A low-angle, close-up photograph of the Statue of Liberty's head and crown, silhouetted against a vibrant orange and red sunset sky. The crown's intricate details and the top of the face are visible. In the upper left, two small, dark silhouettes of birds are in flight. The overall mood is dramatic and patriotic.

2002 ANNUAL REPORT

LOCKHEED MARTIN CORPORATION

Lockheed Martin Corporation
2002 FINANCIAL HIGHLIGHTS

<i>(In millions, except per share data and number of employees)</i>	2002	2001	2000
Net sales	\$26,578	\$23,990	\$24,541
Operating profit	1,158	833	1,105
Earnings (loss) from continuing operations	533	43	(477)
Unusual items, net	632	651	951
Adoption of FAS 142	—	236	268
Adjusted earnings from continuing operations	1,165	930	742
Net earnings (loss)	500	(1,046)	(519)
Diluted earnings (loss) per share	1.11	(2.42)	(1.29)
Average diluted common shares outstanding	452.0	432.5	400.8
Net cash provided by operating activities	2,288	1,825	2,016
Cash dividends per common share	0.44	0.44	0.44
Cash and cash equivalents	2,738	912	1,505
Total assets	25,758	27,654	30,426
Total debt	7,582	7,511	9,959
Stockholders' equity	5,865	6,443	7,160
Negotiated backlog	\$70,385	\$71,269	\$55,076
Employees	125,000	125,000	130,000

NOTE: For a discussion of unusual items, the adoption of FAS 142 and other matters affecting the comparability of the information presented above, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 26 through 48 of this Annual Report.

DEFINING MOMENTS™

OUR CUSTOMERS ARE GOVERNMENT AGENCIES THAT REQUIRE ADVANCED TECHNOLOGY AND SYSTEMS INTEGRATION SOLUTIONS TO PERFORM UNDER THE MOST DEMANDING OF CIRCUMSTANCES TO ACCOMPLISH CRITICALLY IMPORTANT MISSIONS. MEETING THOSE OBJECTIVES DEPENDS ON THOUSANDS OF PEOPLE DOING THEIR JOBS RIGHT, EVERY STEP OF THE WAY FROM CONCEPT DESIGN, THROUGH MANUFACTURING, TO SUCCESSFUL EXECUTION—THAT SINGULAR DEFINING MOMENT. IT DEPENDS ON PEOPLE WHO HAVE AN UNWAVERING COMMITMENT TO MISSION SUCCESS, A PASSION FOR INVENTION, AND AN APTITUDE FOR WHOLE-SYSTEMS THINKING. MOBILIZING THE TALENT AND DEDICATION OF ITS 125,000 EMPLOYEES, LOCKHEED MARTIN CREATES AND DELIVERS ORIGINAL SOLUTIONS THAT SERVE THE VITAL INTERESTS OF OUR CUSTOMERS AT *THEIR* DEFINING MOMENTS.



DEAR FELLOW SHAREHOLDERS

In the past year, the men and women of Lockheed Martin responded again with dedication and hard work to the daunting challenges that face free people worldwide. As a lead systems integrator, Lockheed Martin continues to deliver best-value solutions to our customers whose efforts to secure peace, prevail in combat, and serve the public good are indispensable. Your company has maintained and sharpened its resolve to address our core markets in defense, homeland security, and government information technology and services.

In 2002, we focused our attention on several key areas that were fundamental to positive financial results for our shareholders and superior performance for our customers. We directed our attention to the successful execution of our backlog, which has stood at over \$70 billion for two consecutive years, and the winning of new business.

Over the past two years, we successfully implemented a strategy of disciplined growth that put Lockheed Martin on the path to long-term financial strength and enhanced shareholder value. This strategy has yielded robust operational and financial performance; and in 2002 resulted in an improved credit standing, greater financial flexibility, profitable organic sales growth, strong cash flow, and operating margin expansion.

We worked to better align value in our commercial Space Systems business. Clearly, there is overcapacity in the commercial satellite and launch industries. We are committed to streamlining and strengthening the competitive posture of commercial satellite manufacturing by improving operational efficiencies within the business. We continue to work largely with the U.S. Air Force to improve the business model for launch vehicles.

ROBERT J. STEVENS, President and Chief Operating Officer

VANCE D. COFFMAN, Chairman and Chief Executive Officer

We focused on continued portfolio shaping by divesting and monetizing our global telecommunications assets in 2002. As of the end of the year, we closed three of the divestiture transactions and had a signed contract for the fourth. We also completed the full integration of our latest acquisition, OAO Corporation, into the Technology Services business area.

Our plan has been to strengthen Lockheed Martin's credit standing by continuing to pay down debt and improve leverage ratios. In 2002, the Corporation generated strong cash flow, and since 2000 we have paid down over \$4 billion of debt, and reduced our net leverage from 64 percent to 45 percent. As a result, Lockheed Martin received credit upgrades from all of the rating agencies. We believe the outlook for further credit upgrades is positive.

As a result of this corporate-wide attention to serving customers better, we are also improving financial strength. Lockheed Martin has achieved overall results that customers and shareholders desire, and that all our employees can view with pride.

Of 318 critical events we measured in 2002, we achieved an impressive 97 percent rate of Mission Success. In addition, we captured about 95 percent of the available award fees on the programs we performed, equaling our record from 2001. During the year our net sales also grew to \$26.6 billion, an 11 percent increase over 2001. These figures are a clear testament to the dedication, expertise and hard work of the 125,000 people who come to work at Lockheed Martin facilities every day. They are the intellectual capital of this enterprise, and we want to retain our talent pool in a competitive marketplace. We also want to recruit the best in their fields—people with diverse talents and backgrounds, offering the most creative ideas and solutions to the challenges our customers will face in the coming decades.

Our LM21 Operating Excellence program continues to direct our common focus on customer value and continuous improvement. The results of increased productivity and cost reduction are being achieved through a requirement for lean processes that apply six sigma capability. The savings are passed on to our customers and help drive our margin expansion initiative.

The past year is notable for vital strategic wins across all business areas, including the Deepwater program for the U.S. Coast Guard. Deepwater is the most comprehensive modernization of Coast Guard infrastructure in the service's history, including ships, aircraft, command and control, communications and logistics. In another program key to homeland security, we assisted the U.S. Transportation Security Administration to exceed its objectives by training more than 50,000 baggage and passenger screeners ahead of schedule at all U.S. commercial airports, as well as reconfiguring airport security checkpoints.

In 2002, the U.S. Federal Aviation Administration selected Lockheed Martin for the next-generation En Route Automation Modernization, an air traffic management infrastructure modernization that will enhance security and provide new capabilities to increase efficiency and capacity. Internationally, the Polish government selected the F-16 combat aircraft to modernize its air force to NATO standards, and seven nations joined the United States and United Kingdom to invest in the F-35 Joint Strike Fighter program's System Design and Development phase.

Unfortunately, there were some disappointments as well. We lost several major competitions in 2002 but have worked hard at applying lessons learned to future competitions.

Aside from contract wins, we achieved a number of performance successes in 2002, including the launch of the first Atlas V, a new generation of launcher; and the first supersonic missile launch from the F/A-22 air superiority fighter, the cornerstone of U.S. Air Force modernization.

We remain committed to exemplary corporate governance and transparency in our financial disclosure practices. And Lockheed Martin recognizes the value of good corporate citizenship, investing not only in the next generation of technology, but in education programs and philanthropy. As a corporate citizen, we recognize that encouraging a spirit of public service inspires each and every one of us. Lockheed Martin is committed to the highest standard of ethical business conduct; and we conduct regular ethics training for every one of our employees, rooting these standards deep into our corporate culture.

Overall, it was a good year for Lockheed Martin; we are strongly positioned and believe our outlook is promising. In 2003, we will focus on six imperatives that drive operational excellence and financial performance:

- Provide winning best-value solutions for customers.
- Continue to focus on strengthening program management and driving successful execution to ensure customer satisfaction. Senior executive management will pay particular attention to the F/A-22 and the Space-Based Infrared System (SBIRS) programs.
- Extract value from our Space Systems business through contract negotiations with customers as well as a focus on cost savings.
- Continue to focus on margin expansion and cash generation.
- Evaluate various alternatives for cash deployment and implement those that provide the greatest return for shareholders.
- Continue to recruit, hire and retain the best talent in the marketplace. A talented, diverse, and innovative workforce is key to sustained success and is a company imperative.

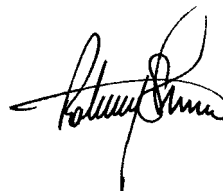
This management team recognizes Lockheed Martin's role in the defense of America and its allies, in homeland security, and in service to government agencies in the United States and around the world as they fulfill their most critical missions. And on behalf of all Lockheed Martin employees, we offer our thoughts and prayers to the families of the heroic crew of the Space Shuttle Columbia. Their individual excellence and outstanding teamwork inspires us all.

As stewards of this Corporation, we rededicate ourselves to instilling a highly ethical culture of operational and financial performance, teamwork and corporate citizenship. These are standards that cannot be compromised; they are the objectives that motivate the men and women of Lockheed Martin as they focus on every commitment, every day.

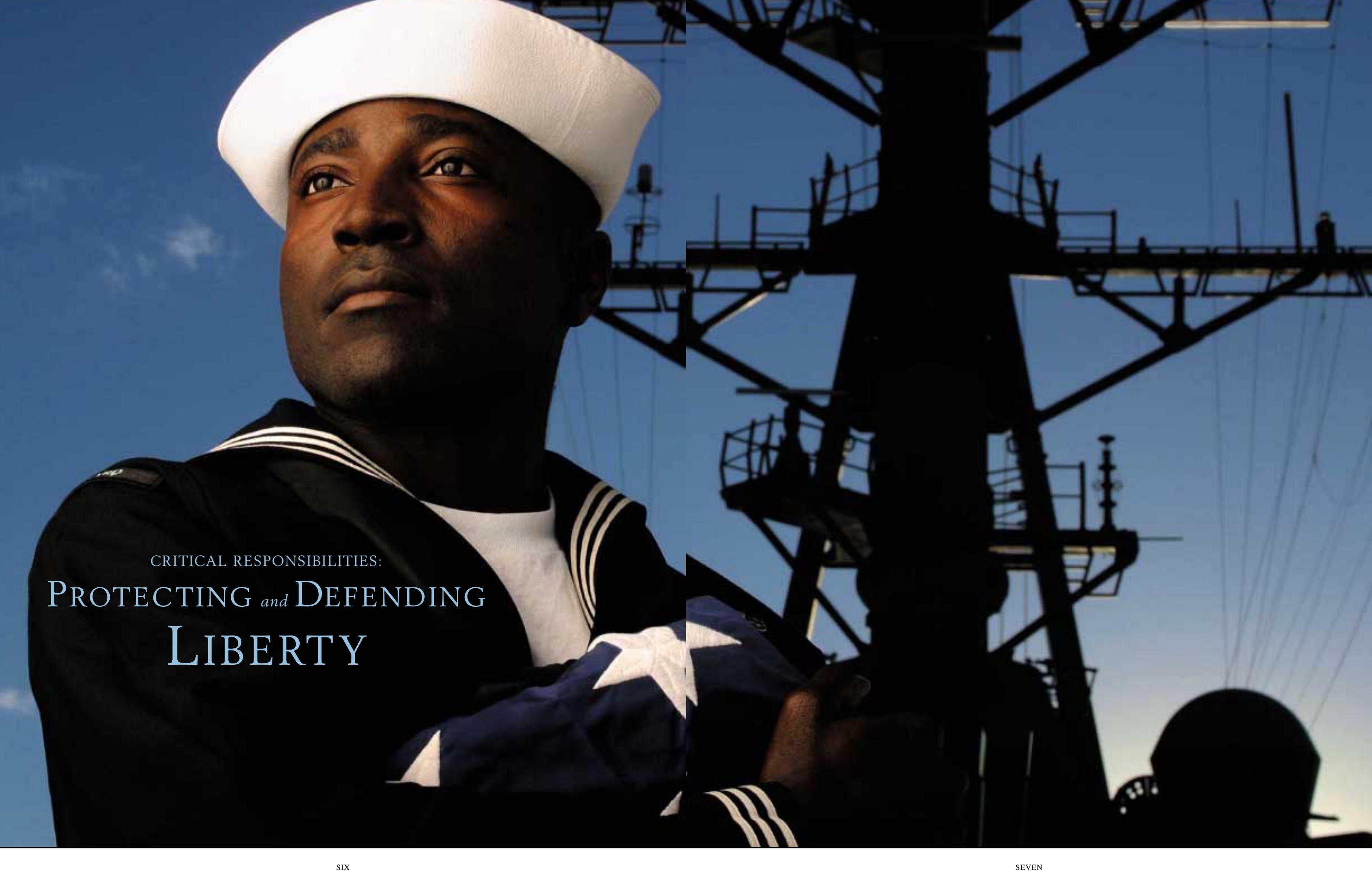
March 1, 2003



Vance D. Coffman
Chairman and Chief Executive Officer



President and Chief Operating Officer



CRITICAL RESPONSIBILITIES:
PROTECTING *and* DEFENDING
LIBERTY



The enduring values shared by all people who cherish freedom must be defended in an uncertain world. Protecting those values—to live in a free and open society—has oftentimes demanded courage, duty and devotion. Through history, the men and women of the U.S. armed forces and the forces of allied nations have responded to the call of those who yearn for liberty, who chafe under oppression.

CRITICAL RESPONSIBILITIES: PROTECTING AND DEFENDING LIBERTY

The challenges of the new security environment require original solutions that leverage America's advantages and protect against asymmetric vulnerabilities. The mission of the armed forces for those who hold freedom dear is to dissuade and deter, and if called upon, to defeat adversaries. The goal is an armed forces that sustains America's strategic position which helps underpin peace and stability in the world. Six operational goals are at the heart of creating an effects-based defense:

PROTECTING CRITICAL BASES OF OPERATION ON THE U.S. HOMELAND AND ABROAD, AS WELL AS OUR ALLIES AND FRIENDS. DEFEATING NUCLEAR, BIOLOGICAL AND CHEMICAL WEAPONS AND THEIR MEANS OF DELIVERY

PROJECTING AND SUSTAINING U.S. FORCES IN DISTANT ANTI-ACCESS ENVIRONMENTS AND DEFEATING THOSE THREATS

DENYING SANCTUARY TO ENEMIES BY PROVIDING PERSISTENT SURVEILLANCE, TRACKING AND RAPID ENGAGEMENT WITH HIGH-VOLUME PRECISION STRIKE, THROUGH A COMBINATION OF COMPLEMENTARY AIR, GROUND, AND NAVAL CAPABILITIES AGAINST CRITICAL MOBILE AND FIXED TARGETS AT VARIOUS RANGES AND IN ALL WEATHER AND TERRAINS

PROVIDING INFORMATION SUPERIORITY BY LEVERAGING INFORMATION TECHNOLOGY AND INNOVATIVE CONCEPTS TO DEVELOP AN INTEROPERABLE, JOINT NETWORK-CENTRIC ARCHITECTURE AND CAPABILITY

ASSURING ACCESS TO NECESSARY INFORMATION IN THE FACE OF ATTACK AND CONDUCTING EFFECTIVE INFORMATION OPERATIONS

PROVIDING RELIABLE AND ASSURED ACCESS TO SPACE



As a large-scale systems integrator, Lockheed Martin provides technologies and capabilities to address these strategic goals. Missile defense capabilities including Patriot Advanced Capability (PAC-3), the Medium Extended Air Defense System (MEADS), Theater High Altitude Area Defense (THAAD) as well as command and control for National Missile Defense are critical in protecting bases of operations and defeating nuclear, biological and chemical weapons. MEADS, a partnership with Germany and Italy, made successful progress last year on its risk reduction phase.

Air power projection and air mobility are provided with the F/A-22 air superiority fighter, F-16, C-130J airlifter, and C-5 modernization program; and in the future with the F-35 Joint Strike Fighter. Advanced shipboard combat systems, such as Aegis, assist in projecting and sustaining U.S. military power where it is needed. Internationally in 2002, the Republic of Korea selected Aegis for its KDX-III naval modernization program, and the Aegis system for the new F-100 Frigate was delivered to Spain. Precision strike that can deny enemies sanctuary in any weather and at any time is also the role of the F/A-22, F-35 JSF, Joint Air-to-Surface Standoff Missile, Longbow, and the Sniper/Pantera advanced targeting pod which provides pilots with the most advanced targeting and precision strike capability in the world. A truly international program, the F-35 team includes in the System Development and Demonstration phase the United States, United Kingdom, Italy, Netherlands, Turkey, Canada, Denmark, Australia and Norway.

Network-centric warfare and information superiority maximize the effectiveness of U.S. and allied forces. The goal of this netted architecture is situational awareness where forces can communicate with each other, share information about their location and that of the enemy simultaneously, and see the same precise real-time picture of the battlespace. Lockheed Martin is a leader in advanced C4ISR systems with the Theater Battle Management Core Systems, cockpit electronics and radars. The Integrated Space Command and Control program integrates 40 separate systems into one architecture to weld a potent joint force. Reliable and assured access to space is vital to national security, and the Atlas family of launchers, including the most advanced Atlas V, get military assets to the ultimate high ground when needed. The Atlas V, which made its first launch in 2002, is powered by the Russian RD-180 engine, an example of inventive global partnerships. Lockheed Martin's Milstar secure communications satellites and Space Based Infrared System (SBIRS) are essential to fulfilling vital information superiority requirements.

Facing Page: High Mobility Artillery Rocket System (HIMARS) (Top Left), Patriot Advanced Capability (PAC-3) (Top Middle), Aegis Shipboard Combat System (Top Right), Atlas V Launch (Bottom)



THE FLAME *of*
LIBERTY
SHALL NOT BE DIMMED

THE FLAME OF LIBERTY SHALL NOT BE DIMMED

To those who would strike at the heart of freedom's citadel, there can be no sanctuary, but it is also imperative that as a nation we secure the homeland from the threat of terrorism. The values that sustain and guide this country from its founding to the present day are immutable, and not subject to negotiation or compromise.

