LOCKHEED MARTIN CORP
Form DEF 14A
March 16, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant    Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

Preliminary Proxy Statement
Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Under Rule 14a-12

**Lockheed Martin Corporation**

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
1) Title of each class of securities to which transaction applies:
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1) Amount previously paid:
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## 2018 PROXY STATEMENT

March 16, 2018

### Dear Fellow Stockholders:

You are cordially invited to attend Lockheed Martin's 2018 Annual Meeting of Stockholders on Thursday, April 26, at 8:00 a.m. EDT.

**Continued to Deliver Strong Financial Results**
2017 was another outstanding year of achievement at Lockheed Martin. Our stockholders saw a total return of 32 percent – contributing to an impressive 307 percent total return over the past five years. We continued our efforts to return cash to stockholders through dividends and ongoing share repurchases – returning over $4 billion to stockholders throughout the year.

**Enhanced Corporate Governance and Refreshed Board Membership**
We stayed engaged with stockholders and other key stakeholders during 2017. In response to their valuable feedback, the Board proactively changed the corporation's governance practices to give stockholders the right to amend the bylaws.

Over the past four years, we have added five new independent directors, including Jeh C. Johnson and James D. Taiclet, Jr. who joined the Board on January 1 of this year. We will continue to recruit directors who offer diverse perspectives, strong business and professional experience, and unique skills to the Board. We are grateful to James M. Loy who will retire from the Board upon the expiration of his term at the 2018 Annual Meeting. Jim made many contributions to the Board during his tenure.

**Committed to Innovation and Long-Term Growth**
Throughout the year, the Board is actively engaged in developing corporate strategy and participating in our long-range planning. The corporation made $1.2 billion of capital expenditures in 2017. We plan to increase capital expenditures in 2018 and invest more in research and development to create new technologies that will help drive long-term growth. We are committed to meeting our customers' needs, pursuing opportunities to grow our business and returning value to stockholders. We also remain focused on ensuring that our strategy for future success is reflected in our executive pay programs through a mix of short- and long-term incentives that align with the corporation's long-range plan. At the same time, we are steadfast in maintaining our longstanding commitment to corporate citizenship and sustainability.

**Your Vote Matters**
We urge you to read the proxy statement and cast your vote promptly in accordance with the Board of Directors' recommendations – even if you plan to attend the Annual Meeting.

Sincerely,

**Marillyn A. Hewson**
Chairman, President and Chief Executive Officer

Lockheed Martin Center for
Leadership Excellence Auditorium
6777 Rockledge Drive
Bethesda, MD 20817

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## Agenda:

- Election of 11 directors
- Ratification of the appointment of Ernst & Young LLP, as our independent auditors for 2018
- Management Proposal to approve the Lockheed Martin Corporation Amended and Restated Directors Equity Plan
- Advisory vote to approve the compensation of our named executive officers (Say-on-Pay)
- Consideration of a stockholder proposal, if properly presented
- Consideration of any other matters that may properly come before the meeting

We have enclosed our 2017 Annual Report to Stockholders. The report is not part of the proxy soliciting materials for the Annual Meeting.

Please vote at your earliest convenience to ensure the presence of a quorum at the meeting. Promptly voting your shares in accordance with the instructions you receive will save the expense of additional solicitation. Submitting your proxy now will not prevent you from voting your shares at the meeting, as your proxy is revocable at your discretion.

Sincerely,

Maryanne R. Lavan
*Senior Vice President, General Counsel*
*and Corporate Secretary*
March 16, 2018

## When:

Thursday, April 26, 2018, 8:00 a.m. EDT

## Where:

Lockheed Martin Center for Leadership Excellence
Auditorium, 6777 Rockledge Drive, Bethesda, MD 20817

## Who Can Vote:

You can vote if you were a stockholder of record on February 23, 2018. To obtain an admission ticket to attend the meeting, follow the advance registration instructions on page 79 of the Proxy Statement.

## Security:

Valid, government-issued photo identification is required. All hand-carried items are subject to inspection and must be screened at the door. Cameras, cell phones, electronic devices, bags and briefcases will not be permitted in the meeting.

You can vote in the following ways:

**Via the Internet:**
*www.investorvote.com*

**By Telephone:**
In the United States, Canada and Puerto Rico, call 1-800-652-8683; outside the United States call 1-781-575-2300.

**By Mail:**
Mark, date and sign your proxy card or voting instruction form and return it in the accompanying postage prepaid envelope.

**In Person:** Attend the meeting to vote in person.

Important Notice Regarding the Availability of Proxy Materials for the 2018 Annual Meeting: The 2018 Proxy Statement and 2017 Annual Report are available at *www.lockheedmartin.com/investor.*

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## PROXY STATEMENT

The Board of Directors (the Board) of Lockheed Martin Corporation (the Corporation) located at 6801 Rockledge Drive, Bethesda, Maryland, 20817, is providing the Notice of 2018 Annual Meeting of Stockholders, this Proxy Statement and the proxy card (Proxy Materials) in connection with the Corporation's solicitation of proxies for the 2018 Annual Meeting of Stockholders (the AnnualMeeting) to be held on April 26, 2018, at 8:00 a.m. EDT, at the Lockheed Martin Center for Leadership Excellence Auditorium, 6777 Rockledge Drive, Bethesda, Maryland 20817, and at any adjournment or postponement thereof. The Proxy Materials or a Notice of Internet Availability were first sent to stockholders on or about March 16, 2018.

## PROXY SUMMARY

This proxy summary highlights information contained elsewhere in our Proxy Statement. The summary does not contain all the information that you should consider, and we encourage you to read the entire Proxy Statement carefully.

### Voting Matters and Board Recommendations

**Proposal** 1

**Election of 11 Director-Nominees**

**The Board recommends a vote FOR each of the director-nominees.**

Diverse slate of directors with broad leadership and customer experience.

All nominees are independent, except the Chairman.

Average director tenure is seven years with five new directors in four years.

See pages 18-23 for further information.

**Proposal** 2

**Ratification of Ernst & Young LLP as the Independent Auditors for 2018**

**The Board recommends a vote FOR ratification of Ernst & Young LLP for 2018.**

Independent accounting firm with the breadth of knowledge, support and expertise of its national office and access to that expertise.

Significant industry and government contracting expertise.

Periodic mandated rotation of the audit firm's lead engagement partner.

See pages 24-26 for further information.

**Proposal** 3

**Approval of Lockheed Martin Corporation Amended and Restated Directors Equity Plan**

**The Board recommends a vote FOR the approval of the Amended and Restated Plan.**

Director pay reviewed and benchmarked against our peers with the assistance of an independent consultant.

Separate plan for directors with low burn rate (fewer than 200,000 shares used in ten years).

The equity component of director pay aligns the Board with stockholder interests.

See pages 27-30 for further information.

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**Proxy Summary**

**Proposal 4**

## Advisory Vote on the Compensation of the Named Executive Officers (Say-on-Pay)

**The Board recommends a vote FOR our Say-on-Pay proposal.**

Independent oversight by Management Development and Compensation Committee with the assistance of an independent consultant.

Executive compensation targets are set by reference to 50th percentile of peers with actual payouts dependent on performance.

More than 94% of votes cast at the 2017 annual meeting approved Say-on-Pay.

See page 30 for further information.

**Proposal 5**

## Stockholder Proposal to Adopt Stockholder Action by Written Consent

**The Board recommends a vote AGAINST proposal 5.**

Stockholders have the right to call a special meeting at any time.

Written consent circumvents the deliberative process and lacks procedural safeguards.

Existing corporate governance policies and practices provide stockholders with multiple means to express their views (for example, proxy access).

See pages 69-71 for further information.

## Corporate Governance Highlights

***Accountability to Stockholders***

- Annual election of directors
- Majority voting for directors with resignation policy
- Proxy access
- Stockholder right to call special meeting
- No poison pill and commitment to seek stockholder vote within one year if poison pill adopted

***Effective Board Structure***

- Refreshment ongoing – five new directors in four years
- Board composition balances government/customer/ industry experience with public company experience
- NYSE-mandated committees (governance, compensation, audit) comprised of independent directors
- Overboarding policy
- Annual board self-assessment

***Responsiveness to Stockholders***

- Effective, year-round engagement with stockholders
- Bylaws changed to allow amendment by stockholders
- Annual Say-on-Pay advisory vote
- Policy prohibiting hedging and pledging of company stock by directors, officers and employees

***Strong, Independent Board Leadership***

- Independent Lead Director with defined duties
- All directors are independent except the Chairman

***Incentive Compensation Structures Align With Strategy***

- Short-term and long-term incentive targets derived from long-range plan

***Voting Rights are Proportional to Economic Interests***

- One class of stock
- One share, one vote

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**Proxy Summary**

## Board Composition, Skills and Qualifications *(11 Director-Nominees)*

**Board Independence**

*Independent Lead Director*

**Board Refreshment**

*Five New Directors Since 2014*

**Age Mix**

*Mandatory Retirement at Age 75*

**CEO Leadership Experience**

8 **Directors** are current or former CEOs who add to the effectiveness of the Board through leadership experience in large, complex organizations and expertise in corporate governance, strategic planning and risk management.

**Global Experience**

7 **Directors** have board leadership experience with multinational companies or in international markets.

**Financial Experts**

5 **Directors** meet the Securities and Exchange Commission's criteria as "audit committee financial experts."

**Government Experience**

4 **Directors** have served in senior government or military positions and provide industry experience and insight into our core customers and governments around the world.

**Veterans of the U.S. Armed Forces**

6 **Directors** are military veterans.

## Board's Responsiveness to Stockholder Feedback

Your vote is important to us. At the 2017 annual meeting, members of the Nominating and Corporate Governance Committee(Governance Committee) received an average of 82 percent of the votes cast, which was lower than the Corporation's other directors and our historical voting results. We attributed this to the restrictions in the Corporation's Bylaws (Bylaws) on the ability of the Corporation's stockholders to amend the Bylaws. Taking this into account and following a dialogue with many of our largest stockholders during 2017 and a deliberative review of the issue, the Board proactively changed the Bylaws in December 2017 to give the Corporation's stockholders the right to amend the Bylaws. See "Stockholder Right to Amend Bylaws" on page 10. We believe that this complements our existing suite of stockholder rights and further strengthens our governance standards. The Bylaws, as amended, are available on the Corporation's website at *www.lockheedmartin.com/corporate-governance.*

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**Proxy Summary**

## Executive Compensation Highlights

### 2017 Pay and Performance

A substantial portion of compensation paid to our named executive officers (NEOs) is performance-based. We use the 50th percentile of our comparator group to set target compensation but allow for payments to exceed or fall below the target level based upon actual performance. In light of our strong short- and long-term performance, our 2017 annual and 2015-2017 long-term incentive plans paid out above the targets. This outcome is consistent with our pay-for-performance philosophy to set pay and targets at market levels, but pay incentive compensation to reflect actual performance.

**1-YEAR TOTAL STOCKHOLDER RETURN OUTPERFORMED MOST MAJOR INDICES**

**3-YEAR TOTAL STOCKHOLDER RETURN OUTPERFORMED MAJOR INDICES**

**2017 ANNUAL INCENTIVE PROGRAM PAYOUT = 171% OF TARGET***

**2015-2017 LONG-TERM INCENTIVE PERFORMANCE AWARD PAYOUT = 144.9% OF TARGET***

### Best Practices in Our Programs

- Pay aligns with performance
- Market-based (50th percentile) approach for determining NEO target pay levels
- Caps on annual and long-term incentives, including when TSR is negative
- Clawback policy on variable pay
- Double-trigger provisions for change in control
- Robust stock ownership requirements
- Low burn rate
- Incentive payouts deteriorate more rapidly between minimum and target as compared to target and maximum

### Practices We Do Not Engage In or Allow

- No employment agreements
- No option backdating, cash out of underwater options or repricing
- No excise tax assistance upon a change in control
- No individual change in control agreements
- No automatic acceleration of unvested incentive awards in the event of termination
- No enhanced retirement formula or inclusion of LTI in pensions
- No enhanced death benefits for executives

* See non-GAAP terms in Appendix B for an explanation of "Segment Operating Profit," "Return on Invested Capital (ROIC)," and "Performance Cash" and our forward-looking statements concerning future performance or goals for future performance.

** For the three-year performance period ended December 31, 2017, actual ROIC was 17.1% compared to our pre-established target of 17.7% and generated a 0.0% payout factor which, pursuant to the award agreement formula, was negatively impacted by the debt issuance associated with our acquisition of Sikorsky Aircraft Corporation.

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## CORPORATE GOVERNANCE

Lockheed Martin believes good governance is integral to achieving long-term stockholder value. The Board's primary role is to oversee management and represent the interests of stockholders. Directors are expected to attend Board meetings, the meetings of the committees on which they serve and the annual meeting of stockholders. The Board and its committees regularly schedule and hold executive sessions without any members of management present. Between meetings, directors interact with the Chairman, President and Chief Executive Officer (CEO), the Lead Director and other members of management and are available to provide advice and counsel to management.

### Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines (Governance Guidelines) that describe the framework within which the Board and its committees oversee the governance of the Corporation. The current Governance Guidelines are available on the Corporation's website at *www.lockheedmartin.com/corporate-governance*.

The Governance Committee regularly assesses our governance practices considering emerging trends and practices and implements best governance practices that it believes enhance the operation and effectiveness of the Board.

Our Governance Guidelines cover a wide range of subjects, including:

- the role of the Board and director responsibilities;
- the role and responsibilities of the Lead Director;
- application of our Code of Ethics and Business Conduct (the Code of Conduct) to the Board;
- director nomination procedures and qualifications;
- director independence standards;
- director overboarding;
- policies for the review, approval and ratification of related person transactions;
- director orientation and continuing education;
- review by the Governance Committee of any change in job responsibilities of an incumbent director;
- procedures for annual performance evaluations of the Board and its committees;
- director stock ownership guidelines (currently, an amount equal to five times the cash portion of the annual retainer);
- a clawback policy for executive incentive compensation;
- a policy prohibiting hedging and pledging of company stock; and
- majority voting for the election of directors and resignation procedures for directors who fail to receive a majority vote.

### Board Role in Strategic Planning

The Board is involved in strategic planning and review throughout the year. In 2017, the Board met in a session dedicated to a discussion of the Corporation's strategy and one-year and three-year long-range plans. In addition, the Board convened a second session to review the Corporation's technology strategy. The completed long-range plan was then reviewed with the Board in the first quarter of 2018. During 2017, the Chairman, President and CEO regularly reviewed developments against the Corporation's strategic framework at Board meetings. This schedule corresponds to management's annual schedule for developing the long-range plan and provides the Board with the opportunity to provide input while the long-range plan is being developed and to monitor progress on the plan.

In addition:

- the Strategic Affairs Committee of the Board reviews the progress and challenges to the Corporation's strategy and approves specific initiatives, including acquisitions and divestitures over a certain monetary threshold;

- the Board (or the appropriate committee) reviews trends identified as significant risks and topical items of strategic interest such as human capital strategy and cybersecurity on a regular basis;

- at least annually, the Board meets at a Corporation facility where directors can tour the operations and engage directly with employees; and

- each business segment executive vice president presents an operations review to the Board and each business segment financial officer presents a financial review to the Audit Committee on a rotating basis.

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## Independent Lead Director

In accordance with our Bylaws and Governance Guidelines, the independent members of the Board annually elect one of the independent directors to serve as the Lead Director by the affirmative vote of a majority of the directors who have been determined to be "independent" for purposes of the New York Stock Exchange (NYSE) listing standards. The Board has structured the role of the Lead Director with sufficient authority to serve as a counter-balance to management. The responsibilities specified in our Bylaws for the Lead Director are to:

- preside as chair at Board meetings while in executive sessions of the non-management members of the Board or executive sessions of the independent directors or if the Chairman is not present;
- determine the frequency and timing of executive sessions of non-management directors and report to the Chairman on all relevant matters arising from those sessions;
- consult with the Chairman and committee chairs regarding the topics for and schedules of the meetings of the Board and committees and approve the topics for and schedules of Board meetings;
- review and approve all Board and committee agendas and provide input to management on the scope and quality of information sent to the Board;
- assist with recruitment of director candidates and, along with the Chairman, extend invitations to potential directors to join the Board;
- act as liaison between the Board and management and among the directors and the committees of the Board;
- serve as a member of the Executive Committee of the Board;
- serve as an ex-officio member of each committee if not otherwise a member of the committee;
- serve as the point of contact for stockholders and others to communicate with the Board;
- recommend to the Board and committees the retention of advisors and consultants who report directly to the Board;
- call a special meeting of the Board or of the independent directors at any time, at any place and for any purpose; and
- perform all other duties as may be assigned by the Board from time to time.

The committee chairs also review and discuss the agendas for the meetings in advance of distribution of the agendas and related Board or committee material.

Nolan D. Archibald has served as Lead Director since 2015. Stockholders and other interested parties may communicate with the Lead Director by email at *Lead.Director@lmco.com*.

## Positions of Chairman and CEO

The Board believes that it must be independent and must provide strong and effective oversight. The Board also believes that the independent Board members should have the flexibility to respond to changing circumstances and choose the model that best fits the current situation. As a result, the roles of Chairman and CEO have been split from time to time to facilitate leadership transitions, while at other times the roles have been combined. The Board believes that, at the present time, the Corporation is best served by allocating governance responsibilities between a combined Chairman and CEO and an independent Lead Director with robust responsibilities. This structure allows the Corporation to present a single face to our customers through the combined Chairman and CEO position while at the same time providing an active role and voice for the independent directors through the Lead Director.

The independent directors will continue to review the leadership structure on an ongoing basis to effectively oversee risk management and ensure that it continues to meet the needs of the Corporation and support the generation of stockholder value over the long-term.

## Board Effectiveness, Evaluations and Refreshment

Board composition is one of the most critical areas of focus for the Board. Having the right mix of people who bring diverse perspectives, business and professional experiences and skills, provides a foundation for robust dialogue, informed advice and collaboration in the boardroom. We consider current Board skills, composition, tenure and anticipated retirements to identify gaps that may need to be filled through the Board refreshment process. The Board strives to ensure an environment that encourages diverse critical thinking and values innovative, strategic discussions to achieve a higher level of success for the Corporation.

The Governance Committee screens and recommends candidates for nomination by the full Board. The Governance Committee uses a variety of methods to help identify potential board candidates with the desired skills and background needed for the Corporation's business, including informal networks, third party search firms and other channels. Since the 2017 annual meeting, the Board has elected Jeh C. Johnson and James D. Taiclet, Jr. to the Board (see director biographies beginning on page 20). Mr. Johnson and Mr. Taiclet were identified by the Chairman and the Governance Committee based on informal networking and were interviewed by the Governance Committee and other Board members. The Governance Committee was focused on identifying directors with public company experience, government (including high-level security clearance) and global expertise and diverse perspectives given the anticipated retirement of Mr. Loy at the Annual Meeting and resignations of Rosalind Brewer and Anne Stevens in October 2017 and November 2017, respectively.

## Board Refreshment Elements

The Board seeks a diverse group of candidates who, at a minimum, possess the background, skills, expertise and time to make a significant contribution to the Board, the Corporation and its stockholders. The Governance Guidelines list criteria against which candidates may be judged. In addition, the Governance Committee considers, among other things:

- input from the Board's self-assessment process to prioritize areas of expertise that were identified;
- investor feedback and perceptions;
- the candidates' skills and competencies to ensure they are aligned to the Corporation's future strategic challenges and opportunities;
- the needs of the Board in light of recent and anticipated Board vacancies; and
- a balance between public company and government customer-related experience.

During the process of identifying and selecting director nominees, the Governance Committee screens and recommends candidates for nomination by the full Board. The Bylaws provide that the size of the Board may range from 10 to 14 members.

**Governance Committee Review of Board Candidates**

Director candidates also may be identified by stockholders and will be evaluated under the same criteria applied to other director nominees and considered by the Governance Committee. Information on the process and requirements for stockholder nominees may be found in Sections 1.10 and 1.11 of our Bylaws on the Corporation's website at *www.lockheedmartin.com/corporate-governance*.

**Board Committee Assignments**

In February of each year, the Governance Committee reviews the membership, tenure, leadership and commitments of each of the committees and considers possible changes given the qualifications and skill sets of members on the Board or a desire for committee rotation or refreshment. The Governance Committee also takes into consideration the membership requirements and responsibilities set forth in each of the respective committee charters and the Governance Guidelines as well as any upcoming vacancies on the Board due to our mandatory retirement age. The Governance Committee recommends to the Board any proposed changes to committee assignments and leadership to be made effective at the next annual meeting of stockholders. The Governance Committee also reviews the operation of the Board generally and based upon its recommendation, the Board approved the consolidation of the Nominating and Corporate Governance Committee and the Ethics and Sustainability Committee effective immediately following the Annual Meeting.

**Refreshment**

The Board has added five new directors in the past four years. Mr. Loy will retire at the Annual Meeting and Messrs. Archibald and Ralston will retire in April 2019, providing further opportunity for refreshment. At the same time, obtaining a detailed understanding of the Corporation's business takes time. We believe that implementing term limitations may prevent the Board from taking advantage of insight that longer tenure brings.

**Annual Performance Assessment**

The Board conducts a self-assessment of its performance and effectiveness as well as that of its committees on an annual basis. The self-assessment helps the Governance Committee to track progress in certain areas targeted for improvement from year-to-year and to identify ways to enhance the Board's and its committees' effectiveness. For 2017, each director completed a written questionnaire. The questions were open-ended to solicit candid feedback. The collective ratings and comments are compiled and summarized and then discussed by the Governance Committee and the full Board.

**Onboarding and Continuing Education**

New directors are provided with an orientation about the Corporation, including our business operations, strategy and governance. Directors are encouraged to attend outside director continuing education programs sponsored by educational and other institutions to assist them in staying abreast of developments in corporate governance and critical issues relating to the operation of public company boards. Members of our senior management regularly review with the Board the operating plan of each of our business segments and the Corporation as a whole. The Board also conducts periodic visits to our facilities as part of its regularly scheduled Board meetings.

## Our Tenure Guidelines

| | |
|---|---|
| **Mandatory Retirement Age** | Directors must retire at the annual meeting following his or her 75th birthday. |
| **Employment Change** | Directors should expect to resign upon any significant change in principal employment or responsibilities. |
| **Failed Election** | Directors must offer to resign as a result of a failed stockholder vote. |

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## Director Overboarding Policy

The Board recognizes that its members benefit from service on the boards of other companies and it encourages such service. The Board also believes, however, that it is critical that directors dedicate sufficient time to their service on the Corporation's Board. Therefore, the Governance Guidelines provide that, without obtaining the approval of the Governance Committee:

- A director may not serve on the boards of more than four other public companies.
- If the director is an active chief executive officer or equivalent of another public company, the director may not serve on the boards of more than two other public companies. For this purpose, the Board considers public company board positions required for disclosure by the U.S. rules on proxy statements. We use this definition because it is consistent with the Securities and Exchange Commission (SEC) requirement for disclosure of board service. For companies organized outside of the U.S., the Board considers the time commitment of the particular board and other relevant factors to determine if these should be taken into account in an overboarding assessment.
- No member of the Audit Committee may serve on more than two other public company audit committees.
- No member of the Management Development and Compensation Committee (Compensation Committee) may serve on more than three other public company compensation committees.

Directors must notify the CEO, Lead Director and Senior Vice President, General Counsel and Corporate Secretary before accepting an invitation to serve on the board of any other public company. The Governance Committee reviews and determines whether the position would affect the director's ability to serve on the Corporation's Board.

## Majority Voting Policy for Director Elections

The Corporation's Charter and Bylaws provide for simple majority voting. Pursuant to the Governance Guidelines, in any uncontested election of directors, any incumbent director who receives more votes "AGAINST" than votes "FOR" is required to offer his or her resignation for Board consideration.

Upon receipt of a resignation of a director tendered as a result of a failed stockholder vote, the Governance Committee will make a recommendation to the Board as to whether to accept or reject the resignation, or whether other action is recommended. In considering the tendered resignation, the Board will consider the Governance Committee's recommendation as well as any other factors it deems relevant, which may include:

- the qualifications of the director whose resignation has been tendered;
- the director's past and expected future contributions to the Corporation;
- the overall composition of the Board and its committees;
- whether accepting the tendered resignation would cause the Corporation to fail to meet any applicable rule or regulation (including NYSE listing standards and the federal securities laws); and
- the percentage of outstanding shares represented by the votes cast at the annual meeting.

The Board will act on a tendered resignation within 90 days following certification of the stockholder vote for the annual meeting and will promptly disclose its decision and rationale as to whether to accept the resignation (or the reasons for rejecting the resignation, if applicable) in a press release, in a filing with the SEC, or by other public announcement, including a posting on the Corporation's website.

