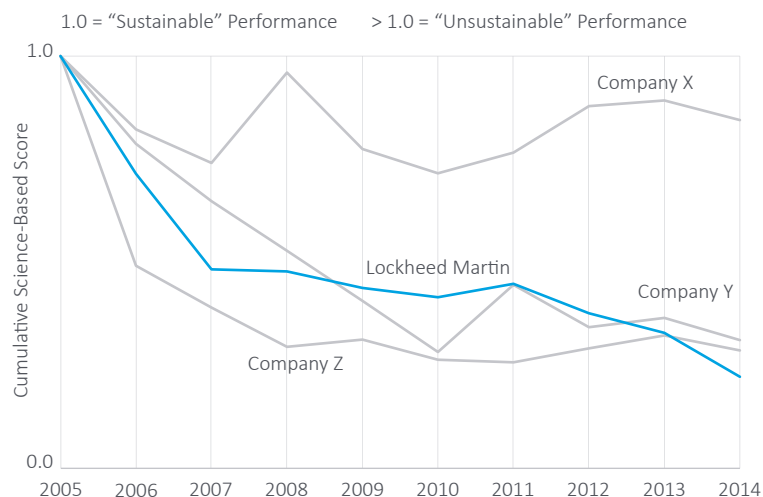
### SCIENCE-BASED METHODOLOGIES

Our voluntary carbon emissions targets and results outperform a science-based threshold to stabilize atmospheric carbon emissions. Using the Center for Sustainable Organizations' Context-Based Carbon Metric methodology, we consistently produce less carbon emissions than would be allocated based on our contribution to gross domestic product (GDP).

#### Methodology source:

[Center for Sustainable Organizations' Context-Based Carbon Metric.](#)

### LEADING AEROSPACE AND DEFENSE COMPANIES' SCIENCE-BASED CARBON EMISSIONS PERFORMANCE SIMULATION



The 1.0 threshold results from the ratio of the actual emissions to allocated emissions, based on a company's current reduction targets and its contribution to GDP.

### RENEWABLE ENERGY FOOTPRINT CONTINUES TO GROW

#### INNOVATION

We evaluate opportunities to expand Lockheed Martin's renewable energy footprint. We pledged to quadruple our on-site renewable generation to 10 MW by the end of 2020 through the EPA Green Power Partnership On-Site Commitment. We have also evaluated the potential for on- and off-site renewable energy opportunities, spanning multiple technology types and procurement vehicles including power purchase agreements (PPA).

#### VALUE

An off-site renewable energy project, such as a PPA, can be a long-term contract to purchase renewable energy from a utility company. This enables the utility to invest in specific renewable projects knowing it has a guaranteed buyer and price. A PPA project can contribute to our GHG emission reduction goals, reduce facility energy costs and add renewable energy to the grid for others to access.

Lockheed Martin has participated in the EPA Green Power Partnership since 2009. For the past five years, our green power and renewable energy credits have ranked us among the top 25 Partners on the Top 100 list and we are included on the Fortune 500® Partners list.

#### FORECAST

In January 2016, Lockheed Martin finalized a 17-year PPA for solar-generated electricity produced by Duke Energy Renewables. The renewable power purchase, which is expected to produce approximately 72,000 MWh of solar power annually for the U.S. national grid, will provide clean energy to sites across all Lockheed Martin business segments.

### GREEN POWER USAGE

Our GHG reduction strategy includes the purchase of renewable energy credits (RECs) measured in MTCO<sub>2</sub>e (metric tons of carbon dioxide equivalent). The table below summarizes our annual REC purchases and the resulting GHG emissions avoided by utilized RECs over the past five years.

	2011	2012	2013	2014	2015
Renewable Energy Credits (RECs) Purchased (MTCO <sub>2</sub> e)	273,065	252,573	207,943	201,992	229,362
Percent of Scope 2 Carbon Emissions avoided by REC utilization (MTCO <sub>2</sub> e)	27%	26%	24%	25%	28%



# RESOURCE EFFICIENCY

## 2. REDUCING GHG EMISSIONS

### INNOVATION TRANSFORMS WASTE TO ENERGY



#### INNOVATION

We broke ground on our 250 kW advanced gasification plant this year, the first on-site waste-to-energy plant in our partnership with Concord Blue. The plant uses any mix of organic-based material in a closed-loop, self-sustaining system and produces energy outputs including synthetic gas that can be used to create electricity, fuels, hydrogen, heat or steam to reduce emissions and reduce municipal solid waste going to landfills. Initially, the main product, synthetic gas, will be used to power a reciprocating engine to both large and small scale gasification plants will ultimately advance the implementation of this technology broadly.