With a cabinet-level Department of Homeland Security, the United States is prepared to address the threats posed by the adversaries of a just and open society. The United States is challenged to:

ELIMINATE MAJOR VULNERABILITIES WITH CRITICAL INFRASTRUCTURE PROTECTION

PREEMPT TERRORISM WITH THREAT INFORMATION SHARING AND ALERTING AS WELL AS EFFECTIVE BORDER CONTROL

PREPARE FOR INCIDENTS WITH EMERGENCY RESPONSE AND INCIDENT RESPONSE

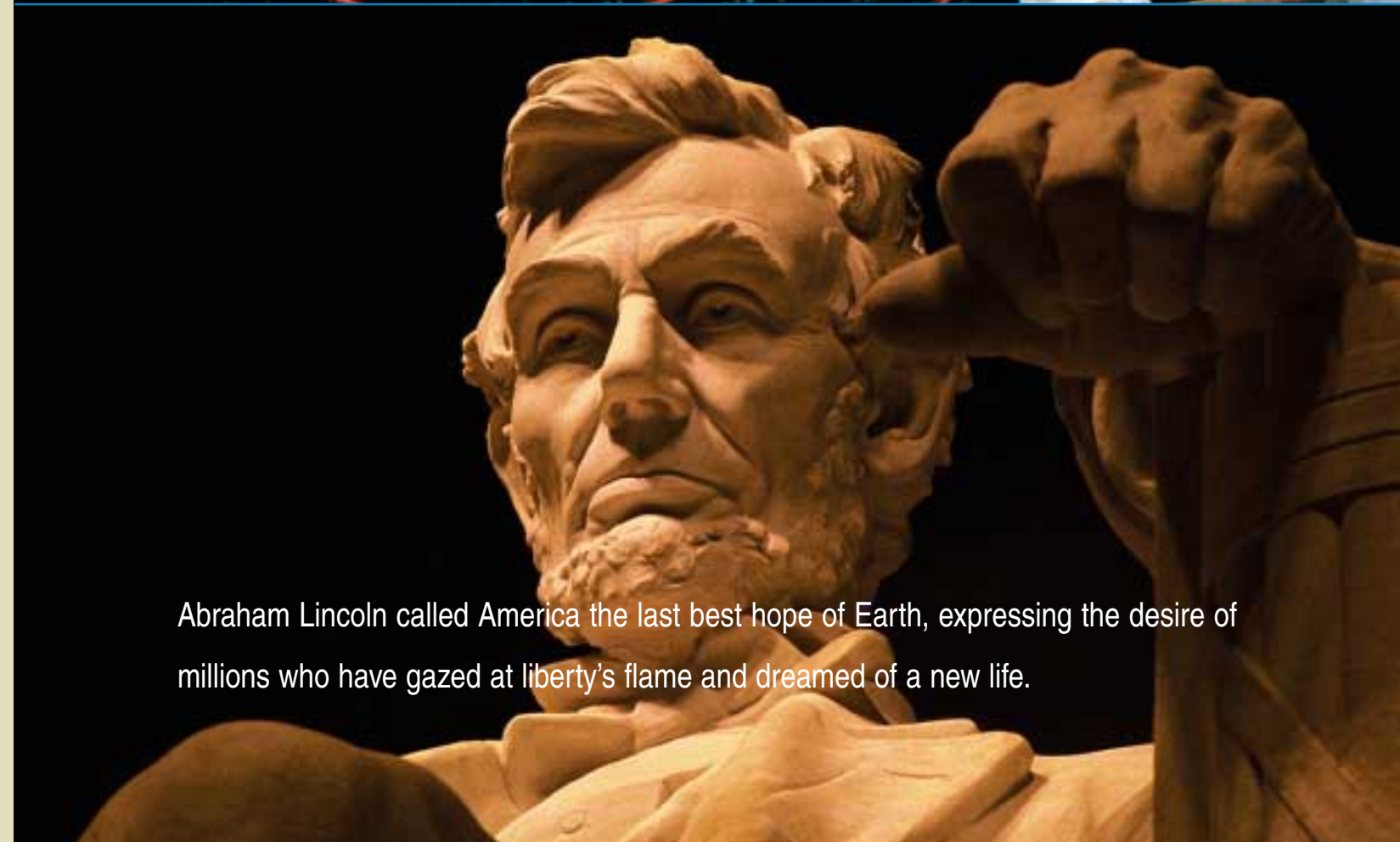
BALANCE OUR NEED FOR INCREASED SECURITY WITH CONTINUED RESPECT FOR INDIVIDUAL LIBERTIES

Leveraging its capabilities as a large-scale systems integrator in both defense and civil markets worldwide, Lockheed Martin offers solutions in the key areas of homeland security: Coast Guard; border and transportation security; emergency preparedness and response; science and technology; information analysis and infrastructure protection; and Secret Service.

Lockheed Martin is a partner with the U.S. Coast Guard as it fulfills its vital mission of protecting America's shores. Lockheed Martin and its global industry team were selected in 2002 for the Deepwater Program, the most comprehensive modernization in the Coast Guard's history. The program encompasses modernizing ships, aircraft, command and control, communications, and logistics systems. Lockheed Martin delivers solutions for the Immigration and Naturalization Service and the U.S. Customs Service, as well as technologies to support marine traffic management and port control.

In addition, Lockheed Martin technologies assist: U.S. law enforcement agencies with fingerprint identification that can match criminals to fingerprints in just minutes from a database of over 400 million prints; and the Transportation Security Administration to implement new security operations to help ensure air passenger safety at the nation's airports. The Airport Security Rollout Program upgrades passenger security measures at airports and helped to convert passenger screening operations throughout the U.S. to federal control. In addition, Lockheed Martin assisted the Transportation Security Administration to exceed its objectives by training more than 50,000 baggage and passenger screeners ahead of schedule at all U.S. commercial airports.

Previous Spread: *U.S. Coast Guard on Patrol*
Facing Page: *Aerostat Radar Screen (Top Left), Protecting America's Borders (Top Right), Aerostat Border Surveillance (Middle Right), Airport Security Screening (Bottom Right)*



Abraham Lincoln called America the last best hope of Earth, expressing the desire of millions who have gazed at liberty's flame and dreamed of a new life.



SERVING
the
PUBLIC GOOD



SERVING THE PUBLIC GOOD

A government that serves the governed. A government by and for the people. These are the pillars of a democracy where the rule of law is guaranteed by a Constitution forged in the battle for independence and freedom. These are values that have not changed—through war, depression, or at the peak of triumph.

But solutions to government challenges can and do change with 21st century technology that moves at the speed of a mouse click. Managing large sources of data, integrating complex IT systems, as well as bringing to bear the talents of 12 software maturity level-5 and level-4 companies, Lockheed Martin is well positioned to serve and assist federal agencies accomplish their nationally consequential missions by:

MANAGING LARGE INFORMATION TECHNOLOGY INFRASTRUCTURES


APPLYING SYSTEMS INTEGRATION CAPABILITIES TO DELIVER
VITAL SERVICES TO MILLIONS OF CITIZENS

PROVIDING INNOVATIVE TECHNOLOGIES TO RAISE EFFICIENCY,
MODERNIZE AND REDUCE COSTS

Lockheed Martin technologies are responsible for managing over 60 percent of the world's air traffic. In 2002, the Federal Aviation Administration (FAA) selected Lockheed Martin for the next-generation En Route Automation Modernization (ERAM), an evolutionary infrastructure upgrade of the current en route air traffic control automation system. The system is used at the 21 FAA Air Route Traffic Control Centers to control high-altitude aircraft. ERAM will upgrade the National Airspace System software and will provide the FAA with enhanced automation features to accommodate increases in air traffic.

As a systems integrator serving a broad range of federal agencies, Lockheed Martin technologies are instrumental in delivering 35 million Social Security checks every month; helping a million families a year become homeowners through Fannie Mae; assisting the U.S. Postal Service sort and manage millions of letters and packages a day with improved accuracy and speed; supporting the FDIC's commitment to insure deposits at approximately 9,700 banks, and savings and loan associations; providing information technology to the Centers for Medicare and Medicaid Services so benefits are delivered with greater speed and efficiency; and assisting inventors patent their discoveries through linked computer networks at the U.S. Patent and Trademark Office.

Previous Spread: *The U.S. Postal Service Uses Lockheed Martin Automation Technologies to Move More Than 200 Billion Pieces of Mail a Year Efficiently, Accurately and Safely.* Facing Page: *Air Traffic Control (Top), Integrated Automated Fingerprint Identification System (IAFIS) (Middle Left), The Binary Code Is Key to Information Technology (Bottom Left), Applying Systems Integration Capabilities to Deliver Vital Services (Bottom Right)*



VALUES
of
A CORPORATE CITIZEN

VALUES OF A CORPORATE CITIZEN

As a corporate citizen, Lockheed Martin invests not only in the next generation of technology, but in the next generation of people who will use that technology to create a better, more secure world.

Lockheed Martin's most precious asset is its people—the men and women who come to work each day at offices and facilities worldwide. Aside from excellence in performance, Lockheed Martin people are also committed to building stronger communities.

As a corporate citizen, we are motivated by the enduring values of a free people—dedicated to diversity, education, volunteerism, philanthropy, and our own set of corporate values of:

ETHICS AND INTEGRITY



PEOPLE AND TEAMWORK



EXCELLENCE AND A "CAN-DO" SPIRIT

As premier systems integrators, we know the importance of a team, and at Team Lockheed Martin every individual is a valued resource. Our goal is to recruit the brightest, most talented people to this team, building a workforce to carry our Corporation into the 21st century. Diverse experiences and backgrounds enable us to tap talents and expertise that will give Team Lockheed Martin a competitive edge to discover inventive solutions to the greatest challenges ahead for our customers, shareholders, employees and communities. The men and women of Lockheed Martin are committed to the highest standards of ethical business conduct. We conduct regular ethics training for every one of our employees, rooting these standards deep into our corporate culture.

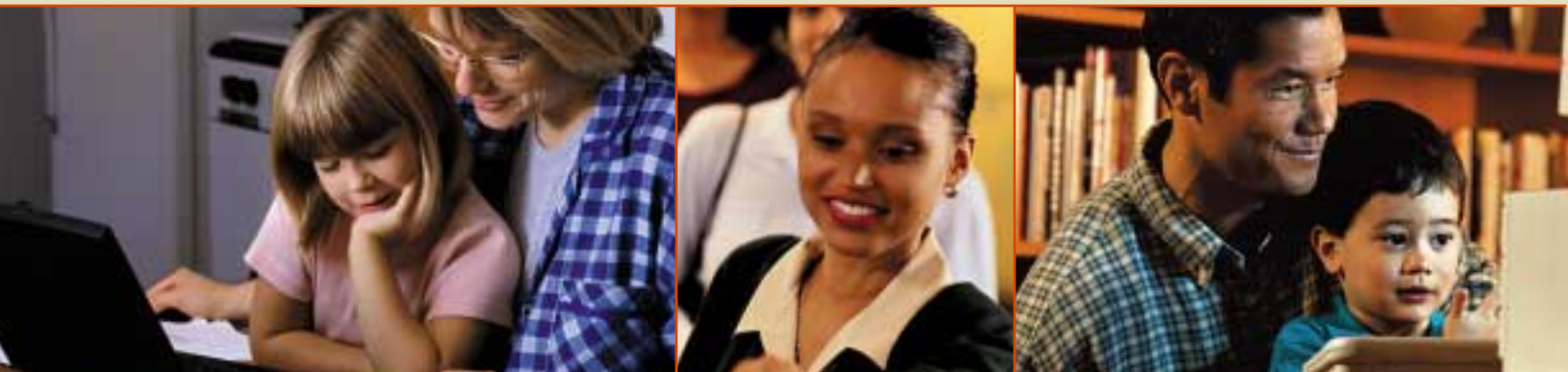


Education is another pillar of corporate citizenship and as a technology company, Lockheed Martin is vitally interested in the quantity and quality of our nation's technology graduates. Lockheed Martin supports a variety of educational programs and initiatives, such as grants to colleges and universities that have nationally recognized science, engineering and computer science programs. In addition, Lockheed Martin initiatives are devoted to strengthening math, science and engineering education from kindergarten through grade 12.

Related to these initiatives is the volunteerism of our employees who serve as mentors and tutors to children across the country. Employee volunteers also contribute to the health of the communities where they live through food and blood drives to aid those in need, as well as fundraising efforts to combat disease.

Philanthropy is a vital element of Lockheed Martin's corporate citizenship, recognizing the aesthetic and cultural value that the arts play in a free society. Ours is a company that deals in the currency of ideas, and the arts build the strength of that currency. And wherever possible we link our support for the arts directly to education, such as school visits by music and dramatic arts organizations or student visits to concerts.

Freedom, education, values, citizenship, diversity and devotion are not hollow words. They are ideals which men and women have defended with their own lives. They are the ideals that have steered the course of this nation and free people worldwide, and they serve to inspire and motivate the people of Lockheed Martin.



FINANCIAL SECTION

of the
2002 ANNUAL REPORT

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Lockheed Martin Corporation
FINANCIAL SECTION ROADMAP

December 31, 2002

The financial section of our Annual Report includes management's discussion and analysis, our consolidated financial statements, notes to those financial statements and a 5-year summary of financial information. We have prepared the following summary, or "roadmap," to assist in your review of the financial section. It is designed to give you an overview of our company and direct you to some of the more important events that happened this year.

LOCKHEED MARTIN'S BUSINESS

Lockheed Martin Corporation is mainly involved in the research, design, development, manufacture, integration and operation of advanced technology systems, products and services. We have customers in both domestic and international defense and commercial markets. Our principal customers are agencies of the U.S. Government. Our main areas of focus are in the defense, space, homeland security, and government/civil information technology markets.

FINANCIAL SECTION OVERVIEW

The financial section includes the following:

Management's discussion and analysis, or MD&A (pages 26 through 48)—provides information about industry trends, risks and uncertainties relating to Lockheed Martin, accounting policies that we view as critical in light of our operations, our results of operations, including discussions about the operations of each of our business segments, our financial position and cash flows, and important events or transactions that have occurred over the last three years.

Financial statements, notes to the financial statements and related reports—

Reports related to the financial statements (pages 49 through 50)—include the following:

- A report from our management, indicating our responsibility for financial reporting and maintaining an internal control environment, and
- A report from our independent auditors, Ernst & Young LLP, which includes their opinion about the fairness of our financial statements based on their audits. The report includes their opinion about the conformity of our financial statements, which includes the notes to the financial statements, with accounting principles that are generally accepted in the United States.

Financial statements (pages 51 through 54)—include our consolidated statements of operations, cash flows and stockholders' equity for each of the last three years, and our balance

sheet as of the end of the last two years. Our financial statements are prepared according to accounting principles that are generally accepted in the United States.

Notes to the financial statements (pages 55 through 78)—provide insight into and are an integral part of our financial statements. There are explanations of our significant accounting policies, details about certain of the captions on the financial statements, information about significant events or transactions that have occurred, discussions about commitments and contingencies, and selected financial information relating to our business segments. The notes to the financial statements are also prepared according to accounting principles that are generally accepted in the United States.

HIGHLIGHTS

The financial section of our Annual Report describes our ongoing operations, including discussions about particular lines of business or programs, our ability to finance our operating activities, and trends and uncertainties in our industry and how they might affect our future operations. We also discuss "unusual" items relative to our ongoing operations. We separately disclose these items to assist in your evaluation of our overall operating performance and financial condition. We would like to draw your attention to the following items disclosed in this financial section and where you will find them:

Topic	Location(s)
Critical accounting policies	Page 29
Post-retirement benefit plans	Page 30 and page 70
Exit from global telecommunications business	Page 32 and page 59
Divestiture activities	Page 34 and page 61
Adoption of FAS 142 (accounting for goodwill)	Page 35 and page 58
Summary of unusual items	Page 36
Changes in our business segment presentation, and discussions of each segment's operations	Page 38 and page 74
Cash flows	Page 43 and page 52
Capital structure and resources	Page 44, page 53 and page 54
Environmental matters	Page 32, page 47 and page 72
Stock options	Page 68
Commitments and contingencies	Page 72

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 31, 2002

INDUSTRY CONSIDERATIONS

Defense Business Considerations

In recent years, domestic and worldwide political and economic developments have had a significant impact on the markets for defense and advanced technology systems, products and services. Markets for defense and advanced technology systems during 2002 and in the foreseeable future will continue to be affected by the worldwide war against terrorism and threats created by the potential widespread availability of weapons of mass destruction. These realities have increased the need for greater attention to the security of our homeland and for better communication and interplay between law enforcement, civil government agencies and our military services. Our nation's overall defense posture continues to move toward a more capabilities-based structure, which creates the ability for a more flexible response with greater force mobility, stronger space capabilities, better missile defense and improved information systems security.

The President's budget for the U.S. Department of Defense (DoD) for fiscal year 2003 and beyond reflects the transformation of the country's national defense posture and responds to increased needs for homeland security and defeating terrorism. This is evidenced by budget increases for operational readiness and personnel needs, as well as for both procurement and research and development. While there is no assurance that the increased DoD budget levels will be approved by Congress, the current defense budget outlook is one of modest growth. However, the level of growth and the amount of the budget that will ultimately be allocated to the investment accounts (i.e., procurement, research and development) is unknown.

Our broad mix of programs and capabilities gives us the ability to support the needs of the various agencies of the U.S. Government that require our products and services. Our product areas and programs include: missile defense; space intelligence; command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR); air mobility aircraft; and air power projection/precision strike capability. In terms of size and long-term potential impact, two of our more important programs are the F/A-22 fighter aircraft program and the F-35 Joint Strike Fighter program. We are also represented in almost every aspect of land, sea, air and space-based missile defense, including the PAC-3 and

THAAD programs. In the areas of space intelligence and information superiority, we have leadership positions on the Milstar, Advanced Extremely High Frequency (AEHF) and Space-Based Infrared System-High (SBIRS-H) programs, and in battle management command and control capabilities. In airlift, we have the C-130J program and are under contract to upgrade the C-5 strategic airlift aircraft. Many of these programs are large and require funding over several budget cycles. There are risks associated with these and other large, highly visible programs that are subject to appropriation by Congress which, because of their size, could be expected to become potential targets for reductions or extensions of their funding to pay for other programs.

In addition, the increase in emphasis on homeland security may increase demand for our capabilities in areas such as air traffic management, biohazard detection systems for postal equipment, information systems security and other technical systems solutions. Recent trends have indicated an increase in demand by federal and civil government agencies for upgrading and investing in new information technology systems. This is an area where we have continued to focus our resources.

In prior years, companies in our industry had reacted to historically shrinking defense budgets for procurement, research and development by combining to maintain critical mass and achieve cost savings. More recently, we have focused our efforts on cost savings and improving efficiency, as well as generating cash to repay debt incurred during the period of consolidation. Through our consolidation activities, we have been able to pass along savings to our customers, mainly the DoD.

Non-U.S. defense budgets have generally been declining over the past decade. As a result, consolidation has also been occurring in the European aerospace industry, resulting in fewer but larger and more capable competitors, potentially resulting in an environment where there could be less demand abroad for products from U.S. companies. This type of environment could reduce opportunities for European partnerships and sales potential for U.S. exports.

Other Business Considerations

As a government contractor, we are subject to U.S. Government oversight. The Government may ask about and investigate our business practices and audit our compliance with applicable rules and regulations. Depending on the

results of those audits and investigations, the Government could make claims against us. Under Government procurement regulations and practices, an indictment of a government contractor could result in that contractor being fined and/or suspended from being able to bid on, or be awarded, new government contracts for a period of time. A conviction could result in debarment for a specific period of time. Similar government oversight exists in most other countries where we conduct business. Although we cannot predict the outcome of these types of investigations and inquiries with certainty, based on current facts, we do not believe that any of the claims, audits or investigations pending against us are likely to have a material adverse effect on our business or our results of operations, cash flows or financial position.

Changes in government procurement policies and practices over the past several years, such as increases in the progress payment rate and the use of performance-based payments, have had a positive effect on our financial position and cash flows. But we are still exposed to risks associated with U.S. Government contracting, including technological uncertainties and obsolescence, and having to depend on Congressional appropriation and allotment of funds each year. Many of our programs involve the development and application of state-of-the-art technologies aimed at achieving challenging goals. As a result, setbacks, delays, cost overruns and failures can occur.

In addition to our defense businesses, we also provide products and services to civil government customers, as well as commercial customers. Relative to civil government customers, in 2002, a joint venture in which we are participating was awarded the contract for Deepwater, a modernization program for the Coast Guard's fleet and systems. Our role will be to provide systems integration and engineering; C4ISR; air assets; and integrated logistics support. In addition, we provide products and services to agencies such as the U.S. Postal Service, the Federal Aviation Administration, NASA and the Transportation Security Administration. Although our lines of business in civil government and commercial markets are not dependent on defense budgets, they share many of the same risks as our defense businesses, as well as other risks unique to their particular marketplaces. These risks may include development of competing products, technological feasibility and product obsolescence.

With respect to our work with NASA, we provide products and services for the Space Shuttle program mainly through our Space Systems and Technology Services business segments. In 2002, work for NASA accounted for approximately 6% of our consolidated net sales, of which approximately one-half was related to the Space Shuttle program. We also have a 50% equity interest in United Space Alliance, LLC, which provides ground processing and other operational services to the Space Shuttle program. We are working with the Columbia Accident Investigation Board and NASA in the investigation of the February 2003 accident involving the Space Shuttle Columbia. This tragic event did not impact our results of operations for 2002, and it is too early to determine whether the accident will affect our business operations for 2003 and beyond.

We have entered into various joint venture, teaming and other business arrangements to help support our portfolio of products and services in commercial space as well as other lines of business. For additional information about these ventures, see the discussion in the next section concerning our "Commercial Space Business," the discussion on page 34 captioned "Write-Off and Restructuring of Investment in Astrolink," and the discussion on page 45 relating to Space Imaging under the caption "Capital Structure and Resources." These arrangements generally include a formal plan for funding the business which usually requires commitments from the partners, and may require the business to get financing from other sources as well. To the extent the business is unable to get financing from other sources, the business partners, ourselves included, would be required to look at alternatives for funding the business. Some of these business arrangements include foreign partners. The conduct of international business introduces other risks into our operations, including changing economic conditions, fluctuations in relative currency values, regulation by foreign countries and the potential for unanticipated cost increases resulting from the possible deterioration of political relations.