If a director's resignation is accepted by the Board, or if a nominee for director who is not an incumbent director is not elected, the Board may fill the resulting vacancy or may decrease the size of the Board pursuant to the Corporation's Bylaws. The Board may not fill any vacancy so created with a director who was nominated but not elected at the annual meeting by the vote required under the Corporation's Bylaws.

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## Management Succession Planning

Management has established semi-annual talent reviews that coincide with our business operating reviews, as well as quarterly reviews within each of our business segments. During these reviews, the executive leadership team discusses succession plans for key positions, and identifies top talent for development in future leadership roles. In addition to long-term succession planning, we have a contingency plan if the CEO were to depart unexpectedly.

The Board also is actively engaged in talent management. Annually, the Board meets to review our succession strategy and leadership pipeline for key roles, including the CEO, taking into account the Corporation's long-term corporate strategy. Morebroadly, the Board is regularly updated on key talent indicators for the overall workforce, including diversity, recruiting and development programs and is updated on the Corporation's human capital strategy. Board members also are active partners, engaging and spending time with our high potential leaders throughout the year at Board meetings and other events.

The Corporation has a corporate policy imposing a mandatory retirement age of 65 for all executive officers other than the CEO. The CEO's tenure is at the discretion of the Board and in exercising that discretion, the Board is free to consider all relevant factors and not limited to age as a single determining factor.

## Board Role in Enterprise Risk Management

Our risk management philosophy is to balance risk and reward within management and the Board's risk tolerance. This is accomplished through risk management practices, core values and our Code of Conduct, each of which reinforces a risk transparent culture. The Board and its committees receive risk updates throughout the year. Executive management provides updates on risks managed at the Enterprise level. Business segment management provides updates on risks to individual business segment objectives.

The Board considers strategic, operational, financial, reputational and compliance risks. Each year management develops an "Enterprise heat map" that is intended to identify the Corporation's most significant Enterprise level risks. The list of risks is communicated to senior leaders throughout the Corporation and mitigation plans are assigned to subject matter experts. The Audit Committee is briefed on the risk identification process, the risks identified and on changes in the risk profile from year to year. Oversight of risk drivers and mitigation is assigned to the full Board unless delegated to one of the committees.

### Risk Governance

| Board Committee | Risk Mitigation Purview |
|---|---|
| **Audit** | Financial and compliance risks and risk identification process |
| **Classified Business and Security** | Classified programs and security of personnel, facilities and data related risks including cybersecurity |
| **Ethics and Sustainability** | Employee safety and health and ethical conduct and culture risks; environmental risks |
| **Compensation** | Talent, workforce and incentive compensation risks |
| **Strategic Affairs** | Risks related to business strategy and identified Enterprise risks |
| **Governance** | Board composition and corporate governance function and process risks |

Some risks are pertinent to Board and committee oversight or multiple committees. For example, cybersecurity is reviewed by the Board as well as by the Classified Business and Security Committee (CBS Committee). Similarly, risk assessment is included in the Board's review of the Corporation's overall strategy with risks associated with specific activities such as acquisitions reviewed by the committee with oversight responsibility for the activity.

Management employs three levels of controls in providing risk assurance to the Board. Line management implements day-to-day procedures and controls. Functional and corporate management establishes policies, procedures and controls framework and conducts reviews and oversight. Internal Audit, together with external auditors, offers an additional independent level of risk-based assurance. In 2017, we aligned our Internal Audit, Enterprise Risk Management, Ethics and Corporate Sustainability organizations into a single business function thus fully coordinating the Corporation's Enterprise risk monitoring, assessment and mitigation practices. The Board and its committees receive reports on the mitigation plans for Enterprise risks identified as most significant by management.

## Effective Stockholder Engagement

Accountability to our stockholders is an important component of the Corporation's success. We recognize the value of building informed relationships with our investors that promote further transparency and accountability. More than 94 percent of the votes cast at our 2017 annual meeting approved our Say-on-Pay proposal. While proxy voting is one direct way to influence corporate behavior, proactive engagement with our investors can be effective and impactful. Investor views are communicated to the Board and are instrumental in the development of our governance, compensation and sustainability policies and informs our business strategy.

During 2017, we had 27 engagements by telephone conference and/ or written correspondence with our largest institutional investors and other significant stockholders. We engaged with investors about an array of governance topics, including stockholders' right to amend the Corporation's Bylaws and Board composition. Many investors considered the right to amend our Bylaws to be a fundamental right. In response, we made that right available through an amendment to the Bylaws. The Board will continue to seek investor input on its governance practices in furtherance of enhancing long-term stockholder value.

## Investor Engagement Cycle

### Stockholder Right to Amend Bylaws

Following a dialogue with many of our largest investors and a deliberative review of the issue during the past year, the Board proactively changed the Bylaws in December 2017 to give the Corporation's stockholders the right to amend the Bylaws. Theauthority of the stockholders and the Board to amend the Bylaws is subject to the provisions of the Corporation's charter and applicable statutes. (Our Bylaws can be found on the Corporation's website at*www.lockheedmartin.com/corporate-governance*.)

### Proxy Access

Our Bylaws permit a stockholder or a group of up to 20 stockholders who together have owned at least three percent of the Corporation's outstanding common stock continuously for three years to nominate for election by the Corporation's stockholders andinclude in the Corporation's proxy solicitation materials for its annual meeting up to the greater of two directors or 20 percent of the number of directors in office at the time of the proxy access deadline described on page 77.

### Stockholder Right to Call Special Meeting

Any stockholder who individually owns 10 percent, or stockholders who in the aggregate own 25 percent, of the outstanding common stock may demand the calling of a special meeting to consider any business properly brought before the stockholders. Our Bylaws do not restrict the timing of a request for a special meeting. The only subject matter restriction is that we are not required to call a special meeting to consider a matter that is substantially the same as a matter voted on at a special meeting within the preceding 12 months unless requested by a majority of all stockholders. The Board believes that our current governance practice strikes an appropriate balance between the right of stockholders to call a special meeting and the interests of the Corporation and its stockholders in promoting the appropriate use of company resources.

## No Poison Pill

The Corporation does not have a Stockholder Rights Plan, otherwise known as a "Poison Pill." Through our Governance Guidelines, the Board has communicated that it has no intention of adopting one at this time. The Board has indicated that, if it were to adopt a Stockholder Rights Plan, the Board would seek stockholder ratification within 12 months of the date of adoption.

## Director Independence

All of our directors are independent under applicable NYSE listing standards, except Ms. Hewson. Under the NYSE listing standards and our Governance Guidelines, a director is not independent if the director has a direct or indirect material relationship with the Corporation. The Governance Committee annually reviews the independence of all directors and reports its findings to the full Board. To assist in this review, the Board has adopted director independence guidelines that are included in our Governance Guidelines, which are available on the Corporation's website at *www.lockheedmartin.com/corporate-governance*.

Our director independence guidelines set forth certain relationships between the Corporation and directors and their immediate family members or affiliated entities, which the Board, in its judgment, has deemed to be material or immaterial for purposes of assessing a director's independence. In the event a director has a relationship with the Corporation that is not addressed in the independence guidelines, the independent members of the Board determine whether the relationship is material.

The Board has determined that the following directors are independent: Daniel F. Akerson, Nolan D. Archibald, David B. Burritt, Bruce A. Carlson, James O. Ellis, Jr., Thomas J. Falk, Ilene S. Gordon, Jeh C. Johnson, James M. Loy, Joseph W. Ralston and James D. Taiclet, Jr. The Board determined that Rosalind G. Brewer and Anne Stevens, who resigned in October 2017 and November 2017, respectively, were independent while each served on the Board. Marillyn A. Hewson is an employee of the Corporation and is not independent under the NYSE listing standards or our Governance Guidelines. In determining that each of the non-management directors is independent, the Board considered the relationships described under "Certain Relationships and Related Person Transactions of Directors, Executive Officers and 5 Percent Stockholders," on page 12, which it determined were immaterial to each individual's independence.

The Governance Committee and Board considered that the Corporation in the ordinary course of business purchases products and services from, or sells products and services to, companies or subsidiaries or parents of companies at which some of our directors (or their immediate family members) are or have been directors or officers and to other institutions with which some of these individuals have or have had relationships. These relationships included: Mr.Akerson (The Carlyle Group and Northrop Grumman Corporation (family member's employer)); Mr. Carlson (Benchmark Electronics Inc., National Science Foundation and Utah State University Research Foundation); Mr. Ellis (Level 3 Communications, Inc., Dominion Energy Inc., Draper Corporation, Stanford University and Blue Origin, LLC (family member's employer)); Mr. Falk (University of Wisconsin Foundation); Ms. Gordon (International Paper Company and The MIT Corporation); Mr. Johnson (PG&E Corporation); Mr. Loy (The Cohen Group and PAE); Mr. Ralston (The Cohen Group and The Timken Company); and Ms. Stevens (XL Group Ltd and GKN plc). In determining that these relationships did not affect the independence of those directors, the Board considered that none of the directors had any direct or indirect material interest in, or received any special compensation in connection with, the Corporation's business relationships with those entities. In addition to their consideration of these ordinary course of business transactions, the Governance Committee and the Board relied upon the director independence guidelines included in our Governance Guidelines to conclude that contributions to a tax-exempt organization by the Corporation did not create any direct or indirect material interest for the purpose of assessing director independence.

The Governance Committee also concluded that all members of each of the Audit Committee, the Compensation Committee and the Governance Committee are independent within the meaning of our Governance Guidelines and NYSE listing standards, including the additional independence requirements applicable to members of the Audit Committee, Compensation Committee and Governance Committee.

## Related Person Transaction Policy

The Board has approved a written policy and procedures for the review, approval and ratification of transactions among the Corporation and its directors, executive officers and their related interests. A copy of the policy is available on the Corporation's website at *www.lockheedmartin.com/corporate-governance*. Under the policy, all related person transactions (as defined in the policy) are to be reviewed by the Governance Committee. The Governance Committee may approve or ratify related person transactions at its discretion if deemed fair and reasonable to the Corporation. This may include situations where the Corporation provides products or services to related persons on an arm's length basis on terms comparable to those provided to unrelated third parties. Any director who participates in or is the subject of an existing or potential related person transaction may not participate in the decision-making process of the Governance Committee with respect to that transaction.

Under the policy, and consistent with applicable SEC regulations and NYSE listing standards, a related person transaction is any transaction in which the Corporation was, is or will be a participant, where the amount involved exceeds $120,000, and in which a related person had, has, or will have a direct or indirect material interest. A related person includes any director or director-nominee, any executive officer of the Corporation, any person who is known to be the beneficial owner of more than five percent of any class of the Corporation's voting securities, or an immediate family member of any person described above.

Our policy requires each director and executive officer to complete an annual questionnaire to identify his or her related interests and persons, and to notify the Corporation of changes in that information. Based on that information, the Corporation maintains a master list of related persons for purposes of tracking and reporting related person transactions.

Because it may not be possible or practical to pre-approve all related person transactions, the policy contemplates that the Governance Committee may ratify transactions after they commence or pre-approve categories of transactions or relationships. If the Governance Committee declines to approve or ratify a transaction, the related person transaction is referred to management to make a recommendation to the Governance Committee concerning whether the transaction should be terminated or amended in a manner that is acceptable to the Governance Committee.

## Certain Relationships and Related Person Transactions of Directors, Executive Officers and 5 Percent Stockholders

The following transactions or relationships are considered to be "related person" transactions under our corporate policy and applicable SEC regulations and NYSE listing standards.

Two of our directors, Mr. Loy and Mr. Ralston, are employed as Senior Counselor and Vice Chairman, respectively, of The Cohen Group, a consulting business that performs services for the Corporation. In 2017, we paid The Cohen Group $469,872 for consulting services and related expenses. Neither Mr. Loy nor Mr. Ralston's compensation earned at The Cohen Group is impacted by the consulting services delivered to the Corporation. The Board annually assesses and reviews the Corporation's relationship with The Cohen Group and has determined that the breadth of military experience coupled with Messrs. Loy and Ralston's high-level security clearances bring a unique value to the Board, particularly with respect to the oversight of our classified programs. Neither Mr. Loy nor Mr. Ralston serves on our Audit, Compensation or Governance Committees. Mr. Loy will retire from the Corporation's Board at the Annual Meeting.

We currently employ approximately 100,000 employees and have an active recruitment program for soliciting job applications from qualified candidates. We seek to hire the most qualified candidates and consequently do not preclude the employment of family members of current directors or executive officers. William J. Drennen, III, the brother-in-law of our chief accounting officer, is employed by the Corporation as a senior staff systems engineer. Mr. Drennen's 2017 base salary was $145,600 and hedid not receive any bonus or other incentive plan awards. His base salary was increased to $151,424 for 2018 and he may be eligible to earn an incentive award applicable to employees of his level. Mr. Drennen may participate in other employee benefit plans and arrangements that generally are made available to other employees at the same level (including health, welfare, vacation, and retirement plans). His compensation was established in accordance with the Corporation's employment and compensation practices applicable to employees with equivalent qualifications, experience, and responsibilities. Mr. Drennen did not serve as an executive officer of the Corporation during 2017.

From time to time, the Corporation has purchased services in the ordinary course of business from financial institutions that beneficially own five percent or more of our common stock. In 2017, the Corporation paid approximately $13,077,632 to State Street Corporation and its affiliates (including State Street Bank and Trust Company) (collectively, State Street) for investment management, custodial, benefit plan administration fees and credit facility fees; approximately $719,013 to BlackRock, Inc. and its affiliates for investment management fees; approximately $3,762,968 to Capital Guardian, an affiliate of Capital World Investors, for investment management fees; and approximately $338,542 to The Vanguard Group, Inc., for investment management fees. A portion of the fees included in the amounts paid to State Street, BlackRock, Inc. and Capital Guardian are estimated based on a percentage of net asset value under management.

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## ETHICS AND SUSTAINABILITY

### Governance Structure

In 2017, the Ethics and Sustainability Committee of the Board oversaw efforts in corporate responsibility, human rights, environmental stewardship, political contributions, employee safety and health, ethical business practices, community outreach, philanthropy, diversity and inclusion and equal opportunity, as well as the Corporation's record of compliance with related laws and regulations.

**Ethics and Sustainability Committee**

**Independent Directors** comprise this Board committee, which provides oversight for the Ethics and Sustainability Programs, approves the Code of Conduct and reviews Sustainability Management Plan performance, stakeholder engagement and environmental and social risks and initiatives.

**Independent Reporting**

The **Senior Vice President**, Internal Audit, Ethics and Sustainability, has a dual reporting relationship, both to the Chairman, President and CEO and independently to the Board of Directors.

**Sustainability**

**Cross-Functional Vice Presidents** and other leaders develop and review sustainability strategy and implementation monthly.

**Executive Leadership Team**

The **Chairman, President and CEO**, with her executive leadership team, reviews the operations of the Ethics and Sustainability Programs at least twice annually.

**Business Segment Steering Committees**

The **Executive Vice President** of each business segment chairs a steering committee that regularly reviews the Ethics Program within that business segment.

### Ethics Program

We strive to continually enhance our high standards and controls for ethical business conduct, compliance and transparency. Our values – Do What's Right, Respect Others and Perform with Excellence – underpin our comprehensive Code of Conduct and Supplier Code of Conduct. Our Code of Conduct (available on the Corporation's website at*www.lockheedmartin.com/us/who-we-are/ethics/code-of-conduct/index.html*) applies to all Lockheed Martin employees, Board members, consultants, contract laborers and other agents when they represent or act on behalf of the Corporation. It describes our expectations and policies on a number of topics, including our commitments to compliance with laws, protection of human rights, maintenance of accurate business records, transparency in our public disclosures, protection of sensitive information, promotion of a positive and safe work environment, zero tolerance for corruption and general avoidance of even the appearance of impropriety in all that we do. Our Code also emphasizes employees' responsibility to report any violation or suspected violation of the Code, a policy or a contract provision, and outlines the Corporation's non-retaliation policy. To implement this Code of Conduct, Board members, officers and employees participate annually in Ethics training. There were no waivers from any provisions of our Code of Conduct or amendments applicable to any Board member or executive officer in 2017.

In 2017, Lockheed Martin:

- released an updated Code of Conduct;
- introduced training on trafficking in persons to help our workforce understand the warning signs and their reporting obligations;
- continued to expand our Ethics Supplier Mentoring Program, reaching hundreds of suppliers through its live webinar series;
- established a new process for compliance risk assessment; and a new framework for monitoring corporate ethical culture through employee survey data against an external, global benchmark; and
- earned 11 awards for Ethics training and communication videos, including Ethics Awareness Training, Business Conduct Compliance Training and our Integrity Minute series.

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**Ethics and Sustainability**

## Sustainability Program

Our sustainability mission is to foster innovation, integrity and security to protect the environment, strengthen communities and propel responsible growth. Our sustainability strategy guides a systematic approach to understand and manage environmental, social and governance risks that represent stakeholder priorities and drivers of long-term business success.

In 2017, Lockheed Martin:

- published our sixth annual sustainability report (available at *www.lockheedmartin.com/sustainability*), which discloses performance indicators on our environmental, social, and governance commitments and adheres to the Global Reporting Initiative (GRI) G4 Core Guidelines;
- met 83 percent of our Sustainability Management Plan (SMP) targets for 2017 and initiated development of new goals to further continuous improvement in the priority issue areas of business integrity, product impact, employee wellbeing, resource efficiency and information security;
- reviewed with our executive leadership team the performance across all SMP goals and targets to help strengthen business opportunities and Enterprise risk management mechanisms, drive energy and natural resource efficiency, and maximize our investments of financial, human and natural capital;
- established a new corporate culture measurement for sustainability based on employee survey data; and
- deepened the integration of key outputs of Enterprise Risk Management and Corporate Sustainability programs, including issue and risk identification and tracking of key performance indicators.

Also in 2017, Lockheed Martin received notable recognition for outstanding sustainability efforts, including:

- RobecoSAM Yearbook: Lockheed Martin is the only U.S. aerospace and defense company to receive Gold Class distinction from RobecoSAM for excellence in sustainability performance;
- *CR Magazine*: Lockheed Martin placed 9$^{th}$ on *CR Magazine's* list of the 100 Best Corporate Citizens for sustainability performance, our rankings improved in corporate governance, human rights, philanthropy and finance;
- Environmental Leader Awards: Lockheed Martin’s Advanced Gasification Bioenergy System won Product of the Year; and
- earned an “A” rating from MSCI for environmental, social and governance management and performance.

## Supplier and Community Engagement

Lockheed Martin partnered with suppliers, the community and nongovernmental organizations (NGOs) to strengthen our communities and foster responsible growth. In 2017, Lockheed Martin:

- spent more than $310 million with more than 202 service-disabled, veteran-owned small businesses;
- spent more than $234 million with more than 125 HUB Zone businesses;
- spent more than $549 million with more than 852 veteran-owned small businesses;
- spent more than $874 million with more than 1,225 woman-owned small businesses;
- spent more than $705 million with 641 small, disadvantaged businesses;

contributed $25.9 million to 838 organizations, with a strategic focus on advancing STEM education and supporting military and veteran causes;

recorded employee donations totaling $11.7 million;

endorsed 431 Small Business Innovation Research and Small Business Technology Transfer program proposals and made 26 partnerships in the government fiscal year 2017; and

launched a Supplier Diversity Advocate Consortium, a one-year rotational program with the purpose of creating and leveraging small business advocates from across the Corporation adding focus onto influencing and increasing small business development and utilization.

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## COMMITTEES OF THE BOARD OF DIRECTORS

The Board has seven committees. The following table lists our Board committees, the chairs of each committee, the directors who served on them following the 2017 annual meeting and the number of committee meetings held in 2017. Charters for each committee are available on the Corporation's website at*www.lockheedmartin.com/corporate-governance.*

Mrs. Brewer and Ms. Stevens resigned in October 2017 and November 2017, respectively. Mr. Loy will retire at the Annual Meeting. Effective January 1, 2018, Mr. Johnson serves as a member of the CBS Committee and Ethics and Sustainability Committee and Mr. Taiclet serves as a member of the Governance Committee and Strategic Affairs Committee.

Following the Annual Meeting, the Ethics and Sustainability Committee and the Nominating and Corporate Governance Committee will be consolidated.

### 2017 Membership on Board Committees

| Director | Age | Audit | Classified Business and Security | Ethics and Sustainability | Executive | Management Development and Compensation | Nominating and Corporate Governance | Strategic Affairs |
|---|---|---|---|---|---|---|---|---|
| **Daniel F. Akerson** | 69 | | | | | | | |
| **Nolan D. Archibald** | 74 | | | | | | | |
| **Rosalind G. Brewer** | 55 | | | | | | | |
| **David B. Burritt** | 62 | | | | | | | |
| **Bruce A. Carlson** | 68 | | | | | | | |
| **James O. Ellis, Jr.** | 70 | | | | | | | |
| **Thomas J. Falk** | 59 | | | | | | | |
| **Ilene S. Gordon** | 64 | | | | | | | |
| **Marillyn A. Hewson** | 64 | | | | | | | |
| **James M. Loy** | 75 | | | | | | | |
| **Joseph W. Ralston** | 74 | | | | | | | |
| **Anne Stevens** | 69 | | | | | | | |
| Meetings held in 2017 | | 7 | 3 | 3 | 0 | 4 | 4 | 3 |

= Chair
= Member

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**Committees of the Board of Directors**

## Audit Committee

The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities relating to the financial condition of the Corporation, the integrity of the Corporation's financial statements and the Corporation's compliance with legal and regulatory requirements. In addition, the Audit Committee has oversight of the Corporation's internal audit organization, including Enterprise risk management processes. It is directly responsible for the appointment, compensation, retention, oversight and termination of the Corporation's independent auditors. The Audit Committee also is responsible for reviewing the allocation of resources, the Corporation's financial condition and capital structure and policies regarding derivatives and capital expenditures. The Audit Committee meets privately with the Senior Vice President, Internal Audit, Ethics and Sustainability, and the Corporation's independent auditors, Ernst & Young LLP. The functions of the Audit Committee are further described under the heading "Audit Committee Report" on page 26.

All the members of the Audit Committee are independent within the meaning of the NYSE listing standards, applicable SEC regulations and our Governance Guidelines.

The Board has determined that Mr. Falk, Chairman of the Audit Committee, Mr. Akerson, Mr. Burritt and Ms. Gordon are qualified audit committee financial experts within the meaning of applicable SEC regulations. All members of the Audit Committee have accounting and related financial management expertise sufficient to be considered financially literate within the meaning of the NYSE listing standards.

## Classified Business and Security Committee

The CBS Committee assists the Board in fulfilling its oversight responsibilities relating to the Corporation's classified business activities and the security of personnel, facilities and data (including classified cybersecurity matters). The CBS Committee consists of three or more directors who meet the independence requirements of the NYSE listing standards and who possess the appropriate security clearance credentials, at least one of whom must be a member of the Audit Committee, and none of whom are officers or employees of the Corporation and are free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a member of the CBS Committee. All members of the CBS Committee hold high-level security clearances.

## Ethics and Sustainability Committee

The purpose of the Ethics and Sustainability Committee is to assist the Board in fulfilling its oversight efforts in corporate responsibility, human rights, environmental stewardship, political contributions, ethical business practices, community outreach, philanthropy, diversity and inclusion and equal opportunity, sustainability, and employee safety and health. The Ethics and Sustainability Committee monitors compliance and recommends changes to our Code of Conduct. The Ethics and Sustainability Committee meets privately with the Senior Vice President, Internal Audit, Ethics and Sustainability and the Senior Vice President, General Counsel and Corporate Secretary.

## Executive Committee

The Executive Committee serves primarily as a means for taking action requiring Board approval between regularly scheduled meetings of the Board. The Executive Committee is authorized to act for the full Board on all matters other than those specifically reserved by Maryland law to the full Board. The Chairman of the Board chairs the Executive Committee.

**Committees of the Board of Directors**

## Management Development and Compensation Committee

The Compensation Committee reviews and approves the corporate goals and objectives relevant to the compensation of the CEO and other elected officers, evaluates the performance of the CEO and, either as a committee or together with the other independent members of the Board, determines and approves the compensation philosophy and levels for the CEO and other executive officers.

Additional information regarding the role of the Compensation Committee and our compensation practices and procedures is provided under the captions "Compensation Committee Report" on page 31, "Compensation Discussion and Analysis (CD&A)" beginning on page 31 and "Other Compensation Matters" on page 45.

All members of the Compensation Committee are independent within the meaning of the NYSE listing standards, applicable SEC regulations and our Governance Guidelines.

## Nominating and Corporate Governance Committee

The Governance Committee is responsible for developing and implementing policies and practices relating to corporate governance, including our Governance Guidelines. The Governance Committee assists the Board by selecting candidates to be nominated to the Board, making recommendations concerning the composition of Board committees and overseeing the evaluation of the Board and its committees.