#### VALUE

Our advanced waste conversion plant will convert approximately 3,650 tons of wood waste a year into electricity. Unlike incineration, this system is oxygen-free, which means no flames or polluting furans or dioxins are produced. The Concord Blue technology is inherently unique in that its application to both large and small scale gasification plants will ultimately advance the implementation of this technology broadly.

#### FORECAST

In 2016, we will break ground on the 5 MW power generation plant in Herten, Germany, which will produce proportionally more energy and demonstrate the scalability and flexibility of the gasification technology. It will be the first commercial endeavor of our partnership with Concord Blue.

### ON-SITE SOLAR POWER REDUCES GHG EMISSIONS AND COSTS



#### INNOVATION

In October 2015, we operationalized the largest private, non-utility solar project in Florida at the time, a 2 MW solar roof for the parking lot at our Mission Systems and Training facility in Clearwater, Fla. The 150,000-square-foot solar array will produce approximately 3,300 MW hours of electricity annually.

#### VALUE

This renewable energy project will offset energy costs by up to \$350,000 per year. It offsets GHG emissions by approximately 50% of the Clearwater facility's carbon footprint. It provides shaded on-site parking for more than 500 cars. See how it's performing on the [real-time dashboard](#).

#### FORECAST

We anticipate reducing our emissions by approximately 45,000 metric tons of CO<sub>2</sub>e over the life of the project and producing 74 gigawatt hours of electricity that will save the Corporation approximately \$6.5 million. With the addition of the Clearwater solar installation, we now have 4 MW of on-site solar power at Lockheed Martin with an additional 3 MW planned for 2016.



# INFORMATION SECURITY



SCIENCE

CITIZENSHIP

## OBJECTIVE

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

## INNOVATION

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

## VALUE

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

*About photo: Our F-35 Lightning II is referred to as a flying supercomputer because it has more than eight million lines of code and is equally sophisticated. The F-35's helmet contains technology that can provide pilots with all the information they need to complete their mission—from airspeed and altitude to target information and warnings—on the visor of their helmets. It's also connected to cameras embedded in the skin of the jet to project real-time imagery onto the pilot's visor, allowing them to see through the plane.*

# INFORMATION SECURITY

## OVERVIEW

**Essential systems such as transportation, energy and finance depend heavily on the digital infrastructures behind them.**

These technologies have made society more connected and efficient, but also more vulnerable to cyber threats and attacks. We secure these digital infrastructures by protecting customer mission-sensitive data, employees' personally identifiable information and our intellectual property using our Intelligence Driven Defense® approach to cyber security.

We address three factors that relate to this core issue:

## CORE ISSUE FACTORS

### Securing customer and employee personal information

Our ability to protect customer and employee personal information is integral to mission success and trust.

### Safeguarding intellectual property (IP) rights

Protecting IP maintains our ability to innovate, generate stockholder returns and earn customer trust. Our thousands of scientists and engineers develop advanced, patented solutions that depend on these rights.

### Mitigating data fraud, sabotage and theft

The information we safeguard is critical to global security and commercial enterprises. We protect critical business systems to safeguard these important assets.

## SUSTAINABILITY MANAGEMENT PLAN PROGRESS

We monitor eight indicators from a 2013 baseline related to information security-oriented business decisions and activities. These indicators include tracking and reporting internally in the following areas:



Personal and identifiable information



Insider and outsider threats



Customer privacy



Data fraud, sabotage and theft



Intellectual property rights and protection



**OBJECTIVE:**  
Partially Met

For security reasons we do not publicly disclose performance data on individual SMP measures for this core issue. Based on 2015 performance, we did not meet our objective for one of eight measures, which individually does not reflect an overall assessment of the effectiveness of information security risk management efforts. We will continue to report performance to our executive leadership team and engage our Board of Directors to discuss cyber security risk and associated action plans.

## EVOLVING CYBER THREATS

### GLOBAL NEED

During every minute of the day<sup>1</sup>...