The nature of our international business also makes us subject to the export control regulations of the U.S. Department of State and the Department of Commerce. If these regulations are violated, it can result in monetary penalties and denial of export privileges. We are currently unaware

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of any violations of export control regulations which are reasonably likely to have a material adverse effect on our business or our results of operations, cash flows or financial position.

Commercial Space Business

The launch vehicle industry has continued to be affected by low demand for products and services due mainly to low demand for satellites as a result of excess capacity in the telecommunications industry. Concerns over uncertainty in the economy have made it difficult for many ventures, especially telecommunications and other high-technology companies, to obtain funding from capital markets. Reduced demand and increased competition have also caused pricing pressures in the launch vehicle market. This comes at a time when we have been making significant investments in the Evolved Expendable Launch Vehicle (Atlas V) program, our next generation launch vehicle. This program has required investment of funds for research and development, start-up and other non-recurring costs, and launch facilities. Some of these expenditures have been funded under an agreement with the U.S. Government. We had our first Atlas V launch in August 2002, successfully delivering a Eutelsat satellite into orbit. Orders to-date for the Atlas V launch vehicle have been lower than expected and at lower prices.

Similar to the launch vehicle market, the commercial satellite market is experiencing pricing pressures due to excess capacity and lower demand. Satellite demand also has been impacted by the business difficulties encountered by some companies in the commercial satellite services industry which have resulted in reduced access to capital and a reduction in the total market size in the near term. We expect to continue to reduce costs in our commercial satellite manufacturing business while keeping our focus on providing a reliable product.

In 1992, we entered into a joint venture with two Russian government-owned space firms to form Lockheed-Khrunichev-Energia International, Inc. (LKEI). We own 51% of LKEI. LKEI has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton family of rockets from a launch site in Kazakhstan. In 1995, another joint venture was formed, International Launch Services (ILS), with Lockheed Martin and LKEI each holding a 50% ownership. ILS was formed to market commercial Atlas and Proton launch services around the world. We consolidate

the results of operations of LKEI and ILS into our financial statements. Contracts for launch services usually require substantial advances from the customer before the launch. At the end of 2002, \$412 million of advances received from customers for Proton launch services not yet provided was included as a liability on our balance sheet in the caption "Customer advances and amounts in excess of costs incurred."

A sizable percentage of the advances we receive from customers for Proton launch services are sent to Khrunichev State Research and Production Space Center (Khrunichev), the manufacturer of the launch vehicle and provider of the related launch services in Russia. If a contracted launch service is not provided, a sizeable percentage of the related advance would have to be refunded to the customer. In addition, we have sent advances to Khrunichev for launches we purchased which have not yet been assigned to customers. The advances sent to Khrunichev are included on our balance sheet in inventories. In the fourth quarter of 2002, we entered into an agreement with Khrunichev to eliminate the requirement to provide launch services for our prior advances that were not associated with specific customer launch orders in exchange for an arrangement to reduce future launch payments from us to Khrunichev, contingent on the receipt of new orders as well as a minimum number of actual launches each year. Due to the continuing overcapacity in the launch vehicle market, we do not expect to recover amounts previously advanced for an extended period of time. In addition, we assessed the likelihood of customer terminations-for-convenience for launches currently under contract. A contract termination would require Khrunichev to refund a portion of the advances we have made to them and would require us to refund a portion of the advances received from the customer. As a result of these factors, we reduced the carrying value of our advances to Khrunichev and recognized a charge, net of state income tax benefits, of \$173 million in the fourth quarter of 2002. The charge reduced net earnings by \$112 million (\$0.25 per share). At year-end 2002, \$391 million of payments to Khrunichev were included in inventories. Our ability to realize the remaining amounts may be affected by Khrunichev's ability to provide the launch services and the political environment in Russia. Through the end of 2002, launch services through LKEI and ILS have been provided according to contract terms.

The Corporation has entered into an agreement with RD AMROSS, a joint venture of the Pratt & Whitney division of United Technologies Corporation and the Russian firm NPO Energomash, for the development and purchase, subject to certain conditions, of RD-180 booster engines for use in the Corporation's Atlas launch vehicles. Terms of the agreement call for payments to be made to RD AMROSS upon the achievement of certain milestones in the development and manufacturing processes. Approximately \$61 million of payments made under this agreement for engines not yet delivered were included in the Corporation's inventories at December 31, 2002.

CRITICAL ACCOUNTING POLICIES

Contract Accounting/Revenue Recognition

A large part of our business is derived from long-term development and production contracts which we account for consistent with the American Institute of Certified Public Accountants' (AICPA) audit and accounting guide, "Audits of Federal Government Contractors," and the AICPA's Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." We consider the nature of these contracts and the types of products and services provided when we determine the proper accounting for a particular contract. Generally, we record long-term fixed-price contracts on a percentage of completion basis using units-of-delivery as the basis to measure progress toward completing the contract and recognizing revenue. For certain other long-term fixed-price contracts which, along with other factors, require us to deliver minimal quantities over a longer period of time or to perform a substantial level of development effort in comparison to the total value of the contract, revenues are recorded when we achieve performance milestones or using the cost-to-cost method of accounting. Under the cost-to-cost method of accounting, we recognize revenue based on the ratio of costs incurred to our estimate of total costs at completion. We record sales under cost-reimbursement-type contracts as we incur the costs. As a general rule, we recognize sales and profits earlier in a production cycle when we use the cost-to-cost and milestone methods of percentage of completion accounting versus when we use the units-of-delivery method. We have accounting policies in place to address these and other complex issues in accounting for long-term contracts. For other information on accounting policies we have in

place for recognizing sales and profits, see our discussion under "Sales and earnings" in Note 1 to the financial statements.

Contract accounting requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. Assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. For contract change orders, claims or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for us to assess anticipated performance. Estimates of award fees are also a significant factor in estimating sales and profit rates based on actual and anticipated awards.

Products and services provided under long-term development and production contracts make up a large portion of our business, and therefore the amounts we record in our financial statements using contract accounting methods and cost accounting standards are material. We follow U.S. Government procurement and accounting standards in assessing the allowability and the allocability of costs to contracts. Because of the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. We closely monitor compliance with and the consistent application of our critical accounting policies related to contract accounting. Business segment personnel perform reviews of the status of contracts through periodic contract status and performance reviews. When adjustments in estimated contract revenues or costs are required, any changes from prior estimates are generally included in earnings in the current period. Also, regular and recurring evaluations of contract cost, scheduling and technical matters are performed by management personnel who are independent from the business segment performing work

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under the contract. Costs incurred and allocated to contracts with the U.S. Government are scrutinized for compliance with regulatory standards by our personnel, and are subject to audit by the Defense Contract Audit Agency.

Post-Retirement Benefit Plans

Most employees are covered by defined benefit pension plans, and we provide health care and life insurance benefits to eligible retirees. Our earnings may be positively or negatively impacted by the amount of income or expense we record for our employee benefit plans. This is particularly true with income or expense for qualified defined benefit plans (pension plans) because those calculations are sensitive to changes in several key economic assumptions and workforce demographics.

We account for our pension plans using Statement of Financial Accounting Standards (FAS) No. 87, "Employers' Accounting for Pensions" (FAS 87). Those rules require that the amounts we record, including the income or expense for the plans, be computed using actuarial valuations. These valuations include many assumptions, including assumptions we make relating to financial market and other economic conditions. Changes in key economic indicators can result in changes in the assumptions we use. The key year-end assumptions used to estimate pension income or expense for the following fiscal year are the discount rate, the expected long-term rate of return on plan assets and the rate of increase in future compensation levels.

We use judgment in selecting these assumptions each year because we have to consider not only current market conditions, but also make judgments about future market trends, changes in interest rates and equity market performance. We also have to consider factors like the timing and amounts of expected contributions to the plans and benefit payments to plan participants.

An actual example of how changes in these assumptions can affect our financial statements occurred in 2002. Based on our review of market trends, actual returns on plan assets, and other factors, we lowered the expected long-term rate of return on plan assets for our year-end 2002 actuarial calculations to 8.5%, versus 9.5% for 2001. This rate is applied to a calculated value of plan assets which results in an amount that is included in pension income or expense in the following year. We also lowered the discount rate assumption to 6.75% at year-end 2002, versus 7.25% used for 2001. These changes,

together with other factors such as the effects of the actual return on plan assets, result in our projecting a substantial amount of pension expense for 2003, compared to recording pension income in 2002.

Also, at the end of 2002, we recorded an adjustment in the stockholders' equity section of our balance sheet to reflect a minimum pension liability for most of our pension plans. This adjustment is calculated on a plan-by-plan basis, and is determined by comparing the accumulated benefit obligation (ABO) for the plan to the fair value of that plan's assets. The amount by which the ABO exceeds the fair value of the plan assets, after adjusting for previously recorded accrued or pre-paid pension cost for the plan, must be recorded as a minimum pension liability, with a corresponding increase in an intangible asset, if appropriate, and a reduction to stockholders' equity, consistent with FAS 87. The noncash after-tax adjustment related to our recording of a minimum pension liability in 2002 did not impact earnings, but reduced our stockholders' equity by \$1.5 billion. This adjustment is computed at each year-end and could potentially reverse in the future if financial markets improve and interest rates increase, or could potentially increase if financial market performance and interest rates continue to decline.

The total funding requirement for our pension plans under U.S. Government Cost Accounting Standards (CAS) in 2002 was \$87 million. CAS is a major factor in determining our funding requirements and governs the extent to which our pension costs are allocable to and recoverable under contracts with the U.S. Government. For 2003, we expect our funding requirements under CAS to increase substantially. This amount is recovered over time through the pricing of our products and services on U.S. Government contracts, and therefore is recognized in our net sales. Also in 2003, funding in addition to the amount calculated under CAS will likely be required under Internal Revenue Code rules. Any additional amounts computed under those rules are considered to be pre-payments under the CAS rules, and therefore are recorded on our balance sheet and recovered in future periods.

Impairment of Investments in Equity Securities

We have investments in equity securities of several companies, some of which are publicly traded entities. We review these investments each quarter to evaluate our ability to recover our investments. We record an impairment charge if the fair value

of the investment has declined below our carrying value, and that decline is viewed to be other than temporary.

For publicly traded companies, the fair value of the equity securities is determined by multiplying the number of shares we own by the stock price, as well as by computing estimates of the fair values based on a variety of valuation methods (e.g., discounted cash flow analyses, sum-of-the-parts valuations and trading multiples). For those companies that are not publicly traded, we prepare discounted cash flow analyses to compute an estimate of the fair value of the investment. Since we generally do not have access to internal projections of those companies, we prepare projections based on information that is publicly available. We use judgment in computing the fair value based on our evaluation of the investee and establishing an appropriate discount rate and terminal value to apply in the calculations. In selecting these and other assumptions, we consider the investee's ability to execute their business plan successfully, including their ability to obtain required funding, general market conditions, and industry considerations specific to their business. It is likely that we could compute a materially different fair value for an investment if different assumptions were used or if circumstances were to change.

Many of our investments are concentrated in the satellite services and telecommunications industries, including Intelsat, Ltd. (Intelsat), Inmarsat Ventures plc (Inmarsat) and New Skies Satellites, N.V. (New Skies). These industries continue to be affected by the capital markets, excess satellite capacity and competition from other kinds of telecommunications services, including fiber optic cable and other wireless communication technologies. This has been evidenced by recent bankruptcy filings by some telecommunications companies. Intelsat, Inmarsat and New Skies are also subject to regulation by the Federal Communications Commission (FCC). FCC decisions and policies have had, and may continue to have, a significant impact on these companies. In 2000, Congress passed the Open-Market Reorganization for the Betterment of International Telecommunications Act (the ORBIT Act) that, among other things, established deadlines for Intelsat and Inmarsat to complete their initial public offerings. Under the ORBIT Act, Intelsat and Inmarsat were required to complete their initial public offerings by December 31, 2002. However, Inmarsat has received an extension from the FCC until June 30, 2003. In October 2002, legislation was

enacted which extends the deadline for Intelsat to complete its initial public offering to December 31, 2003, or June 30, 2004 if approved by the FCC. Unless there are changes in the current trends and market conditions in the telecommunications industry, as well as in the capital markets, Intelsat and Inmarsat may have difficulty in completing their initial public offerings by the ORBIT Act deadlines. If those deadlines are not met or extended by further amendments to the legislation, the FCC may limit access by U.S. users to the satellite capacity of the privatized entities for some services. If this were to occur, the value of our investments could be adversely affected.

In the fourth quarter 2002, as part of the ongoing evaluation of our ability to recover our investments, we calculated an estimate of the current fair values of our investments in Intelsat and Inmarsat. For our investment in New Skies, we calculated the current fair value based on the publicly traded stock price and, for analysis purposes, also calculated an estimate of the fair value using discounted cash flow analyses. In each case, the fair value of our investment was less than our carrying amount. We then made an assessment as to whether the decline in the value of these investments was other than temporary. We reviewed investment analyst reports to the extent they were available. We also assessed future business prospects for the companies and reviewed information regarding market and industry trends for their businesses.

Based on our evaluation, including the factors discussed above, we determined that the decline in values of these investments was other than temporary, and recorded impairment charges related to these investments in the fourth quarter of 2002. The impact of the unusual charges on operating profit (earnings from continuing operations before interest and taxes), net earnings and diluted earnings per share was as follows:

<i>(In millions)</i>	Operating Profit	Net Earnings	Earnings per Diluted Share
Write-down of investment in:			
Intelsat	\$(572)	\$(371)	\$(0.82)
Inmarsat	(101)	(66)	(0.15)
New Skies	(103)	(67)	(0.15)
Total write-down of telecommunications investments	\$(776)	\$(504)	\$(1.12)

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Environmental Liabilities

We record financial statement accruals for environmental matters in the period that it becomes probable that a liability has been incurred and the amounts can be reasonably estimated (see the discussion under "Environmental matters" in Note 1 to the financial statements). Judgment is required when we develop assumptions and estimate costs expected to be incurred for environmental remediation activities due to, along with other factors, difficulties in assessing the extent of environmental remediation to be performed, complex environmental regulations and remediation technologies, and agreements between potentially responsible parties (PRPs) to share in the cost of remediation as discussed below.

We enter into agreements (e.g., administrative orders, consent decrees) which document the extent of our obligation. These agreements usually cover several years which makes estimating the costs more judgmental due, for example, to changing remediation technologies. To determine total costs at clean-up sites, we have to assess the appropriate technology to be used to accomplish the remediation, as well as continually evolving regulatory environmental standards. We consider these factors in our estimates of the timing and amount of any future costs that may be required for remedial actions. Given the level of judgment and estimation which has to occur as described above, it is likely that materially different amounts could be recorded if different assumptions were used or if circumstances were to change (e.g., a change in environmental standards).

Under agreements reached with the U.S. Government in 1990 and 2000, some of the amounts we spend for groundwater treatment and soil remediation are allocated to our operations as general and administrative costs. Under existing government regulations, these and other environmental expenditures relating to our U.S. Government businesses, after deducting any recoveries from insurance or other PRPs, are allowable in establishing prices of our products and services. As a result, a substantial amount of the expenditures we incur are being included in our sales and cost of sales according to U.S. Government agreement or regulation.

At the end of 2002 and 2001, the total amount of liabilities recorded on our balance sheet for environmental matters was \$445 million and \$300 million, respectively. We have recorded an asset for the portion of environmental costs that are probable of future recovery in pricing of our products and

services for U.S. Government businesses. The amount that is expected to be allocated to our commercial businesses has been expensed through cost of sales. The amounts we record do not reflect the fact that we may recover some of the environmental costs we have incurred through insurance or from other PRPs, which we are pursuing as required by agreement and U.S. Government regulation. Any recoveries we receive would reduce the allocated amounts included in our future U.S. Government sales and cost of sales.

EXIT FROM THE GLOBAL TELECOMMUNICATIONS SERVICES BUSINESS

In December 2001, we announced that we would exit our global telecommunications services business as a result of continuing overcapacity in the telecommunications industry and weakening business and economic conditions in Latin America. We also decided in the fourth quarter of 2001 not to provide further funding to Astrolink International, LLC (Astrolink) and, mainly due to Astrolink's inability to obtain additional funding from other sources, wrote off our investment in Astrolink. We recorded unusual charges, net of state income tax benefits, of approximately \$2.0 billion in the fourth quarter of 2001 related to these actions. The charges reduced net earnings by about \$1.7 billion (\$3.98 per diluted share).

The global telecommunications services businesses included the operations of COMSAT Corporation. We completed our merger with COMSAT Corporation in August 2000. The operations of COMSAT were included in the results of our operations since August 1, 2000. The total purchase price for COMSAT was approximately \$2.6 billion. The COMSAT transaction was accounted for using the purchase method of accounting, where the purchase price was allocated to assets acquired and liabilities assumed based on their fair values. These allocations included adjustments totaling approximately \$2.1 billion to record investments in equity securities (i.e., Intelsat, Inmarsat and New Skies) at fair value, and goodwill.

The global telecommunications businesses that we retained included the Systems & Technology line of business and the COMSAT General telecommunications business unit, which were realigned with the Space Systems segment, and Enterprise Solutions-U.S., which was realigned with the Technology Services segment. The equity investments retained, including Intelsat, Inmarsat and New Skies, ACeS

International, Ltd. (ACeS), Americom Asia-Pacific, LLC and Astrolink, had a combined carrying value of about \$900 million at December 31, 2002.

The following discussion describes the components of the \$2.0 billion in charges based on their classification in our financial statements.

Discontinued Operations

The \$2.0 billion in charges in 2001 included an amount, net of state income tax benefits, of approximately \$1.4 billion related to global telecommunications services businesses held for sale and exit costs for the elimination of the administrative function supporting the global telecommunications businesses and investments. These charges, which reduced net earnings for the year by \$1.3 billion (\$3.09 per diluted share) were included in discontinued operations in our statement of operations. The status of the businesses held for sale is as follows:

- **Satellite Services businesses**—In 2002, we completed the sale of COMSAT Mobile Communications and COMSAT World Systems. These transactions did not have a material impact on our consolidated results of operations or financial position. We also reached an agreement to sell Lockheed Martin Intersputnik (LMI) in the third quarter of 2002. This transaction is expected to close in 2003, subject to regulatory approvals and the satisfaction of other conditions, including a requirement that we move the LMI satellite to another orbital slot. The transaction is not expected to have a material impact on our results of operations or financial position.
- **COMSAT International**—In 2002, we completed the sale of an 81% ownership interest in COMSAT International. The transaction did not have a material impact on our consolidated results of operations or financial position.

Of the \$1.4 billion of charges included in discontinued operations, about \$1.2 billion related to impairment of goodwill. The goodwill was recorded when we acquired COMSAT as discussed above. Approximately \$170 million of the \$1.4 billion related to impairment of some of the long-lived assets employed by foreign businesses held for sale, mainly COMSAT International. The rest of the charge related to costs associated with elimination of administrative functions, including severance and facilities.

Effective January 1, 2001, we adopted FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Since the operating businesses we identified for divestiture met the requirements of FAS 144 to be classified as discontinued operations, their results of operations, as well as the impairment and other charges related to the decision to exit the businesses, are classified as discontinued operations for all periods presented, and have been excluded from business segment information. Also, the assets and liabilities of these businesses have been shown separately in the balance sheet as being held for sale. Depreciation and amortization expense were not recorded for these businesses after the date they were classified as held for sale consistent with FAS 144. LMI is recorded at estimated fair value less cost to sell at December 31, 2002. Changes in the estimated fair value of LMI will be recorded in the future if appropriate.