The Governance Committee reviews and recommends to the Board the compensation of directors. Our executive officers do not play a role in determining director pay other than to gather publicly available information.

All members of the Governance Committee are independent within the meaning of the NYSE listing standards, applicable SEC regulations and our Governance Guidelines.

## Strategic Affairs Committee

The Strategic Affairs Committee reviews management's long-term strategy for the Corporation and reviews risks and opportunities to the strategy as identified by the Corporation's Enterprise Risk Management processes. The Strategic Affairs Committee reviews and recommends to the Board certain significant strategic decisions regarding exit from and entry into lines of business, material acquisitions, joint ventures, investments or dispositions of businesses and assets and the financing of related transactions.

## Committee Consolidation

Effective immediately following the Annual Meeting, the Nominating and Corporate Governance Committee and the Ethics and Sustainability Committee will be consolidated into one committee under the name Nominating and Corporate Governance Committee. The committee restructuring is aimed at making meetings more efficient, eliminating redundancies and providing more time for discussion. In making this decision, the Board considered survey data which showed that Lockheed Martin had three committees in addition to the three committees required by the NYSE listing standards whereas most public companies had at most one committee in addition to the three required committees. The consolidation of the committees will not result in any less coverage of items within the jurisdiction of either of the two committees. The Board will continue to review ways to improve the governance of the Board and consideration is being given to further committee consolidation or reorganization.

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## PROPOSAL 1: ELECTION OF DIRECTORS

There are 11 director-nominees for election to the Board at the Annual Meeting. Each director-nominee currently serves as a director and was recommended for nomination by the Governance Committee. The Governance Committee has determined that all the director-nominees, except for Ms. Hewson, Chairman, President and CEO, are independent under the listing standards of the NYSE and our Governance Guidelines. The Board ratified the slate of director-nominees and recommends that our stockholders vote for the election of all the individuals nominated by the Board.

The Board has fixed the number of directors at 11. Mr. Loy will retire from the Board at the Annual Meeting. The Governance Committee and the Board will continue to review and assess additional candidates for the Board. Any candidates identified after the Annual Meeting will be considered by the Board as candidates to serve until the 2019 annual meeting. All director-nominees are expected to attend the Annual Meeting.

All director-nominees who are elected will serve a one-year term that will end at the 2019 annual meeting. If any of the director-nominees are unable or unwilling to stand for election at the Annual Meeting (an event which is not anticipated), the Board may reduce its size or designate a substitute. If a substitute is designated, proxy holders may vote for the substitute nominee or refrain from voting for any other director-nominee at their discretion. Directors' ages are reported in this Proxy Statement as of the date of the Annual Meeting.

### Board Attendance

In 2017, the Board met a total of nine times. All directors on the Board during 2017 attended more than 75 percent of the total Board and committee meetings to which they were assigned and attended the 2017 annual meeting, except Ms. Stevens, who resigned in November 2017. Mr. Johnson and Mr. Taiclet joined the Board in January 2018.

### Board Composition, Qualifications and Diversity

We have no agreements obligating the Corporation to nominate a particular candidate as a director, and none of our directors represents a special interest or a particular stockholder or group of stockholders.

At Lockheed Martin, we recognize diversity and inclusion as a business imperative. We believe that our business accomplishments are a result of the efforts of our employees around the world, and that a diverse employee population will result in a better understanding of our customers' needs. Our success with a diverse workforce also informs our views about the value of a board of directors that has persons of diverse skills, experiences and backgrounds. To this end, the Board seeks to identify candidates with areas of knowledge or experience that will expand or complement the Board's existing expertise in overseeing a technologically advanced global security and aerospace company. Diversity in skills and backgrounds ensures that the widest range of options and viewpoints are expressed in the boardroom.

Consistent with the Governance Guidelines, the Board desires a diverse group of candidates who possess the background, skills, expertise and time to make a significant contribution to the Board, the Corporation and its stockholders. The Governance Committee makes recommendations to the Board concerning the composition of the Board and its committees, including size and qualifications for membership. The Governance Committee evaluates prospective nominees against the standards and qualifications set forth in the Corporation's Governance Guidelines, as well as other relevant factors it deems appropriate.

In 2017, two of our directors (Rosalind G. Brewer and Anne Stevens) resigned from our Board to take on full-time executive leadership responsibilities at other publicly-traded companies. We will continue our commitment to building a Board with diverse backgrounds and talents.

Listed below are the skills and experience that we have considered important for our directors to have in light of our current business and structure. The directors' biographies that follow note each director's relevant experience, skills and qualifications relative to this list.

**Interpersonal Skills and Diversity.** Directors with different backgrounds and skills help build diversity on the Board and maximize group dynamics in terms of function, experience, thought, gender, race and age.

**Public Company Board Experience.** Directors who have served or serve on other public company boards can offer advice and insights with regard to the dynamics and operation of a board of directors, the relationship between a board and the CEO and other management personnel, the importance of particular agenda items and oversight of a changing mix of strategic, operational and compliance matters.

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**Global Expertise.** Because we are a global organization with increasing revenue coming from sales outside the United States, directors with global expertise provide business and cultural perspectives regarding many significant aspects of our business.

**Financial Expertise.** Knowledge of accounting and financial reporting, financial markets, financing and funding operations and processes is important because it assists our directors in understanding, advising and overseeing the Corporation's capital structure, financing and investment activities, financial reporting and internal control of such activities.

**Government or Military Expertise.** Directors who have served in government or in senior military positions provide experience and insight into working constructively with our core customers and governments around the world and addressing significant public policy issues, particularly in areas related to the Corporation's business and operations. Directors with military, homeland security or intelligence experience and security clearance credentials bring unique skills to our CBS Committee.

**Senior Leadership Experience.** Directors who have served as CEOs and in other senior leadership positions bring experience and perspective in analyzing, shaping, and overseeing the execution of important operational and policy issues at a senior level. These directors' insights and guidance, and their ability to assess and respond to situations encountered in serving on our Board, may be enhanced if their leadership experience was developed at businesses or organizations that operated on a global scale or involved technology or other rapidly evolving business models.

**The Board unanimously recommends that you vote FOR each of the following Director-Nominees (Proposal 1).**

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## Director-Nominees

### Marillyn A. Hewson

*Chairman, President & CEO*

**Age** 64

**Director since** 2012

**Current Committees**

Executive

**Biography**

Chairman, President and Chief Executive Officer of Lockheed Martin since January 2014. Having served 35 years at Lockheed Martin in roles of increasing responsibility, Ms. Hewson held the positions of Chief Executive Officer and President from January 2013 to December 2013; President and Chief Operating Officer from November 2012 to December 2012; Executive Vice President – Electronic Systems from January 2010 to November 2012; President, Systems Integration – Owego from September 2008 to December 2009; and Executive Vice President – Global Sustainment for Aeronautics from February 2007 to August 2008. Ms. Hewson currently serves on the University of Alabama's Culverhouse College of Commerce and Business Administration Board of Visitors; the Board of Governors of the USO; the Board of Governors of the Aerospace Industries Association; the Board of Directors of the Congressional Medal of Honor Foundation; the Board of Directors of Catalyst, Inc.; the International Advisory Board of the Atlantic Council and as a Vice Chair of the Business Roundtable. Ms. Hewson also serves on the Board of Trustees for King Abdullah University of Science and Technology in the Kingdom of Saudi Arabia and on the Board of Trustees for Khalifa University of Science and Technology in the United Arab Emirates.

**Skills and Qualifications**

- Broad insight and knowledge into the complexities of global business management, strategic planning, finance, supply chain and leveraged services based on more than two decades of experience in executive and operational roles with the Corporation and in our industry
- Expertise in government relations, government contracting, manufacturing, marketing and human resources
- Corporate governance and audit expertise derived from service on boards of other multinational corporations and nonprofit organizations

**Other Public Boards**

DowDuPont Inc.

### Nolan D. Archibald

*Independent Lead Director*

**Age** 74

**Director since** 2002

**Current Committees**

Executive

Management Development and Compensation

Nominating and Corporate Governance

Strategic Affairs

**Biography**

Executive Chairman of the Board of Stanley Black & Decker, Inc. from March 2010 until his retirement in April 2013. Previously, Mr. Archibald was Chairman of the Board and Chief Executive Officer of The Black & Decker Corporation from 1986 to March 2010; President of The Black & Decker Corporation from 1985 to 2010; and Chief Operating Officer of The Black & Decker Corporation from 1985 to 1986.

**Skills and Qualifications**

- Experience with the demands and challenges associated with managing a global marketplace with a focus on innovation from his prior executive positions with Stanley Black & Decker, Inc., a company that sold products in more than 100 countries
- Experience in talent management, business management, strategic planning and international business operations
- Corporate governance expertise from service as director of large public companies

**Other Public Boards**

Brunswick Corporation

Huntsman Corporation

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**Proposal 1**

## Daniel F. Akerson
*Independent Director*

**Age** 69
**Director since** 2014

**Current Committees**

Audit
Classified Business and Security
Executive
Management Development and Compensation

**Biography**
Vice Chairman of The Carlyle Group from March 2014 to December 2015. Mr. Akerson was Chairman of the Board of Directors and Chief Executive Officer of General Motors Company from January 2011 until his retirement in January 2014. He was elected to the Board of Directors of General Motors Company in 2009 and was Chief Executive Officer from September 2010 to December 2010. Prior to joining General Motors Company, he was a Managing Director of The Carlyle Group, serving as the Head of Global Buyout from July 2009 to August 2010 and as Co-Head of U.S. Buyout from June 2003 to June 2009. Mr. Akerson currently serves as Chairman of the United States Naval Academy Foundation and Chairman of KrolLDiscovery, LLC, an information services company.

**Skills and Qualifications**

Core leadership skills and experience with the demands and challenges of the global marketplace
Extensive operating, marketing and senior management experience in a succession of major companies in challenging, highly competitive industries
Financial, investment and mergers and acquisitions expertise
Skilled in enterprise risk management
The Board has determined that Mr. Akerson meets the SEC s criteria of an audit committee financial expert

**Other Public Boards**
None

## David B. Burritt
*Independent Director*

**Age** 62
**Director since** 2008

**Current Committees**

Audit
Management Development and Compensation
Strategic Affairs

**Biography**
President and Chief Executive Officer of United States Steel Corporation since May 2017. Mr. Burritt also was named to the company s board of directors at that time. Mr. Burritt previously served as President and Chief Operating Officer of United States Steel Corporation from February 2017 to May 2017; Chief Financial Officer from September 2013 to May 2017; and Executive Vice President from September 2013 to February 2017. He was Vice President and Chief Financial Officer of Caterpillar Inc. from December 2004 to June 2010; Corporate Controller and Chief Accounting Officer of Caterpillar Inc. from 2002 to 2004; and held various positions of increasing responsibility at Caterpillar Inc. in finance, tax, accounting and international operations from 1978 to 2002. Mr. Burritt formerly served as a director of Aperam from December 2010 to May 2013 and Global Brass & Copper Holdings, Inc. from 2011 until June 2014.

**Skills and Qualifications**

Expertise in public company accounting, risk management, disclosure, financial system management, manufacturing and commercial operations and business transformation from roles as CEO and CFO at United States Steel Corporation and CFO and Controller at Caterpillar Inc.
Over 35 years experience with the demands and challenges of the global marketplace from his positions at United States Steel Corporation and Caterpillar Inc.
The Board has determined that Mr. Burritt meets the SEC s criteria of an audit committee financial expert

**Other Public Boards**
United States Steel Corporation

## Bruce A. Carlson
*Independent Director*

**Age** 68
**Director since** 2015

**Current Committees**

**Biography**
Retired USAF General, Mr. Carlson has been chairman of the Utah State University Space Dynamics Laboratory s Guidance Council since June 2013. Previously, Mr. Carlson served as the 17th Director of the National Reconnaissance Office from July 2009 until July 2012. He retired from the U.S. Air Force in January 2009 after more than 37 years of service. During his Air Force career, Mr. Carlson served as Commander, Air Force Materiel Command at Wright-Patterson AFB, Ohio from August 2005 to November 2008; Commander, Eighth Air Force at Barksdale AFB, Louisiana from May 2003 to August 2005; Director for Force Structure, Resources and Assessment (J-8) for the Joint Staff from January 2000 to May 2003; Director of Operational Requirements at U.S. Air Force Headquarters from August 1996 to January 2000; and Commander, 49th Fighter Wing (the Air Force s first stealth fighter wing) at Holloman AFB, New Mexico from February 1995 to August 1996.

Classified Business and Security

Ethics and Sustainability

Nominating and Corporate Governance

**Skills and Qualifications**

Industry-specific expertise and knowledge of our core customer, including aircraft and satellite development and acquisition experience from his service in senior leadership positions with the military

Experience with the demands and challenges associated with managing large organizations from his service as a Commander and Joint Staff Director of the Joint Chiefs

Skilled in executive management, logistics and military procurement

**Other Public Boards**

Benchmark Electronics Inc.

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**Proposal 1**

## James O. Ellis, Jr.
*Independent Director*

**Age** 70
**Director since** 2004

**Current Committees**

- Audit
- Classified Business and Security
- Executive
- Strategic Affairs

**Biography**

President and Chief Executive Officer of Institute of Nuclear Power Operations from May 2005 until his retirement in May 2012. Mr. Ellis retired from active duty in July 2004 after serving as Admiral and Commander, United States Strategic Command, Offutt Air Force Base, Nebraska from October 2002 to July 2004; Commander in Chief, United States Strategic Command from November 2001 to September 2002; Commander in Chief, United States Naval Forces, Europe and Commander in Chief, Allied Forces from October 1998 to September 2000; Deputy Chief of Naval Operations (Plans, Policy and Operations) from November 1996 to September 1998. He formerly served as a director of Inmarsat plc from June 2005 to March 2014. Mr. Ellis served on the board of directors of Level 3 Communications, Inc., from March 2005 to November 2017. In February 2013, Mr. Ellis was elected to the National Academy of Engineering. He also serves as an Annenberg Distinguished Fellow of the Hoover Institution at Stanford University.

**Skills and Qualifications**

- Industry-specific expertise and knowledge of our core customers from his service in senior leadership positions with the military
- Expertise in aeronautical and aerospace engineering, information technology and emerging energy issues
- Skilled in enterprise risk management
- Over 40 years experience in managing and leading large and complex technology-focused organizations, in large part as a result of serving for 35 years as an active duty member of the United States Navy

**Other Public Boards**

Dominion Energy, Inc.

## Thomas J. Falk
*Independent Director*

**Age** 59
**Director since** 2010

**Current Committees**

- Audit
- Executive
- Management Development and Compensation
- Nominating and Corporate Governance

**Biography**

Chairman of the Board and Chief Executive Officer of Kimberly-Clark Corporation since 2003; Chief Executive Officer from 2002 and President and Chief Operating Officer from 1999 to 2002; held various senior management positions since joining Kimberly-Clark Corporation in 1983. Mr. Falk currently serves as a director of the nonprofit organizations, Catalyst, Inc., the University of Wisconsin Foundation and The Consumer Goods Forum, and serves as a governor of the Boys & Girls Clubs of America.

**Skills and Qualifications**

- Experience with the demands and challenges associated with managing global organizations from his experience as Chairman and Chief Executive Officer of Kimberly-Clark Corporation
- Knowledge of financial system management, public company accounting, disclosure requirements and financial markets
- Manufacturing, talent management, compensation, governance and public company board experience
- The Board has determined that Mr. Falk meets the SEC s criteria of an audit committee financial expert

**Other Public Boards**

Kimberly-Clark Corporation

## Ilene S. Gordon
*Independent Director*

**Age** 64
**Director since** 2016

**Current Committees**

- Audit
- Ethics and Sustainability

**Biography**

Executive Chairman of the Board of Ingredion Incorporated since January 2018. Ms. Gordon was Chairman of the Board, President and Chief Executive Officer from May 2009 to December 2017. Previously, Ms. Gordon was President and Chief Executive Officer of Rio Tinto s Alcan Packaging, a multinational business unit engaged in the production of flexible and specialty packaging, from 2007 to 2009 and held various senior management positions of increasing responsibility at its affiliate and predecessor companies from 1999 to 2007. Ms. Gordon also serves as vice chair of The Conference Board and a member of The MIT Corporation, the Massachusetts Institute of Technology s board of trustees.

**Skills and Qualifications**

- Experience with the demands and challenges associated with managing global organizations from her experience as Chairman, President and Chief Executive Officer of Ingredion Incorporated

| | |
|---|---|
| Nominating and Corporate Governance | Knowledge of financial system management, public company accounting, disclosure requirements and financial markets<br>Marketing, talent management, compensation, governance and public company board experience<br>The Board has determined that Ms. Gordon meets the SEC s criteria of an audit committee financial expert |

**Other Public Boards**

Ingredion Incorporated

International Paper Company

## Jeh C. Johnson
*Independent Director*

**Age** 60
**Director since** 2018

**Current Committees**

Classified Business and Security
Ethics and Sustainability

**Biography**

Partner at the international law firm of Paul, Weiss, Rifkind, Wharton & Garrison LLP since January 2017. Previously, he served as U.S. Secretary of Homeland Security from December 2013 to January 2017; as General Counsel of the U.S. Department of Defense from 2009 to 2012; as General Counsel of the U.S. Department of the Air Force from 1998 to 2001; and as an Assistant U.S. Attorney in the Southern District of New York from 1989 to 1991. Prior to and between his periods of public service, he was in private practice at Paul, Weiss, Rifkind, Wharton & Garrison LLP.

**Skills and Qualifications**

Expertise in national security, leadership development and organizational preparedness from his service as U.S. Secretary of Homeland Security

Industry-specific expertise and insight into our core customers, including requirements for acquisition of products and services, from prior senior leadership positions with the military

Experience with large organization management and assessing human resources, equipment, cybersecurity, and financial requirements, as well as reputational risks

**Other Public Boards**

PG&E Corporation

## Joseph W. Ralston
*Independent Director*

**Age** 74
**Director since** 2003

**Current Committees**

Classified Business and Security
Ethics and Sustainability
Executive
Strategic Affairs

**Biography**

Vice Chairman of The Cohen Group since March 2003. Retired from active duty in March 2003. Commander, U.S. European Command and Supreme Allied Commander Europe, NATO, Mons, Belgium from May 2000 to January 2003; and Vice Chairman, Joint Chiefs of Staff, Washington, D.C. from March 1996 to April 2000. Mr. Ralston formerly served as a director of URS Corporation from 2003 to October 2014.

**Skills and Qualifications**

Industry-specific expertise and insight into our core customers, including requirements for acquisition of products and services, from prior senior leadership positions with the military

Experience with large organization management and assessing human resources, equipment, cybersecurity, and financial requirements, as well as reputational risks during his service as a senior military officer, including Vice Chairman of the Joint Chiefs of Staff

Skilled in executive management, global logistics and military procurement due to his distinguished career managing 65,000 troops from 23 countries as Supreme Allied Commander

**Other Public Boards**

The Timken Company

## James D. Taiclet, Jr.
*Independent Director*

**Age** 57
**Director since** 2018

**Current Committees**

Nominating and Corporate Governance
Strategic Affairs

**Biography**

Chairman, President and Chief Executive Officer of American Tower Corporation. He was appointed President and Chief Operating Officer in September 2001; named Chief Executive Officer in October 2003; and selected as Chairman of the Board in February 2004. Previously, Mr. Taiclet served as President of Honeywell Aerospace Services, a unit of Honeywell International from March 1999 to September 2001; as Vice President, Engine Services at Pratt & Whitney, a unit of United Technologies Corporation from March 1996 to March 1999; and as a consultant at McKinsey & Company, specializing in telecommunications and aerospace strategy and operations from July 1991 to February 1996. He began his career as a United States Air Force officer and pilot.

**Skills and Qualifications**

Effective leadership and executive experience as Chairman, President and CEO of American Tower Corporation

Expertise in management at large-scale, multinational corporations, including regulatory compliance, corporate governance, capital markets and financing, strategic planning and investor relations

Knowledge of financial system management, public company accounting, disclosure requirements and financial markets

The Board has determined that Mr. Taiclet meets the SEC’s criteria of an “audit committee financial expert”

**Other Public Boards**
American Tower Corporation

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## PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has appointed Ernst & Young LLP (Ernst & Young), an independent registered public accounting firm, as the independent auditors to perform an integrated audit of the Corporation's consolidated financial statements and internal control over financial reporting for the year ending December 31, 2018. The services provided to the Corporation by Ernst & Young for the last two fiscal years are described under the caption "Fees Paid to Independent Auditors" on page 25.

The Audit Committee is directly responsible for the appointment, compensation, retention, oversight and termination of the Corporation's independent auditors in accordance with the NYSE listing standards. The Audit Committee also is responsible for the audit fee negotiations associated with the retention of Ernst & Young. The Audit Committee and its chairman are involved in the selection of Ernst & Young's lead engagement partner. The Audit Committee meets with Ernst & Young without management present at every meeting of the Audit Committee in which financial statements are reviewed.

Ernst & Young has served as the Corporation's independent auditors since 1994. The Audit Committee reviews the engagement of Ernst & Young annually following completion of Ernst & Young's audit of the prior year's financial statements. The Audit Committee also conducts a mid-year assessment of the quality of Ernst & Young's work. As part of its annual and mid-year assessment of Ernst & Young, the Audit Committee has considered:

- the materials on independence provided by Ernst & Young;
- work quality;
- management's level of satisfaction with its services;
- the adequacy of Ernst & Young's staffing;
- the breadth of knowledge, support and expertise of its national office and access to that expertise;
- the length of time Ernst & Young has been engaged;
- external data regarding Ernst & Young's audit quality and performance, including recent Public Company Accounting Oversight Board (PCAOB) reports on Ernst & Young and its peer firms;
- Ernst & Young's institutional knowledge and expertise with respect to the Corporation's business and government contracting practices, quality and cost-effective services;
- familiarity with the Corporation's account;
- level of expertise in accounting issues relating to government contracts; and
- Ernst & Young's performance in providing independent analysis of management positions.

Stockholder approval of the appointment is not required. However, the Board believes that obtaining stockholder ratification of the appointment is a sound corporate governance practice. If the stockholders do not vote on an advisory basis in favor of Ernst & Young, the Audit Committee will reconsider whether to hire the firm and may retain Ernst & Young or hire another firm without resubmitting the matter for stockholders' approval. The Audit Committee retains the discretion at any time to appoint a different independent auditor.

Representatives of Ernst & Young are expected to be present at the Annual Meeting, will be available to respond to appropriate questions and will have the opportunity to make a statement if they desire.

**The Board unanimously recommends that you vote FOR the ratification of the appointment of Ernst & Young as independent auditors for 2018 (Proposal 2).**

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## Pre-Approval of Independent Auditors Services

The Audit Committee pre-approves all audit, audit-related, tax and other services performed by the independent auditors. The Audit Committee pre-approves specific categories of services up to pre-established fee thresholds. Unless the type of service had previously been pre-approved, the Audit Committee must approve that specific service before the independent auditors may perform such service. In addition, separate approval is required if the amount of fees for any pre-approved category of service exceeds the fee thresholds established by the Audit Committee. The Audit Committee also has delegated to the Committee Chairman or any member pre-approval authority with respect to permitted services up to $500,000, provided that the Committee Chairman or any member must report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

## Fees Paid to Independent Auditors

The following table sets forth the fees billed by Ernst & Young, the Corporation's independent auditors, for audit, audit-related services, tax services and all other services rendered for 2017 and 2016. All fees were pre-approved in accordance with the Audit Committee's pre-approval policy. The Audit Committee considered and concluded that the provision of these services by Ernst & Young was compatible with the maintenance of the auditor's independence. The decrease in audit-related fees from prior years is in connection with:

- the purchase accounting and internal controls review related to the acquisition of Sikorsky Aircraft Corporation (Sikorsky); and

- the divestiture of the Information Systems & Global Solutions business (IS&GS).

| | **2016 ($)** | **2017 ($)** |
|---|---|---|
| Audit Fees (a) | 26,200,000 | 27,265,000 |
| Audit-Related Fees (b) | 2,940,000 | 35,000 |
| Tax Fees (c) | 2,450,000 | 2,200,000 |
| All Other Fees (d) | 15,000 | 10,000 |

(a) Audit fees for 2017 and 2016 are for services related to the annual audit of the Corporation's consolidated financial statements, including the audit of internal control over financial reporting, the interim reviews of the Corporation's quarterly financial statements, statutory audits of the Corporation's foreign subsidiaries, consultations on accounting matters and registration statements and other documents filed by the Corporation with the SEC. The audit fees for 2017 include fees related to the Corporation's adoption of Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, as amended, which the Corporation adopted on January 1, 2018. Audit fees for 2016 include fees related to the accounting for the acquisition of Sikorsky.