**45**  
new viruses

**200**  
new malicious websites

**180**  
personal identities stolen

**5,000**  
examples of malware created

**\$2m**  
in average corporate revenue lost

<sup>1</sup> 2010 data, [www.isalliance.org/advanced-persistent-threat-apt-2/](http://www.isalliance.org/advanced-persistent-threat-apt-2/)

### INDUSTRY NEED

The 2013 Cost of Cyber Crime Study, by the Ponemon Institute, reveals:

**\$23.3m**

The defense industry had the second highest cyber attack expenses for fiscal year 2013 at \$23.3 million

**\$20.3m**

The four-year average annual cost of responding to cyber attacks for the defense industry was an estimated \$20.3 million

**\$250b**

In 2014, the Centre for Risk Studies at the University of Cambridge forecast that a cross-industry, system-wide information technology (IT) failure could cost more than \$250 billion in lost global gross domestic product

# INFORMATION SECURITY

## MANAGEMENT

**Information security is one of the most critical challenges of our time, both at the global infrastructure level and within Lockheed Martin. While emerging technologies such as mobile and cloud computing enable exciting new business opportunities, they further complicate the vast cyber ecosystem in which we operate.**

Our cyber ecosystem is made up of our core network and internal systems, perimeter and program environments, legal entities such as joint ventures, our extended supply chain and the products and services we deliver to customers. Our information technology (IT) infrastructure is routinely threatened by hackers, cyber criminals, insider threats and advanced persistent threats.

Our Intelligence Driven Defense framework helps us stay ahead of these threats and manage cyber risk for ourselves and our customers. We use threat modeling and our Cyber Kill Chain® intelligence-driven defense process to gain a deep understanding of our adversaries and actively mitigate and remediate advanced threats. These insights help us protect customer privacy; prevent data fraud, sabotage and theft; and safeguard IP rights.



We live in a world of data. Everything we do has to be secure and to me this is critical for our business to get right for both customers and employees.

— Feedback from an employee, Lockheed Martin U.S. stakeholder summit

## RISK MANAGEMENT

Defending our networks against cyber threats requires a combination of technology, people and processes. The Classified Business and Security Committee of our Board of Directors reviews issues and procedures for maintaining data and information security for our customers and our own business operations. Threat defense processes are part of our Enterprise Risk Management Program and overseen by our Corporate Information Security Office.

We monitor risk management effectiveness against strategic indicators and operational metrics. We provide quarterly performance reports to our Executive Leadership Team, chief risk officer, IT leadership teams and Enterprise Business Services leaders. We respond quickly to shifting adversarial targets, evolving contract requirements, new technologies and other issues as they develop.

## EMPLOYEE ENGAGEMENT

A vigilant workforce is essential to successful cyber security. We expect our employees to adhere to strict security mandates and get involved in activities supporting cyber risk management. As an example, we integrate security into our systems engineering life cycle from concept to retirement. We actively design IT architecture that can be defended against attack, survive compromise and adapt to adversary changes.

We consider security to be every employee's responsibility, regardless of his or her function in the company. In 2010, we created the I Campaign™ to help employees combat spear-phishing, a common adversarial attack vector using phony email requests to gain unauthorized access to systems and information. We saw continued success with the program in 2015.

## EMPLOYEE CYBER AWARENESS RESULTS, 2010-2015



We conduct an annual Cyber Challenge to strengthen our defenses against cyber attacks and improve the information security services we offer customers. The competition tests employees' information security skills and challenges them to think like adversaries. More than 140 employees from across the Corporation participated in 2015 to identify security vulnerabilities in isolated, virtual environments. Participatory activities such as the Cyber Challenge are highly effective at engaging employees, raising awareness and strengthening valuable cyber security skills.

## BALANCING PRIVACY AND SECURITY

Balancing privacy and network security is important for building trust among employees, customers and suppliers, and protecting the Corporation's computing assets. We must understand data protection laws and regulations in all jurisdictions where we operate in order to balance privacy and security. In addition, clear policies on acceptable use of computing assets, social media and privacy are key in establishing and maintaining stakeholder trust.



## CORPORATE POLICIES THAT DIRECT EMPLOYEE ACTIONS AND MANAGEMENT OF INFORMATION SECURITY

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



# INFORMATION SECURITY

## PROGRESS

**While cyber attacks have the potential to negatively affect our business, no cyber attacks have had a material impact on our financial results.**

**In 2015, we addressed the three sustainability factors that define our core issue of information security:**

- » **Securing Customer and Employee Privacy**
- » **Mitigating Data Fraud, Sabotage and Theft**
- » **Safeguarding Intellectual Property Rights.**

**These actions help us address the global megatrends of trust in business, geopolitical instability, energy security and cyber security.**

## 1. SECURING CUSTOMER AND EMPLOYEE PRIVACY

Our ability to protect customer and employee personal information is integral to mission success and trust.