We also completed the sale of Lockheed Martin IMS Corporation (IMS), a wholly-owned subsidiary, for \$825 million in cash in August 2001. This transaction resulted in a gain, net of state income taxes, of \$476 million and increased net earnings by \$309 million (\$0.71 per diluted share). The results of IMS's operations for all periods presented, as well as the gain on the sale, are classified as discontinued operations in accordance with FAS 144. Net sales recorded in 2001 up to the effective date of the divestiture totaled approximately \$355 million, excluding intercompany sales. The transaction generated net cash proceeds of approximately \$560 million after related transaction costs and federal and state income tax payments.

Other Charges Related to Global Telecommunications

The charges recorded in the fourth quarter of 2001 also included unusual charges, net of state income tax benefits, of approximately \$132 million related to commitments to and impairment in the values of investments in satellite joint ventures, primarily ACeS and Americom Asia-Pacific. We had previously recorded unusual charges related to other than temporary declines in the values of these investments as follows: in the first quarter of 2001, a charge, net of state income tax benefits, of \$100 million was recorded related to Americom Asia-Pacific; and in the fourth quarter of 2000, a charge, net of state income tax benefits, of \$117 million was recorded related to ACeS (see Note 8 to the financial statements for more discussion of these charges).

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In addition, as part of the \$2.0 billion in charges recorded in the fourth quarter 2001, about \$43 million related to severance, facilities costs and impairment of certain fixed assets associated with the business units we retained. These unusual charges reduced net earnings for 2001 by \$117 million (\$0.27 per diluted share).

Write-off and Restructuring of Investment in Astrolink

Through 2001, we had invested \$400 million in Astrolink, a joint venture that planned to develop a broad-band satellite system. In the fourth quarter of 2001, in light of market conditions affecting the telecommunications industry and the difficulty Astrolink was having raising external capital, we decided not to make an additional equity investment in Astrolink and wrote off our 31% equity interest. As a result, we recorded an unusual charge of \$367 million, net of state income tax benefits, in other income and expenses to reflect the other than temporary decline in the value of our Astrolink investment. We also recorded charges of approximately \$20 million, net of state income tax benefits, in cost of sales for certain other costs related to Astrolink. On a combined basis, these charges reduced net earnings for 2001 by approximately \$267 million (\$0.62 per diluted share).

After several months of negotiation, in January 2003, we finalized an agreement with Astrolink's other members to restructure Astrolink. As part of the transaction, Liberty Satellite & Technology, a subsidiary of Liberty Media Corporation, may acquire substantially all of Astrolink's assets and pursue a business plan to build a one- or two-satellite system. The transaction is subject to regulatory approval, financing and other closing conditions. Upon closing of the asset transfer, we would continue to provide launch services and be a satellite vendor, but would retain only a limited indirect equity interest in the restructured business. The restructuring also entails the settlement of existing claims related to termination of Astrolink's major procurement contracts. As part of that settlement, if Liberty Satellite & Technology does not elect to proceed with the new system, we would acquire the remaining assets of Astrolink, including work in process under our procurement contracts with Astrolink. Certain other of the members also would retain their work in process. Under either scenario, the restructuring is not expected to have a material effect on our financial position, results of operations or cash flows.

OTHER DIVESTITURE ACTIVITIES

In January 2001, we completed the divestiture of two business units in the environmental management line of business. The impact of these divestitures was not material to our 2001 results of operations, cash flows or financial position due to the effects of unusual impairment losses recorded in prior years related to these business units. Those losses were included in other income and expenses as part of other portfolio shaping activities in the respective years.

In November 2000, we sold our Aerospace Electronics Systems (AES) businesses for \$1.67 billion in cash (the AES Transaction). We recorded an unusual loss, including state income taxes, of \$598 million related to this transaction which is included in other income and expenses. The loss reduced net earnings for 2000 by \$878 million (\$2.18 per diluted share). Although the AES Transaction resulted in a pretax loss for book purposes, it resulted in a gain for tax purposes primarily because goodwill related to the AES businesses was not included in the tax basis of the net assets of AES. Therefore, we were required to make state and federal income tax payments associated with the divestiture. The AES Transaction generated net cash proceeds of approximately \$1.2 billion after related transaction costs and federal and state income tax payments. Net sales included in the year 2000 related to the AES businesses totaled approximately \$655 million, excluding intercompany sales.

In September 2000, we sold Lockheed Martin Control Systems (Control Systems) for \$510 million in cash. This transaction resulted in the recognition of an unusual gain, net of state income taxes, of \$302 million which is reflected in other income and expenses. The gain increased net earnings for the year ended December 31, 2000 by \$180 million (\$0.45 per diluted share). This transaction generated net cash proceeds of \$350 million after related transaction costs and federal and state income tax payments. Net sales for the first nine months of 2000 related to Control Systems totaled approximately \$215 million, excluding intercompany sales.

In September 2000, we sold approximately one-third of our interest in Inmarsat for \$164 million. The investment in Inmarsat was acquired as part of the merger with COMSAT. As a result of the transaction, our interest in Inmarsat was reduced from approximately 22% to 14%. The sale of shares

in Inmarsat did not impact our results of operations. The transaction generated net cash proceeds of about \$115 million after transaction costs and federal and state income tax payments.

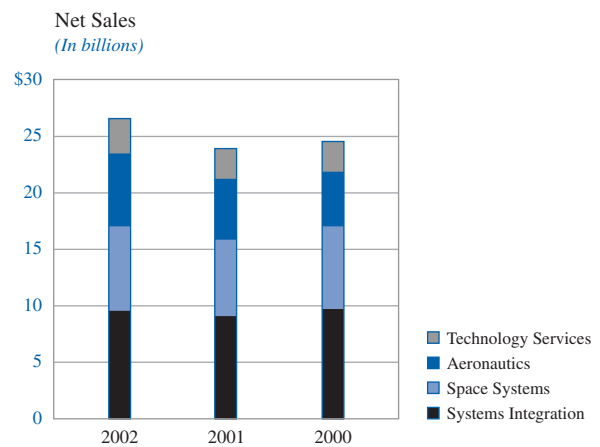
On an ongoing basis, we will continue to explore the sale of various non-core businesses, passive equity investments and surplus real estate. If we were to decide to sell any such holdings or real estate, the resulting gains, if any, would be recorded when the transactions are consummated and losses, if any, would be recorded when they are probable and estimable. We also continue to review our businesses on an ongoing basis to identify ways to improve organizational effectiveness and performance, and to focus on our core business strategy.

RESULTS OF OPERATIONS

Since our operating cycle is long-term and involves many types of development and production contracts with varying production delivery schedules, the results of operations of a particular year, or year-to-year comparisons of recorded sales and profits, may not be indicative of future operating results. The following discussions of comparative results among periods should be viewed in this context.

Effective January 1, 2002, we adopted FAS 142, "Goodwill and Other Intangible Assets," as discussed more fully in Note 1 of the notes to the financial statements. We completed the initial step of the goodwill impairment test required by the new rules and concluded that no adjustment to the balance of goodwill at the date we adopted the standard was required. We also reassessed the estimated remaining useful lives of other intangible assets as part of our adoption of the Statement. As a result of that review, we extended the estimated remaining useful life of the intangible asset related to our F-16 fighter aircraft program from six to ten years, effective January 1, 2002. The most important factors considered in making this determination included the existing backlog for F-16 deliveries which extends production beyond the life we

originally anticipated, and our outlook for potential new orders for the F-16 during the next ten years. Relative to new orders, we expect that the F-16 will continue to be the dominant fighter aircraft available for many countries in the international market until the F-35 Joint Strike Fighter is available. As a result of the adoption, amortization expense for goodwill and certain other intangibles for 2002 was lower compared to 2001 by \$274 million, and was lower compared to 2000 by \$297 million.



Continuing Operations

For 2002, net sales were \$26.6 billion, an 11% increase over 2001 sales. Sales for 2001 were \$24.0 billion, a decrease of 2% compared to 2000. Sales increased in all segments during 2002 as compared to 2001. Sales growth in our Aeronautics and Technology Services segments during 2001 were more than offset by decreases in the remaining business segments as compared to 2000. Adjusting for acquisitions and divestitures, sales would have remained comparable when comparing 2001 to 2000. The U.S. Government is our largest customer, accounting for about 80% of our sales for 2002 compared to 78% in 2001 and 72% in 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Our results of operations for 2002, 2001 and 2000 included the effects of various unusual items. The impact of these items on operating profit (earnings from continuing operations before interest and taxes), net earnings (loss) and amounts per diluted share is as follows:

Effects of unusual items:

<i>(In millions)</i>	Operating (Loss) Profit	Net (Loss) Earnings	Earnings per Diluted Share
YEAR ENDED DECEMBER 31, 2002			
Continuing operations			
Write-down of telecommunications investments	\$ (776)	\$ (504)	\$(1.12)
Charge related to Russian advances	(173)	(112)	(0.25)
Write-down of investment in Space Imaging and charge related to recording of guarantee	(163)	(106)	(0.23)
R&D tax credit settlement	—	90	0.20
	\$(1,112)	\$ (632)	\$(1.40)
YEAR ENDED DECEMBER 31, 2001			
Continuing operations			
Write-off of investment in Astrolink and related costs	\$ (387)	\$ (267)	\$(0.62)
Write-down of investment in Loral Space	(361)	(235)	(0.54)
Other charges related to global telecommunications	(176)	(117)	(0.27)
Impairment charge related to Americom Asia-Pacific	(100)	(65)	(0.15)
Loss on early repayment of debt	(55)	(36)	(0.08)
Other portfolio shaping activities	(5)	(3)	(0.01)
Gain on sale of surplus real estate	111	72	0.17
	(973)	(651)	(1.50)
Discontinued operations—			
Charges related to discontinued businesses, net of IMS gain	—	(1,027)	(2.38)
	\$ (973)	\$(1,678)	\$(3.88)

<i>(In millions)</i>	Operating (Loss) Profit	Net (Loss) Earnings	Earnings per Diluted Share
YEAR ENDED DECEMBER 31, 2000			
Continuing operations			
Loss related to AES Transaction	\$ (598)	\$ (878)	\$(2.18)
Loss on early repayment of debt	(146)	(95)	(0.24)
Charge related to Globalstar guarantee	(141)	(91)	(0.23)
Impairment charge related to ACeS	(117)	(77)	(0.19)
Other portfolio shaping items	(46)	(30)	(0.07)
Gain on sale of Control Systems	302	180	0.45
Partial reversal of CalComp reserve	33	21	0.05
Gain on sales of surplus real estate	28	19	0.05
	\$ (685)	\$ (951)	\$(2.36)

Our operating profit for 2002 was \$1.2 billion, an increase of 39% compared to 2001. Our operating profit for 2001 was \$833 million, a decrease of 25% compared to 2000. These amounts included the impacts of unusual items which reduced operating profit for 2002, 2001 and 2000 by \$1,112 million, \$973 million and \$685 million, respectively. The results for 2001 and 2000 included amortization expense of \$274 million and \$297 million, respectively, for goodwill and certain other intangibles that was not included in 2002 due to the adoption of FAS 142. Adjusting for the effects of the unusual items and the adoption of FAS 142 for each year, operating profit for 2002 would have been \$2.3 billion, a 9% increase over the operating profit of \$2.1 billion in 2001. The operating profit for 2001 would have remained comparable to operating profit of \$2.1 billion in 2000.

Operating profit in 2002 increased in all four business segments when compared to 2001. When comparing 2001 to 2000, increases in the Aeronautics, Space Systems and Technology Services segments were offset by a decrease in operating profit in Systems Integration.

Interest expense for 2002 was \$581 million, \$119 million lower than the comparable amount in 2001 mainly due to reductions in our debt portfolio and the benefit from interest rate swap agreements. Interest expense for 2001 was \$700 million, \$219 million lower than the amount for 2000 mainly as a result of reductions in our debt portfolio.

Our effective tax rate was 7.7% for 2002, 67.7% for 2001 and 355.7% for 2000. The rate for each year was affected by the tax impact from unusual items. Included in the unusual items for 2002 was a \$90 million tax benefit related to the settlement of a research and development tax credit claim. In addition, for years prior to 2002, the rates were increased by non-deductible goodwill that was being amortized for financial accounting purposes. For 2000, the tax rate was further increased by write-offs of non-deductible goodwill for businesses divested in that year. Adjusting for the impact of unusual items and the adoption of FAS 142, our effective tax rates would have been 31% for 2002, 32.6% for 2001 and 36.2% for 2000. For 2002 and 2001 these adjusted effective tax rates were lower than the 35% statutory rate primarily due to the lower tax rates on extraterritorial income. For 2000, the adjusted rate was higher than the statutory rate due to adjustments for revisions to prior year estimates.

For 2002, we reported earnings from continuing operations of \$533 million (\$1.18 per diluted share) compared to \$43 million (\$0.10 per diluted share) for 2001. In 2000, we reported a loss from continuing operations of \$477 million (\$1.19 per diluted share). These amounts included the after-tax effects of unusual items which reduced earnings for 2002, 2001 and 2000 by \$632 million, \$651 million and \$951 million, respectively. The results for 2001 and 2000 included after-tax amortization expense of \$236 million and \$268 million, respectively, for goodwill and certain other intangibles that was not included in 2002 due to the adoption of FAS 142. Adjusting for the unusual items and the adoption of FAS 142, earnings from continuing operations would have been \$1.2 billion in 2002, \$930 million in 2001, and \$742 million in 2000.

Discontinued Operations

We reported losses from discontinued operations of \$33 million (\$0.07 per diluted share) in 2002, \$1.1 billion (\$2.52 per diluted share) in 2001, and \$42 million (\$0.10 per diluted share) in 2000.

The businesses included in discontinued operations reported operating losses of \$33 million (\$0.07 per diluted share) in 2002, \$62 million (\$0.14 per diluted share) in 2001, and \$42 million (\$0.10 per diluted share) in 2000.

Discontinued operations for 2002 includes losses incurred for wind-down activities related to the global telecommunications services businesses, offset by the reversal of a reserve associated with the sale of IMS. When recording the sale of IMS in 2001, we established transaction-related reserves to address various indemnity provisions in the sale agreement. The risks associated with certain of these indemnity provisions have been resolved and \$39 million, net of taxes, was reversed through discontinued operations in 2002.

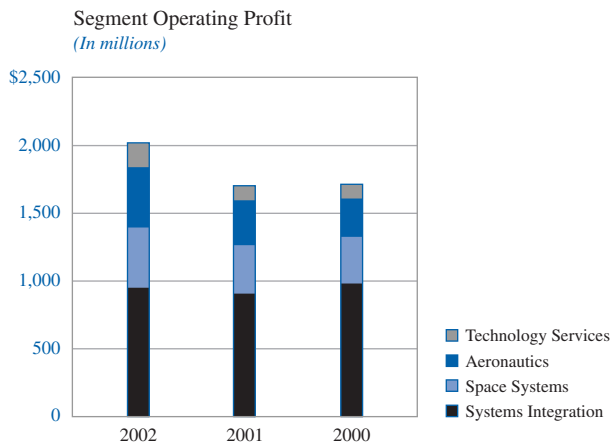
Included in the 2001 loss from discontinued operations was an unusual after-tax charge of \$1.3 billion (\$3.09 per diluted share) related to our decision to exit the global telecommunications services business. The 2001 results also include an unusual after-tax gain of \$309 million (\$0.71 per diluted share) from the third quarter 2001 sale of Lockheed Martin IMS Corporation.

Net Earnings (Loss)

We reported net earnings of \$500 million (\$1.11 per diluted share) in 2002, compared to net losses of \$1 billion (\$2.42 per diluted share) in 2001 and \$519 million (\$1.29 per diluted share) in 2000. These amounts included the after-tax effects of unusual items which reduced earnings for 2002, 2001 and 2000 by \$632 million, \$1,678 million and \$951 million, respectively. The results for 2001 and 2000 included after-tax amortization expense of \$236 million and \$268 million, respectively, for goodwill and certain other intangibles that was not included in 2002 due to the adoption of FAS 142.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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DISCUSSION OF BUSINESS SEGMENTS

We changed the way we report the results of our business segments in the fourth quarter of 2002. The change in presentation is being made to align the way segment operating results are reported to senior management for their evaluation of segment operating performance. We continue to operate in four principal business segments: Systems Integration, Space Systems, Aeronautics and Technology Services. The changes include the following:

- The Corporate and Other segment has been eliminated;
- Operating profit (loss) from the operations of the four principal business segments is reconciled to the reported consolidated results utilizing the following items:
 - Unallocated Corporate income (expense), net—this caption includes—
 - Unusual items (discussed under Results of Operations above)—The effects of unusual items that are not considered part of management’s evaluation of the segment’s operating results (e.g., sales of surplus real estate, impairment charges, divestitures and other portfolio shaping activities) are excluded from the business segment results;

- The difference between pension costs calculated and funded in accordance with Cost Accounting Standards (CAS), which are reported in the business segment results, and pension expense or income determined in accordance with FAS 87 as reported in Note 13 to the financial statements (FAS/CAS adjustment). This amount was previously allocated to the business segments;
- The costs of our common stock-based compensation plans, including our Long-Term Incentive Performance Award Program. This amount was also allocated to the business segments previously;
- Corporate costs not allocated to the business segments and other miscellaneous Corporate activities, including interest income and earnings and losses from our equity investments.
- Impact of adoption of FAS 142 (discussed under Results of Operations above)—The impact of goodwill no longer being amortized and the change in the estimated remaining useful life of the contract intangible asset related to the F-16 program is now excluded from segment results for all periods before January 1, 2002.

For more information on the changes in our segment presentation and the reasons for the changes, see Note 16 to the financial statements. The following tables of financial information and the discussions of the results of operations of our business segments have been adjusted to reflect the new presentation of segment operating results and correspond to segment information presented in Note 16.

This table shows net sales and operating profit of the business segments and reconciles to the consolidated total.

<i>(In millions)</i>	2002	2001	2000
NET SALES			
Systems Integration	\$ 9,603	\$ 9,014	\$ 9,647
Space Systems	7,384	6,836	7,339
Aeronautics	6,471	5,355	4,885
Technology Services	3,104	2,763	2,649
Total business segments	26,562	23,968	24,520
Other	16	22	21
	\$26,578	\$23,990	\$24,541
OPERATING PROFIT (LOSS)			
Systems Integration	\$ 952	\$ 906	\$ 981
Space Systems	443	360	345
Aeronautics	448	329	280
Technology Services	177	114	106
Total business segments	2,020	1,709	1,712
Unallocated Corporate expense, net	(862)	(602)	(310)
Impact of FAS 142 adoption	—	(274)	(297)
	\$ 1,158	\$ 833	\$ 1,105

The Space Systems and Aeronautics segments generally include fewer programs that have much larger sales and operating results than programs included in the other segments. Therefore, due to the large number of comparatively smaller programs in the Systems Integration and Technology Services segments, the discussions of the results of operations of these business segments generally focus on lines of business within the segments.

Systems Integration

Systems Integration's operating results included the following:

<i>(In millions)</i>	2002	2001	2000
Net sales	\$9,603	\$9,014	\$9,647
Operating profit	952	906	981

Net sales for Systems Integration increased 7% in 2002 as compared to 2001. Sales increased as a result of higher volume in three of the segment's four lines of business. Increased sales at Missiles & Fire Control (M&FC) of \$285 million were mainly due to higher volumes on the Theater High Altitude Area Defense (THAAD) missile program and on certain tactical missile programs. Command, Control,

Communication, Computers and Intelligence (C4I) sales increased by \$275 million mainly as a result of volume on information superiority programs. Naval Electronics & Surveillance Systems (NE&SS) sales increased by \$145 million primarily due to higher volumes on surface systems and radar systems programs. These increases were partially offset by a \$115 million decrease in sales related to volume declines on platform integration programs in the Systems Integration-Owego line of business.