(b) Audit-related fees for 2017 and 2016 are related to audits of the Corporation's employee benefit plans and transaction due diligence services. Additionally, audit-related fees for 2016 include carve-out audits of IS&GS.

(c) Tax fees for 2017 and 2016 are for domestic and international tax compliance and advisory services.

(d) All other fees for 2017 and 2016 are primarily for subscriptions to Ernst & Young's online research tools and training courses for professional qualifications.

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**Proposal 2**

## Audit Committee Report

The Audit Committee of the Board of Directors is responsible for overseeing the Corporation’s accounting, auditing and financial reporting process, financial risk assessment and management process and for monitoring compliance with certain regulatory and compliance matters, on behalf of the Board of Directors.
The Corporation’s management is responsible for preparing the quarterly and annual consolidated financial statements, the financial reporting process, and maintaining and evaluating disclosure controls and procedures and a system of internal control over financial reporting.

In addition to its oversight of the Corporation’s internal audit organization, the Audit Committee is directly responsible for the appointment, compensation, retention, oversight and termination of the Corporation’s independent auditors, Ernst & Young, an independent registered public accounting firm. The independent auditors are responsible for performing an independent audit of the Corporation’s annual consolidated financial statements and internal controls over financial reporting and expressing an opinion on the conformity of those consolidated financial statements with U.S. generally accepted accounting principles and on the effectiveness of the Corporation’s internal control over financial reporting.

In connection with the preparation of the Corporation’s financial statements as of and for the year ended December 31, 2017, the Audit Committee reviewed and discussed with management and Ernst & Young the Corporation’s audited consolidated financial statements, including discussions regarding critical accounting policies, financial accounting and reporting principles and practices, the quality of such principles and practices, the reasonableness of significant judgments and estimates, and the effectiveness of internal control over financial reporting. The Audit Committee also discussed with Ernst & Young, with and without management, the quality of the financial statements, clarity of the related disclosures, effectiveness of internal control over financial reporting and other items required under Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 1301, *Communications with Audit Committees*. Additionally, the Audit Committee received and reviewed the written disclosures and letter from Ernst & Young regarding its independence from the Corporation required by PCAOB Ethics and Independence Rule 3526, *Communications with Audit Committees Concerning Independence*. The Audit Committee has also discussed with Ernst & Young any matters affecting its independence from the Corporation.

Based on the Audit Committee’s reviews and discussions described in this report, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements as of and for the year ended December 31, 2017 be included in Lockheed Martin Corporation’s Annual Report on Form 10-K for 2017 for filing with the SEC. The Audit Committee also reappointed Ernst & Young to serve as the Corporation’s independent auditors for 2018, and requested that this appointment be submitted to the Corporation’s stockholders for ratification at the Annual Meeting. The Board of Directors approved the Audit Committee’s recommendations.

Thomas J. Falk, *Chairman*

Daniel F. Akerson
David B. Burritt
James O. Ellis, Jr.
Ilene S. Gordon

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## PROPOSAL 3: MANAGEMENT PROPOSAL TO APPROVE THE LOCKHEED MARTIN CORPORATION AMENDED AND RESTATED DIRECTORS EQUITY PLAN

The Corporation currently maintains the Lockheed Martin Corporation 2009 Directors Equity Plan (as amended to date, the Existing Plan), which was approved by stockholders on April 24, 2008, and was effective on January 1, 2009. Absent action by the stockholders, the Existing Plan will expire by its terms on December 31, 2018. The Corporation proposes to amend and restate the Existing Plan and extend the term until December 31, 2028.

To that end, on February 22, 2018, the Board unanimously approved and adopted, subject to the approval of our stockholders at the Annual Meeting, the Lockheed Martin Corporation Amended and Restated Directors Equity Plan (the Restated Plan). As was the case with the Existing Plan, the purpose of the Restated Plan is to align the economic interests of the Corporation's non-employee directors with the interests of stockholders by including equity as a component of director pay and to attract, motivate and retain experienced and knowledgeable directors.

At the Corporation's 2008 annual meeting, stockholders authorized 600,000 shares for grant under the Existing Plan. As of the date of this Proxy Statement, there were 408,811 shares available for awards under the Existing Plan. As part of the amendment and restatement, the remaining shares will continue to be available for awards during the extended term of the Restated Plan.

If approved by our stockholders at the Annual Meeting, the Restated Plan will be effective as of the date of such approval (April 26, 2018), and will permit the continued grant of equity awards to our non-employee directors. Until that time, equity awards will continue to be available to directors under the Existing Plan.

The principal features of the Restated Plan are summarized below. This summary does not contain all the information that may be important to you. A copy of the complete text of the Restated Plan, marked to show changes from the Existing Plan, is included in Appendix A to this Proxy Statement. The following description is qualified in its entirety by reference to the full text of the Restated Plan. You are encouraged to read the Restated Plan in its entirety.

**Highlights of the Restated Plan**

The material terms of the Restated Plan are generally the same as the Existing Plan, except that:

– the term has been extended until December 31, 2028;

– the dates on which payments will be made when a director terminates service have been clarified to use consistent valuation dates; and

– a provision explicitly prohibiting repricing of options has been added.

The Board is not requesting an increase in the number of shares authorized for issuance. The aggregate number of shares authorized for issuance under the Existing Plan and the Restated Plan will remain at 600,000 shares (with 408,811 shares remaining available for awards as of the date of this Proxy Statement).

The Restated Plan allows the Board to set the portion of the annual retainer that is to be paid in equity. The percentage has been 50% of the director's annual retainer since the Existing Plan was approved by the stockholders in 2008, and will remain at that level, unless subsequently changed by the Board.

The Restated Plan authorizes payment in the form of stock units or options, although only stock units have been used since June 2014. The Restated Plan would require a further resolution of the Board to once again provide for options as all or a portion of the equity component of director compensation.

The equity portion of the retainer generally vests over the course of the year following the grant.

Consistent with the terms of an amendment to the Existing Plan approved by the Board in September 2017, from and after January 1, 2018, a director who has satisfied the Board's Stock Ownership Guidelines may elect to have vested stock units awarded after that date to be paid in a lump sum on the March 31 following the one-year anniversary of the grant rather than following termination of Board service. Our practice of not counting stock units paid in cash against the total number of shares of common stock available for awards has been incorporated into the Restated Plan.

**Summary of the Restated Plan**

Equity awards are an important component of director compensation. The Restated Plan continues the equity component of our directors' compensation program that has been in place since 1999. Approval of the Restated Plan by the stockholders at the Annual Meeting would extend the equity compensation arrangements for directors until December 31, 2028.

If approved, compensation awarded under the Restated Plan will constitute a portion of each eligible director's annual retainer, with the remaining portion of the retainer payable in cash. The designated percentage of the retainer that is subject to equity awards currently is 50%. As was the case with the Existing Plan, under the Restated Plan, the percentage can be increased or decreased by the Board from time to time. In the case of a director who will be eligible for retirement at the annual meeting immediately following the grant of an equity award under the Restated Plan, the award will equal one-third of the amount the director otherwise would have been entitled to receive at that time.

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**Proposal 3**

The Restated Plan will apply to directors who are not officers or employees of the Corporation or its subsidiaries. All of the directors proposed for election at the Annual Meeting, other than Ms. Hewson, will be eligible to participate in the Restated Plan if they are continuing to serve as directors at the time awards are made under the Restated Plan.

Under the terms of the Restated Plan, unless otherwise restricted by resolution of the Board, each eligible director may elect to receive the equity portion of the annual retainer approved by the Governance Committee of the Board in one of the following ways: (1) 100% in the form of stock units; (2) 50% in stock units and 50% in options to purchase shares of our common stock; or (3) 100% in the form of options to purchase shares of our common stock.

In June 2014, the Board adopted a resolution providing that the equity portion of the annual retainer would only be paid in the form of stock units, unless the Board resolution was further amended or revoked. The Board adopted this resolution to conform the equity retainer to what it believed at the time was, and believes today is, a best practice for director compensation. As a result, the alternative to receive all or a portion of the equity component of the retainer in stock options is not currently available to directors, but under the terms of the Restated Plan could be reinstated at a later date by resolution of the Board.

For purposes of determining the number of stock units awarded to directors, the value of a stock unit will be equal to the closing price of our common stock on the date of grant as reported on the composite tape of the NYSE. The value of a stock option for these purposes will be the fair market value of our stock as determined using the option pricing methodology as applied by the Corporation for purposes of its financial statements on the date of the option grant.

As was the case with the Existing Plan, the date of grant of awards under the Restated Plan will be the second business day after the later of the date that we issue a press release concerning our financial results for the previous year, or the date of our first Board meeting of the year. If either of these two events occur after February 15, however, then February 15 (or the next business day if February 15 is not a business day) will be the award date. If a director is not a member of the Board on this regular award date, however, then the award date for that director will be the first business day of the month following the month in which the director is elected to the Board. We chose this formulation for the date of grant to be consistent with our general equity award policy to defer grants until after we release earnings.

## Stock Units

A stock unit is a bookkeeping entry that represents the value of a share of our common stock. For all stock units granted to directors on the regular award date, the stock units will vest 50% on June 30 following the award date and 50% on December 31 following the award date, assuming continued service as a director through such dates. For awards of stock units to new directors granted other than on the regular award date, 100% of the stock units for that award will vest on December 31 following the award date, assuming continued service as a director through such date. Stock units may vest earlier upon a change in control or a director s retirement, death or disability. In addition, if stock units have been awarded to a director prior to the date of our annual meeting of stockholders for a given year, and the director does not stand for reelection (other than by reason of retirement, death or disability) or does not receive a sufficient number of votes to be reelected, then one-third of such award will vest on the date of the annual meeting of stockholders.

During the period when a director s interest is represented by stock units, the director will have no voting, dividend or other rights with respect to the underlying shares of our stock, but will receive additional stock units representing dividend equivalents based on cash distributions on the underlying shares (converted to stock units based on the closing market price of our common stock on the applicable dividend payment dates). The dividend equivalent units will vest when the related stock units vest.

On the first business day of the month following a director s termination of service as a director, the vested stock units will be distributed, at the election of the director, in whole shares of our common stock, in an amount in cash based on the fair market value of our common stock as reported by the NYSE on the applicable valuation date, or in a combination of shares and cash. All unvested stock units will be forfeited. A director irrevocably may elect to receive his or her accrued stock units in a lump sum or in equal annual installments over a period of up to 20 years after termination of service. In the case of a director s termination of service as a result of death or disability, the stock units will be paid in cash in a lump sum. In addition, if the number of stock units and related dividend equivalent units credited to a director s account has a fair market value of equal to or less than $10,000 on the date of termination, then the stock units will be paid as a lump sum in cash. All elections related to a director s stock units will apply to any dividend equivalent rights related to those stock units.

Effective for any stock units awarded on or after January 1, 2018, (1) any director who has satisfied the Board s Stock Ownership Guidelines (see page 65 of this Proxy Statement for more information) may elect to have the vested portion of the units (along with any accumulated dividend equivalents) be paid in a lump sum on the first business day of the month following the earlier of termination of service as a director and the March 31 following the first anniversary of the award date, and (2) any director who has not satisfied the Stock Ownership Guidelines will continue to be paid the vested portion of the units (along with any accumulated dividend equivalents) on the first business day of the month following termination of service as a director.

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**Proposal 3**

## Stock Options

No stock options have been granted under the Existing Plan since 2014. In June 2014, the Board adopted a resolution requiring non-employee directors to receive their equity awards under the Existing Plan only in the form of stock units, unless the Board resolution was further amended or revoked. That resolution has not been amended or revoked and this provision relating to limitations adopted from time to time by the Board on the types of available awards has been incorporated into the Restated Plan.

As previously was the case, under the Restated Plan, options are rights to purchase a specified number of shares of our common stock at an exercise price equal to 100% of the fair market value of the stock on the award date. The options are nonqualified stock options and have a term of 10 years from the date of grant.

For all options granted to directors on the regular award date, the options will vest 50% on June 30 following the award date and 50% on December 31 following the award date, assuming continued service as a director through such dates. For awards of options to new directors granted other than on the regular award date, 100% of the options for that award will vest on December 31 following the award date, assuming continued service as a director through such date. Options may vest earlier upon a change in control or the director s retirement, death or disability. In addition, if options have been awarded to a director prior to the date of our annual meeting of stockholders for a given year, and the director does not stand for reelection (other than by reason of retirement, death or disability) or does not receive a sufficient number of votes to be reelected, then one-third of such option award will vest on the date of the annual meeting of stockholders.

A director will have no voting, dividend or other stockholder rights in respect of the shares of common stock covered by an option until the director becomes the holder of record of those shares. To exercise an option, the director must pay the exercise price of the option in cash at the time of exercise. Alternatively, the exercising director also may choose to tender shares of our common stock to the Corporation as full or partial payment for the shares underlying the options being exercised or take advantage of customary cashless exercise procedures to exercise his or her option.

Other than with respect to an adjustment as a result of a stock split, recapitalization, reorganization or certain other extraordinary transactions specified in the Restated Plan, no stock option may be re-priced, replaced, re-granted through cancellation, or modified without stockholder approval if the effect would be to reduce the exercise price for the shares underlying such stock option.

## Administration; Change in Control.

The Restated Plan may be amended by the Board, in its sole discretion, without stockholder approval, unless approval of a change is required to preserve the qualifying status of the Restated Plan under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (Exchange Act) or to comply with the listing standards of the NYSE. The equity payable under the Restated Plan is intended to constitute a designated percentage (currently, 50%) of the annual retainer paid to a director each year and if the directors approve an increase in the total annual retainer, the value of the annual equity awards under the Restated Plan will increase. It is not anticipated that stockholder approval of an increase in the total annual retainer would be sought. Amendments made without stockholder approval could increase the annual costs of the Restated Plan, but would not affect the total number of shares of stock available under the Restated Plan. A director s consent would be required to revoke or alter an outstanding award in a manner unfavorable to the director.

The aggregate number of shares of common stock that may be issued under the Restated Plan remains at 600,000 shares; provided, that this number of shares is subject to adjustment in event of a stock split, recapitalization, reorganization, or certain other extraordinary transactions specified in the Restated Plan. Shares of common stock subject to a stock option terminating or expiring prior to its exercise, and stock units that are forfeited or paid in cash, will again be available for awards under the Restated Plan. Assuming stockholder approval and assuming the Restated Plan is not earlier terminated by the Board, the Restated Plan will continue in effect until December 31, 2028.

Upon a Change in Control (as defined in Section 2.10 the Restated Plan), a director s stock units and outstanding options become fully vested, and directors will have the right to exercise their options immediately. A Change in Control under the Restated Plan is defined generally to include a change in ownership involving 25% or more of the outstanding voting securities of the Corporation (or a combined entity), a liquidation or dissolution, a transfer of substantially all of our assets or certain changes in a majority of the members of our Board within two years following certain specified extraordinary transactions or a reorganization or contested election.

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## Federal Tax Consequences

In general, under current federal income tax laws, stock units awarded under the Restated Plan will be included in a director's taxable income and deductible to the Corporation based on the fair market value of the common stock at the time stock units are paid in cash or shares.

A director will not recognize taxable income upon the grant of an option to purchase shares of common stock. Upon exercise of the option, a director will recognize ordinary income equal to the excess of the fair market value of the common stock on the date the option is exercised over the exercise price paid for the shares of common stock underlying the option. The tax basis of the option stock will equal the option price for the stock plus the amount of ordinary income that the director recognizes upon exercise of the option, and the holding period for tax purposes will commence on the day the option is exercised. A director who sells option stock will recognize a capital gain or loss measured by the difference between the tax basis of the stock and the amount realized on the sale. Such gain or loss will be long-term if the stock is held for more than one year after exercise, and short-term if held for one year or less. The Corporation will be entitled to a deduction equal to the amount of ordinary compensation income recognized by the director. The deduction will be allowed at the same time that the director recognizes the income.

## Required Vote for Approval and Consequences of Vote

The affirmative vote of a majority of the votes cast at the Annual Meeting is required to approve the Restated Plan. Because the Existing Plan expires December 31, 2018, if the stockholders do not approve the Restated Plan, which includes, among other things, an extension of the term of the Existing Plan, the Corporation will not be able to compensate the non-employee directors with equity issued under a stockholder-approved plan.

**The Board unanimously recommends a vote FOR approval of the Lockheed Martin Corporation Amended and Restated Directors Equity Plan, as set forth in Appendix A. (Proposal 3).**

# PROPOSAL 4: ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NEOS (SAY-ON-PAY)

We ask our stockholders to vote annually to approve, on an advisory (non-binding) basis, the compensation of our named executive officers (NEOs) as described in detail in the Compensation Discussion and Analysis (CD&A) and the accompanying tables in the Executive Compensation section beginning on page 31. This vote is commonly known as Say-on-Pay.

Stockholders should review the entire Proxy Statement and, in particular, the CD&A for information on our executive compensation programs and other important items.

We believe that the information provided in this Proxy Statement demonstrates that our executive compensation programs are designed to link pay to performance. Accordingly, the Board recommends that stockholders approve the compensation of our NEOs by approving the following Say-on-Pay resolution:

RESOLVED, that the stockholders of Lockheed Martin Corporation approve, on an advisory basis, the compensation of the named executive officers identified in the "Summary Compensation Table," as disclosed in the Lockheed Martin Corporation 2018 Proxy Statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables and the accompanying footnotes and narratives.

This vote is not intended to address any specific item of compensation, but rather our overall compensation policies and procedures related to the NEOs. Although the results of the Say-on-Pay vote do not bind the Corporation, the Board will, as it does each year, continue to review the results carefully and plans to continue to seek the views of our stockholders year-round.

**The Board unanimously recommends that you vote FOR the advisory vote to approve the compensation of our named executive officers (Proposal 4).**

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## EXECUTIVE COMPENSATION

### Compensation Committee Report

The Management Development and Compensation Committee makes recommendations to the Board of Directors concerning the compensation of the Corporation's NEOs. We have reviewed and discussed with management the Compensation Discussion and Analysis that will be included in the Corporation's Schedule 14A Proxy Statement, filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended. Based on that review and discussion, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement. The Board approved our recommendation.

Daniel F. Akerson, *Chairman*

Nolan D. Archibald David B. Burritt Thomas J. Falk

### Compensation Discussion and Analysis (CD&A)

This CD&A discusses the compensation decisions for the NEOs listed in the Summary Compensation Table on page 48. The NEOs are:

| NEO | Title | Years in Position At End of 2017 (rounded) | Years of Service At End of 2017 (rounded) |
|---|---|---|---|
| **Marillyn A. Hewson** | Chairman of the Board, President and Chief Executive Officer | 5 | 35 |
| **Bruce L. Tanner** | Executive Vice President and Chief Financial Officer | 10 | 36 |
| **Dale P. Bennett** | Executive Vice President, Rotary and Mission Systems | 5 | 36 |
| **Orlando P. Carvalho** | Executive Vice President, Aeronautics | 5 | 38 |
| **Maryanne R. Lavan** | Senior Vice President, General Counsel and Corporate Secretary | 8 | 28 |

To assist stockholders in finding important information, this CD&A is organized as follows:



#### 2017 Say-on-Pay and Say-on-Pay Frequency Votes

At our 2017 annual meeting, more than 94% of the votes cast by our stockholders approved our Say-on-Pay proposal. We meet with our key investors throughout the year to understand the topics that matter most to them as they relate to executive compensation. We consider the input of our stockholders, along with emerging best practices, to ensure alignment with our executive pay programs. Most investors with whom we engaged in 2017 reacted positively to our pay governance and executive compensation programs. We welcome feedback regarding our executive compensation programs and will continue to engage with our stockholders in 2018. Consistent with the recommendation of our Board and the preference of our stockholders as reflected in the non-binding advisory vote on the frequency of future Say-on-Pay votes that we conducted last year, we will continue to hold an annual Say-on-Pay vote.

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# Executive Summary

## Our 2017 Performance

In 2017, the Corporation achieved new records for sales, orders, and Cash from Operations. Lockheed Martin's net sales in 2017 were $51 billion versus $47 billion in 2016, an increase of eight percent and a record-setting amount for the Corporation. We also set a record for Cash from Operations of $6.5 billion in 2017, up from $5.2 billion in 2016. In addition, we ended 2017 with record orders of $54 billion, driving a strong backlog of approximately $100 billion.

During 2017, we delivered 66 F-35s for the year, meeting our target for the year. This was an increase of more than 40 percent over 2016. To date, we have delivered over 265 F-35s to U.S. and international customers, and the F-35 fleet has flown a total of 120,000 hours. We also delivered F-35 Full Mission Simulators to the Israeli, Italian, Japanese, and Norwegian Air Forces – the first-ever deliveries to international F-35 operators.

The fourth Space Based Infrared System (SBIRS) satellite was delivered successfully to Cape Canaveral Air Force Station in Florida last October in advance of its recent successful launch aboard a United Launch Alliance Atlas V rocket on January 19, 2018.

We continued our efforts to return cash to stockholders through dividends and share repurchases. During 2017, we returned over $4.2 billion of our $6.5 billion in Cash from Operations to our stockholders, with $2 billion in share repurchases and $2.2 billion paid in cash dividends.

Through these operational and financial accomplishments, Lockheed Martin delivered strong one-year and three-year total stockholder returns (TSR). On a relative basis, Lockheed Martin's three-year TSR significantly outperformed NASDAQ, the Dow Jones Industrial, S&P 500, S&P Industrials, and S&P Aerospace & Defense (S&P Aerospace) indices for the period ended December 31, 2017.

**1-YEAR TSR** **3-YEAR TSR**

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## Compensation Overview

Our executive compensation programs covering our NEOs are designed to attract and retain critical executive talent, to motivate behaviors that align with stockholders' interests and to pay for performance. The majority of our NEOs' pay is variable and contingent on performance, and approximately two-thirds, on average, is in the form of long-term incentives (LTI). To ensure pay is competitive with market practices, we conduct benchmarking analyses each year when establishing base salary, annual incentive target opportunities and LTI target opportunities. Each element of compensation is evaluated against the $50^{\text{th}}$ percentile, which we refer to as "market rate," of our comparator group of companies, as shown on page 36. For executives new to their role, we generally target pay below the market rate ($50^{\text{th}}$ percentile) and then increase pay closer to 100% of the market rate over time based on a variety of factors, including individual performance, internal pay equity, time in position and critical skills. Although target incentive opportunities are set by reference to the market rate, incentive plan terms provide for actual payouts to be based upon actual performance that can result in payouts above or below targeted levels. Based on actual results relative to our pre-established metrics and goals under our incentive programs, the 2017 annual incentive program paid out at 171% of target and the 2015-2017 LTIP paid out at 144.9% of target for all NEOs. We also provide retirement programs and perquisites that are competitive in our industry and security that is appropriate for the business in which we operate.

## 2017 CEO Compensation

***Base Salary.*** In 2017, Ms. Hewson's base salary was set at $1,695,000.

***2017 Annual Incentive.*** Ms. Hewson's target annual incentive amount for 2017 was $2,966,250 (175% of salary).

***2017-2019 Long-Term Incentives.*** In 2017, Ms. Hewson was granted an LTI award of approximately $11.88 million, which was allocated 50% in Performance Share Units (PSUs), 30% in Restricted Stock Units (RSUs), and 20% in the cash-based Long-Term Incentive Performance award (LTIP). RSUs will cliff-vest after three years, while the vesting of PSUs and LTIP will be based upon our results relative to the three-year performance goals that were established in the beginning of 2017.

***Benefit and Retirement Plans.*** Ms. Hewson is eligible for benefit and retirement programs, similar to other employees. None of our NEOs received additional years of service credits or other forms of formula enhancements under our benefit or retirement plans. Our pension formula is based on years of service and pension eligible compensation, which is similar to the formula offered by other companies with defined benefit plans. Effective January 1, 2016, the compensation element of the pension calculation was frozen and, on January 1, 2020, the service element of the pension calculation will be frozen.

***2017 CEO Target Pay Mix.*** We believe that, to the maximum extent possible, the compensation opportunities of our CEO should be variable, and the variable elements of the compensation package should tie to the Corporation's long-term success and the achievement of sustainable long-term total returns to our stockholders. As shown in the chart below, a significant portion of our CEO's target compensation is variable and in the form of LTI and more than half of total target pay is in the form of equity incentives.

**CEO TARGET OPPORTUNITY MIX***

*Fixed vs. variable and cash vs. equity components are designated in the Core Compensation Elements table on page 37. We consider base salary and annual incentives as short-term pay and PSUs, LTIP, and RSUs as long-term pay. Cash represents base salary, annual incentive target and LTIP target. We do not include retirement or other compensation components in the chart.