### CREATING SECURITY SOLUTIONS FOR CRITICAL INFRASTRUCTURE

#### INNOVATION

Over the past four years, our cross-functional Security Technology Team has applied government and commercial technologies to a wide array of applications including domestic and international defense forces protection, border and port security, and commercial oil and gas asset protection. In July 2015, this team completed its second “roadshow,” showcasing more than 15 technologies ranging from unmanned aerial vehicles to ground surveillance systems. Nearly 20 Lockheed Martin subject matter experts attended the Department of Energy (DOE) Safeguard and Security Working Group meeting to discuss security and protection solutions with more than 60 representatives of DOE-critical infrastructure facilities.

#### VALUE

When we collaborate across the Corporation, we can represent all layers of our security-in-depth concept, which helps our stakeholders understand that the new security threats we face require expanded capabilities. We leverage relationships with our customers to shift the paradigm of security technology acquisition from a product-by-product approach to a holistic solutions approach.

#### FORECAST

We are engaged in follow-up discussions with facility management companies and DOE officials who attended the meeting.

### LAIKA BOSS SHARED WITH THE CYBER SECURITY COMMUNITY



#### INNOVATION

We released Laika BOSS™, an open source version of our internal advanced threat defense tool, to the cyber security community at Black Hat in 2015. Laika BOSS is a unique malware detection platform that allows analysts to chain small modules together to find even the smallest trace of adversary activity.

#### VALUE

Our philosophy is to share cyber security frameworks that accelerate innovation and work toward the common goal of keeping trade secrets out of adversarial possession. The Laika BOSS tool empowers cyber analysts to easily adapt to or stay ahead of advanced cyber threats. This can benefit everyone who has a stake in cyber defense and those who depend on a trustworthy, connected digital world.

#### FORECAST

The cyber security industry depends on open source security tools that enable analysts to share intelligence and capabilities. Lockheed Martin will remain a thought leader in cyber security and contribute to the open source security community to help defend against evolving threats.

# INFORMATION SECURITY

## 1. SECURING CUSTOMER AND EMPLOYEE PRIVACY

### TRAINING EMPLOYEES ON PRIVACY POLICIES

#### INNOVATION

We offered four two-day privacy trainings in the U.S. to prepare employees to sit for Certified Information Privacy Professional certifications. Five online training modules are available to employees throughout the year.

#### VALUE

Given the growing complexities of global protection regulations, data protection training and awareness are priorities for Lockheed Martin and our customers. To raise awareness of regulations and company data privacy policies and to reduce the risk of privacy incidents, we offer five privacy-related courses from new-hire privacy awareness training to biannual sensitive information training to day-long privacy certification classes.

#### FORECAST

Data protection laws in many jurisdictions where Lockheed Martin operates are evolving. Regulations on processing and cross-border transfer of personal data will continue to tighten. We will continue to offer employees up-to-date data protection training and tools to ensure we are prepared to address the changing global data privacy landscape and meet customer needs.



### DIGITAL STORAGE SOLUTIONS

We set a goal to reduce our offsite physical storage by 5 to 6% annually in accordance with our file retention policies. Since 2008, we've realized a saving of \$3 million and a 40% decrease in boxes stored offsite, due largely to an increased usage of digital records.

## 2. MITIGATING DATA FRAUD, SABOTAGE AND THEFT

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

### TESTING CYBER INTELLIGENCE



#### INNOVATION

In 2015, the National Cyber Range (NCR) team completed eight test and training events to identify and counter cyber threats, including several for U.S. Cyber Command. Lockheed Martin earned the first contract to engineer the DoD's NCR in 2009 as a way to perform large-scale testing of national cyber intelligence tools and weapons. Since then, we have worked to prototype, expand and manage the program, which includes remote training and testing events in realistic environments. These multi-service events bring together joint and coalition cyber operators to learn tactics, techniques and procedures to identify and counter cyber threats.

#### VALUE

Accelerating the development and deployment of highly effective cyber weapons and defenses helps secure our critical infrastructure and sustain our military advantage in the face of an evolving landscape of threats.