Net sales for the segment declined by 7% in 2001 compared to 2000. Sales would have increased 4% for 2001 compared to 2000 had the sales attributable to the segment's Aerospace Electronic Systems (AES) and Control Systems businesses, which were divested in the second half of 2000, and the transfer of the Payload Launch Vehicle (PLV) contract to the Space Systems segment at the start of 2001, been excluded from the comparisons. Sales increased by \$270 million as a result of volume increases in NE&SS, primarily on tactical systems and surface systems programs, and undersea and radar systems activities. M&FC sales increased by \$235 million, mainly due to higher volume on certain tactical missile programs and the THAAD missile program. C4I sales increased slightly year-over-year. These increases were partially offset by a \$275 million decrease in sales related to volume declines on platform integration programs at Systems Integration-Owego.

Operating profit for the segment increased by 5% in 2002 compared to 2001. Increased operating profit of \$60 million from the sales growth at M&FC, C4I and NE&SS more than offset lower operating profit of \$14 million at Systems Integration-Owego. Overall, a decline in volume on mature production programs (at Owego and M&FC) and higher volume on development programs (at NE&SS and M&FC) contributed to the slight decline in margins.

Operating profit for the segment decreased 8% in 2001 compared to 2000. Operating profit would have increased by 4% for 2001 from the previous year had the operating profit related to the divested AES and Control Systems businesses, as well as the PLV contract transfer, been excluded from the comparisons. Increased operating profit of \$85 million from the sales growth at NE&SS, C4I, and M&FC more than offset the decrease resulting from the volume decline at Systems Integration-Owego.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Space Systems

Space Systems' operating results included the following:

<i>(In millions)</i>	2002	2001	2000
Net sales	\$7,384	\$6,836	\$7,339
Operating profit	443	360	345

Net sales for Space Systems increased by 8% in 2002 compared to 2001. The increase in sales for 2002 resulted from higher volume in government space of \$370 million and commercial space of \$180 million. In government space, increases of \$470 million in government satellite programs and \$130 million in ground systems activities more than offset volume declines of \$175 million on government launch vehicles and \$55 million on strategic missile programs. The increase in commercial space sales is primarily attributable to an increase in launch vehicle activities, with nine commercial launches during 2002 compared to six in 2001.

Net sales for the segment decreased by 7% in 2001 compared to 2000. The decrease in sales for 2001 resulted from volume declines in commercial space of \$560 million, which more than offset increases in government space of \$60 million. In commercial space, sales declined due to volume reductions of \$480 million in commercial launch vehicle activities and \$80 million in satellite programs. There were six launches in 2001 compared to 14 launches in 2000. The increase in government space resulted from a combined increase of \$230 million related to higher volume on government satellite programs and ground systems activities. These increases were partially offset by a \$110 million decrease related to volume declines in government launch vehicle activity, primarily due to program maturities, and by \$50 million due to the absence in 2001 of favorable adjustments recorded on the Titan IV program in 2000.

Operating profit for the segment increased 23% in 2002 as compared to 2001, mainly driven by the commercial space business. Reduced losses in commercial space during 2002 resulted in increased operating profit of \$90 million when compared to 2001. Commercial satellite manufacturing losses declined \$100 million in 2002 as operating performance improved and satellite deliveries increased. In the first quarter of 2001, a \$40 million loss provision was recorded on certain commercial satellite manufacturing contracts. Due to the industry-wide oversupply and deterioration of pricing in the

commercial launch market, financial results on commercial launch vehicles continue to be challenging. During 2002, this trend led to a decline in operating profit of \$10 million on commercial launch vehicles when compared to 2001. This decrease was primarily due to lower profitability of \$55 million on the three additional launches in the current year, additional charges of \$60 million (net of a favorable contract adjustment of \$20 million) for market and pricing pressures and included the adverse effect of a \$35 million adjustment for commercial launch vehicle contract settlement costs. The 2001 results also included charges for market and pricing pressures, which reduced that year's operating profit by \$145 million. The \$10 million decrease in government space's operating profit for the year is primarily due to the reduced volume on government launch vehicles and strategic missile programs, which combined to decrease operating profit by \$80 million, partially offset by increases of \$40 million in government satellite programs and \$30 million in ground systems activities.

Operating profit for the segment increased by 4% in 2001 compared to 2000. Operating profit increased in 2001 due to a \$35 million increase in government space partially offset by higher year-over-year losses of \$20 million in commercial space. In government space, operating profit increased due to the impact of higher volume and improved performance in ground systems and government satellite programs. The year-to-year comparison of operating profit was not affected by the \$50 million favorable Titan IV adjustment recorded in 2000 discussed above, due to a \$55 million charge related to a more conservative assessment of government launch vehicle programs that was recorded in the fourth quarter of 2000. In commercial space, decreased operating profit of \$15 million on launch vehicles more than offset lower losses on satellite manufacturing activities. The commercial launch vehicle operating results included \$60 million in higher charges for market and pricing pressures when compared to 2000. These negative adjustments were partially offset by \$50 million of favorable contract adjustments on certain launch vehicle contracts. Commercial satellite manufacturing losses decreased slightly from 2000 and included the adverse impact of a \$40 million loss provision recorded in the first quarter of 2001 for certain commercial satellite contracts related to schedule and technical issues.

Aeronautics

Aeronautics' operating results included the following:

<i>(In millions)</i>	2002	2001	2000
Net sales	\$6,471	\$5,355	\$4,885
Operating profit	448	329	280

Net sales for Aeronautics increased by 21% in 2002 compared to 2001. The higher sales were primarily driven by volume increases of \$860 million on the F-35 Joint Strike Fighter program, \$475 million on F/A-22 production contracts and a combined increase of \$340 million from higher volume on the F-16 and C-5 programs. These increases were partially offset by a \$335 million decline resulting from seven fewer C-130J deliveries compared to 2001 and a \$140 million decrease due to lower volume on F/A-22 Engineering, Manufacturing and Development (EMD) activities.

Net sales for the segment increased by 10% in 2001 compared to 2000. During 2001, sales increased by \$400 million primarily due to the initial ramp up on F/A-22 production contracts and increased volume on F-16 programs. Volume increases from F-16 and C-130 support activities also increased sales by \$230 million. These increases were partially offset by declines in sales of \$260 million resulting from fewer F-16 and C-130J deliveries in 2001.

Operating profit for the segment increased by 36% in 2002 compared to 2001. Increased operating profit of \$119 million primarily resulted from the higher volume on the programs noted in the discussion of sales. Operating profit for 2002 was negatively affected by a \$15 million charge recorded in the third quarter for performance issues on an aircraft modification contract and by a \$15 million change in estimate adjustment recorded in the fourth quarter related to cost growth on F/A-22 EMD activities. Margins in 2002 were favorably affected by having seven fewer C-130J deliveries in the year as compared to 2001. The C-130J deliveries do not impact operating profit due to the previously disclosed suspension of earnings recognition on the program.

Operating profit for the segment increased by 18% for 2001 compared to 2000. For the year, operating profit increased by \$49 million due to increased volume and performance on the F/A-22 program, development activities on F-16 and other aeronautical programs. This increase was partially offset by a decline in F-16 deliveries. Margins in 2001

were favorably affected by having five fewer C-130J deliveries as compared to 2000.

Technology Services

Technology Services' operating results included the following:

<i>(In millions)</i>	2002	2001	2000
Net sales	\$3,104	\$2,763	\$2,649
Operating profit	177	114	106

Net sales for Technology Services increased by 12% in 2002 compared to 2001. For the year, the increase in sales was primarily attributable to growth of \$335 million in the government information technology line of business, due to increased volume on existing programs and the acquisition of OAO Corporation effective December 1, 2001, and \$155 million in the defense line of business. This growth was partially offset by a combined \$160 million decline in sales related to volume on the commercial information technology and NASA lines of business.

Net sales for the segment increased by 4% in 2001 compared to 2000. Excluding the sales attributable to Lockheed Martin Energy Technologies and Retech, two business units that were divested in 2000, and the acquisition of OAO Corporation, sales would have increased 7% for the year. Sales increased \$190 million primarily due to increased volume in the government information technology and military aircraft lines of business. This growth was partially offset by lower sales volume associated with the segment's energy-related contracts due to program completions.

Operating profit for the segment increased by 55% in 2002 compared to 2001. The increase is mainly due to improved performance in commercial information technology and the higher volume in government information technology, which together, increased operating profit by \$100 million. These increases were partially offset by a combined decrease in operating profit of \$30 million on the military aircraft, NASA, defense and energy lines of business.

Operating profit for the segment increased by 8% for 2001 compared to 2000. Operating profit increased by \$30 million in 2001 from higher volumes in the government information technology and military aircraft lines of business. This improvement was partially offset by a \$20 million reduction in operating profit due to the completion of energy-related contracts.

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The Technology Services segment has a business unit which provides services to the government of Argentina. At December 31, 2002, we had investments in and advances to the business unit totaling about \$30 million. While we expect that these amounts will be recoverable, there is always the potential that further devaluation of the Argentine peso, deterioration in the Argentine economy or other factors could adversely affect our ability to recover those amounts.

Unallocated Corporate Income (Expense), Net

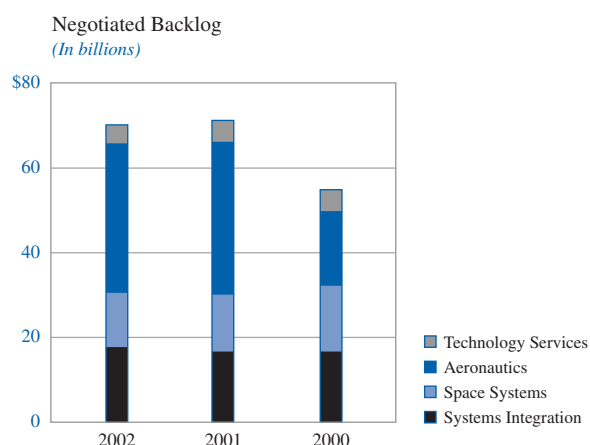
The following table shows the components of unallocated Corporate income (expense), net:

<i>(In millions)</i>	2002	2001	2000
UNALLOCATED CORPORATE			
INCOME (EXPENSE), NET			
Unusual items	\$(1,112)	\$(973)	\$(685)
FAS/CAS adjustment	243	360	309
Other	7	11	66
	\$ (862)	\$(602)	\$(310)

For information about unusual items, see the table under the previous discussion of continuing operations.

The difference between pension costs calculated and funded in accordance with CAS and pension expense or income determined in accordance with FAS 87 is not included in segment operating results and therefore is a reconciling item between operating profit from the business segments and consolidated operating profit (FAS/CAS adjustment). The CAS funding amount is allocated among the business segments and is included as an expense item in the segments' cost of goods sold. This cost is also passed along to our customers through contract pricing, and is consequently included in the segments' sales. The following table shows the CAS funding that is included as expense in the segments' operating results, the related FAS income, and the FAS/CAS adjustment:

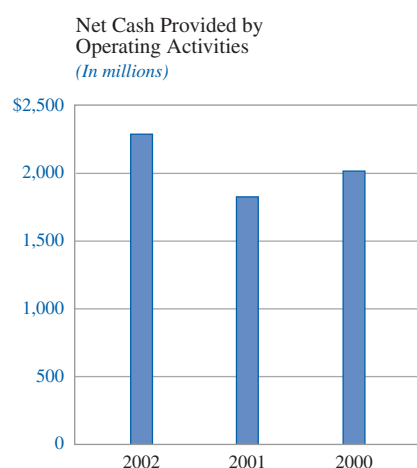
<i>(In millions)</i>	2002	2001	2000
FAS 87 income	\$156	\$354	\$302
CAS funding and expense	(87)	(6)	(7)
FAS/CAS adjustment—income	\$243	\$360	\$309

**BACKLOG**

Total negotiated backlog was \$70.4 billion at December 31, 2002. This amount includes both funded backlog (unfilled firm orders for our products for which funding has been both authorized and appropriated by the customer—Congress in the case of U.S. Government agencies) and unfunded backlog (firm orders for which funding has not been appropriated). Funded backlog was \$36.1 billion at December 31, 2002.

The following table shows total backlog by segment at the end of each of the last three years:

<i>(In millions)</i>	2002	2001	2000
BACKLOG			
Systems Integration	\$17,671	\$17,027	\$16,706
Space Systems	12,620	12,977	15,505
Aeronautics	35,477	36,149	17,570
Technology Services	4,617	5,116	5,295
	\$70,385	\$71,269	\$55,076



LIQUIDITY AND CASH FLOWS

Operating Activities

Operating activities provided \$2.3 billion of cash in 2002, compared to \$1.8 billion in 2001 and \$2.0 billion in 2000. Operating activities included earnings (loss) from continuing operations, as adjusted for noncash items, and the cash provided by changes in our operating assets and liabilities. Management of our working capital accounts (accounts receivable, inventory, accounts payable and customer advances) contributed \$202 million of cash flow in 2002, \$1.1 billion in 2001 and \$355 million in 2000. The timing of income tax payments or refunds also affects our operating cash flows. In 2002, we received \$117 million from the settlement of the R&D tax credit claim while in 2001, we paid \$655 million of income taxes related to divested businesses. Included in operating activities is cash provided from discontinued operations of \$25 million in 2002, \$34 million in 2001 and \$25 million in 2000. Operating cash flows were sufficient to operate our businesses, finance capital expenditures and to pay dividends on our common stock each year.

Investing Activities

Investing activities used \$539 million of cash in 2002, compared to providing \$139 million in 2001 and \$1.8 billion in 2000. Cash used for property, plant and equipment expenditures increased 7% in 2002 and 24% in 2001 and included \$10 million in 2002, \$74 million in 2001 and \$58 million in 2000 for the discontinued businesses. During 2002, we received

proceeds of \$134 million from the sale of our discontinued telecommunications businesses and \$93 million primarily from the disposal of property, plant and equipment. Investments of \$104 million were made in 2002, primarily related to our acquisition of OAO Corporation.

During 2001, we received proceeds of \$825 million from the sale of our IMS business. Investments in affiliated companies of \$192 million primarily consisted of \$140 million to complete our funding commitment to Astrolink and \$30 million to Intelsat. The remainder of the 2001 activity was attributable to proceeds from the disposal of property, plant and equipment, and various other investing activities.

During 2000, we received \$1.7 billion from the sale of our AES business, \$510 million from the sale of our Control Systems business and \$164 million from the sale of a portion of our investment in Inmarsat. Investments in affiliated companies of \$257 million mainly consisted of our funding commitment to Astrolink of \$127 million and an additional investment in Intelsat of \$58 million. Proceeds from the sale of property and other activities contributed \$175 million to our investing activities.

Financing Activities

Financing activities provided \$77 million of cash in 2002, as compared to using \$2.6 billion in 2001 and \$2.7 billion in 2000. Proceeds of \$436 million from stock option activity more than offset dividend payments of \$199 million, repayment of debt (primarily ESOP obligations) of \$110 million and \$50 million for the repurchase of 1 million shares of common stock in 2002. Including the \$450 million of debentures we called in 2003 to be repaid early and the \$150 million of debt we recorded relating to our guarantee of Space Imaging, LLC's existing credit facility (see the related discussions under Capital Structure and Resources), debt maturities will amount to \$1,365 million in 2003.

During 2001, improved operating cash flows and cash provided by investing activities allowed us to reduce our long-term debt by approximately \$2.4 billion. The reduction in long-term debt was primarily attributable to the pre-payment of notes issued to a wholly-owned subsidiary of General Electric Company (GE), payments on scheduled debt maturities, and the early retirement of certain other debt instruments.

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Debt retirements in 2000 were mainly attributable to our completing tender offers for some of our long-term debt during the fourth quarter of 2000. We used \$2.1 billion to consummate the tender offers, resulting in the early repayment of \$1.9 billion in long-term debt and an unusual loss, net of state income tax benefits, of \$146 million, or \$95 million after tax.

We paid dividends of \$199 million in 2002, \$192 million in 2001 and \$183 million in 2000.

Other

We receive advances on some contracts to finance inventories. At December 31, 2002 and 2001, approximately \$4.3 billion and \$2.9 billion, respectively, in advances, performance-based payments and progress payments for work in process were received from customers and recorded as a reduction to inventories in our balance sheet. Also at December 31, 2002 and 2001, \$466 million and \$566 million, respectively, of customer advances, performance-based payments and progress payments were recorded in receivables as a reduction to unbilled costs and accrued profits. Approximately \$4.5 billion and \$5.0 billion of customer advances and amounts in excess of costs incurred, which are usually from foreign governments and commercial customers, were included in current liabilities at the end of 2002 and 2001, respectively (see Note 1).

CAPITAL STRUCTURE AND RESOURCES

Total debt increased by \$71 million during 2002 from a balance of \$7.5 billion at December 31, 2001. Current maturities of long-term debt at December 31, 2002 included \$450 million of debentures we called in 2003 to be repaid early and \$150 million of debt we recorded relating to our guarantee of Space Imaging, LLC's existing credit facility (see the related discussions below). Our long-term debt is mainly in the form of publicly issued, fixed-rate notes and debentures. At December 31, 2002, we held cash and cash equivalents of \$2.7 billion, some of which will be used to meet scheduled long-term debt maturities in 2003.

Total stockholders' equity was \$5.9 billion at December 31, 2002, a decrease of \$578 million from December 31, 2001. This decrease was mainly attributable to our recognition of an additional minimum pension liability, which reduced stockholders' equity on an after-tax basis by \$1.5 billion, the payment of dividends of \$199 million and the repurchase of 1 million shares of common stock for \$50 million. Stock option and ESOP activity of \$752 million and net earnings of \$500

million during the year partially offset the decline. As a result of the above factors, our total debt-to-capitalization ratio increased from 53.8% at December 31, 2001 to 56.4% at December 31, 2002.

In 2003, in order to reduce interest expense and improve our debt-to-capitalization ratio, we decided to issue irrevocable redemption notices to the trustees for two issuances of callable debentures totaling \$450 million. These debentures have interest rates that are higher than current market rates. One notice was for \$300 million of 7.875% debentures due on March 15, 2003, which were callable on or after March 15, 2003. The second was for \$150 million of 7.75% debentures due on April 15, 2003, which were callable on or after April 15, 2003. We expect to repay amounts due on March 15, 2003 and April 15, 2003, respectively. Therefore, we have included the \$450 million in current maturities of long-term debt on our balance sheet at December 31, 2002. We expect to incur a loss on the early repayment of the debt, net of state income tax benefits, of approximately \$16 million, or \$10 million after tax.

At the end of 2002, we had in place a \$1.5 billion revolving credit facility; no borrowings were outstanding. This credit facility will expire in November 2006. Borrowings under the credit facility would be unsecured and bear interest at rates based, at our option, on the Eurodollar rate or a bank Base Rate (as defined). Each bank's obligation to make loans under the credit facility is subject to, among other things, our compliance with various representations, warranties and covenants, including covenants limiting our ability and the ability of certain of our subsidiaries to encumber our assets, and a covenant not to exceed a maximum leverage ratio. In October 2002, we terminated our \$1.0 billion 1-year credit facility.

We have agreements in place with banking institutions to provide for the issuance of commercial paper. There were no commercial paper borrowings outstanding at December 31, 2002. If we were to issue commercial paper, the borrowings would be supported by the \$1.5 billion credit facility.

We have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) to provide for the issuance of up to \$1 billion in debt securities. If we were to issue debt under this shelf registration, we would expect to use the net proceeds for general corporate purposes. These purposes may include repayment of debt, working capital needs, capital expenditures, acquisitions and any other general corporate purpose.

We actively seek to finance our business in a manner that preserves financial flexibility while minimizing borrowing costs to the extent practicable. Our management continually reviews changes in financial, market and economic conditions to manage the types, amounts and maturities of our indebtedness. Periodically, we may refinance existing indebtedness, vary our mix of variable-rate and fixed-rate debt, or seek alternative financing sources for our cash and operational needs.

Cash and cash equivalents (including temporary investments), internally generated cash flow from operations and other available financing resources, including those described above, are expected to be sufficient to meet anticipated operating, capital expenditure and debt service requirements, as well as discretionary investment needs, during the next twelve months. Consistent with our desire to generate cash to reduce debt and invest in our core businesses, we expect that, subject to prevailing financial, market and economic conditions, we will continue to explore the sale of non-core businesses, passive equity investments and surplus real estate.