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**Executive Compensation**

## Summary of Compensation Approach

### Guiding Pay Principles

- Attract, motivate and retain executive talent
- Use the market 50th percentile to target all compensation elements
- Link executive pay to Enterprise performance
- Provide an appropriate mix of short-term vs. long-term pay and fixed vs. variable pay
- Align to stockholder interests and long-term company value

### Our Decision-Making Process

The Compensation Committee seeks input from our CEO and other members of our management team as well as input and advice from the independent compensation consultant to ensure the Corporation's compensation philosophy and information relevant to individual compensation decisions are taken into account.

### Independent Pay Governance

| Independent Board Members | Independent Compensation Consultant | Independent Compensation Committee | Stockholders & Other Key Stakeholders |
|---|---|---|---|
| Review and approve compensation of the CEO and review and ratify compensation of other NEOs. Review with management, at least annually, the succession plan for the CEO and other senior positions. | Provides advice on executive pay programs, pay levels and best practices. Provides design advice for annual LTI vehicles and other compensation and benefit programs. | Reviews and approves incentive goals relevant to NEO compensation. Reviews and approves the compensation for each NEO. Recommends CEO compensation to the independent members of the Board. | Provide feedback on various executive pay practices and governance during periodic meetings with management which then is reviewed by and discussed with our independent Board members. |

| Role | Chairman, President & CEO | Management | Management Compensation Consultant [1] | Independent Compensation Consultant [2] | Compensation Committee [3] | Independent Board Members |
|---|---|---|---|---|---|---|
| Peer Group / External Market Data and Best Practices for Compensation Design and Decisions | Reviews | Reviews | Develops | Develops/ Reviews | Reviews | — |
| Annual NEO Target Compensation | Recommends | — | — | Reviews | Approves | Ratify |
| Annual CEO Target Compensation | — | — | — | Advises | Recommends | Approve |
| Annual and Long-Term Incentive Measures, Performance Targets and Performance Results | Reviews | Develops | — | Reviews | Approves | Ratify |
| Long-Term Incentive Grants, Dilution, Burn Rate | Reviews | Develops | — | Reviews | Approves | Ratify |
| Risk Assessment of Incentive Plans | Reviews | Reviews | — | Develops | Reviews | — |
| Succession Plans | Reviews | Develops | — | — | — | Review |

(1) Aon Hewitt & Willis Towers Watson.
(2) Meridian Compensation Partners, LLC (Meridian).
(3) Daniel F. Akerson (Chairman), Nolan D. Archibald, David B. Burritt, Thomas J. Falk. Rosalind G. Brewer was a member until October 1, 2017.

## How We Determine Market Rate Compensation

As a starting point, for each of the principal elements of executive compensation we define the "market rate" as the size-adjusted 50th percentile of our comparator group of companies. Size-adjusted market rates are calculated for us by Aon Hewitt using regression analysis. This statistical technique accounts for revenue size differences within the peer group and results in a market rate for all compensation elements consistent with our revenue relationship to our peers. We also may adjust the market rate to reflect differences in an executive's job scope relative to the industry or the comparator group of companies, as appropriate.

Because market data can change year-over-year, the Compensation Committee considers the current market data in combination with other internal factors when setting annual target pay levels. Our incentive plans are designed so that actual performance in excess of established performance targets results in payouts above target and actual performance below established performance targets results in payouts below target or no payout.

## How We Select the Comparator Group for Market Rate Purposes

We regularly review our comparator group to maintain relevancy and to ensure the availability of data, while seeking to avoid significant annual changes in the group to ensure a level of consistency.

To establish the market rate for each of the principal elements of compensation, we select a group of publicly-traded companies (our comparator group) to identify market rates. Because the number of comparable companies with our revenue level is not extensive, we include companies in our comparator group based on a number of factors, including:

- similarity in size (a high correlative factor in determining pay), generally based on annual revenues;
- participation in the Aon Hewitt executive compensation survey (our primary source for data in making market comparisons), which enables us to obtain reliable data for market comparisons that otherwise may not be publicly available;
- industrial companies and, to the extent possible, companies that compete in the aerospace and defense industry, which enables comparison with companies that face similar overall labor costs, economic factors and market fluctuations;
- companies that are included in the executive talent pool we consider when recruiting outside talent, as competitive conditions and a limited number of comparably sized aerospace and defense companies require us to recruit outside the core aerospace and defense companies for a broad range of disciplines (e.g., finance, human resources, legal, supply chain management) to obtain individuals with a broad range of skills that are transferable across industries; and
- companies with comparable executive officer positions or management structures, which enables more appropriate compensation comparisons.

We do not consider market capitalization in selecting our comparator group because market capitalization can change quickly as industries and companies go in and out of favor as investments and as companies restructure.

The data presented to and considered by the Compensation Committee regarding the level of compensation at the Corporation's comparator group of peer companies was developed from the proprietary results of the Aon Hewitt executive compensation survey, subject to review by Meridian. All of the 2017 comparator group companies participated in the Aon Hewitt survey.

During 2017, the Compensation Committee reviewed our comparator group considering certain business combinations that occurred within our peer group. The Compensation Committee approved a revised comparator group for 2018, which eliminated Johnson Controls International plc considering its business combination with Tyco International and International Paper Company because it is no longer similar in size to us in terms of its annual revenues. General Electric Company and International Business Machines Corporation were added as new comparator companies given their similarity to the Corporation in terms of size, industry and geographic presence. In addition, these newly added companies compete with us for key talent with comparable executive officer positions in terms of breadth, complexity and scope of responsibilities. The new comparator group will be used for 2018 executive compensation decisions.

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For 2017, we used the following companies as our comparator group for purposes of establishing market rate compensation for each of the principal elements of our compensation programs. The comparator group did not change from 2016 and our 2017 revenues represented the 65th percentile of the comparator group.

### 2017 Comparator Group Companies

| | | |
|---|---|---|
| 3M Company | E. I. du Pont de Nemours and Company** | Johnson Controls International plc** |
| The Boeing Company* | FedEx Corporation | Northrop Grumman Corporation* |
| Caterpillar Inc. | General Dynamics Corporation* | Raytheon Company* |
| Cisco Systems, Inc. | Honeywell International Inc.* | United Parcel Service, Inc. |
| Deere & Company | Intel Corporation | United Technologies Corporation* |
| The Dow Chemical Company** | International Paper Company | |

* Aerospace & Defense Industry
** E. I. du Pont de Nemours and Company and The Dow Chemical Company merged during 2017. Johnson Controls Inc. and Tyco International plc merged during 2016.

## Consideration of Internal Pay Equity

Consistent with past practice, the Compensation Committee reviewed the pay relationship of the CEO to the other NEOs as part of its annual compensation review in 2017 and 2018. This material was presented to the Compensation Committee by Meridian in its capacity as the Committee's independent compensation consultant.

## Compensation and Risk

The Corporation's executive and broad-based compensation programs are intended to promote decision-making that supports a pay for performance philosophy while mitigating risk by utilizing the following design features:

- Mix of fixed and variable pay opportunities
- Multiple performance measures, multiple time periods and capped payouts under incentive plans
- Stock ownership requirements
- Oversight by Board committees
- Set incentive goals at the Enterprise or business segment level
- Moderate severance program and post-employment restrictive covenants
- Institutional focus on ethical behavior
- Annual risk review
- Compensation Committee oversight of equity burn rate and dilution
- Clawback policy

At the Compensation Committee's request, Meridian reviewed all executive and broad-based incentive compensation programs in 2017 and concluded that risks arising from our incentive compensation programs are not reasonably likely to have a material adverse effect on the Corporation.

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**Executive Compensation**

## 2017 Named Executive Officers' Compensation

### 2017 Target Compensation

Our NEOs' target compensation for 2017 is shown below, which is closely aligned to the market rate. Because market data is volatile year-over-year due to changes in incumbent data within our peer group, the Compensation Committee considers current market data in combination with other factors, including previous pay levels, internal pay equity, individual performance and critical skills, when determining target pay for our NEOs.

| NEO | Base Salary ($) | Annual Incentive Target % | Annual Incentive Target Amount ($) | 2017 LTI Grant ($) | Total Target Direct Compensation ($) |
|---|---|---|---|---|---|
| **Ms. Hewson** | 1,695,000 | 175 | 2,966,250 | 11,880,252 | 16,541,502 |
| **Mr. Tanner** | 1,000,000 | 110 | 1,100,000 | 4,200,120 | 6,300,120 |
| **Mr. Bennett** | 855,000 | 95 | 812,250 | 3,350,257 | 5,017,507 |
| **Mr. Carvalho** | 855,000 | 95 | 812,250 | 3,350,257 | 5,017,507 |
| **Ms. Lavan** | 795,000 | 95 | 755,250 | 2,700,161 | 4,250,411 |

### 2017 Core Compensation Elements

Our compensation programs are designed to provide a mix of short- and long-term compensation, fixed and variable pay and cash and equity-based compensation, as well as to reflect our philosophy of providing pay for performance. Retirement programs or "all other compensation" are not included in our core compensation elements below (additional information about these programs can be found on page 46).

| | | | | | |
|---|---|---|---|---|---|
| **WHAT?** | **Cash** | **Cash** | **Equity** | **Cash** | **Equity** |
| **WHEN?** | Annual | Annual | 3-year Performance Cycle | 3-year Performance Cycle | 3-year Cliff Vesting |
| **HOW?**<br>*Measures, Weightings & Payouts* | Market rate, as well as individual performance, internal pay equity, experience and critical skills | **70% Financial**<br>(20% Sales, 40% Segment Operating Profit,** 40% Cash from Operations)<br>+<br>**30% Strategic & Operational**<br>(Key Metrics: Focus Programs, Mission Success®, Program Performance, Portfolio Shaping Initiatives, Innovation, Talent Management)<br>Payout: 0-200% of target | **Relative TSR***<br>**ROIC****<br>**Performance Cash****<br>Award 0-200% of target # of shares<br>Relative TSR measure capped at 100% if TSR is negative<br>Up to 400% of stock price on date of grant times shares earned | **(50%)**<br>**(25%)**<br>**(25%)**<br>Payout: 0-200% of target<br>Relative TSR measure capped at 100% if TSR is negative | Value delivered through long-term stock price performance |
| **WHY?** | | | | | |

| | | | |
|---|---|---|---|
| Provides competitive levels of fixed pay to attract and retain executives. | Attracts and motivates executives by linking annual company performance to an annual cash incentive. | Creates strong alignment with stockholder interests by linking long-term pay to key performance metrics and stock price. Provides a balance of internal and market based measures to assess long-term performance. | Promotes retention of key talent and aligns executive and stockholder interests. |

* Relative TSR performance is measured against our industry peers in the S&P Aerospace & Defense Index.

** Refer to Appendix B for an explanation of non-GAAP terms as well as our disclosure regarding forward-looking statements concerning future performance or goals for future performance.

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## Base Salary

Base salaries are reviewed annually and may be increased to align more appropriately with the market rate (50th percentile), taking into account the executive's individual performance and internal pay equity. In establishing the base salary for each NEO, we determined the market rate using comparator group company data and evaluated whether the market rate should be adjusted up or down based on differences in the scope of the NEO's position as compared to the industry and the comparator group companies.

## 2017 Annual Incentive

As was the case for 2016, the 2017 annual incentive plan for our CEO, other NEOs and all other officers elected by the Board, was based 70% on financial goals and 30% on strategic and operational goals measured at the Enterprise level, as illustrated in the graphic below. Although the annual incentive plan uses a formulaic approach, the Compensation Committee retains discretion, which includes choosing and approving goals, assessing strategic and operational results and modifying payouts for all officers elected by the Board, including the NEOs.

**x** **=**

**0%** **200%**

Under the terms of our annual incentive plan, the CEO's bonus cannot exceed 0.3% of Performance Cash (see Appendix B for non-GAAP definition) and the bonus for each of the other NEOs cannot exceed 0.2% of Performance Cash. Annual incentive payouts range from 0% to 200% of target.

## 2017 Annual Incentive Goals and Results

At its January 2017 meeting, the Compensation Committee approved Enterprise-wide objectives for 2017 reflecting financial and strategic and operational goals. These goals are used as the Enterprise Component for all executives in the Corporation and serve as the only goals for the CEO, other NEOs and all other officers elected by the Board.

***Financial Assessment (70% Weight).*** The financial targets utilized under the annual incentive plan align with the guidance we disclosed publicly at the beginning of 2017. We believe this approach to setting the financial metrics for annual incentive purposes appropriately links compensation to our effectiveness in meeting our public commitments to our stockholders.

Our financial commitments are established at the completion of our annual long-range planning process and are consistent with our long-range plan commitments. The long-range planning process includes reviews of the assumptions used by the business segments in generating their financial projections, such as industry trends and competitive assessments, current and future projected program performance levels and the risks and opportunities surrounding these baseline assumptions. The long-range plan on which our financial goals are based is tied to the business environment in which we operate and can vary year-over-year.

Our long-range plan values for Sales, Segment Operating Profit (see Appendix B for definition of non-GAAP terms) and Cash from Operations are set forth in the 2017 guidance we provided publicly to investors in January 2017 and represent the target level (100% performance rating) for each of these metrics. We established maximum (200% performance rating) and threshold payout levels (50% performance rating) around these targets based on a review of historical performance against long range plan commitments for each of the three annual incentive goal metrics, which ensures the appropriate level of rigor on each of the threshold, target and maximum goals. We used straight-line interpolation between target and both maximum and minimum historical performance levels. In all cases, payouts deteriorate more rapidly as we move from target level to the minimum payout level compared to the level of increase as we move from target level to maximum payout level. This asymmetry reflects the importance we place on meeting our financial goals. The Compensation Committee reviewed the methodology and the targets established as part of its annual process during 2017.

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**Executive Compensation**

| 2017 Financial Measures | Weight | 2017 Goals ($) | Reported Results ($) | Calculated Payout | Weighted Payout |
|---|---|---|---|---|---|
| **Sales** | 20% | 49,400 – 50,600M | 51,048M | 146% | 29% |
| **Segment Operating Profit*** | 40% | 5,015 – 5,135M | 5,115M | 124% | 50% |
| **Cash from Operations** | 40% | ≥ 5,700M | 6,476M | 200% | 80% |
| **Financial Payout Factor** | | | | | **159%** |

* See Appendix B for definition of non-GAAP terms.

***Strategic & Operational Assessment (30% Weight).*** Our strategic and operational performance assessments are inherently different than financial performance assessments. For the 2017 performance year, a broad set of goals were established for our strategic and operational commitments at the beginning of the year. The strategic and operational performance goals are not specific because some are aspirational, cannot be forecasted reliably or are qualitative in nature. When determining the overall payout factor, the Compensation Committee considers both quantitative and qualitative results and applies discretion when evaluating performance in totality.

The strategic and operational performance goals and results are set forth below.

| 2017 Strategic & Operational Goals Summary | Assessment Summary Highlights |
|---|---|
| **Focus Programs:** Secure Key Focus and Keep Sold Program wins | 73% win rate on programs throughout the year<br>Record orders of $54 billion with backlog at year-end of approximately $100 billion |
| **Mission Success®:** Achieve Mission Success® milestones | Continued operational excellence with 100% Mission Success® in targeted events<br>Key program milestones achieved throughout the Corporation, including on F-35 |
| **Program Performance:** Execute programs to achieve customer satisfaction and increase stockholder value | Robust domestic and international customer engagements<br>Returned $4.2 billion of our $6.5 billion in Cash from Operations to our stockholders through dividends and share repurchases |
| **Portfolio Shaping / Enterprise Initiatives:** Review portfolio on an ongoing basis; streamline operations and implement other Enterprise-wide initiatives to create long-term value | Increased breadth and diversification in addressable markets<br>Significant progress made in key international countries; international sales grew to 30% of total sales<br>Industry Leader in Sustainability - only U.S. aerospace and defense company to receive Gold Class distinction from RobecoSAM for excellence in sustainability performance |
| **Innovation:** Execute technology strategy, ensuring robust innovation, collaboration and strategic partnering | Significant developments in directed energy and hypersonics<br>Large strategic investments made in research and development |
| **Talent Management:** Attract, develop and retain the workforce needed to deliver commitments to customers and stockholders | Achieved high retention rate of top performers<br>Completed key rotations in executive leadership positions<br>Successfully executed diversity and inclusion initiatives |
| **Strategic & Operational Payout Factor** | **200%** |

The Compensation Committee reviewed these accomplishments and recommended this factor to recognize the Corporation's exceptional performance in a highly competitive environment while undertaking major strategic initiatives.

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## Summary of Annual Incentive Payout Calculations

No changes were made to annual incentive target percentages for any of the NEOs for 2017. The final payout factor and payout amounts for each of our NEOs, as determined by the Board, are shown below:

### Summary of 2017 Enterprise Performance & Overall Payout Factor

| | Weight | 2017 Factors | Weighted Payout |
|---|---|---|---|
| **Financial** | 70% | 159% | 111% |
| **Strategic & Operational** | 30% | 200% | 60% |
| **Overall Payout Factor** | | | **171%** |

| NEO | Base Salary ($) | Target % of Salary (%) | Target Award ($) | X | Overall Payout Factor | = | Payout ($) |
|---|---|---|---|---|---|---|---|
| **Ms. Hewson** | 1,695,000 | 175 | 2,966,250 | | | | 5,072,300 |
| **Mr. Tanner** | 1,000,000 | 110 | 1,100,000 | | | | 1,881,000 |
| **Mr. Bennett** | 855,000 | 95 | 812,250 | | **171%** | | 1,388,900 |
| **Mr. Carvalho** | 855,000 | 95 | 812,250 | | | | 1,388,900 |
| **Ms. Lavan** | 795,000 | 95 | 755,250 | | | | 1,291,500 |

## 2017 Long-Term Incentive Compensation

The following summary shows the 2017 LTI compensation mix for the CEO, EVPs and Senior Vice Presidents (SVPs) and other principal terms of the awards.

In determining the appropriate level of equity grants for 2017, the Compensation Committee took into consideration the long-term incentive market rate (50th percentile) along with a variety of other factors, including the number of awards outstanding and shares remaining available for issuance under the Corporation’s equityincentive plans, the number of shares that would be issued under contemplated awards over the range of potential performance achievement, the total number of the Corporation’s outstanding shares, the resulting implications for stockholder dilution and the number of shares granted to our executives year-over-year.

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## PSU Awards (50% of the LTI award)

PSU awards are calculated by multiplying the overall target LTI award value by the weighting assigned to the PSU element. The total PSU value is then multiplied by the weighting assigned to each PSU component (50% to Relative TSR, 25% to ROIC, 25% to Performance Cash). The number of PSUs granted is based on the grant date fair market value of each PSU element using the Monte Carlo simulation method for the Relative TSR component and the grant date fair market value discounted to reflect the deferral of dividends for ROIC and Performance Cash components.

Each NEO's PSU target number of shares is determined at the beginning of the three-year performance period and the actual number of shares earned at the end of the period is calculated based on our performance measured against the three financial metrics.

The number of shares granted at the end of the cycle can range from 0% to 200% of the applicable target number of shares. If TSR is negative at the end of the performance cycle, the rating for the Relative TSR measure is capped at 100%. In addition, the maximum value that can be earned under a PSU award is 400% of the stock price on the date of grant times the shares earned. The award calculation is formulaic pursuant to the provisions defined in the award agreement and no adjustment can be made to the final number of shares granted, which is determined based on the performance outcomes relative to our pre-set metrics and goals. Participants also accrue dividend equivalents on the shares earned, which are paid in cash following vesting of the underlying shares.

## LTIP Awards (20% of the LTI award)

LTIP awards are cash-based and are calculated by multiplying the overall target LTI award value by the weighting assigned to the LTIP element.

Each NEO's LTIP target is determined at the beginning of the three-year performance period and the actual award earned at the end of the period is calculated based on the same performance measures as those used for the PSUs: Relative TSR, ROIC and Performance Cash. Payouts can range from 0% to 200% of the applicable target. The award calculation is formulaic pursuant to the provisions defined in the award agreement and no adjustment can be made to the final payout factor, which is determined based on the performance outcomes relative to our pre-set metrics and goals.

For the 2017-2019 LTIP grants, any amount payable to a single participant in excess of $10 million will be forfeited.

## RSU Awards (30% of LTI award)

RSU awards are calculated by multiplying the overall target LTI award value by the weighting assigned to the RSU element. The number of RSUs granted is determined by the grant date fair market value discounted to reflect deferral of dividends.

All RSUs awarded to NEOs in 2017 were subject to forfeiture to the extent the grant date value of the RSUs exceeded 0.2% of 2017 Performance Cash in the case of the CEO and 0.1% of 2017 Performance Cash in the case of each of the other NEOs. These performance requirements were satisfied and no forfeitures occurred. Deferred dividend equivalents are accrued during the vesting period and paid in cash following the vesting of the underlying shares.

## Selection of LTI Performance Measures

The LTI performance metrics approved by the Compensation Committee are measures that we believe most effectively support our long-term business and strategic goals and directly tie the long-term goals of our executive leadership team to the interests of our stockholders. The measurements used for the financial component of our 2017 annual incentive plan (Sales, Segment Operating Profit and Cash from Operations) also serve as the foundation for achieving our long-term goals such that we must consistently achieve or exceed the Corporation's annual goals in order to achieve our LTI goals.

The selected LTI performance metrics consist of Relative TSR (50% weight), ROIC (25% weight) and Performance Cash (25%weight). We chose these three metrics because we believe they represent the best measures of value creation for the Corporation over a long-term period. We also applied equal weighting to the market-based measure of value creation, TSR, to what we believe are the best internal measures of value creation, Performance Cash and ROIC.

We selected Relative TSR to measure our performance against our industry peers in the S&P Aerospace Index. Because every industry faces different challenges and opportunities, we believe that comparing our TSR against peers facing a similar business environment is preferred to those outside our industry. While the S&P Aerospace Index is, in our judgment, the best index against which to compare our Relative TSR, we recognize that it does not perfectly correlate to the environment in which Lockheed Martin operates since some firms in the index are almost entirely in the commercial aerospace business, some are entirely government contractors and some have a mixture of the two businesses.

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**Executive Compensation**

Because the Relative TSR index is not perfectly aligned with the businesses in which Lockheed Martin operates and because any number of macro-economic factors that could affect market performance are beyond the control of the Corporation, we use ROIC and Performance Cash as internal measures that can be directly affected by management's decisions. ROIC measures how effectively we employ our capital over time, while our Performance Cash provides the means for investment or value creation. By including a cash measure in both our annual and long-term incentive plans, the plans also mitigate the risk of short-term cash strategies that do not create long-term value.

In tandem, we believe that these metrics drive the behaviors of our management team in ways that are intended to create the most value for our stockholders.

## Setting Goals for LTI (PSUs and LTIP)

Our long-range planning process is used to establish the target (100% level of payment) for the Performance Cash and ROIC metrics in the PSU and LTIP grants. In setting minimum and maximum levels of payment, we reviewed historical levels of performance against long range plan commitments, and conducted sensitivity analyses on alternative outcomes focused on identifying likely minimum and maximum boundary performance levels. Levels between 100% and the minimum and maximum levels were derived using linear interpolation between the performance hurdles. As with our annual incentive performance goals, PSU and LTIP payouts deteriorate more rapidly as we move from target level to the minimum payout level than they increase as we move from target level to maximum payout level. This asymmetry reflects the importance we place on meeting our financial commitments.

The specific Performance Cash and ROIC target values for the 2017-2019 PSU and LTIP plans are not publicly disclosed at the time of grant due to the proprietary nature and competitive sensitivity of the information. However, the method used to calculate the awards will be based on actual performance compared to the Corporation's 2017-2019 targets, which use straight-line interpolation between points. The individual award agreements require the adjustment of goals to ensure that the ultimate payouts are not impacted to the benefit or detriment of management by specified events, such as unplanned pension contributions, changes in accounting (GAAP) standards or impact of an acquisition or divestiture valued at more than $1 billion. The Compensation Committee does not have discretion to adjust the results of the PSU and LTIP awards beyond the adjustments specified in the award agreements.

## 2017-2019 Performance Goals

| **Relative TSR (50%)*** | | **Performance Cash (25%)** | | **ROIC (25%)** | |
|---|---|---|---|---|---|
| 75th 100th | 200% | Plan + ≥ $2.0B | 200% | Plan + ≥ 160 bps | 200% |
| 60th | 150% | Plan + $1.5B | 175% | Plan + 120 bps | 175% |
| 50th | 100% (Target) | Plan + $1.0B | 150% | Plan + 80 bps | 150% |
| 40th | 50% | Plan + $0.5B | 125% | Plan + 40 bps | 125% |
| 35th | 25% | Plan | 100% | Plan | 100% |
| < 35th | 0% | Plan - $0.2B | 75% | Plan - 10 bps | 75% |
| | | Plan - $0.5B | 50% | Plan - 20 bps | 50% |
| | | Plan - $0.7B | 25% | Plan - 30 bps | 25% |
| | | Below Plan - $0.7B | 0% | Below Plan - 30 bps | 0% |

* Relative TSR performance is measured against our industry peers in the S&P Aerospace Index.