### NETWORKED INTELLIGENCE IS SHARED ACROSS AGENCIES

#### INNOVATION

The Distributed Common Ground System (DCGS) is the DoD's globally networked intelligence system. It ingests terabytes of sensor data collected in the field including acoustic, video, infrared images, human intelligence, radio intercepts, maritime signals and friend or foe technology, and synthesizes them into actionable information to be shared across military services, national agencies and coalition forces.

#### VALUE

A top priority of our military forces is achieving situational understanding. Critical components are access to intelligence and intelligence analysis, which are core to the DCGS. By connecting with hundreds of intelligence data sources, DCGS can task, collect, post, exploit and disseminate the right data to the right users at the right time.

#### FORECAST

The U.S. Air Force continually updates its DCGS enterprise. The U.S. Navy is upgrading its architecture to support tighter integration of battlefield assets. The U.S. Army is preparing to enter into Increment 2, a second phase that will enhance capabilities in predictive analytics, cyber security and data fusion.



### ENHANCING OUR CYBER CAPABILITIES

In 2015, the Department of Homeland Security accredited Lockheed Martin as a Commercial Service Provider, allowing us to enhance our external service offerings and augment the security protection we offer our customers.

# INFORMATION SECURITY

## 2. MITIGATING DATA FRAUD, SABOTAGE AND THEFT

### ADDRESSING PRIVACY RISKS IN IT SYSTEMS

#### INNOVATION

Beginning in 2012, we have completed Privacy Impact Assessments (PIA) to address privacy issues and requirements during the system development process. System owners and developers are guided in assessing and reducing privacy risks through the early stages of development. To monitor progress, we track the ratio of privacy observations to PIA's related to employees' personally identifiable information. In 2015, the ratio was 1.50.

#### VALUE

Early identification of privacy risks in IT systems and business processes allows for the proper handling and sharing of personal information in compliance with corporate policies and relevant regulations. The PIA process is a key activity in ensuring an environment where our employees, customers and partners trust us to use and protect personal information responsibly.

#### FORECAST

As privacy regulations and laws continue to evolve, we will continue to refine the PIA process to identify privacy risks to Lockheed Martin systems. As part of the established internal IT process, every two years systems will be reviewed against the latest privacy developments.

## 3. SAFEGUARDING INTELLECTUAL PROPERTY (IP) RIGHTS

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

### INVESTMENTS SAFEGUARD INNOVATIONS AND INFORMATION

#### INNOVATION

The superior security service we provide our customers starts internally, which is why we make decisions to ensure our systems are armed with the most cutting-edge cyber protection. In 2015, we invested in Cybereason, a security firm specializing in network security and threat detection.

Cybereason demonstrated technology that can analyze host-based events in a unique manner, and its detection methodology aligns well with our Intelligence Driven Defense approach.

#### VALUE

Our goal is to employ a calculated, strategic approach to cyber defense for ourselves and our customers. Real-time detection and attack tracing protect our innovations and sensitive information from adversaries.

#### FORECAST

We are working with Cybereason to integrate its capabilities into our portfolio of internal and external offerings.

### SUPPORTING SUPPLIERS' CYBER RISK MANAGEMENT

#### INNOVATION

We rely heavily on a complex cyber ecosystem increasingly vulnerable to risk. To reduce exposure, we work closely with our suppliers to implement a three-part cyber security strategy to: 1) understand suppliers' cyber security capabilities, 2) make them aware of potential threats and how to manage them, and 3) require them to meet strict cyber security criteria.

Part of this effort includes working with our supply chain partners to ensure they are compliant with applicable government regulations such as DFARS Clause 252.204-7012, "Safeguarding Covered Defense Information (CDI) and Cyber Incident Reporting." This clause imposes compliance obligations on suppliers handling CDI, requiring suppliers to provide adequate security on their unclassified information systems to safeguard them from unauthorized access and report cyber incidents to the DoD.

#### VALUE

The cyber security capabilities of small- and medium-sized businesses vary widely. Supporting a secure supply chain helps our whole value chain.



### NATIONAL CYBER AWARENESS MONTH

Being a leader in global security and aerospace means our employees may be targeted by cyber adversaries. October 2015 marked the 12th annual National Cyber Security Awareness Month, a time we used to increase employee vigilance against outside hacking and phishing attempts. Through web-based activities, informational webcasts, webinars, articles and contests, we spread information to help our employees make the right decisions online and better understand the risks of unsafe Internet behaviors.