At December 31, 2002, we had contractual commitments to repay debt (including capital lease obligations), and to make payments under operating leases. Generally, our long-term debt obligations are subject to, along with other things, compliance with certain covenants, including covenants limiting our ability and the ability of certain of our subsidiaries to encumber our assets. Payments due under these long-term obligations are as follows:

<i>(In millions)</i>	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt and capital lease obligations ^(a)	\$7,557	\$1,365	\$156	\$ 816	\$5,220
Operating lease commitments ^(b)	1,042	222	356	236	228
Total contractual cash obligations	\$8,599	\$1,587	\$512	\$1,052	\$5,448

(a) Amounts exclude a \$25 million adjustment to the fair value of long-term debt relating to the Corporation's interest rate swap agreements which will not be settled in cash.

(b) Includes future payments related to a leasing arrangement with a state government authority for Atlas V launch facilities. Total payments under the arrangement are expected to be approximately \$320 million over a 10-year period. Lease payments began in August 2002.

We have entered into standby letter of credit agreements and other arrangements with financial institutions and customers mainly relating to the guarantee of future performance on some of our contracts to provide products and services to customers. At December 31, 2002, we had contingent liabilities on outstanding letters of credit, guarantees and other arrangements, as follows:

<i>(In millions)</i>	Commitment Expiration per Period				
	Total Commitment	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Surety bonds ^(a)	\$291	\$117	\$ 74	\$100	\$—
Standby letters of credit ^(a)	288	200	73	4	11
Guarantees	3	2	1	—	—
Total commitments	\$582	\$319	\$148	\$104	\$11

(a) Approximately \$100 million and \$5 million of surety bonds in the "less than 1 year" and "1-3 year" periods, respectively, and approximately \$143 million and \$4 million of standby letters of credit in the "less than 1 year" and "1-3 year" periods, respectively, are expected to automatically renew for additional one-to-two year periods until completion of the contractual obligation.

We have issued standby letters of credit and surety bonds totaling \$4.1 billion related to advances received from customers and/or to secure our performance under long-term contracts. Amounts included in the table above totaling \$579 million are those amounts over and above advances received from customers which are recorded in the balance sheet as either offsets against inventories or in customer advances and amounts in excess of costs incurred. Of the \$3.5 billion recorded in the balance sheet, approximately \$2 billion relates to a standby letter of credit to secure advance payments received under an F-16 contract from an international customer. This letter of credit is available for draw down only in the event of our nonperformance. Similar to the letter of credit for the F-16 contract, letters of credit and surety bonds for other contracts are available for draw down only in the event of our nonperformance.

We hold a 46% interest in a joint venture called Space Imaging, LLC (Space Imaging) which we account for under the equity method. Space Imaging was recently successful in obtaining certain long-term commitments from the U.S. Government for purchases of commercial satellite imagery on an as needed basis. However, to execute its current business plans and fund future replacement satellites, Space Imaging will likely need, but has

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 31, 2002

not been able to obtain commitments for, additional investment or funding. In addition to our equity investment, we also guarantee up to \$150 million of Space Imaging's borrowings under a credit facility that matures on March 31, 2003, and have about \$33 million in receivables from the joint venture at the end of 2002. In light of our decision and the decision of the other major member in the joint venture not to provide further funding at this time, our assessment that Space Imaging will likely not be able to repay its obligation under the credit facility when due, and the uncertainties as to whether Space Imaging will be successful in obtaining the additional investment necessary to fund replacement satellites, we wrote off our investment in the joint venture and recorded the obligation to fund amounts due from us under the guarantee. As a result, we recorded a charge, net of state income taxes, of \$163 million which reduced net earnings by \$106 million (\$0.23 per diluted share), and increased current maturities of long-term debt by \$150 million, representing our obligation under the guarantee, which is expected to be paid in the first quarter of 2003.

In March 2000, we converted our 45.9 million shares of Loral Space & Communications Ltd. Series A Preferred Stock into an equal number of shares of Loral Space common stock. Due to the market price of Loral Space stock and the potential impact of underlying market and industry conditions on Loral Space's ability to execute its current business plans, we recorded an unusual charge, net of state income tax benefits, of \$361 million in the third quarter of 2001 related to our investment in Loral Space. The charge reduced net earnings by \$235 million, or \$0.54 per diluted share (see Note 8 to the financial statements). The value of our investment continues to be impacted by adverse market and industry conditions, including low demand for commercial satellites as a result of excess capacity in the telecommunications industry.

We satisfied our contractual obligation relating to our guarantee of certain indebtedness of Globalstar, L.P. (Globalstar) with a net payment of \$150 million on June 30, 2000 to repay a portion of Globalstar's borrowings under a revolving credit agreement. This payment resulted in our recording an unusual charge, net of state income tax benefits, of approximately \$141 million in 2000 which reduced net earnings for the year by \$91 million, or \$0.23 per diluted share (see Note 9 to the financial statements for more information). We have no remaining guarantees related to Globalstar. On February 15, 2002, Globalstar and certain of its affiliates filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

Our main exposure to market risk relates to interest rates and, to a lesser extent, foreign currency exchange rates. Our financial instruments which are subject to interest rate risk mainly include commercial paper and fixed-rate long-term debt. At December 31, 2002, we did not have any commercial paper outstanding. We use interest rate swaps to manage our exposure to fixed and variable interest rates. At the end of the year 2002, we had agreements in place to swap fixed interest rates on about \$920 million of our long-term debt for variable interest rates based on LIBOR. The interest rate swap agreements are designated as effective hedges of the fair value of the underlying fixed-rate debt instruments. At December 31, 2002, the fair values of interest rate swap agreements outstanding totaled about \$25 million. The amounts of gains and losses from changes in the fair values of the swap agreements were entirely offset by those from changes in the fair value of the associated debt obligations. The interest rate swaps create a market exposure to changes in the LIBOR rate. To the extent that the LIBOR index on which the swaps are based increases or decreases by 1%, our interest expense would increase or decrease by \$9 million annually on a pretax basis. Changes in swap rates would affect the market value of the agreements, but those changes in value would be offset by changes in value of the underlying debt. A 1% rise in swap rates from those at December 31, 2002 would result in a decrease in market value of about \$11 million. A 1% decline would increase the market value by a like amount.

We use forward foreign exchange and option contracts to manage our exposure to fluctuations in foreign exchange rates. These contracts are designated as qualifying hedges of the cash flows associated with firm commitments or specific anticipated transactions, and related gains and losses on the contracts, to the extent they are effective hedges, are recognized in income when the hedged transaction occurs. To the extent the hedges are ineffective, gains and losses on the contracts are recognized currently. At December 31, 2002, the fair value of forward exchange and option contracts outstanding, as well as the amounts of gains and losses recorded during the year, were not material. We do not hold or issue derivative financial instruments for trading purposes.

ENVIRONMENTAL MATTERS

As more fully described in Note 15 to the financial statements, we have property that is subject to environmental matters. In our opinion, the probability is remote that the outcome of these matters will have a material adverse effect on our consolidated results of operations, financial position or cash flows. Certain expenditures related to the recorded liabilities discussed below, after deducting any recoveries from insurance or other PRPs, are allowable in establishing the prices of our products and services under contracts with the U.S. Government. The recorded amounts do not reflect the possible future recoveries of portions of the environmental costs through insurance policy coverage or from other PRPs, which we are pursuing as required by agreement and U.S. Government regulation. These matters include the following items:

We are responding to three administrative orders issued by the California Regional Water Quality Control Board in connection with our former facilities in Redlands, California. We are also coordinating with the U.S. Air Force, which is working with the aerospace and defense industry to conduct preliminary studies of the potential health effects of perchlorate exposure associated with several sites across the country, including the Redlands site. The results of these studies are intended to assist us in determining our ultimate clean-up obligation, if any, with respect to perchlorates. In January 2002, the State of California reduced the provisional standard for perchlorate concentration in water from 18 parts per billion (ppb) to 4 ppb. Although this provisional standard does not create a legally enforceable requirement for us at this time, we have developed a preliminary remediation plan that would meet the provisional standard if it were to become final. Because this plan entails a long lead-time to be implemented, we have decided to begin implementing the plan and recognize the increased costs that are associated with the plan. The balance sheet at December 31, 2002 includes a liability of approximately \$185 million which is our estimate of the remaining expenditures necessary to implement the remediation and other work at the site over the next 30 years. This amount is approximately \$100 million more than the amount recorded at December 31, 2001. As at other sites, we are pursuing claims against other potentially responsible parties (PRPs), including the U.S. Government, to help with clean-up costs.

We have also been conducting remediation activities to address soil and groundwater contamination by chlorinated solvents at our former operations in Great Neck, New York. Until the third quarter of 2002, all of the remediation work associated with this site had been performed on the site itself. In the third quarter, we entered into negotiations with the State of New York to implement an off-site interim remedial measure intended to address an off-site plume of groundwater contamination that was found to be moving more rapidly than originally anticipated. This has led to an increase of approximately \$50 million in the projected future costs for the site. Total projected future costs are now estimated to be about \$70 million through 2025. This amount is included in our balance sheet at December 31, 2002. As at other sites, we are pursuing claims against other PRPs, including the U.S. Government, to help with clean-up costs.

Since 1990, we have been responding to various consent decrees and orders relating to soil and regional groundwater contamination in the San Fernando Valley associated with our former operations in Burbank and Glendale, California. Under an agreement reached with the U.S. Government in 2000, we will continue to be reimbursed in an amount equal to about 50% of future expenditures for certain remediation activities by the U.S. Government in its capacity as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act. We have recorded a liability of approximately \$60 million representing our estimate of the total expenditures required over the remaining terms of the consent decrees and orders for the Glendale and Burbank sites, net of the effects of the agreement.

We are a party to other proceedings and potential proceedings for environmental clean-up issues, including matters at various sites where we have been designated a PRP by the EPA or by a state agency. If we are ultimately found to have liability at those sites where we have been designated a PRP, we expect that the actual burden for the costs of remediation will be shared with other liable PRPs. Generally, PRPs that are ultimately determined to be responsible parties are strictly liable for site clean-up and usually agree among themselves to share, on an allocated basis, the costs and expenses for investigation and remediation of hazardous materials. Under existing environmental laws, however, responsible parties are jointly

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 31, 2002

and severally liable and, therefore, we are potentially liable for the full cost of funding such remediation. In the unlikely event that we were required to fund the entire cost of such remediation, the statutory framework provides that we may pursue rights of contribution from the other PRPs.

In addition to the amounts related to the Redlands, Burbank, Glendale and Great Neck sites described above, a liability of approximately \$130 million for the other properties (including current operating facilities and certain facilities operated in prior years) in which an estimate of financial exposure can be determined has been recorded. We believe that it is unlikely that any additional liability we may have for known environmental issues would have a material adverse effect on our consolidated results of operations or financial position.

As described in Note 15 to the financial statements, we are continuing to pursue recovery of a significant portion of the unanticipated costs we incurred for a \$180 million fixed-price contract with the U.S. Department of Energy (DoE) for the remediation of waste found in Pit 9. We have been unsuccessful to date in reaching agreement with the DoE on cost recovery or other contract restructuring matters. In 1998, the management contractor for the project, a wholly-owned subsidiary of ours, at the DoE's direction, terminated the Pit 9 contract for default. We sued the DoE in the U.S. Court of Federal Claims seeking to overturn the default termination and to recover our costs. The management contractor, at the DoE's direction, sued us in the U.S. District Court in Idaho seeking, among other things, recovery of about \$54 million previously paid to us under the contract. We filed counterclaims, again seeking to overturn the default termination and recover our costs. In 2001, the Court of Federal Claims dismissed our lawsuit against the DoE, finding that we lacked privity of contract with the DoE. On September 30, 2002, the U.S. Court of Appeals for the Federal Circuit affirmed the dismissal. We did not appeal the decision further and will continue to seek resolution of the Pit 9 dispute through non-litigation means while pursuing our remedies in the Idaho proceeding, which is set for trial in August 2003.

CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to use its judgment in evaluating the cost to benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to those entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

Within 90 days prior to the date of this report, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, and under the supervision of the CEO and CFO. Based on the evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls after the date we completed the evaluation.

Lockheed Martin Corporation
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Lockheed Martin prepared and is responsible for the consolidated financial statements and all related financial information contained in this Annual Report. The consolidated financial statements, which include amounts based on estimates and judgments, have been prepared in accordance with accounting principles generally accepted in the United States.

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, the Corporation maintains a system of internal accounting controls designed and intended to provide reasonable assurance, based on an appropriate cost to benefit relationship, that assets are safeguarded and transactions are properly executed and recorded. The Corporation also maintains a system of disclosure controls and procedures which includes controls and procedures designed to ensure that information required to be disclosed in its filings with the Securities and Exchange Commission (SEC) is gathered and communicated to management for timely consideration of disclosure. An environment that provides for an appropriate level of control consciousness is maintained and monitored and includes examinations by an internal audit staff, examinations by the independent auditors in connection with their reviews of interim financial information and their annual audit, and audits by the Defense Contract Audit Agency of our compliance with federal government rules and regulations applicable to contracts with the U.S. Government. In addition, a Disclosure Controls Committee has been established to assist in monitoring and evaluating disclosure controls and procedures, and to review interim and annual reports of financial information filed with the SEC for accuracy and completeness.

Essential to the Corporation's internal control system is management's dedication to the highest standards of integrity, ethics and social responsibility. To support these standards, management has issued the Code of Ethics and Business Conduct (the Code) and written policy statements that cover, among other topics, maintaining accurate and complete accounting records, proper business practices, regulatory compliance, potentially conflicting outside interests of employees, and adherence to high standards of conduct and practices in dealings with customers, including the U.S. Government. The Code provides for a help line that employees can use to confidentially or anonymously transmit to the Corporation's ethics office complaints or concerns about accounting, internal control or auditing matters. These matters, if requested by the employee, must be forwarded directly to the Corporation's Audit and Ethics Committee. The importance of ethical behavior is regularly communicated to all employees through the distribution of the Code, and through ongoing education and review programs designed to create a strong compliance environment.

The Audit and Ethics Committee of the Board of Directors is composed of six independent directors. This Committee meets periodically with the independent auditors, internal auditors and management to review their activities. Both the independent auditors and the internal auditors have unrestricted access to meet with members of the Audit and Ethics Committee, with or without management representatives present.

The Audit and Ethics Committee recommends to the Board of Directors the selection, retention and compensation of the independent auditors. The consolidated financial statements included in this Annual Report have been audited by Ernst & Young LLP, whose report follows.



Vance D. Coffman
Chairman and Chief Executive Officer



Christopher E. Kubasik
Senior Vice President and Chief Financial Officer



Robert J. Stevens
President and Chief Operating Officer



Rajeev Bhalla
Vice President and Controller

Lockheed Martin Corporation
REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheet of Lockheed Martin Corporation as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lockheed Martin Corporation at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 of the Notes to Consolidated Financial Statements, in 2002 the Corporation adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and in 2001 adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Ernst + Young LLP

McLean, Virginia
January 22, 2003

Lockheed Martin Corporation
CONSOLIDATED STATEMENT OF OPERATIONS

<i>(In millions, except per share data)</i>	<i>Year Ended December 31,</i>		
	2002	2001	2000
NET SALES	\$26,578	\$23,990	\$24,541
Cost of sales	24,629	22,447	22,881
Earnings from operations	1,949	1,543	1,660
Other income and expenses, net	(791)	(710)	(555)
Interest expense	1,158	833	1,105
	581	700	919
Earnings from continuing operations before income taxes	577	133	186
Income tax expense	44	90	663
Earnings (loss) from continuing operations	533	43	(477)
Discontinued operations	(33)	(1,089)	(42)
NET EARNINGS (LOSS)	\$ 500	\$(1,046)	\$ (519)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic:			
Continuing operations	\$ 1.20	\$ 0.10	\$ (1.19)
Discontinued operations	(0.07)	(2.55)	(0.10)
	\$ 1.13	\$ (2.45)	\$ (1.29)
Diluted:			
Continuing operations	\$ 1.18	\$ 0.10	\$ (1.19)
Discontinued operations	(0.07)	(2.52)	(0.10)
	\$ 1.11	\$ (2.42)	\$ (1.29)

See accompanying Notes to Consolidated Financial Statements.

Lockheed Martin Corporation
CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(In millions)</i>	<i>Year Ended December 31,</i>		
	2002	2001	2000
OPERATING ACTIVITIES			
Earnings (loss) from continuing operations	\$ 533	\$ 43	\$ (477)
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by operating activities:			
Loss from discontinued operations	(33)	(1,089)	(42)
Depreciation and amortization	433	425	464
Amortization of goodwill and other intangible assets	125	398	423
Deferred federal income taxes	(463)	(118)	(96)
Write-down of investments and other charges	1,127	476	125
Net charges related to discontinued operations, write-off of Astrolink and other charges	—	1,511	—
Net loss related to divestiture of AES and Control Systems	—	—	222
Changes in operating assets and liabilities:			
Receivables	394	(34)	239
Inventories	585	651	(194)
Accounts payable	(317)	192	(42)
Customer advances and amounts in excess of costs incurred	(460)	318	352
Income taxes	44	(456)	522
Other	320	(492)	520
Net cash provided by operating activities	2,288	1,825	2,016
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(662)	(619)	(500)
Acquisition of/investments in affiliated companies	(104)	(192)	(257)
Proceeds from divestiture of affiliated companies	134	825	2,344
Other	93	125	175
Net cash (used for) provided by investing activities	(539)	139	1,762
FINANCING ACTIVITIES			
Net decrease in short-term borrowings	—	(12)	(463)
Repayments of long-term debt	(110)	(2,566)	(2,096)
Issuances of common stock	436	213	14
Repurchases of common stock	(50)	—	—
Common stock dividends	(199)	(192)	(183)
Net cash provided by (used for) financing activities	77	(2,557)	(2,728)
Net increase (decrease) in cash and cash equivalents	1,826	(593)	1,050
Cash and cash equivalents at beginning of year	912	1,505	455
Cash and cash equivalents at end of year	\$2,738	\$ 912	\$ 1,505

See accompanying Notes to Consolidated Financial Statements.

Lockheed Martin Corporation
CONSOLIDATED BALANCE SHEET

<i>(In millions)</i>	<i>December 31,</i>	
	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,738	\$ 912
Receivables	3,655	4,049
Inventories	2,250	3,140
Deferred income taxes	1,277	1,566
Assets of businesses held for sale	210	638
Other current assets	496	473
Total current assets	10,626	10,778
Property, plant and equipment, net	3,258	2,991
Investments in equity securities	1,009	1,884
Intangible assets related to contracts and programs acquired	814	939
Goodwill	7,380	7,371
Prepaid pension cost	—	2,081
Other assets	2,671	1,610
	\$25,758	\$27,654
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,102	\$ 1,419
Customer advances and amounts in excess of costs incurred	4,542	5,002
Salaries, benefits and payroll taxes	1,272	1,100
Income taxes	107	63
Current maturities of long-term debt	1,365	89
Liabilities of businesses held for sale	122	387
Other current liabilities	1,311	1,629
Total current liabilities	9,821	9,689
Long-term debt	6,217	7,422
Post-retirement benefit liabilities	1,480	1,565
Pension liabilities	651	—
Deferred income taxes	—	992
Other liabilities	1,724	1,543
Stockholders' equity:		
Common stock, \$1 par value per share	455	441
Additional paid-in capital	2,796	2,142
Retained earnings	4,262	3,961
Unearned ESOP shares	(50)	(84)
Accumulated other comprehensive loss	(1,598)	(17)
Total stockholders' equity	5,865	6,443
	\$25,758	\$27,654

See accompanying Notes to Consolidated Financial Statements.