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## 2015-2017 LTIP and PSU Awards

The cash-based LTIP and share-based PSU payouts for the three-year performance period ended December 31, 2017, were calculated by comparing actual corporate performance for each metric for the period January 1, 2015 through December 31, 2017, against a table of payment levels from 0% to 200% (with the 100% payout level being considered target) established at the beginning of the performance period in January 2015.

For the three-year performance period ended December 31, 2017, actual results were above targeted levels for Relative TSR (weighted 50%) and Performance Cash (weighted 25%) metrics, which resulted in 200% and 179.6% payout factors, respectively. For the same period, actual ROIC (weighted 25%) was 17.1% compared to our pre-established target of 17.7% and generated a 0.0% payout factor, which pursuant to the formulaic nature of our plan, was negatively impacted by the debt issuance associated with our acquisition of Sikorsky. The awards are calculated pursuant to the provisions provided in the award agreements. The Compensation Committee cannot make any adjustments to the final payout factor.

| Measure | Performance Target | Performance Result | Weighting | Payout Factor |
|---|---|---|---|---|
| **Relative TSR** | 50th Percentile | 78th Percentile | 50% | 200.0% |
| **Performance Cash*** | $15.3B | $16.893B | 25% | 179.6% |
| **ROIC*** | 17.7% | 17.1% | 25% | 0.0% |

## 2015-2017 LTIP Payouts

Based on a weighted payout factor of **144.9%**, the following table shows the payouts under the 2015-2017 LTIP made in January 2018.

| NEO | 2015–2017 LTIP Target ($) | Payout ($) |
|---|---|---|
| **Ms. Hewson** | 2,240,000 | 3,245,760 |
| **Mr. Tanner** | 803,000 | 1,163,547 |
| **Mr. Bennett** | 500,000 | 724,500 |
| **Mr. Carvalho** | 600,000 | 869,400 |
| **Ms. Lavan** | 520,000 | 753,480 |

## 2015-2017 PSU Awards

The 2015-2017 target PSU award value was allocated to each performance measure based on the pre-defined weightings, namely 50% to Relative TSR, 25% to ROIC, and 25% to Performance Cash. The number of PSUs granted for each element is based on the grant date fair market value using Monte Carlo simulation method for the Relative TSR component and the grant date fair market value discounted to reflect the deferral of dividends for ROIC and Performance Cash components. PSU awards earned are calculated by multiplying the payout factor for each performance metric by the target number of units for each performance metric. The actual value realized by the NEOs at vesting also depends on our stock price, which may be higher or lower than the grant date fair market value.

| | 2015-2017 Target PSUs (#) | | | Total Shares |
|---|---|---|---|---|
| NEO | Relative TSR | Performance Cash* | ROIC* | Distributed/Earned |
| **Ms. Hewson** | 14,834 | 7,281 | 7,281 | 42,745 |
| **Mr. Tanner** | 5,318 | 2,610 | 2,610 | 15,324 |
| **Mr. Bennett** | 3,311 | 1,625 | 1,626 | 9,541 |
| **Mr. Carvalho** | 3,974 | 1,950 | 1,951 | 11,451 |
| **Ms. Lavan** | 3,444 | 1,690 | 1,691 | 9,924 |

* See Appendix B for definition of non-GAAP terms.

# 2018 Compensation Decisions

## 2018 Base Salary

The Compensation Committee approved the following 2018 salary increases based on the market rate, along with other factors such as the executive's performance and internal pay equity.

| NEO | 2017 Base Salary ($) | 2018 Base Salary ($) | Increase |
|---|---|---|---|
| **Ms. Hewson** | 1,695,000 | 1,745,000 | 3% |
| **Mr. Tanner** | 1,000,000 | 1,030,000 | 3% |
| **Mr. Bennett** | 855,000 | 880,000 | 3% |
| **Mr. Carvalho** | 855,000 | 880,000 | 3% |
| **Ms. Lavan** | 795,000 | 820,000 | 3% |

## 2018 Annual Incentive Metrics and Goals

There were no changes to our annual incentive plan design for the 2018 performance year.

The Compensation Committee approved the key corporate commitments set forth below for purposes of assessing performance in 2018. Although the annual incentive plan uses a formulaic approach to determine payout, the Compensation Committee retains discretion to modify the payouts for the CEO, other NEOs and all other officers elected by the Board.

### 2018 Financial Goals (Weight 70%)

The financial commitments are consistent with our long-range plan commitments, and are the same ranges we provided as public guidance in January 2018 in our year-end earnings release and in accordance with the new revenue recognition standard. Our Cash from Operations goal for 2018 is lower than our 2017 goal because the Corporation is accelerating future pension contributions of $3.4 billion to 2018 in order to preserve the benefit of the associated tax deduction at the higher statutory rate in 2017. These commitments for 2018 are set forth below.

| 2018 Commitments | Weighting | 2018 Goal ($) |
|---|---|---|
| **Sales** | 20% | 50,000 – 51,500M |
| **Segment Operating Profit** | 40% | 5,200 – 5,350M |
| **Cash from Operations** | 40% | ≥ 3,000M |

For the purposes of assessing performance under our annual incentive program, results may be adjusted from reported amounts for the incremental benefits or impacts associated with non-recurring items, such as acquisitions or divestitures. Cash from Operations results have been adjusted in prior years for unplanned pension contributions so that the impact on incentive compensation is not a factor in the decision to make the additional pension contribution.

### 2018 Strategic and Operational Goals (Weight 30%)

The strategic and operational commitments for 2018 are set forth below:

**Focus Programs:** Secure Key Focus Program wins and achieve Keep Sold Program milestones

**Mission Success®:** Achieve Mission Success® milestones

**Program Performance:** Execute programs to achieve customer satisfaction and increase stockholder value

**Portfolio Shaping / Enterprise Initiatives:** Assess the company portfolio on an ongoing basis to maximize stockholder value, including M&A activity, streamlining operations and other Enterprise-wide initiatives

**Innovation:** Execute technology strategy, ensuring robust innovation, collaboration and strategic partnering

**Talent Management:** Attract, develop and retain the workforce needed to deliver commitments to customers and stockholders

## 2018 Long-Term Incentive Award Opportunities

The Compensation Committee approved 2018 LTI award opportunities for all NEOs relative to their respective 2018 LTI market rate, the executive's performance and internal pay equity.

For 2018, the LTI award opportunity for the CEO and the other NEOs is allocated 50% toward PSUs, 20% toward LTIP and 30% toward RSUs, unchanged from the 2017 equity pay mix.

The measures and terms of the 2018-2020 PSUs and LTIP awards are similar to the 2017-2019 awards (see pages 40-42). For the 2018-2020 LTIP grants, any amount payable to a single participant in excess of $10 million will be forfeited. RSU grants will no longer be subject to a one-year performance metric in light of the repeal of the exemption to the $1 million cap on deductibility under section 162(m) of the Internal Revenue Code.

# Other Compensation Matters

## Our Use of Independent Compensation Consultants

The independent compensation consultant provides important information about market practices, the types and amounts of compensation offered to executives generally and the role of corporate governance considerations in making compensation decisions. The Compensation Committee's charter authorizes it to retain outside advisors that it believes are appropriate to assist in evaluating executive compensation.

For 2017, the Compensation Committee continued to retain Meridian as an independent compensation consultant. In connection with its retention of Meridian, the Compensation Committee considered the following factors in assessing Meridian's independence:

- Meridian's services for the Corporation are limited to executive and director compensation.
- The compensation paid to Meridian is less than 1% of Meridian's revenues.
- Meridian has business ethics and insider trading and stock ownership policies, which are designed to avoid conflicts of interest.
- Meridian employees supporting the engagement do not own Lockheed Martin securities.
- Meridian employees supporting the engagement have no business or personal relationships with members of the Compensation Committee or with any Lockheed Martin executive officer.

At its February 2018 meeting, the Compensation Committee renewed the engagement of Meridian. At that time, Meridian confirmed the continuing validity of each of the factors described above.

The nature and scope of Meridian's engagement was determined by the Compensation Committee and not limited in any way by management. During 2017, Meridian also provided consultative services to the Governance Committee regarding the compensation of the Corporation's independent directors. A description of the services provided by Meridian can be found on pages 34 and 65.

## Policy Regarding Timing of Equity Grants

We have a corporate policy statement concerning the grant of equity awards. Under that policy:

- The Compensation Committee is responsible for determining the grant date of all equity awards.
- No equity award may be backdated. A future date may be used if, among other reasons, the Compensation Committee's action occurs in proximity to the release of earnings or during a trading blackout period.
- Proposed equity awards are presented to the Compensation Committee in January of each year and starting in 2018, will be presented in February of each year given a shift in the Board meeting calendar. Off-cycle awards may be considered in the Compensation Committee's discretion in special circumstances, which may include hiring, retention or acquisition transactions.

In addition, our existing incentive performance award plan prohibits repricing of stock options or paying cash for underwater stock options.

## Clawback and Other Protective Provisions

The Governance Guidelines include a clawback policy. If the Board determines that an officer's intentional misconduct, gross negligence or failure to report such acts by another person was a contributing factor in requiring us to restate any of our financial statements or constituted fraud, bribery or another illegal act (or contributed to another person's fraud, bribery or other illegal act) which adversely impacted our financial position or reputation, then the Board shall take such action as it deems in the best interest of the Corporation and necessary to remedy the misconduct and prevent its recurrence. Among other actions, the Board may seek to recover or require reimbursement of any amount awarded to the officer after January 1, 2008, in the form of an annual incentive bonus or LTI award.

The clawback policy is included in our annual incentive plan and in the award agreements for the RSUs, stock options, PSUs and LTIP. There were no events requiring Board consideration of a clawback action during 2017.

In the event the Board recoups incentive compensation under the policy, management intends to disclose the aggregate amount of incentive compensation recovered, so long as the underlying event has already been publicly disclosed in our filings with the SEC. This disclosure would appear in the proxy statement following any such Board action and would provide the aggregate amount of recovery for each event if there is more than one applicable event.

The award agreements for the NEOs also contain post-employment restrictive covenants. The post-employment restrictions were incorporated into all executive level award agreements beginning in 2011.

## Anti-Hedging and Pledging Policy

Our policies prohibit hedging and pledging of Lockheed Martin stock by all directors, officers and employees.

## Stock Ownership Requirements for Key Employees

To better align their interests with the long-term interests of our stockholders, we expect our officers (including the NEOs) and other members of management to maintain an ownership interest in the Corporation based on the following guidelines:

| Title | Annual Base Salary Multiple |
|---|---|
| **Chairman, President and CEO** | 6 times |
| **Chief Financial Officer** | 4 times |
| **Executive Vice Presidents** | 3 times |
| **Senior Vice Presidents** | 2 times |

NEOs are required to achieve ownership levels within five years of assuming their role and must hold net shares from vested RSUs and PSUs and net shares from options exercised until the value of the shares equals the specified multiple of base salary. The securities counted toward their respective target threshold include common stock, unvested RSUs, and stock units under our 401(k) plans and other deferral plans. Unvested PSUs at target are not counted towards ownership levels. Each of our NEOs has exceeded their respective ownership requirements.

## Benefit, Retirement and Perquisite Programs

We offer other compensatory arrangements to our NEOs. The purpose for these benefits is to ensure security of executives, provide assistance with business-related expenses, and be competitive with the other companies in our industry. Below is a summary of programs available to our NEOs. Further details are described in footnotes to the Summary Compensation Table on page 51.

***Health, Welfare and Retirement Benefits.*** Our NEOs are eligible for savings, pension, medical, disability, and life insurance benefits under the plans available to salaried, non-union employees. We offer supplemental pension and savings plans to make up for benefits that otherwise would be unavailable due to Internal Revenue Service (IRS) limits on qualified plans. These plans are restorative and do not provide an enhanced benefit. We also offer a plan for the deferral of short-term and certain long-term cash incentive compensation. All NEOs are eligible for four weeks of vacation annually.

***Perquisites and Security.*** We provide limited perquisites, including executive physicals and personal travel on the corporate aircraft, as well as home and personal security as needed to address security concerns arising out of our business. We believe security is necessary and generally provided to executives within our industry given the nature of our business. In the event of a threat to an executive officer, the CBS Committee reviews and approves the security recommended by our Chief Security Officer. Furthermore, our Board has directed our CEO to use corporate aircraft for security reasons while on personal travel. Other NEOs may use the corporate aircraft for personal travel dependent upon circumstances and availability.

***Tax Assistance.*** We do not have agreements or severance arrangements that provide tax gross-ups for excise taxes imposed as a result of a change in control. In 2017, we provided tax assistance for taxable security expenses, business association expenses and travel expenses for a family member accompanying a NEO for a business reason. We pay an amount estimated to cover the income tax imposed on employees who became subject to income tax in another state due to business travel. Tax assistance was provided for these items because the associated tax liability imposed on the executive would not have been incurred unless business reasons required the items to be provided.

## Post-Employment, Change in Control, Divestiture and Severance Benefits

Our NEOs do not have employment agreements but participate in the Lockheed Martin Corporation Executive Severance Plan. Benefits are payable under this plan in the event of a company-initiated termination of employment other than for cause. All of the NEOs are covered under the plan.

The benefit payable in a lump sum under the plan is two weeks of basic severance plus a supplemental payment of one times the NEO’s base salary and the equivalent of one year’s target annual incentive bonus. For the CEO, the multiplier is 2.99 instead of one.

NEOs participating in the plan also receive a lump sum payment to cover the cost of medical benefits for one year in addition to outplacement and relocation services. To receive the supplemental severance benefit, the NEO must execute a release of claims and an agreement containing post-employment, non-compete and non-solicitation covenants comparable to those included in our NEOs' LTI award agreements.

With respect to LTI, upon certain terminations of employment, including death, disability, retirement, layoff, divestiture or a change in control, the NEOs may be eligible for continued vesting on the normal schedule, immediate payment of benefits previously earned or accelerated vesting of LTI in full or on a pro rata basis.

The type of event and the nature of the benefit determine which of these approaches will apply. The purpose of these provisions is to protect previously earned or granted benefits by making them available following the specified event. We view the vesting (or continued vesting) to be an important retention feature for senior-level employees. Because benefits paid at termination consist of previously granted or earned benefits, we do not consider termination benefits as a separate item in compensation decisions. Our LTI awards do not provide for tax assistance.

In the event of a change in control, our plans provide for the acceleration of the payment of the nonqualified portion of earned pension benefits and nonqualified deferred compensation. All LTI awards require a double trigger for vesting to accelerate (both a change in control and a qualifying termination of employment), unless the successor does not assume or continue the awards or provide substitute awards.

## Tax Deductibility of Executive Compensation

We designed our annual incentive and LTI programs for NEOs to quality as performance-based compensation exempt from the $1 million cap on deductibility under Section 162(m) of the Internal Revenue Code. The exemption from Section 162(m) s deduction limit for performance-based compensation has been repealed, effective for taxable years beginning after December 31, 2017. As a result, compensation paid to our NEOs after December 31, 2017 in excess of $1 million will not be deductible unless it qualifies for transition relief applicable to certain binding contracts in place as of November 2, 2017 and which were not materially modified after that date. It appears that the transition relief was not intended to apply to programs with a discretionary component such as our annual incentive plan which would mean that annual incentive payments made to our NEOs in 2018 for service in 2017 would not be deductible. We do not view our long-term incentive plans as having a discretionary component and will seek to qualify the 2015, 2016 and 2017 grants as covered by the transition relief. Until there is further guidance, there is no assurance we will be successful. The Compensation Committee reserves the right to modify compensation that was initially intended to be exempt from Section 162(m) or to grant executive compensation that is not performance-based if the Committee determines that such modifications or grants are permissible and consistent with our executive compensation philosophy.

# Summary Compensation Table

The following table shows annual and long-term compensation awarded, earned or paid for services in all capacities to the NEOs for the fiscal year ended December 31, 2017 and, where applicable, the prior fiscal years. Numbers have been rounded to the nearest dollar.

| Name and Principal Position (a) | Year (b) | Salary ($) (c) | Stock Awards ($) (e) | Non-Equity Incentive Plan Compensation ($) (g) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h) | All Other Compensation ($) (i) | Total ($) (j) | Total Without Change In Pension Value* ($) |
|---|---|---|---|---|---|---|---|---|
| **Marillyn A. Hewson** | 2017 | 1,688,269 | 9,504,252 | 8,318,060 | 2,687,391 | 668,871 | 22,866,843 | 20,179,452 |
| Chairman, President and Chief | 2016 | 1,634,231 | 9,228,211 | 8,159,848 | 1,151,615 | 399,828 | 20,573,733 | 19,422,118 |
| Executive Officer | 2015 | 1,603,221 | 8,962,915 | 9,096,460 | 8,402,875 | 500,573 | 28,566,044 | 20,163,169 |
| **Bruce L. Tanner** | 2017 | 995,962 | 3,360,121 | 3,044,547 | 2,293,379 | 115,791 | 9,809,800 | 7,516,421 |
| Executive Vice President and | 2016 | 963,942 | 3,212,032 | 3,005,020 | 1,528,251 | 91,363 | 8,800,608 | 7,272,357 |
| Chief Financial Officer | 2015 | 937,436 | 3,213,033 | 3,251,712 | 2,004,331 | 63,043 | 9,469,555 | 7,465,224 |
| **Dale P. Bennett** | 2017 | 851,635 | 2,680,257 | 2,113,400 | 800,854 | 223,124 | 6,669,270 | 5,868,416 |
| Executive Vice President Rotary | 2016 | 824,615 | 2,656,116 | 2,074,286 | 1,131,770 | 108,949 | 6,795,736 | 5,663,966 |
| and Mission Systems | 2015 | 717,720 | 2,000,641 | 2,233,730 | 2,980,085 | 69,117 | 8,001,293 | 5,021,208 |
| **Orlando P. Carvalho** | 2017 | 851,635 | 2,680,257 | 2,258,300 | 1,907,070 | 178,538 | 7,875,800 | 5,968,730 |
| Executive Vice President | 2016 | 824,615 | 2,656,116 | 2,224,358 | 1,258,922 | 112,641 | 7,076,652 | 5,817,730 |
| Aeronautics | 2015 | 795,370 | 2,400,882 | 2,350,746 | 3,033,253 | 59,180 | 8,639,431 | 5,606,178 |
| **Maryanne R. Lavan** | 2017 | 791,635 | 2,160,161 | 2,044,980 | 1,574,612 | 73,965 | 6,645,353 | 5,070,741 |
| Senior Vice President, General | 2016 | 765,288 | 2,128,100 | 2,025,960 | 1,059,605 | 71,590 | 6,050,543 | 4,990,938 |
| Counsel and Corporate Secretary | 2015 | 744,704 | 2,080,765 | 3,073,510 | 1,475,058 | 53,873 | 7,427,910 | 5,952,852 |

* See explanation of Total Without Change In Pension Value on page 51.

## Salary (Column (c))

Salary is paid weekly in arrears. The amount of salary reported may vary from the approved annual rate of pay because the salary reported in the table is based on the actual number of weekly pay periods in a year.

## Stock Awards (Column (e))

Represents the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 (ASC 718), for RSUs granted in 2017, 2016 and 2015, and PSUs granted in 2017, 2016 and 2015, disregarding potential forfeitures based on service requirements.

| | 2017 Aggregate Grant Date Fair Value RSUs ($) | 2017 Aggregate Grant Date Fair Value PSUs ($) |
|---|---|---|
| **Ms. Hewson** | 3,563,904 | 5,940,349 |
| **Mr. Tanner** | 1,259,825 | 2,100,296 |
| **Mr. Bennett** | 1,004,805 | 1,675,452 |
| **Mr. Carvalho** | 1,004,805 | 1,675,452 |
| **Ms. Lavan** | 809,851 | 1,350,310 |

The ASC 718 grant date fair value of one 2017 RSU ($254.51), 2016 RSU ($206.37), and one 2015 RSU ($192.28), is the closing price of one share of our stock on the date of grant, discounted to take into account the deferred dividend equivalents that are accrued until vesting.

Values for the PSUs, which are subject to performance conditions, are based on the probable outcome on the grant date of three separate performance conditions (approximately 50% of the target shares are earned based upon Relative TSR, approximately 25% of the target shares are earned based upon Performance Cash, and approximately 25% of the target shares are earned based upon ROIC).

The grant date fair value of $266.41 for 2017, $212.37 for 2016, and $188.96 for 2015 for the Relative TSR portion of the PSU award was determined using a Monte Carlo simulation model. The value was determined using the historical stock price volatilities of the companies in our comparator group over the most recent 2.93-year period for 2017 and 2016 and 2.92-year period for 2015, assuming dividends for each company are reinvested on a continuous basis and a risk-free rate of interest of 1.47% for 2017, 1.03% for 2016, and 0.81% for 2015 and that deferred dividend equivalents accrued on shares earned will be paid in cash upon vesting. The grant date fair value of $254.51 for 2017, $206.37 for 2016, and $192.28 for 2015 for the Performance Cash and ROIC portions of the awards is based on the closing price of our stock on the date of grant, discounted to take into account the deferred dividend equivalents that are accrued until vesting. In addition to the level of performance achieved, the value of the PSUs earned will be determined by the price of our stock which may be more or less than the grant date fair value.

The maximum grant date fair values of the 2017 PSU awards, assuming a 200% maximum payout on all three metrics are as follows: Ms. Hewson: $11,880,697; Mr. Tanner: $4,200,593; Mr. Bennett: $3,350,904; Mr. Carvalho: $3,350,904 and Ms. Lavan: $2,700,620.

The maximum grant date fair values of the 2016 PSU awards, assuming a 200% maximum payout on all three metrics are as follows: Ms. Hewson: $11,535,598; Mr. Tanner: $4,015,313; Mr. Bennett: $3,320,349; Mr. Carvalho: $3,320,349 and Ms. Lavan: $2,660,547.

The maximum grant date fair values of the 2015 PSU awards, assuming a 200% maximum payout on all three metrics are as follows: Ms. Hewson: $11,206,028; Mr. Tanner: $4,017,182; Mr. Bennett: $2,501,498; Mr. Carvalho: $3,002,023; and Ms. Lavan: $2,601,754.

## Non-Equity Incentive Plan Compensation (Column (g))

Includes the amount paid for annual incentive bonuses. The Compensation Committee will continue to use discretion to assess performance against objectives established at the beginning of the year. We also report amounts earned under our LTIP cash awards in the three-year period ending on December 31 of the year reported in Column (g) of the table.

The table below shows the respective 2017 annual incentive bonus and amount earned under the 2015-2017 LTIP and reported for each NEO:

| | 2017 Annual Incentive Payout ($) | 2015-2017 LTIP Payout ($) |
|---|---|---|
| **Ms. Hewson** | 5,072,300 | 3,245,760 |
| **Mr. Tanner** | 1,881,000 | 1,163,547 |
| **Mr. Bennett** | 1,388,900 | 724,500 |
| **Mr. Carvalho** | 1,388,900 | 869,400 |
| **Ms. Lavan** | 1,291,500 | 753,480 |

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## Change in Pension Value and Nonqualified Deferred Compensation Earnings (Column (h))

Reports the present value of the change in pension benefit for the NEO for the year reported (for example, from December 31, 2016 to December 31, 2017) and is not the amount that will be paid to the NEO.

The disclosure is based on the Corporation s final average compensation formula in its defined benefit plan which multiplies a percentage (1.25% of compensation below the social security wage base and 1.5% above that level) times years of service times the average of the employee s highest three years of compensation in the last ten years ending with 2015. This is the same formula used for all participants accruing a pension benefit in 2017; none of the NEOs (including Ms. Hewson) has been credited with any extra years of service or provided a benefit from a special or enhanced formula. Under a three-year final average compensation formula, increasing service, age and compensation will result in an increase in the earned benefit. Prior to 2016, when an employee received a compensation increase, the three-year average compensation that went into the formula would likewise increase. In the past, the impact of that increase in the average would have been greater with a longer service employee because the pension formula multiplies the now-higher average compensation by years of service. Effective January 1, 2016, the pay element of the pension calculation was frozen. With pay no longer a factor, any increase in a NEO s pension benefit is based on service alone. The year-over-year value is also affected by the changes in interest rate and life expectancy (longevity) assumptions.

The Summary Compensation Table uses the same interest rate and longevity assumptions that we use to report pension liabilities for all pension plan participants in our financial statements. These assumptions are updated annually for the year-end measurements of our pension plans. The amounts reported for 2017, 2016 and 2015 used a discount rate of 3.625%, 4.125% and 4.375%, respectively, as the interest rate. In October 2017, 2016, and 2015, the Society of Actuaries published revised longevity assumptions that refined its publication beginning in 2014. We used the revised assumptions indicating a shortened longevity compared with each prior year.