# RECOGNITION

## SUSTAINABILITY



### Dow Jones Sustainability World Index

Named to the Dow Jones Sustainability World Index for environmental, social and economic performance for the second consecutive year. Scored more than 50% above the industry average.



### CR Magazine

Honored as *CR Magazine's* 100 Best Corporate Citizens:

2015: 10th  
2014: 14th  
2013: 51st



### MSCI Intangible Value Assessment

Maintained sector leader status on the MSCI Intangible Value Assessment.

## GOVERNANCE

### Transparency International — UK

Rated Lockheed Martin an “A” based on publicly available information, one of only four companies (of 163 rated) at the highest level. Rated an “A” based on internal information.

### Silver Stevie Award

The digital version of *Setting the Standard* Code of Conduct won the Silver Stevie Award in 2015 for Best Online/Electronic Newsletter or Publication from the American Business Awards.

### Corporate Secretary Magazine

Awarded Lockheed Martin the 2015 Corporate Governance Award for Best Ethics and Compliance Program (Large Cap).

## PRODUCT PERFORMANCE

### Manufacturing Leadership Council Awards

Awarded Lockheed Martin three 2015 Manufacturing Leadership awards for achievements in engineering and production technology leadership.

### Aviation Week

Our F-16 Auto Ground Collision Avoidance System won the esteemed 2015 Program Excellence Award in Sub-System Level Research and Development/ System Development and Demonstration.

### Aviation Week

Our Persistent Threat Detection System won the 2015 Program Excellence Award for System Level Sustainment.

## TALENT COMPETITIVENESS

### Military Times

Recognized as a “Best for Vets” employer by *Military Times*, ranking third of 74 U.S. companies, based on military-related policies and organization culture.

### Human Rights Campaign’s Corporate Equality Index

Since 2009, Lockheed Martin has earned a 100% rating on the Human Rights Campaign’s Corporate Equality Index.

### American Heart Association

In 2015 we received our third consecutive American Heart Association Fit Friendly Award for championing the health of their employees and creating a culture of physical activity and health.

### National Business Group on Health

Awarded our second consecutive Best Employers for Healthy Lifestyles Gold Recognition in 2015 from the National Business Group on Health for making cultural and environmental changes that support employees’ healthy lifestyle goals.

## SUPPLIER SUSTAINABILITY

### DoD Nunn Perry Award

Recipient of our 12th such award for DoD mentor-protégé teams excelling in technical developments, cost efficiencies and increased business opportunities for small disadvantaged firms.

### Women’s Business Enterprise National Council Small Business Awards

Recognized as one of America’s top corporations for women’s business enterprises.

### National Veteran-Owned Business Association

Named one of the 2015 Military Friendly Supplier Diversity Programs.

### Sustainable Purchasing Leadership Council

Won five Outstanding Case Study Awards.

## RESOURCE EFFICIENCY

### U.S. EPA Green Power Partnership

Lockheed Martin is ranked 23rd on the EPA’s national top 100 list of green power purchasers as of January 25, 2016.

### Climate Change CDP Report

Lockheed Martin’s 2015 Climate Change CDP Report scored 100/100 for disclosure and an “A-” ranking in emissions reductions performance. This marks the fifth consecutive year Lockheed Martin has scored in the 90th percentile for transparency in discussing its operations related to climate change.

### Arkansas Environmental Federation (AEF) 2015 Diamond Award for Excellence in Environmental Leadership

Recognized for pioneering a precious metals reclamation program that has diverted 7,000 pounds of waste from disposal.

## INFORMATION SECURITY

### Washington Technology

Lockheed Martin was selected #1 in *Washington Technology’s* Top 100.

### Capability Maturity Model® Integration (CMMI®) Institute

Recognized IS&GS with its highest maturity rating, level 5, indicating the business segment defined and controlled processes for technology development and is optimized for continuous improvement.






# LEGAL NOTICES

## OTHER SOURCES OF INFORMATION

More about sustainability at Lockheed Martin, including the 2015 Global Reporting Initiative (GRI) Index, the Executive Summary and historical reports, can be found online at: [www.lockheedmartin.com/sustainability](http://www.lockheedmartin.com/sustainability).



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## 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, 2015 and our 2016 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.

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