Lockheed Martin Corporation
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<i>(In millions, except per share data)</i>	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance at December 31, 1999	\$398	\$ 222	\$ 5,901	\$(150)	\$ (10)	\$ 6,361	
Net loss	—	—	(519)	—	—	(519)	\$ (519)
Common stock dividends declared (\$0.44 per share)	—	—	(183)	—	—	(183)	—
Stock awards and options, and ESOP activity	6	177	—	35	—	218	—
Stock issued in COMSAT merger	27	1,319	—	—	—	1,346	—
COMSAT stock options assumed	—	71	—	—	—	71	—
Other comprehensive loss:							
Net unrealized loss from available-for-sale investments	—	—	—	—	(129)	(129)	(129)
Other	—	—	—	—	(5)	(5)	(5)
Balance at December 31, 2000	431	1,789	5,199	(115)	(144)	7,160	<u>\$ (653)</u>
Net loss	—	—	(1,046)	—	—	(1,046)	\$(1,046)
Common stock dividends declared (\$0.44 per share)	—	—	(192)	—	—	(192)	—
Stock awards and options, and ESOP activity	10	353	—	31	—	394	—
Other comprehensive income (loss):							
Reclassification adjustment related to available-for-sale investments	—	—	—	—	151	151	151
Minimum pension liability	—	—	—	—	(33)	(33)	(33)
Net unrealized gain from available-for-sale investments	—	—	—	—	23	23	23
Net foreign currency translation adjustments	—	—	—	—	(20)	(20)	(20)
Net unrealized gain from hedging activities	—	—	—	—	6	6	6
Balance at December 31, 2001	441	2,142	3,961	(84)	(17)	6,443	<u>\$ (919)</u>
Net earnings	—	—	500	—	—	500	\$ 500
Common stock dividends declared (\$0.44 per share)	—	—	(199)	—	—	(199)	—
Stock awards and options, and ESOP activity	15	703	—	34	—	752	—
Repurchases of common stock	(1)	(49)	—	—	—	(50)	—
Other comprehensive income (loss):							
Minimum pension liability	—	—	—	—	(1,537)	(1,537)	(1,537)
Reclassification adjustments related to available-for-sale investments	—	—	—	—	53	53	53
Net foreign currency translation adjustments	—	—	—	—	(7)	(7)	(7)
Net unrealized gain from hedging activities	—	—	—	—	10	10	10
Net unrealized loss from available-for-sale investments	—	—	—	—	(100)	(100)	(100)
Balance at December 31, 2002	\$455	\$2,796	\$ 4,262	\$ (50)	\$(1,598)	\$ 5,865	\$(1,081)

See accompanying Notes to Consolidated Financial Statements.

Lockheed Martin Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES

Organization—Lockheed Martin Corporation (Lockheed Martin or the Corporation) is engaged in the conception, research, design, development, manufacture, integration and operation of advanced technology systems, products and services. As a lead systems integrator, its products and services range from aircraft, spacecraft and launch vehicles to missiles, electronics and information systems. The Corporation serves customers in both domestic and international defense and commercial markets, with its principal customers being agencies of the U.S. Government.

Basis of consolidation and classifications—The consolidated financial statements include the accounts of wholly-owned subsidiaries and majority-owned entities which the Corporation controls. Intercompany balances and transactions have been eliminated in consolidation. Receivables and inventories are primarily attributable to long-term contracts or programs in progress for which the related operating cycles are longer than 1 year. In accordance with industry practice, these items are included in current assets.

Certain amounts for prior years have been reclassified to conform with the 2002 presentation.

Use of estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions, including estimates of anticipated contract costs and revenues utilized in the earnings recognition process, that affect the reported amounts in the financial statements and accompanying notes. Due to the size and nature of many of the Corporation's programs, the estimation of total revenues and cost at completion is subject to a wide range of variables, including assumptions for schedule and technical issues. Actual results could differ from those estimates.

Cash and cash equivalents—Cash equivalents are generally composed of highly liquid instruments with maturities of 3 months or less when purchased. Due to the short maturity of these instruments, carrying value on the Corporation's consolidated balance sheet approximates fair value.

Receivables—Receivables consist of amounts billed and currently due from customers, and include unbilled costs and accrued profits primarily related to revenues on long-term contracts that have been recognized for accounting purposes but

not yet billed to customers. As such revenues are recognized, appropriate amounts of customer advances, performance-based payments and progress payments are reflected as an offset to the related accounts receivable balance.

Inventories—Inventories are stated at the lower of cost or estimated net realizable value. Costs on long-term contracts and programs in progress represent recoverable costs incurred for production, allocable operating overhead, advances to suppliers and, where appropriate, research and development and general and administrative expenses. Pursuant to contract provisions, agencies of the U.S. Government and certain other customers have title to, or a security interest in, inventories related to such contracts as a result of advances, performance-based payments and progress payments. Such advances and payments are reflected as an offset against the related inventory balances. General and administrative expenses related to commercial products and services provided essentially under commercial terms and conditions are expensed as incurred. Costs of other product and supply inventories are principally determined by the first-in, first-out or average cost methods.

Property, plant and equipment—Property, plant and equipment are carried principally at cost. Depreciation is provided on plant and equipment generally using accelerated methods during the first half of the estimated useful lives of the assets; thereafter, straight-line depreciation is used. Estimated useful lives generally range from 10 to 40 years for buildings and 5 to 15 years for machinery and equipment.

Investments in equity securities—Investments in equity securities include the Corporation's ownership interests in affiliated companies accounted for under the equity method of accounting. Under this method of accounting, which generally applies to investments that represent a 20% to 50% ownership of the equity securities of the investees, the Corporation's share of the earnings or losses of the affiliated companies is included in other income and expenses. The Corporation recognizes currently gains or losses arising from issuances of stock by wholly-owned or majority-owned subsidiaries, or by equity method investees. These gains or losses are also included in other income and expenses. Investments in equity securities also include the Corporation's ownership interests in companies in which its investment represents less than 20%. If classified as available for sale, these investments are accounted for

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at fair value, with unrealized gains and losses recorded in other comprehensive income, in accordance with Statement of Financial Accounting Standards (FAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." If declines in the value of investments accounted for under either the equity method or FAS 115 are determined to be other than temporary, a loss is recorded in earnings currently. Investments not accounted for under one of these methods are generally accounted for under the cost method of accounting.

Goodwill and other intangible assets—Intangible assets related to contracts and programs acquired are amortized over the estimated periods of benefit (15 years or less) and are displayed in the consolidated balance sheet net of accumulated amortization. In periods prior to the adoption of FAS 142 (see discussion under the caption "New accounting pronouncements" in this Note), goodwill, as well as the amount by which the Corporation's investment in Intelsat exceeded its share of Intelsat's net assets, was amortized ratably over appropriate periods, generally 30 to 40 years. Beginning January 1, 2002, these amounts are no longer amortized. Goodwill is displayed on the consolidated balance sheet net of accumulated amortization of \$1,382 million at December 31, 2002 and 2001. Under FAS 142, goodwill is evaluated for potential impairment annually by comparing the fair value of a reporting unit to its carrying value, including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the derived fair value of goodwill to its carrying value, and any impairment determined is recorded in the current period.

Customer advances and amounts in excess of costs incurred—The Corporation receives advances, performance-based payments and progress payments from customers which may exceed costs incurred on certain contracts, including contracts with agencies of the U.S. Government. Such advances, other than those reflected as an offset to accounts receivable or inventories as discussed above, are classified as current liabilities.

Environmental matters—The Corporation records a liability for environmental matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. A substantial portion of these costs are expected to be reflected in sales and cost of sales pursuant to U.S.

Government agreement or regulation. At the time a liability is recorded for future environmental costs, an asset is recorded for estimated future recovery considered probable through the pricing of products and services to agencies of the U.S. Government. The portion of those costs expected to be allocated to commercial business is reflected in cost of sales at the time the liability is established.

Sales and earnings—Sales and anticipated profits under long-term fixed-price production contracts are recorded on a percentage of completion basis, generally using units-of-delivery as the basis to measure progress toward completing the contract and recognizing revenue. Estimated contract profits are taken into earnings in proportion to recorded sales. Sales under certain long-term fixed-price contracts which, among other factors, provide for the delivery of minimal quantities or require a substantial level of development effort in relation to total contract value, are recorded upon achievement of performance milestones or using the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion.

Sales under cost-reimbursement-type contracts are recorded as costs are incurred. Applicable estimated profits are included in earnings in the proportion that incurred costs bear to total estimated costs. Sales of products and services provided essentially under commercial terms and conditions are recorded upon delivery and passage of title.

Amounts representing contract change orders, claims or other items are included in sales only when they can be reliably estimated and realization is probable. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information to assess anticipated contract performance. Estimates of award fees are also considered in estimating sales and profit rates based on actual and anticipated awards. Incentive provisions which increase or decrease earnings based solely on a single significant event are generally not recognized until the event occurs.

When adjustments in contract value or estimated costs are determined, any changes from prior estimates are generally reflected in earnings in the current period. Anticipated losses on contracts are charged to earnings when identified and determined to be probable.

Research and development and similar costs—Corporation-sponsored research and development costs primarily include independent research and development and bid and proposal efforts related to government products and services. Except for certain arrangements described below, these costs are generally included as part of the general and administrative costs that are allocated among all contracts and programs in progress under U.S. Government contractual arrangements. Corporation-sponsored product development costs not otherwise allocable are charged to expense when incurred. Under certain arrangements in which a customer shares in product development costs, the Corporation's portion of such unreimbursed costs is expensed as incurred. Total independent research and development costs charged to cost of sales in 2002, 2001 and 2000, including costs related to bid and proposal efforts, were \$830 million, \$875 million and \$863 million, respectively. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for as contract costs.

Restructuring activities—Under existing U.S. Government regulations, certain costs incurred for consolidation or restructuring activities that can be demonstrated to result in savings in excess of the cost to implement those actions can be deferred and amortized for government contracting purposes and included as allowable costs in future pricing of the Corporation's products and services. Included in the consolidated balance sheet at December 31, 2002 and 2001 is approximately \$215 million and \$308 million, respectively, of deferred costs related to various consolidation actions.

Impairment of certain long-lived assets—Generally, the carrying values of long-lived assets other than goodwill are reviewed for impairment if events or changes in the facts and circumstances indicate that their carrying values may not be recoverable. Any impairment determined is recorded in the current period and is measured by comparing the fair value of the related asset to its carrying value.

Derivative financial instruments—The Corporation sometimes uses derivative financial instruments to manage its exposure to fluctuations in interest rates and foreign exchange rates. Effective January 1, 2001, the Corporation began to account for derivative financial instruments in accordance with FAS 133,

"Accounting for Derivative Instruments and Hedging Activities." The effect of adopting FAS 133 was not material to the Corporation's consolidated results of operations, cash flows or financial position. Under FAS 133, all derivatives are recorded as either assets or liabilities in the consolidated balance sheet, and periodically adjusted to fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on the intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives that are not considered highly effective hedges are reflected in earnings. Adjustments to reflect changes in fair values of derivatives that are considered highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments related to the fair values of the hedged items, or reflected in other comprehensive income until the hedged transaction matures and the entire transaction is recognized in earnings. The change in fair value of the ineffective portion of a hedge is immediately recognized in earnings.

Interest rate swap agreements are designated as effective hedges of the fair value of certain existing fixed-rate debt instruments. Forward currency exchange contracts are designated as qualifying hedges of cash flows associated with firm commitments or specific anticipated transactions. At December 31, 2002, the fair values of interest rate swap agreements and forward currency exchange contracts outstanding, as well as the amounts of gains and losses recorded during the year, were not material. The Corporation does not hold or issue derivative financial instruments for trading purposes.

Stock-based compensation—The Corporation measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Corporation has adopted those provisions of FAS 123, "Accounting for Stock-Based Compensation" and FAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which require disclosure of the pro forma effects on net earnings and earnings per share as if compensation cost had been recognized based upon the fair value-based method at the date of grant for options awarded.

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For purposes of pro forma disclosures, the options' estimated fair values are amortized to expense over the options' vesting periods (see Note 12). The Corporation's pro forma information follows:

<i>(In millions, except per share data)</i>	2002	2001	2000
NET EARNINGS (LOSS):			
As reported	\$ 500	\$(1,046)	\$(519)
Fair value-based compensation cost, net of taxes	(67)	(49)	(31)
Pro forma net earnings (loss)	\$ 433	\$(1,095)	\$(550)
BASIC EARNINGS (LOSS) PER SHARE:			
As reported	\$1.13	\$ (2.45)	\$(1.29)
Pro forma	\$0.97	\$ (2.56)	\$(1.37)
DILUTED EARNINGS (LOSS) PER SHARE:			
As reported	\$1.11	\$ (2.42)	\$(1.29)
Pro forma	\$0.96	\$ (2.53)	\$(1.37)

Comprehensive income—Comprehensive income (loss) for the Corporation consists primarily of net earnings (loss) and the after-tax impact of: additional minimum pension liabilities, unrealized gains and losses related to hedging activities and available-for-sale securities, reclassification adjustments related to available-for-sale investments, and foreign currency translation adjustments. Income taxes related to components of other comprehensive income are generally recorded based on an effective tax rate of 39%.

The accumulated balances of the components of other comprehensive income (loss) at December 31, 2002 are as follows: minimum pension liability—\$(1,570) million; unrealized gains and losses from available-for-sale investments—\$(2) million; unrealized gains and losses related to hedging activities—\$17 million; foreign currency translation adjustments—\$(43) million.

New accounting pronouncements—In April 2002, the Financial Accounting Standards Board issued FAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, the Statement generally prohibits the classification of gains or losses from the early extinguishment of debt as an extraordinary item, and therefore rescinds the previous

requirement to do so. Gains and losses from prior early debt extinguishments are required to be reclassified. The Statement was not required to be implemented until 2003, though earlier application was encouraged. The Corporation elected to adopt the Statement in 2002 and, accordingly, reclassified the extraordinary items recognized in 2001 and 2000 related to the early repayment of debt (see Note 9 for further discussion). As a result of the reclassification, the losses on the early repayment, net of state income tax benefits, were included in other income and expenses in each year, and the related income tax benefits were included in income tax expense for those periods.

As required, the Corporation adopted FAS 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. Among other things, the Statement prohibits the amortization of goodwill and sets forth a new methodology for periodically assessing and, if warranted, recording impairment of goodwill. The \$7.4 billion of goodwill included on the Corporation's consolidated balance sheet is recorded in the Systems Integration, Space Systems and Technology Services segments. There is no goodwill recorded in the Aeronautics segment. Using the guidance in FAS 142, the Corporation evaluated the operating units within the Systems Integration and Space Systems segments and determined the reporting units within the segments based on similarities of the economic characteristics of their lines of business. The Technology Services segment was determined to be one reporting unit.

The Corporation completed the initial step of the goodwill impairment test required by the new rules and concluded that no adjustment to the balance of goodwill at the date of adoption was required. In addition, the Corporation reassessed the estimated remaining useful lives of other intangible assets as part of its adoption of the Statement. As a result of that review, the estimated remaining useful life of the intangible asset related to the F-16 fighter aircraft program has been extended from six to ten years, effective January 1, 2002. The critical factors in making this determination included the existing backlog for F-16 deliveries which extends production beyond the original anticipated life, and the Corporation's outlook for potential new orders for the F-16 during the next ten years. This change resulted in a decrease in annual amortization expense associated with that intangible asset of approximately \$30 million on

a pretax basis. The following table provides a reconciliation of reported earnings (loss) from continuing operations and related per share amounts for years ended December 31, 2001 and 2000 to adjusted amounts which exclude the effects of goodwill amortization and reflect the change in amortization related to the F-16 program for those periods.

<i>(In millions, except per share data)</i>	2002	2001	2000
EARNINGS (LOSS) FROM			
CONTINUING OPERATIONS:			
As reported	\$ 533	\$ 43	\$(477)
Impact of:			
Goodwill amortization	—	215	250
Contract intangible amortization change	—	21	18
Adjusted	\$ 533	\$ 279	\$(209)
DILUTED EARNINGS (LOSS) PER SHARE			
FROM CONTINUING OPERATIONS:			
As reported	\$1.18	\$0.10	\$(1.19)
Impact of:			
Goodwill amortization	—	0.50	0.62
Contract intangible amortization change	—	0.05	0.05
Adjusted	\$1.18	\$0.65	\$(0.52)

Intangible assets related to contracts and programs acquired are displayed in the consolidated balance sheet net of accumulated amortization of \$1,364 million and \$1,239 million at December 31, 2002 and 2001, respectively. Amortization expense related to these intangible assets was \$125 million, \$154 million, and \$156 million for the years ended December 31, 2002, 2001 and 2000, respectively, and is estimated to be approximately \$125 million per year through 2007.

The Corporation adopted FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2001. The new Statement supercedes previous accounting guidance related to impairment of long-lived assets and provides a single accounting methodology for the disposal of long-lived assets, and also supercedes previous guidance with respect to reporting the effects of the disposal of a business. In connection with the Corporation's decision to exit its global telecommunications services business and divest certain of the related business units (see Note 2),

the results of operations and cash flows of certain businesses identified as held for sale, as well as the impairment and other charges related to the decision to exit these businesses, are classified as discontinued operations in the Corporation's consolidated financial statements for all periods presented, and are excluded from business segment information. Similarly, the assets and liabilities of these businesses are separately identified in the consolidated financial statements as being held for sale.

NOTE 2—EXIT FROM THE GLOBAL TELECOMMUNICATIONS SERVICES BUSINESS

In December 2001, the Corporation announced that it would exit its global telecommunications services business as a result of continuing overcapacity in the telecommunications industry and deteriorating business and economic conditions in Latin America. Separately, the Corporation decided not to provide further funding to Astrolink International, LLC (Astrolink) and, due primarily to Astrolink's inability to obtain additional funding from other sources, wrote off its investment in Astrolink (see Note 8 for a discussion of the write-off of Astrolink).

The Corporation recognized unusual charges, net of state income tax benefits, totaling approximately \$2.0 billion in the fourth quarter of 2001 related to these actions. The charges decreased net earnings by approximately \$1.7 billion (\$3.98 per diluted share).

The Corporation retained certain global telecommunications services businesses, which were realigned with other business segments. Equity investments retained included Intelsat, Ltd. (Intelsat), Inmarsat Ventures plc (Inmarsat), New Skies Satellites, N.V. (New Skies), ACeS International, Ltd. (ACeS), Americom Asia-Pacific, LLC and Astrolink.

Discontinued Operations

The \$2.0 billion in charges recorded in the fourth quarter of 2001 included charges, net of state income tax benefits, of approximately \$1.4 billion related to certain global telecommunications services businesses held for sale and exit costs associated with elimination of the administrative infrastructure supporting the global telecommunications businesses and investments. These charges, which reduced net earnings for

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the year by \$1.3 billion (\$3.09 per diluted share) are included in discontinued operations in the Corporation's statement of operations in accordance with FAS 144. The status of the businesses classified held for sale is as follows:

- **Satellite Services businesses**—In 2002, the Corporation completed the sale of COMSAT Mobile Communications and COMSAT World Systems. These transactions did not have a material impact on the Corporation's consolidated results of operations or financial position.

The Corporation reached an agreement to sell Lockheed Martin Intersputnik (LMI) in the third quarter of 2002. Consummation of this transaction is subject to regulatory approvals and other conditions, including a requirement that the Corporation move the LMI satellite to another orbital slot. The transaction is not expected to have a material impact on the Corporation's consolidated results of operations or financial position. LMI is recorded at estimated fair value less cost to sell at December 31, 2002. Changes in the estimated fair value will be recorded in the future if appropriate.

- **COMSAT International**—The Corporation completed the sale of an 81% ownership interest in COMSAT International in October 2002. The transaction did not have a material impact on the Corporation's consolidated results of operations or financial position.

Of the \$1.4 billion of charges included in discontinued operations, approximately \$1.2 billion related to impairment of goodwill. The goodwill was recorded in connection with the Corporation's acquisition of COMSAT as discussed in Note 3. The write-down of the goodwill was based on the relationship of its carrying value to the Corporation's estimated realizable value. Approximately \$170 million of the \$1.4 billion related to impairment of certain long-lived assets employed by foreign businesses held for sale, primarily COMSAT International. The remainder of the charges included in discontinued operations is related to costs associated with infrastructure reductions, including severance and facilities.