## All Other Compensation (Column (i))

Perquisites and other personal benefits provided to the NEOs in 2017 included: security; annual executive physicals; business association expenses; use of corporate aircraft for personal travel; and travel for a family member accompanying the NEO while on business travel. Not all of the listed perquisites or personal benefits were provided to each NEO. In addition, the Corporation made available event tickets and a company-provided car and driver for personal commuting to some of the NEOs, but required the NEOs to reimburse the Corporation for the incremental cost to the Corporation in 2017 of such items. The cost of any category of the listed perquisites and personal benefits did not exceed the greater of $25,000 or 10% of total perquisites and personal benefits for any NEO, except for: (i) security for Ms. Hewson ($138,731); (ii) personal use of the corporate aircraft for Ms. Hewson ($300,326); for Mr. Tanner ($35,272); for Mr. Bennett ($142,404); and for Mr. Carvalho ($47,720); and (iii) travel for a family member accompanying the NEO while on business travel for Mr. Carvalho ($32,268). The incremental cost for use of corporate aircraft for personal travel was calculated based on the total personal travel flight hours multiplied by the estimated hourly aircraft operating costs for 2017 (including fuel, maintenance, staff travel expenses, and other variable costs, but excluding fixed capital costs for the aircraft, hangar facilities, and staff salaries).

The incremental cost for personal security is calculated based on billings for services and equipment from third parties and for overtime and related expenses where the services are provided by the Corporation s personnel. Given the nature of our business, additional security may be provided for travel in high-risk areas or to address particular situations. We believe that providing personal security in response to concerns arising out of employment by the Corporation is business-related.

In addition to perquisites, column (i) also contains items of compensation listed in the following table. All items are paid under broad-based programs for U.S. salaried employees except for the tax assistance and the Lockheed Martin Corporation Supplemental Savings Plan (NQSSP) and the Lockheed Martin Corporation Non-qualified Capital Accumulation Plan (NCAP) (together, the Nonqualified Defined Contribution Plans) match or Corporation contributions. Items include matching contributions made to eligible universities, colleges and other non-profit organizations under the Corporation s matching gift programs available to all employees. Listed amounts may include contributions made in 2018 to match 2017 executive contributions.

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## Other Items of Compensation Included in "All Other Compensation" Column (i)

| Name | Tax Assistance for Business-Related Items ($) | Corporation Contributions to Qualified Defined Contribution Plans ($) | Corporation Contributions to Nonqualified Defined Contribution Plans ($) | Group Life Insurance ($) | Matching Gift Programs ($) |
|---|---|---|---|---|---|
| **Ms. Hewson** | 88,546 | 9,189 | 94,005 | 15,438 | 1,600 |
| **Mr. Tanner** | 4,277 | 9,190 | 51,688 | 9,749 | 1,000 |
| **Mr. Bennett** | 3,561 | 9,189 | 42,866 | 12,747 | 10,000 |
| **Mr. Carvalho** | 38,255 | 11,400 | 40,017 | 8,305 | 0 |
| **Ms. Lavan** | 2,570 | 9,635 | 38,751 | 7,685 | 11,600 |

In 2017, the Corporation provided tax assistance on business-related items associated with taxable business association expenses, security expenses, non-resident state taxes on business travel and travel expenses for a family member accompanying the NEO while on business travel.

## *Total Without Change in Pension Value

The separate column labeled "Total Without Change in Pension Value" shows total compensation as required to be disclosed by the SEC in column (j) less the amount shown in Change in Pension Value and Nonqualified Deferred Compensation Earnings in column (h). We provided this column because the amount reported in column (h) for Change in Pension Value is not current compensation and represents the present value of an estimated stream of payments to be made following retirement. The methodology used to report the Change in Pension Value under applicable accounting rules is sensitive to assumptions about life expectancy and changes in the discount rate determined at each year end, which are functions of economic factors and actuarial calculations that are outside of the control of the Compensation Committee. The amounts shown in the separate column are not a substitute for the amounts reported in the Total column, and differ substantially from the amounts reported in the Total column for several reasons.

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**Executive Compensation**

## 2017 Grants of Plan-Based Awards

| | | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | Grant Date Fair Value of Stock Awards |
|---|---|---|---|---|---|---|---|---|---|
| Name | Grant Date | Award Type | Threshold ($) | Target ($) | Maximum ($) | Threshold (#) | Target (#) | Maximum (#) | ($) |
| (a) | (b) | | (c) | (d) | (e) | (f) | (g) | (h) | (l) |
| **Marillyn A. Hewson** | - | MICP | 207,638 | 2,966,250 | 5,932,500 | - | - | - | 0 |
| | 1/26/2017 | RSU | - | - | - | 0 | 14,003 | 14,003 | 3,563,904 |
| | - | LTIP | 148,500 | 2,376,000 | 4,752,000 | - | - | - | 0 |
| | 1/26/2017 | PSU | - | - | - | 1,459 | 22,819 | 45,638 | 5,940,349 |
| **Bruce L. Tanner** | - | MICP | 77,000 | 1,100,000 | 2,200,000 | - | - | - | 0 |
| | 1/26/2017 | RSU | - | - | - | 0 | 4,950 | 4,950 | 1,259,825 |
| | - | LTIP | 52,500 | 840,000 | 1,680,000 | - | - | - | 0 |
| | 1/26/2017 | PSU | - | - | - | 516 | 8,068 | 16,136 | 2,100,296 |
| **Dale P. Bennett** | - | MICP | 56,858 | 812,250 | 1,624,500 | - | - | - | 0 |
| | 1/26/2017 | RSU | - | - | - | 0 | 3,948 | 3,948 | 1,004,805 |
| | - | LTIP | 41,875 | 670,000 | 1,340,000 | - | - | - | 0 |
| | 1/26/2017 | PSU | - | - | - | 412 | 6,436 | 12,872 | 1,675,452 |
| **Orlando P. Carvalho** | - | MICP | 56,858 | 812,250 | 1,624,500 | - | - | - | 0 |
| | 1/26/2017 | RSU | - | - | - | 0 | 3,948 | 3,948 | 1,004,805 |
| | - | LTIP | 41,875 | 670,000 | 1,340,000 | - | - | - | 0 |
| | 1/26/2017 | PSU | - | - | - | 412 | 6,436 | 12,872 | 1,675,452 |
| **Maryanne R. Lavan** | - | MICP | 52,868 | 755,250 | 1,510,500 | - | - | - | 0 |
| | 1/26/2017 | RSU | - | - | - | 0 | 3,182 | 3,182 | 809,851 |
| | - | LTIP | 33,750 | 540,000 | 1,080,000 | - | - | - | 0 |
| | 1/26/2017 | PSU | - | - | - | 332 | 5,187 | 10,374 | 1,350,310 |

### Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Columns (c), (d) and (e))

Includes annual incentive grants (MICP) for 2017 and LTIP grants for the 2017-2019 period ending December 31, 2019.

The MICP measures performance over a one-year period and is described under "2017 Annual Incentive" on page 38. The threshold, or minimum amount payable (assuming an award is earned), is 7% of target while the maximum is 200% of target.

The LTIP award measures performance against three separate metrics described under "2017 Long-Term Incentive Compensation" on page 40. The threshold is the minimum amount payable for a specified level of performance stated in the LTIP award agreement. For the 2017-2019 award, the threshold amount payable is 6.25% of the target award. The maximum award payable under the LTIP award is 200% of target value. Awards are subject to forfeiture upon termination of employment prior to the end of the performance cycle, except in the event of retirement, death, disability, divestiture or layoff. If death, disability, or divestiture occurs prior to the end of the performance period, LTIP awards are prorated. If the employee retires or is laid off after July 26, 2017, but prior to the end of the performance period, the LTIP awards are prorated. Following a change in control, the 2017-2019 LTIP awards vest at the target amount upon involuntary termination without cause or voluntary termination with good reason or if the successor does not assume the LTIP awards.

## Estimated Future Payouts Under Equity Incentive Plan Awards (Columns (f), (g) and (h))

Shows the number of RSUs granted by the Compensation Committee on January 26, 2017. The RSU grants made to the NEOs were subject to forfeiture to the extent the value of the RSUs granted to a recipient on the award date was greater than 0.2% for the CEO and 0.1% for each of the other NEOs of 2017 Performance Cash. Based on 2017 Performance Cash, none of the RSUs were forfeited. The RSUs vest on the third anniversary of the date of grant or upon death or disability. The 2017 RSUs are prorated upon divestiture if not assumed by the successor. Following a change in control, the RSUs vest upon involuntary termination without cause or voluntary termination for good reason or if the successor does not assume the RSUs. If the employee retires or is laid off after July 26, 2017, but prior to the third anniversary of the date of grant, the RSUs become nonforfeitable and are paid at the end of the vesting period. During the vesting period, deferred dividend equivalents are accrued and subject to the same vesting schedule as the underlying RSUs. At the end of the vesting period, the RSUs are paid in shares of stock and the accrued dividend equivalents are paid in cash. If any tax withholding is required on the 2017 RSUs or accrued dividend equivalents during the vesting period (for example, on account of retirement eligibility), the RSUs provide for accelerated vesting of the number of shares or accrued dividend equivalents required to satisfy the tax withholding. The award is then reduced either by the number of shares or by the amount of accrued dividend equivalents subject to acceleration of vesting for tax withholding. The table includes PSU awards for the 2017-2019 period ending December 31, 2019. At the end of the three-year vesting period, which ends on the third anniversary of the date of grant, the amount earned is payable in shares of stock and cash representing deferred dividend equivalents accrued on the earned shares during the three-year performance period. Awards are subject to forfeiture upon termination of employment prior to the end of the vesting period, except in the event of termination following retirement, or layoff occurring after July 26, 2017, death, disability or divestiture. In any of these events, PSU awards are paid out at the end of the vesting period on a prorated basis. Following a change in control, the PSUs vest at the target amount upon involuntary termination without cause or voluntary termination with good reason or if the successor does not assume the PSUs.

Shares are earned under the PSU awards based upon performance against three separate metrics described under "PSU Awards" on page 41. If performance falls below the threshold level of performance for a metric, no shares would be earned with respect to that metric. Assuming any payment is earned, the minimum amount payable under the PSU award is 25% of the target shares attributable to ROIC or Performance Cash, the lowest level payable under these metrics. The maximum number of shares payable under the PSU is 200% of the number of target shares.

## Grant Date Fair Value of Stock Awards (Column (1))

Represents the aggregate grant date fair value computed in accordance with FASB ASC 718 for RSUs and PSUs granted in 2017, disregarding potential forfeitures based on service requirements.

The grant date fair value of the 2017 RSU grant is $254.51 per RSU, which is based on the closing price of one share of our stock on the date of grant, discounted to take into account the deferred dividend equivalents accrued until vesting.

The grant date fair value for the PSUs, which are subject to performance conditions, is based on the probable outcome of each of the three performance conditions. The grant date fair value of $266.41 for the Relative TSR portion of the award is determined using a Monte Carlo simulation model. The grant date fair value of $254.51 for the Performance Cash and ROIC portions of the awards is based on the closing price of one share of our stock on the date of grant, discounted to take into account the deferred dividend equivalents accrued until vesting.

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**Executive Compensation**

## Outstanding Equity Awards at 2017 Fiscal Year-End

| | Option Awards | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options Exercisable (#) | Option Exercise Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested [1] (#) | Market Value of Shares or Units of Stock That Have Not Vested [2] ($) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested [3] (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested [4] ($) |
| (a) | (b) | (e) | (f) | (g) | (h) | (i) | (j) |
| **Marillyn A. Hewson** | 82,935 | 82.01 | 1/28/2022 | 14,003 [5] | 4,495,663 | 22,819 [6] | 7,326,041 |
| | 59,434 | 79.60 | 1/29/2021 | 16,005 [7] | 5,138,405 | 48,318 [8] | 15,512,495 |
| | - | - | - | 16,679 [9] | 5,354,793 | - | - |
| | - | - | - | 42,745 [10] | 13,723,282 | - | - |
| **Bruce L. Tanner** | 97,213 | 82.01 | 1/28/2022 | 4,950 [5] | 1,589,198 | 8,068 [6] | 2,590,231 |
| | 64,531 | 79.60 | 1/29/2021 | 5,570 [7] | 1,788,249 | 16,819 [8] | 5,399,740 |
| | 55,000 | 74.89 | 1/31/2020 | 5,979 [9] | 1,919,558 | - | - |
| | - | - | - | 15,324 [10] | 4,919,770 | - | - |
| **Dale P. Bennett** | - | - | - | 3,948 [5] | 1,267,505 | 6,436 [6] | 2,066,277 |
| | - | - | - | 4,638 [7] | 1,489,030 | 13,908 [8] | 4,465,163 |
| | - | - | - | 3,748 [9] | 1,203,295 | - | - |
| | - | - | - | 9,541 [10] | 3,063,138 | - | - |
| **Orlando P. Carvalho** | 29,705 | 82.01 | 1/28/2022 | 3,948 [5] | 1,267,505 | 6,436 [6] | 2,066,277 |
| | 20,466 | 79.60 | 1/29/2021 | 4,638 [7] | 1,489,030 | 13,908 [8] | 4,465,163 |
| | 15,300 | 74.89 | 1/31/2020 | 4,497 [9] | 1,443,762 | - | - |
| | - | - | - | 11,451 [10] | 3,676,343 | - | - |
| **Maryanne R. Lavan** | - | - | - | 3,182 [5] | 1,021,581 | 5,187 [6] | 1,665,286 |
| | - | - | - | 3,690 [7] | 1,184,675 | 11,144 [8] | 3,577,781 |
| | - | - | - | 3,871 [9] | 1,242,785 | - | - |
| | - | - | - | 9,924 [10] | 3,186,100 | - | - |

(1) We reported RSUs granted in January 2017 as equity incentive awards in columns (f) through (h) of the "2017 Grants of Plan-Based Awards" table because there was the potential for forfeiture based on failure to achieve the performance metrics specified in the award agreements. For this table, we reported the January 2017 RSUs in columns (g) and (h) because the performance feature of the RSU grants was satisfied at the end of 2017. This column also includes PSUs granted on January 29, 2015 for the 2015-2017 performance period. The vesting period for the PSUs ended on January 29, 2018 and the performance period ended on December 31, 2017. The number of shares shown in column (g) for the 2015-2017 PSUs is the number of shares earned under the PSU metrics and paid upon vesting. NEOs also receive a cash payment for deferred dividend equivalents accrued through vesting.

(2) The market value shown in column (h) is calculated by multiplying the number of shares shown in column (g) by the December 29, 2017 per share closing price of our stock ($321.05). NEOs also receive a cash payment for deferred dividend equivalents accrued through vesting.

(3) Represents PSUs granted on January 26, 2017 for the 2017-2019 performance period and on January 28, 2016 for the 2016-2018 performance period; the PSUs are earned and paid out in shares of our stock at the end of the three-year vesting period based upon performance on three separate metrics (Relative TSR, Performance Cash, and ROIC). The number of shares of stock shown in column (i) is based upon the threshold level of performance for each of the three metrics or, if performance to date on the metric has exceeded the threshold level (as is the case for performance through December 31, 2017), the estimated level of performance as of December 31, 2017. Performance under each metric is determined separately, with the three results added together to obtain the number of shares shown in column (i). NEOs also receive a cash payment for deferred dividend equivalents accrued through vesting.

(4) The market value shown in column (j) is calculated by multiplying the number of PSUs reported in column (i) by the December 29, 2017 per share closing price of our stock ($321.05).

(5) Represents RSUs granted on January 26, 2017, which vest January 26, 2020, except that vesting may occur earlier as described in the "2017 Grants of Plan-Based Awards" table.

(6) Represents PSUs granted on January 26, 2017 and which are earned over a three-year period but provide for pro rata payments for certain terminations as described in the "2017 Grants of Plan-Based Awards" table.

(7) Represents RSUs granted on January 28, 2016, which vest on January 28, 2019, except that vesting may occur earlier as described in the "2017 Grants of Plan-Based Awards" table.

(8) Represents PSUs granted on January 28, 2016 and which are earned over a three-year period but provide for pro rata payments for certain terminations as described in the "2017 Grants of Plan-Based Awards" table.

(9) Represents RSUs granted on January 29, 2015, which vested on January 29, 2018.

(10) Represents PSUs granted on January 29, 2015, which vested on January 29, 2018.

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# Option Exercises and Stock Vested During 2017

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| | Number of Shares Acquired on Exercise | Value Realized on Exercise [1] | Number of Shares Acquired on Vesting [2] | Value Realized on Vesting [3] |
| Name | (#) | ($) | (#) | ($) |
| (a) | (b) | (c) | (d) | (e) |
| **Marillyn A. Hewson** | - | - | 77,453 | 19,635,458 |
| **Bruce L. Tanner** | 49,700 | 11,107,319 | 28,116 | 7,127,798 |
| **Dale P. Bennett** | - | - | 17,081 | 4,330,311 |
| **Orlando P. Carvalho** | - | - | 20,938 | 5,308,060 |
| **Maryanne R. Lavan** | - | - | 18,444 | 4,675,813 |

(1) Value realized was calculated based on the difference between the aggregate exercise price of the options and the weighted average sale price per share on the date of exercise and sale.

(2) Vesting on January 27, 2017 of RSUs and PSUs granted on January 27, 2014 following the three-year vesting period and accelerated vesting on January 26, 2017 of a portion of RSUs granted on January 28, 2016 equal to the value of the tax withholding obligation due upon retirement-eligibility of the NEO and following the Board's certification of the one-year performance goal based on the per share closing price on the date of vesting. Represents aggregate number of shares vested prior to disposition of shares to the Corporation to satisfy tax withholding obligation.

(3) Value realized was calculated based on the number of shares acquired on vesting multiplied by the per share closing price of our common stock on the date of vesting (January 27, 2017, $253.50 and January 26, 2017, $254.97).

# 2017 Pension Benefits

During 2017, the NEOs participated in the Lockheed Martin Corporation Salaried Employee Retirement Program (LMRP), which is a combination of several prior plans (collectively, the "Prior Plan") for salaried employees with some protected benefits.

The calculation of retirement benefits under the LMRP is determined by a formula that takes into account the participant's years of credited service and average compensation for the highest three years of the last ten years of employment ending with 2015. Average compensation includes the NEO's base salary and annual incentive bonuses. NEOs must have either five years of service or be actively employed by the Corporation at age 65 to vest in the LMRP. Normal retirement age is 65; however, benefits are payable as early as age 55 at a reduced amount or without reduction at age 60. Benefits are payable as a monthly annuity for the lifetime of the employee, as a joint and survivor annuity, as a life annuity with a five- or ten-year guarantee, or as a level income annuity.

The calculation of retirement benefits under the Prior Plan is based on a number of formulas, some of which take into account the participant's years of credited service and pay over the career of the NEO. Certain other formulas in the Prior Plan are based upon the final average compensation and credited service of the employee. Pay under certain formulas in the Prior Plan currently includes salary, commissions, overtime, shift differential, lump sum pay in lieu of a salary increase, annual incentive bonuses awarded that year, and pre-tax employee contributions. A portion of the pension benefits for Mr. Tanner was earned under the Prior Plan.

All of the NEOs were vested and eligible for early retirement as of December 31, 2017 under the LMRP.

During 2017, the NEOs also participated in the Lockheed Martin Corporation Supplemental Retirement Plan (Supplemental Pension), which is a restorative plan and provides benefits in excess of the benefit payable under IRS rules through the LMRP, our tax-qualified plan (see the footnote to column (d) to the "2017 Pension Benefits" table on page 56).

In July 2014, the Corporation announced that the LMRP will be frozen in two steps. Increases in compensation are no longer taken into account effective January 1, 2016. Increases in service will no longer be taken into account effective January 1, 2020. This change in plan structure also carries over to the Supplemental Pension benefit accruals available to the NEOs. Retirement benefits earned thereafter will be paid through defined contribution plans. As part of the transition to paying retirement benefits from defined contribution plans, beginning in 2016 eligible salaried employees (including the NEOs) receive a 2% Corporation contribution to the Lockheed Martin Corporation Salaried Savings Plan. The NEOs continue to receive the 2% Corporation contribution in the NCAP after reaching the Internal Revenue Code limitation for this contribution in the qualified plan. This contribution will increase to 6% beginning in 2020. Employees (none of which are NEOs) hired after January 1, 2006 do not participate in the LMRP and already receive the 6% contribution.

# 2017 Pension Benefits

| Name (a) | Plan Name (b) | Number of Years Credited Service (#) (c) | Present Value of Accumulated Benefit ($) (d) | Payments During Last Fiscal Year ($) (e) |
|---|---|---|---|---|
| **Marillyn A. Hewson** | Lockheed Martin Corporation Salaried Employee Retirement Program | 35.1 | 2,002,129 | 0 |
| | Lockheed Martin Corporation Supplemental Retirement Plan | - | 48,810,253 | 0 |
| **Bruce L. Tanner** | Lockheed Martin Corporation Salaried Employee Retirement Program | 35.1 | 1,907,182 | 0 |
| | Lockheed Martin Corporation Supplemental Retirement Plan | - | 17,639,101 | 0 |
| **Dale P. Bennett** | Lockheed Martin Corporation Salaried Employee Retirement Program | 36.6 | 2,071,535 | 0 |
| | Lockheed Martin Corporation Supplemental Retirement Plan | - | 12,694,683 | 0 |
| **Orlando P. Carvalho** | Lockheed Martin Corporation Salaried Employee Retirement Program | 37.5 | 2,098,578 | 0 |
| | Lockheed Martin Corporation Supplemental Retirement Plan | - | 14,638,144 | 0 |
| **Maryanne R. Lavan** | Lockheed Martin Corporation Salaried Employee Retirement Program | 27.8 | 1,634,163 | 0 |
| | Lockheed Martin Corporation Supplemental Retirement Plan | - | 10,916,539 | 0 |

## Plan Name (Column (b))

The Lockheed Martin Corporation Supplemental Retirement Plan (Supplemental Pension) uses the same formula for benefits as the tax-qualified plan uses for calculating the NEO's benefit. Although all service recognized under the tax-qualified plan is recognized under the Supplemental Pension, a benefit would be earned under the Supplemental Pension only in years when the NEO's total accrued benefit would exceed the benefit accrued under the tax-qualified plan. The Supplemental Pension benefits are payable in the same form as benefits are paid under the LMRP, except lump sum payments are available under the Supplemental Pension.

## Present Value of Accumulated Benefit (Column (d))

The amounts in column (d) were computed using the same assumptions we used to account for pension liabilities in our financial statements and as described in Note 11 to our financial statements contained in our 2017 Annual Report, except that the amounts were calculated based on benefits commencing at age 60 (or current age if greater). We used these ages rather than the plan's normal retirement age of 65 because an employee may commence receiving pension benefits at age 60 without any reduction for early commencement. A portion of Mr. Tanner's benefit was earned under the Prior Plan that applies a reduction for early commencement at age 60. The amounts shown for Mr. Tanner reflect the reduction for early commencement of the benefit. Amounts paid under our plans use assumptions contained in the plans and may be different than those used for financial statement reporting purposes. Only the benefit payable under the Supplemental Pension is payable in the form of a lump sum. If a NEO elected a lump sum payment, the amount of the lump sum would be based on plan assumptions and not the assumptions used for financial statement reporting purposes. As a result, the actual lump sum payment would be an amount different than what is reported in this table. The age of the NEO at retirement would also impact the size of the lump sum payment. The amount using plan assumptions is shown on the "Potential Payments Upon Termination or Change in Control" table.

## 2017 Nonqualified Deferred Compensation

Participants in our tax-qualified 401(k) plan may defer up to 40% of base salary on a pre-tax, Roth or after-tax basis. In addition, we make a matching contribution equal to 50% of up to the first 8% of base salary contributed by the participant. Employee and Corporation matching contributions in excess of the Internal Revenue Code limitations may be contributed to the NQSSP on a pre-tax basis at the election of the NEO. In 2016, we also began making Corporation contributions in excess of the Internal Revenue Code limitations to the NCAP equal to 2% of the NEO’s base salary. Employee contributions, matching and Corporation contributions to the plans are nonforfeitable at all times. NQSSP and NCAP contributions are credited with earnings or losses, as appropriate, based on the investment option or options in which the account has been invested, as elected by the participant. Each of the NQSSP and NCAP investment options is available under our tax-qualified 401(k) plan for salaried employees. The NQSSP and NCAP provide for payment following termination of employment in a lump sum or up to 25 annual installments at the participant’s election. All amounts accumulated and unpaid under the NQSSP and NCAP must be paid in a lump sum within 15 calendar days following a change in control.

The Deferred Management Incentive Compensation Plan (DMICP) provides the opportunity to defer, until termination of employment or beyond, the receipt of all or a portion of annual incentive bonuses and LTIP awards. NEOs may elect any of the investment funds available in the NQSSP (with the exception of the Company Stock Fund) or two investment alternatives available only under the DMICP for crediting earnings (losses). Under the DMICP Stock Investment Option, earnings (losses) on deferred amounts will accrue at a rate that tracks the performance of our common stock, including reinvestment of dividends. Under the DMICP Interest Investment Option, earnings accrue at a rate equivalent to the then published rate for computing the present value of future benefits under Cost Accounting Standards 415, Deferred Compensation (CAS 415 rate). The Interest Investment Option was closed to new deferrals and transfers from other investment options effective July 1, 2009. Amounts credited to the Stock Investment Option may not be reallocated to other options. In addition, Stock Investment Option deferrals will be paid in shares of our common stock upon distribution. The DMICP provides for payment in January or July following termination of employment in a lump sum or up to 25 annual installments at the NEO’s election. All amounts accumulated under the DMICP must be paid in a lump sum within 15 days following a change in control.

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## 2017 Nonqualified Deferred Compensation

This table reports compensation earned by the NEOs and deferred under NQSSP, NCAP and DMICP. The NQSSP is a nonqualified 401(k) plan with a match on a portion of the salary deferral. The NCAP is a nonqualified defined contribution excess plan with Corporation contributions. The DMICP is a nonqualified deferred compensation plan through which participants may defer two types of compensation:

Annual incentive bonus (DMICP (Bonus)).

Amounts payable under our LTIP program (DMICP (LTIP)).

| Name (a) | | Executive Contributions in Last FY ($) (b) | Registrant Contributions in Last FY ($) (c) | Aggregate Earnings in Last FY ($) (d) | Aggregate Balance at Last FYE ($) (f) |
|---|---|---|---|---|---|
| **Marillyn A. Hewson** | NQSSP | 326,615 | 65,007 | 953,320 | 5,346,620 |
| | NCAP | - | 28,998 | 4,494 | 60,839 |
| | DMICP (Bonus) | 0 | - | 3,882,488 | 26,501,813 |
| | DMICP (LTIP) | 0 | - | 2,284,851 | 15,407,474 |
| | **TOTAL** | **326,615** | **94,005** | **7,125,153** | **47,316,746** |
| **Bruce L. Tanner** | NQSSP | 229,970 | 36,795 | 1,063,517 | 5,657,630 |
| | NCAP | - | 14,893 | 2,517 | 31,295 |
| | DMICP (Bonus) | 868,340 | - | 581,950 | 3,266,410 |
| | DMICP (LTIP) | 1,045,100 | - | 117,420 | 1,162,520 |
| | **TOTAL** | **2,143,410** | **51,688** | **1,765,404** | **10,117,855** |
| **Dale P. Bennett** | NQSSP | 193,215 | 30,914 | 325,020 | 2,431,238 |
| | NCAP | - | 11,952 | 1,738 | 24,728 |
| | DMICP (Bonus) | 682,159 | - | 1,133,568 | 6,442,229 |
| | DMICP (LTIP) | 320,345 | - | 479,131 | 2,769,244 |
| | **TOTAL** | **1,195,719** | **42,866** | **1,939,457** | **11,667,439** |
| **Orlando P. Carvalho** | NQSSP | 84,196 | 28,065 | 6,936 | 119,197 |
| | NCAP | - | 11,952 | 1,982 | 25,010 |
| | DMICP (Bonus) | 0 | - | 76,796 | 325,331 |
| | DMICP (LTIP) | 0 | - | 0 | 0 |
| | **TOTAL** | **84,196** | **40,017** | **85,714** | **469,538** |
| **Maryanne R. Lavan** | NQSSP | 119,095 | 28,022 | 301,827 | 2,582,998 |
| | NCAP | - | 10,729 | 1,758 | 22,363 |
| | DMICP (Bonus) | 24,122 | - | 412,462 | 1,723,326 |
| | DMICP (LTIP) | 24,122 | - | 280,094 | 1,227,941 |
| | **TOTAL** | **167,339** | **38,751** | **996,141** | **5,556,628** |

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## Executive Contributions in Last Fiscal Year (Column (b))

Includes salary deferrals to NQSSP in 2017, annual incentive bonus paid in 2017 for 2016 performance deferred to DMICP, and LTIP paid in 2017 for the 2014-2016 performance period deferred to the DMICP.

## Registrant Contributions in Last Fiscal Year (Column (c))

Includes Corporation matching contributions to NQSSP made in 2017 and Corporation contributions made to NCAP in 2017. The NQSSP match and NCAP Corporation contributions are also included in column (i) of the "Summary Compensation Table."

## Aggregate Balance at Last Fiscal Year End (Column (f))

The following table lists the amounts reported as executive or registrant contributions in columns (b) and (c) of the "2017 Nonqualified Deferred Compensation" table that are also reported as compensation in the "Summary Compensation Table" for 2017. These contributions consist of NEO and Corporation matching contributions made to the NQSSP and Corporation contributions made to the NCAP for service in 2017.

Contributions with respect to 2017 performance deferred in 2018 (annual incentive bonus and LTIP) are not included as these amounts are not credited until 2018, and are not included in column (f). The following table also lists the amounts reported in column (f) as part of the Aggregate Balance at Last FYE (2017) that is reported as compensation for prior years in the "Summary Compensation Table" for years beginning with 2006. For 2017, there were no earnings in excess of 120% of the applicable federal rate.

| Name | Aggregate Balance at December 31, 2017 in Column (f) ($) | Of Amount Reported in Column (f) NEO and Corporation Contributions to NQSSP and Corporation Contributions to NCAP Reported in "Summary Compensation Table" for 2017 ($) | Amount Reported in "Summary Compensation Table" for Prior Years (Beginning with 2006) ($) |
|---|---|---|---|
| **Ms. Hewson** | 47,316,746 | 420,620 | 21,729,114 |
| **Mr. Tanner** | 10,117,855 | 281,657 | 5,479,341 |
| **Mr. Bennett** | 11,667,439 | 236,081 | 2,866,368 |
| **Mr. Carvalho** | 469,538 | 124,214 | 10,873 |
| **Ms. Lavan** | 5,556,628 | 157,847 | 637,094 |

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## Potential Payments Upon Termination or Change in Control

The table below summarizes the benefits that become payable to a NEO at, following, or in connection with retirement, change in control, death, disability, layoff, divestitures, termination or resignation under the terms of our benefit plans.

**SUMMARY OF PAYMENT TRIGGERS**
**PENSION-QUALIFIED[1]**

**Retirement** – Annuity payable on a reduced basis at age 55; annuity payable on a non-reduced basis at age 60; steeper reduction for early commencement at age 55 for terminations prior to age 55 than for terminations after age 55.

**Change in Control** – No acceleration.

**Death/Disability/Layoff** – Spousal annuity benefit as required by law in event of death unless waived by spouse. For either (i) disability between age 53 and 55 with eight years of service or (ii) layoff between age 53 and 55 with eight years of service or before age 55 with 25 years of service, participant is eligible for the more favorable actuarial reductions for participants terminating after age 55.

**Divestiture** – No provisions; absent a negotiated transfer of liability to buyer, treated as retirement or termination.

**Termination/Resignation** – Annuity payable on a reduced basis at age 55; annuity payable on a non-reduced basis at age 60; steeper reduction for early commencement at age 55 for terminations prior to age 55 than for terminations after age 55.
**SUPPLEMENTAL PENSION[1]**

**Retirement** – Annuity or lump sum at later of age 55 or termination, same early reductions applied as for Pension-Qualified.

**Change in Control** – Lump sum.

**Death/Disability/Layoff** – Annuity or lump sum at later of age 55 or termination, same provisions as Pension-Qualified for spousal waiver, disability, and layoff.

**Divestiture** – No provisions; absent a negotiated transfer of liability to successor, treated as retirement or termination.

**Termination/Resignation** – Annuity or lump sum, same early reductions applied as for Pension-Qualified.
**LTIP (2016-2018 and 2017-2019)**

**Retirement/Death/Disability/Layoff** – Prorated payment at the end of the three-year performance period for retirement, death, disability or layoff during that period, subject to six-month minimum service from date of grant for retirement and layoff.

**Change in Control** – Immediate payment at target for change in control event occurring during performance cycle if not assumed by successor; immediate payment at target following involuntary termination without cause or voluntary termination with good reason within 24 months of change in control during performance cycle if award is assumed by successor.

**Divestiture[2]** – Prorated payment at the end of the three-year performance period for divestiture during that period.

**Termination/Resignation** – Forfeited if termination occurs prior to becoming retirement-eligible; termination on or after (i) age 55 and ten years of service or (ii) age 65 with at least six months of service during performance cycle is treated as retirement-eligible.
**RSUs**

**Retirement** – Continued vesting of RSUs and dividend equivalents subject to six-month minimum service from date of grant.

**Change in Control** – Immediate vesting of RSUs and dividend equivalents if not assumed by successor. Immediate vesting following involuntary termination without cause or voluntary termination with good reason within 24 months of change in control if assumed by successor.

**Death/Disability/Layoff** – Continued vesting of RSUs and dividend equivalents after layoff, subject to six-month minimum service from date of grant. Immediate vesting following death or disability.

**Divestiture**[2] – Immediate vesting of RSUs and dividend equivalents for 2015 grants. Unless assumed by the successor, 2016 and 2017 RSU grants will vest on a pro-rata basis based on the days into the vesting period at closing unless the employee is retirement-eligible in which case the RSU grant will continue to vest until the vesting date.

**Termination/Resignation** – Forfeit unvested RSUs and dividend equivalents if termination occurs prior to becoming retirement-eligible. Termination on or after (i) age 55 and ten years of service or (ii) age 65 with at least six months of service from date of grant is treated as retirement-eligible.

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**Executive Compensation**

**PSUs (2016-2018 and 2017-2019)**

**Retirement/Death/Disability/Layoff** – Prorated payment of PSUs and dividend equivalents at the end of the three-year performance period for retirement, death, disability or layoff during that period subject to six-month minimum service from date of grant for retirement and layoff.

**Change in Control** – Immediate vesting of PSUs and dividend equivalents at target if award is not assumed by successor. Immediate payment at target following involuntary termination without cause or voluntary termination with good reason within 24 months of change in control if assumed by successor.

**Divestiture**[2] – Prorated payment of PSUs and dividend equivalents at the end of the three-year performance period for divestiture during that period.

**Termination/Resignation** – Forfeit PSUs and dividend equivalents if termination occurs prior to becoming retirement-eligible; termination on or after (i) age 55 and ten years of service, or (ii) age 65 with at least six months of service from date of grant is treated as retirement-eligible.

**EXECUTIVE SEVERANCE PLAN**

**Retirement** – No payment.

**Change in Control** – No payment unless terminated.

**Death/Disability** – No payment.

**Layoff** – Payment of a lump sum amount equal to a multiple of salary, annual bonus equivalent, and health care continuation coverage cost plus outplacement services and relocation assistance. The multiple of salary and annual bonus equivalent for the CEO is 2.99; for all other NEOs it is 1.0.

**Divestiture** – No payment.

**Termination/Resignation** – No payment.

**ANNUAL INCENTIVE BONUS**[3]

**Retirement** – Payment may be prorated for retirement during the year with six months of participation in the year.

**Change in Control** – No provision.

**Death/Disability** – Payment may be prorated for death, disability or layoff during the year with three months of participation in the year.

**Layoff** – No payment if payment is made under the Executive Severance Plan. Otherwise, payment may be prorated with six months of participation in the year.

**Divestiture** – No provision.

**Termination/Resignation** – No payment will be made for termination/resignation during the year.

**DMICP**[4]

**Retirement** – Lump sum or installment payment in accordance with NEO elections.

**Change in Control** – Immediate lump sum payment.

**Death/Disability/Layoff** – Lump sum or installment payments in accordance with NEO elections, except lump sum only for layoff prior to age 55.

**Divestiture** – Follows termination provisions.

**Termination/Resignation** – Lump sum if termination is prior to age 55; after age 55, lump sum or installment payment in accordance with NEO elections.

**NQSSP/NCAP**[4]

**Retirement** – Lump sum or installment payments in accordance with NEO elections.

**Change in Control** – Immediate lump sum payment.

**Death/Disability/Layoff** – Lump sum for death; for disability or layoff, lump sum or installment payments in accordance with NEO elections.

**Divestiture** – Follows termination provisions.

**Termination/Resignation** – Lump sum or installment payments in accordance with NEO elections.

(1) See "2017 Pension Benefits" table for present value of accumulated benefit.

(2) Divestiture is defined as a transaction which results in the transfer of control of a business operation to any person, corporation, association, partnership, joint venture, or other business entity of which less than 50 percent of the voting stock or other equity interests (in the case of entities other than corporations) is owned or controlled directly or indirectly by us, one or more of our subsidiaries, or by a combination thereof following the transaction.

(3) See "Compensation Discussion and Analysis" for discussion of annual incentive bonus payment calculation.

(4) See "Aggregate Balance at Last FYE" column in "2017 Nonqualified Deferred Compensation" table for amounts payable.

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**Executive Compensation**

## Potential Payments Upon Termination or Change in Control

The following table quantifies the payments under our executive compensation programs in RSU, LTIP and PSU awards and the lump sum payable under the Supplemental Pension that would be made assuming a termination event had occurred on December 31, 2017. Payments under other plans do not change as a result of the termination event, and quantification of those payments is found elsewhere in this Proxy Statement; benefits under plans available generally to salaried employees also are not included. The table shows amounts that would actually be paid on or shortly after December 31, 2017 on account of the trigger event. Amounts that are contingent upon future performance, continued vesting or already earned as of December 31, 2017 are described and quantified in the footnotes following the table. Award agreements for the NEOs contain post-employment restrictive covenants and to receive a supplemental severance benefit, an executive must execute a release of claims and an agreement containing two-year post-employment non-compete and non-solicitation covenants.

| Name | | Retirement ($) | Change In Control ($) | Death/ Disability ($) | Layoff ($) | Divestiture ($) | Termination/ Resignation ($) |
|---|---|---|---|---|---|---|---|
| **Marillyn A. Hewson** | Supplemental Pension | 46,615,029 | 46,615,029 | 46,615,029 | 46,615,029 | 46,615,029 | 46,615,029 |
| | LTIP | 0 | 4,683,000 | 0 | 0 | 0 | 0 |
| | RSUs | 0 | 15,660,993 | 15,660,993 | 0 | 5,694,711 | 0 |
| | PSUs | 0 | 26,771,251 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 13,966,604 | 0 | 0 |
| | **TOTAL** | **46,615,029** | **93,730,273** | **62,276,022** | **60,581,633** | **52,309,740** | **46,615,029** |
| **Bruce L. Tanner** | Supplemental Pension | 17,131,570 | 17,131,570 | 17,131,570 | 17,131,570 | 17,131,570 | 17,131,570 |
| | LTIP | 0 | 1,643,000 | 0 | 0 | 0 | 0 |
| | RSUs | 0 | 5,535,044 | 5,535,044 | 0 | 2,041,410 | 0 |
| | PSUs | 0 | 9,464,078 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 2,121,710 | 0 | 0 |
| | **TOTAL** | **17,131,570** | **33,773,692** | **22,666,614** | **19,253,280** | **19,172,980** | **17,131,570** |
| **Dale P. Bennett** | Supplemental Pension | 12,262,075 | 12,262,075 | 12,262,075 | 12,262,075 | 12,262,075 | 12,262,075 |
| | LTIP | 0 | 1,334,000 | 0 | 0 | 0 | 0 |
| | RSUs | 0 | 4,131,666 | 4,131,666 | 0 | 1,279,680 | 0 |
| | PSUs | 0 | 7,013,861 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 1,689,324 | 0 | 0 |
| | **TOTAL** | **12,262,075** | **24,741,602** | **16,393,741** | **13,951,399** | **13,541,755** | **12,262,075** |
| **Orlando P. Carvalho** | Supplemental Pension | 14,385,572 | 14,385,572 | 14,385,572 | 14,385,572 | 14,385,572 | 14,385,572 |
| | LTIP | 0 | 1,334,000 | 0 | 0 | 0 | 0 |
| | RSUs | 0 | 4,387,397 | 4,387,397 | 0 | 1,535,411 | 0 |
| | PSUs | 0 | 7,462,159 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 1,703,383 | 0 | 0 |
| | **TOTAL** | **14,385,572** | **27,569,127** | **18,772,968** | **16,088,955** | **15,920,982** | **14,385,572** |
| **Maryanne R. Lavan** | Supplemental Pension | 10,601,824 | 10,601,824 | 10,601,824 | 10,601,824 | 10,601,824 | 10,601,824 |
| | LTIP | 0 | 1,072,000 | 0 | 0 | 0 | 0 |
| | RSUs | 0 | 3,604,178 | 3,604,178 | 0 | 1,321,676 | 0 |
| | PSUs | 0 | 6,164,946 | 0 | 0 | 0 | 0 |
| | Executive Severance | 0 | 0 | 0 | 1,580,270 | 0 | 0 |
| | **TOTAL** | **10,601,824** | **21,442,947** | **14,206,001** | **12,182,094** | **11,923,499** | **10,601,824** |

### Termination/Resignation

Resignation by executives who are eligible for retirement, for purposes of this table, is treated as retirement. All NEOs were eligible for retirement as of December 31, 2017.

## Supplemental Pension

The Supplemental Pension lump sum value was calculated using plan assumptions and age of the executive as of December 31, 2017. Payments under the Supplemental Pension do not commence prior to age 55, except in the case of a change in control. The Supplemental Pension assumptions in effect for December 31, 2017, are a 4.00 percent discount rate (1.75 percent for benefits earned prior to 2005) and the mortality tables applicable to lump sum distributions for qualified plans under section 417(e) of the Internal Revenue Code (1983 Group Annuity Mortality for benefits earned prior to 2005; and after 2004 if the resulting benefit is larger). The Supplemental Pension assumptions are set forth in the plan document and may be different than the assumptions used to calculate the accrued benefit reported in the "2017 Pension Benefits" or "Summary Compensation" tables or for financial reporting.

## Long-Term Incentive Performance Awards

The table shows an amount payable in the event of a change in control trigger event for the 2016-2018 and 2017-2019 LTIP performance periods. For a trigger event based upon death, disability, retirement (or resignation after satisfying the requirements for retirement), layoff or divestitures on December 31, 2017, amounts (if any) for the 2016-2018 and 2017-2019 LTIP performance periods would not be payable until after the end of the performance period. The estimated prorated amounts payable for the 2016-2018 performance cycle based on performance through December 31, 2017 are: Ms. Hewson: $2,692,846; Mr. Tanner: $937,302; Mr. Bennett: $775,054; Mr. Carvalho: $775,054; and Ms. Lavan: $620,977. The estimated prorated amounts payable for the 2017-2019 performance cycle based on performance through December 31, 2017 are: Ms. Hewson: $940,802; Mr. Tanner: $332,607; Mr. Bennett: $265,293; Mr. Carvalho: $265,293; and Ms. Lavan: $213,819. The table does not include amounts for the 2015-2017 performance cycle as these amounts are reported in the Summary Compensation Table (see notes to column (g)).

## Restricted Stock Units

All 2015, 2016 and 2017 RSUs would continue to vest for retirement or layoff occurring on December 31, 2017, and would not become payable until January 2018, January 2019 and January 2020, respectively, and are not included in the table. For a change in control (assuming satisfaction of the double trigger), death, disability or divestiture, the reported value of the RSUs was based upon the closing price of our stock on December 29, 2017 ($321.05) plus deferred dividend equivalents that accrued. The amounts for retirement or layoff on December 31, 2017 are not payable until the end of the respective vesting periods (January 2018, January 2019 and January 2020 for the 2015, 2016 and 2017 RSUs, respectively) but would have the same value on December 31, 2017 as the amounts shown for immediate payment on account of death, disability and divestiture.

## Performance Stock Units

The table shows an amount payable in the event of a change in control trigger event for the 2015-2017, 2016-2018 and 2017-2019 performance periods. The amount shown for the PSUs upon a change in control is the target level of the shares valued using the closing price of our stock on December 29, 2017 ($321.05) plus deferred dividend equivalents that accrued. The table assumes the double trigger occurred. For a trigger event based upon death, disability, retirement (or resignation after satisfying the requirements for retirement), layoff or divestitures on December 31, 2017, amounts (if any) for the 2015-2017, 2016-2018 and 2017-2019 PSU performance periods would be paid on a prorated basis following the end of the applicable performance period. The payments estimated to be paid on a non-prorated basis following the end of the performance cycle using the December 29, 2017 stock price are reported for the 2015-2017 PSU performance cycle in column (h) of the Outstanding Equity Awards at 2017 and for 2016-2018 and 2017-2019 in column (j) of that table. The prorated amounts for a trigger event occurring on December 31, 2017 plus deferred dividend equivalents that accrued are for each cycle: (i) 2015-2017 cycle: Ms. Hewson: $14,222,267; Mr. Tanner: $5,098,232; Mr. Bennett: $3,174,958; Mr. Carvalho: $3,810,017; and Ms. Lavan: $3,301,970; (ii) 2016-2018 cycle: Ms. Hewson: $10,405,414; Mr. Tanner: $3,621,695; Mr. Bennett: $2,995,725; Mr. Carvalho: $2,995,725; and Ms. Lavan: $2,399,935; and (iii) 2017-2019 cycle: Ms. Hewson: $2,327,495; Mr. Tanner: $823,246; Mr. Bennett: $656,692; Mr. Carvalho: $656,692; and Ms. Lavan: $529,231. The prorated amounts are based on the estimated performance and stock price as of December 29, 2017.

## Executive Severance

The total amounts projected for severance payments due to layoff are based on the plan (as amended) approved by the Board in 2008. It includes payment for one year of salary (2.99 years for Ms. Hewson) and one year of target annual incentive (2.99 for Ms. Hewson), estimated costs for benefits continuation for one year, outplacement services and relocation assistance (if required under the plan terms).

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**Executive Compensation**

## CEO Pay Ratio

Beginning in 2018, the Corporation must annually disclose in its proxy statement the median of the annual total compensation of all employees (excluding the CEO), the annual total compensation of its CEO, and the ratio of the CEO compensation to the employee median compensation.

Lockheed Martin employs approximately 100,000 employees that are, in large part, highly-skilled professionals located primarily in the United States, but also represented in numerous other countries. Our calculation included all employees as of December 31, 2017.

The annual total compensation of the median employee was determined in the same manner as the total compensation shown for our CEO in column (j) in the "Summary Compensation Table" on page 48.

We determined the required ratio by:

- calculating the total annual cash compensation (base salary plus annual incentive) of all employees except the CEO, and then sorting those employees from highest to lowest;

- determining the median employee from that list; and

- calculating the total annual compensation of our CEO and of the median employee using the same methodology required for the Summary Compensation Table.

The total annual compensation for our CEO for fiscal year 2017 was $22,866,843. The total annual compensation for the median employee was $123,231, encompassing base salary, incentives/recognition awards, overtime, change in pension value, company contributions to defined contribution plans, and company-paid life insurance premiums. The resulting ratio of CEO pay to the pay of the Corporation's median employee for fiscal year 2017 is 186 to one.

## Equity Compensation Plan Information

The following table provides information about the Corporation's equity compensation plans that authorize the issuance of shares of Lockheed Martin common stock to employees and directors. The information is provided as of December 31, 2017.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (a) | Weighted-average exercise price of outstanding options, warrants and rights ($) (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders [1] | 4,675,190 | 82.71 | 5,580,042 |
| Equity compensation plans not approved by security holders [2] | 975,470 | - | 2,485,191 |
| Total | 5,650,660 | 82.71 | 8,065,233 |

(1) Column (a) includes, as of December 31, 2017: 1,552,579 shares that have been granted as RSUs, 774,519 shares that could be earned pursuant to grants of PSUs (assuming the maximum number of PSUs are earned and payable at the end of the three-year performance period) and 2,216,948 shares granted as options under the Lockheed Martin Corporation 2011 Incentive Performance Award Plan (2011 IPA Plan) or predecessor plans and 19,660 shares granted as options and 111,484 stock units payable in stock or cash under the Existing Plan or predecessor plans for non-employee directors. Column (c) includes, as of December 31, 2017, 5,166,717 shares available for future issuance under the 2011 IPA Plan as options, stock appreciation rights, restricted stock awards, RSUs or PSUs and 413,325 shares available for future issuance under the Existing Plan as stock options and stock units. Of the 5,166,717 shares available for grant under the 2011 IPA Plan on December 31, 2017, 398,012 and 181,392 shares are issuable pursuant to grants made on February 22, 2018, of RSUs and PSUs (assuming the maximum number of PSUs are earned and payable at the end of the three-year performance period), respectively. Of the 413,325 shares available for grant under the Existing Plan on December 31, 2017, 4,514 are units issuable pursuant to grants made on January 31, 2018 which vest 50 percent on June 30 and 50 percent on December 31 following the grant date. Vested stock units are payable to directors upon their terminati