In addition, the Corporation completed the sale of Lockheed Martin IMS Corporation (IMS), a wholly-owned subsidiary, for \$825 million in cash on August 24, 2001. The transaction resulted in a gain, net of state income taxes, of \$476 million and increased net earnings by \$309 million

(\$0.71 per diluted share). The results of IMS's operations for all periods presented, as well as the gain on the sale, are classified as discontinued operations.

Net sales and loss before income taxes related to the discontinued businesses were as follows:

<i>(In millions)</i>	2002	2001	2000
Net sales	\$228	\$ 803	\$788
Loss before income taxes:			
Results of operations of discontinued businesses	\$ (19)	\$ (52)	\$ (46)
Charges related to discontinued businesses, net of IMS gain	—	(970)	—
	\$ (19)	\$(1,022)	\$ (46)

The Corporation reported a net loss from discontinued operations of \$33 million (\$0.07 per diluted share) in 2002. This amount included losses incurred to complete wind-down activities related to the global telecommunications services businesses, offset by the reversal of a reserve associated with the sale of IMS. When recording the sale of IMS in 2001, the Corporation established transaction reserves to address various indemnity provisions in the sale agreement. The risks associated with certain of these indemnity provisions have been resolved and \$39 million, net of taxes, was reversed through discontinued operations in 2002.

The major classes of assets and liabilities of the discontinued businesses classified as held for sale and included in the consolidated balance sheet were as follows:

<i>(In millions)</i>	2002	2001
ASSETS		
Receivables	\$ 1	\$ 81
Deferred income taxes	—	149
Property, plant and equipment, net	174	277
Goodwill	—	84
Other assets	35	47
	\$210	\$638
LIABILITIES		
Accounts payable	\$ 1	\$ 28
Customer advances	66	75
Other liabilities	55	284
	\$122	\$387

Other Charges Related to Global Telecommunications

The charges recorded in the fourth quarter of 2001 also included unusual charges, net of state income tax benefits, of approximately \$132 million related to commitments to and impairment in the values of investments in satellite joint ventures, primarily ACeS and Americom Asia-Pacific, LLC. In addition, approximately \$43 million was recorded for severance and facilities costs, and impairment of certain fixed assets, associated with the business units that have been realigned. On a combined basis, these unusual charges reduced net earnings for 2001 by \$117 million (\$0.27 per diluted share).

NOTE 3—PRIOR YEAR ACQUISITIONS AND OTHER DIVESTITURE ACTIVITIES

Business Combination

In August 2000, the Corporation completed the second phase of a two-phase transaction to acquire COMSAT Corporation (COMSAT). The total amount recorded related to the second phase of the transaction was approximately \$1.3 billion based on the Corporation's issuance of approximately 27.5 million shares of its common stock at a price of \$49 per share. This price per share represented the average of the price of Lockheed Martin's common stock a few days before and after the announcement of the transaction in September 1998.

The total purchase price for COMSAT, including transaction costs and amounts related to Lockheed Martin's assumption of COMSAT stock options, was approximately \$2.6 billion, net of \$76 million in cash balances acquired. The COMSAT transaction was accounted for using the purchase method of accounting, under which the purchase price was allocated to assets acquired and liabilities assumed based on their fair values. Included in these allocations were adjustments totaling approximately \$2.1 billion to record investments in equity securities (i.e., Intelsat, Inmarsat and New Skies) at fair value and goodwill.

Divestiture Activities

In November 2000, the Corporation sold its Aerospace Electronics Systems (AES) businesses for \$1.67 billion in cash (the AES Transaction). The Corporation recorded an unusual loss of \$598 million related to the AES Transaction which is included in other income and expenses. The loss reduced net earnings for 2000 by \$878 million (\$2.18 per diluted share).

In September 2000, the Corporation sold Lockheed Martin Control Systems (Control Systems) for \$510 million in cash. This transaction resulted in the recognition of an unusual gain, net of state income taxes, of \$302 million which is reflected in other income and expenses. The gain increased net earnings for 2000 by \$180 million (\$0.45 per diluted share).

Also in September 2000, the Corporation sold approximately one-third of its interest in Inmarsat for \$164 million. The investment in Inmarsat was acquired as part of the merger with COMSAT. As a result of the transaction, the Corporation's interest in Inmarsat was reduced from approximately 22% to 14%. The sale of shares in Inmarsat did not impact the Corporation's results of operations for 2000.

NOTE 4—EARNINGS PER SHARE

Basic and diluted per share results for all periods presented were computed based on the net earnings or loss for the respective periods. The weighted average number of common shares outstanding during the period was used in the calculation of basic earnings (loss) per share. In accordance with FAS 128, "Earnings Per Share," the weighted average number of common shares used in the calculation of diluted per share amounts is adjusted for the dilutive effects of stock options based on the treasury stock method only if an entity records earnings from continuing operations (i.e., before discontinued operations), as such adjustments would otherwise be antidilutive to earnings per share from continuing operations.

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The following table sets forth the computations of basic and diluted earnings (loss) per share:

<i>(In millions, except per share data)</i>	2002	2001	2000
NET EARNINGS (LOSS):			
Earnings (loss) from continuing operations	\$ 533	\$ 43	\$ (477)
Discontinued operations:			
Results of operations from discontinued businesses	(33)	(62)	(42)
Charges related to discontinued businesses, net of IMS gain	—	(1,027)	—
Net earnings (loss) for basic and diluted computations	\$ 500	\$(1,046)	\$ (519)
AVERAGE COMMON SHARES OUTSTANDING:			
Average number of common shares outstanding for basic computations	445.1	427.4	400.8
Dilutive stock options—based on the treasury stock method	6.9	5.1	— ^(a)
Average number of common shares outstanding for diluted computations	452.0	432.5	400.8 ^(a)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic:			
Continuing operations	\$ 1.20	\$ 0.10	\$(1.19)
Discontinued operations:			
Results of operations from discontinued businesses	(0.07)	(0.15)	(0.10)
Charges related to discontinued businesses, net of IMS gain	—	(2.40)	—
	\$ 1.13	\$ (2.45)	\$(1.29)
Diluted:			
Continuing operations	\$ 1.18	\$ 0.10	\$(1.19)
Discontinued operations:			
Results of operations from discontinued businesses	(0.07)	(0.14)	(0.10)
Charges related to discontinued businesses, net of IMS gain	—	(2.38)	—
	\$ 1.11	\$ (2.42)	\$(1.29)

(a) As a result of the Corporation recording a loss from continuing operations in 2000, the average number of common shares used in the calculation of the diluted loss per share have not been adjusted for the effects of 2.3 million dilutive stock options since their impact would be antidilutive.

NOTE 5—RECEIVABLES

<i>(In millions)</i>	2002	2001
U.S. Government:		
Amounts billed	\$ 1,048	\$ 1,107
Unbilled costs and accrued profits	2,116	2,423
Less customer advances and progress payments	(422)	(551)
Commercial and foreign governments:		
Amounts billed	483	583
Unbilled costs and accrued profits	474	502
Less customer advances	(44)	(15)
	\$ 3,655	\$ 4,049

Less than 10% of the December 31, 2002 unbilled costs and accrued profits are not expected to be recovered within 1 year.

NOTE 6—INVENTORIES

<i>(In millions)</i>	2002	2001
Work in process, primarily related to long-term contracts and programs in progress	\$ 5,627	\$ 4,279
Work in process, commercial launch vehicles	594	1,205
Less customer advances and progress payments	(4,272)	(2,931)
	1,949	2,553
Other inventories	301	587
	\$ 2,250	\$ 3,140

During 2002, approximately \$130 million of unamortized deferred costs related to commercial launch vehicles were reclassified to property, plant and equipment. The deferred costs related to the Atlas Space Operations Center, the vehicle integration facility and certain related ground equipment for the Atlas V program. The reclassification was made in connection with the completion of the facilities and the initial operational status of the program. The assets are being depreciated over a period of 10 years.

Commercial launch vehicle inventories included amounts advanced to Khrunichev State Research and Production Space Center (Khrunichev), the Russian manufacturer of Proton launch vehicles and provider of related launch services, of \$391 million and \$672 million at December 31, 2002 and

2001, respectively, to provide launch services. The decrease was partially due to an unusual charge, net of state income tax benefits, of \$173 million in 2002 which included amounts related to the Corporation's assessment of the probability of termination of certain launches under contract, as well as amounts related to advances for launches not under contract. The portion of the charge related to advances for launches not under contract was recorded due to an agreement which provides for reduced future payments from Lockheed Martin to Khrunichev for launches, contingent on the receipt of new orders as well as a minimum number of actual launches each year, in lieu of the requirement to provide launch services. The agreement was reached in light of the continuing overcapacity in the launch vehicle market. The charge reduced 2002 net earnings by \$112 million (\$0.25 per diluted share). In addition, commercial launch vehicle inventories included amounts advanced to RD AMROSS, a joint venture between Pratt & Whitney and NPO Energomash, of \$61 million and \$58 million at December 31, 2002 and 2001, respectively, for the development and purchase, subject to certain conditions, of RD-180 booster engines used for Atlas launch vehicles.

Work in process inventories at December 31, 2002 and 2001 related to other long-term contracts and programs in progress included approximately \$13 million and \$45 million, respectively, of unamortized deferred costs for aircraft not under contract related to the Corporation's C-130J program.

Work in process inventories at December 31, 2002 and 2001 included general and administrative costs, including independent research and development costs and bid and proposal costs, of \$502 million and \$380 million, respectively. General and administrative costs charged to cost of sales from inventories for the years ended December 31, 2002, 2001 and 2000, including independent research and development costs and bid and proposal costs, totaled \$1.7 billion, \$1.8 billion and \$2.0 billion, respectively.

Approximately \$670 million of costs included in 2002 inventories, including \$318 million advanced to Russian manufacturers, are not expected to be recovered within 1 year.

NOTE 7—PROPERTY, PLANT AND EQUIPMENT

<i>(In millions)</i>	2002	2001
Land	\$ 102	\$ 95
Buildings	3,197	3,117
Machinery and equipment	5,017	4,830
	8,316	8,042
Less accumulated depreciation and amortization	(5,058)	(5,051)
	\$ 3,258	\$ 2,991

During the year ended December 31, 2002, the Corporation recorded write-offs of fully depreciated property, plant and equipment totaling \$460 million.

NOTE 8—INVESTMENTS IN EQUITY SECURITIES

<i>(In millions)</i>	2002	2001
Equity method investments (ownership interest):		
Intelsat, Ltd. (24%)	\$ 682	\$ 1,206
Satellite ventures	—	47
Other	84	89
	766	1,342
Cost method investments:		
Inmarsat Ventures plc (14%)	168	270
New Skies Satellites, N.V. (14%)	56	117
Loral Space & Communications, Ltd. (11%)	3	137
Other	16	18
	243	542
	\$ 1,009	\$ 1,884

Satellite ventures include the Corporation's investments in Space Imaging, LLC (Space Imaging), Astrolink, Americom Asia-Pacific and ACeS. Other equity method investments include United Space Alliance (USA) and other smaller joint ventures in which the Corporation participates. The carrying values of the Corporation's investments in New Skies and Loral Space are marked to market.

In the fourth quarter of 2002, the Corporation recorded unusual charges relating to its telecommunications investments, including Intelsat, Inmarsat and New Skies. The charges were recorded due to the decline in the values of the

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investments which the Corporation assessed as being other than temporary, primarily due to unfavorable trends in the satellite services and telecommunications industries that are not expected to be resolved in the near term. Such trends include continuing satellite overcapacity and increasing competition from other types of telecommunications services providers (e.g., fiber optic cable and other wireless technologies). The charges reduced operating profit (earnings from continuing operations before interest and taxes), net earnings and earnings per diluted share as follows:

<i>(In millions)</i>	Operating Profit	Net Earnings	Earnings per Diluted Share
Intelsat	\$(572)	\$(371)	\$(0.82)
Inmarsat	(101)	(66)	(0.15)
New Skies	(103)	(67)	(0.15)
	\$(776)	\$(504)	\$(1.12)

The Corporation holds a 46% interest in Space Imaging. In addition to its equity investment, the Corporation also guarantees up to \$150 million of Space Imaging's borrowings under a credit facility that matures on March 31, 2003. In light of the Corporation's decision and the decision of its other major partner in the joint venture not to provide further funding at this time, its assessment that Space Imaging will likely not be able to repay their obligation under the credit facility when due, and the uncertainties as to whether Space Imaging will be successful in obtaining the additional investment necessary to fund replacement satellites consistent with their business plans, the Corporation wrote off its investment in the joint venture and recorded the obligation to fund amounts due from it under the guarantee. As a result, the Corporation recorded a charge, net of state income taxes, of \$163 million which reduced net earnings by \$106 million (\$0.23 per diluted share), and increased current maturities of long-term debt by \$150 million representing our obligation under the guarantee.

Through 2001, the Corporation had invested \$400 million in Astrolink, a joint venture that planned to develop a broad-band satellite system. In the fourth quarter of 2001, in light of market conditions affecting the telecommunications industry and the difficulty Astrolink was having raising external capital, the Corporation decided not to make an additional equity investment in Astrolink and wrote off its 31%

equity interest. As a result, the Corporation recorded an unusual charge of \$367 million, net of state income tax benefits, in other income and expenses to reflect the other than temporary decline in the value of its investment in Astrolink. The Corporation also recorded charges of approximately \$20 million, net of state income tax benefits, in cost of sales for certain other costs related to Astrolink. On a combined basis, these charges reduced net earnings for 2001 by approximately \$267 million (\$0.62 per diluted share).

After several months of negotiation, in January 2003, the Corporation finalized an agreement with Astrolink's other members to restructure Astrolink. As part of the transaction, Liberty Satellite & Technology, a subsidiary of Liberty Media Corporation, may acquire substantially all of Astrolink's assets and pursue a business plan to build a one- or two-satellite system. The transaction is subject to regulatory approval, financing and other closing conditions. Upon closing of the asset transfer, the Corporation would continue to provide launch services and be a satellite vendor, but would retain only a limited indirect equity interest in the restructured business. The restructuring also entails the settlement of existing claims related to termination of Astrolink's major procurement contracts. As part of that settlement, if Liberty Satellite & Technology does not elect to proceed with the new system, the Corporation would acquire the remaining assets of Astrolink, including work in process under its procurement contracts with Astrolink. Certain other of the members also would retain their work in process. Under either scenario, the restructuring is not expected to have a material effect on the Corporation's financial position, results of operations or cash flows.

In the third quarter of 2001, the Corporation recorded an unusual charge, net of state income tax benefits, of \$361 million in other income and expenses related to its investment in Loral Space. The charge, which was recorded due to a decline in the value of the Corporation's investment, reduced net earnings by \$235 million (\$0.54 per diluted share). The decline in value of the investment was assessed to be other than temporary due to the downward trend in the market price of Loral Space stock and the potential impact of underlying market and industry conditions on Loral Space's ability to execute its business plans.

In the first quarter of 2001, the Corporation recorded an unusual charge, net of state income tax benefits, of \$100 million in other income and expenses related to impairment of its investment in Americom Asia-Pacific, LLC. The charge reduced net earnings for the year ended December 31, 2001 by \$65 million (\$0.15 per diluted share). The satellite operated by Americom Asia-Pacific was placed in commercial operation late in the fourth quarter of 2000. The decline in value of the investment was assessed to be other than temporary as a result of lower transponder pricing, lower than expected demand and overall market conditions. The remaining value of the investment was written off in the fourth quarter of 2001 in connection with the Corporation's decision to exit the global telecommunications services business.

In the fourth quarter of 2000, the Corporation recorded an unusual charge, net of state income tax benefits, of \$117 million related to impairment of its investment in ACeS. ACeS operates a geostationary mobile satellite system serving Southeast Asia which was placed in commercial operation in the fourth quarter of 2000. The spacecraft experienced an anomaly that reduced the overall capacity of the system by about 35%. The decline in the value of the investment was assessed to be other than temporary as a result of the reduced business prospects due to this anomaly as well as overall market conditions. The adjustment reduced net earnings by \$77 million (\$0.19 per diluted share).

On a combined basis, the Corporation's investments in Intelsat, Space Imaging, United Space Alliance and Americom Asia-Pacific comprise the majority of the Corporation's total equity method investments at December 31, 2002 and equity earnings (losses) recorded for the year then ended. Summarized statement of operations information for these investees for 2002 on a combined basis was approximately as follows: net sales—\$2.9 billion; net earnings—\$350 million. Summarized balance sheet information as of December 31, 2002 on a combined basis was approximately as follows: total assets—\$4.9 billion; total liabilities—\$2.5 billion.

NOTE 9—DEBT

The Corporation's long-term debt is primarily in the form of publicly issued, fixed-rate notes and debentures, summarized as follows:

Type (Maturity Dates)	Range of Interest Rates	2002 ^(a)	2001
<i>(In millions, except interest rate data)</i>			
Notes (2003–2022)	6.5–9.0%	\$ 3,099	\$3,114
Debentures (2011–2036)	7.0–9.1%	4,198	4,198
ESOP obligations (2003–2004)	8.4%	82	132
Other obligations (2003–2016)	1.0–10.5%	178	67
		7,557	7,511
Less current maturities		(1,365)	(89)
		\$ 6,192	\$7,422

(a) Amounts exclude a \$25 million adjustment to the fair value of long-term debt relating to the Corporation's interest rate swap agreements which will not be settled in cash.

In 2003, the Corporation decided to issue irrevocable redemption notices to the trustees for two issuances of callable debentures totaling \$450 million. One notice was for \$300 million of 7.875% debentures due on March 15, 2023, which were callable on or after March 15, 2003. The second was for \$150 million of 7.75% debentures due on April 15, 2023, which were callable on or after April 15, 2003. The Corporation expects to repay amounts due on March 15, 2003 and April 15, 2003, respectively. Therefore, the \$450 million of debentures to be redeemed has been included in current maturities of long-term debt on the consolidated balance sheet at December 31, 2002. The Corporation expects to incur a loss on the early repayment of the debt, net of state income tax benefits, of approximately \$16 million, or \$10 million after tax.

In the fourth quarter of 2002, the Corporation recorded \$150 million of debt related to its guarantee of certain borrowings of Space Imaging (see Note 8). The debt was recorded due to the Corporation's assessment regarding Space Imaging's inability to attract the necessary funding sufficient to repay the borrowings, which are due on March 30, 2003. The debt is included in other obligations above and has been classified as current maturities of long-term debt in the Corporation's consolidated balance sheet.

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In September 2001, the Corporation redeemed approximately \$117 million of 7% debentures (\$175 million at face value) due in 2011 which were originally sold at approximately 54% of their principal amount. The debentures were redeemed at face value, resulting in an unusual loss, net of state income tax benefits, of \$55 million which was included in other income and expenses. The loss reduced net earnings by \$36 million (\$0.08 per diluted share).

In July 2001, COMSAT, a wholly-owned subsidiary of the Corporation, redeemed \$200 million in principal amount of the 8.125% Cumulative Monthly Income Preferred Securities (MIPS) previously issued by a wholly-owned subsidiary of COMSAT. The MIPS were redeemed at par value of \$25 per share plus accrued and unpaid dividends to the redemption date. The redemption did not result in an unusual gain or loss on the early repayment of debt.

Also in 2001, the Corporation repaid approximately \$1.26 billion of notes outstanding which had been issued to a wholly-owned subsidiary of General Electric Company. The notes would have been due November 17, 2002. The early repayment of the notes did not result in an unusual gain or loss on the early repayment of debt.

In December 2000, the Corporation purchased approximately \$1.9 billion in principal amount of debt securities included in tender offers for six issues of notes and debentures. The repurchase of the debt securities resulted in a loss, net of income tax benefits, of \$156 million which was included in other income and expenses. The loss reduced net earnings by \$95 million (\$0.24 per diluted share).

The Corporation has entered into interest rate swaps to swap fixed interest rates on approximately \$920 million of its long-term debt for variable interest rates based on LIBOR. At December 31, 2002, the fair values of interest rate swap agreements outstanding, as well as the amounts of gains and losses recorded during the year, were not material.

The registered holders of \$300 million of 40 year debentures issued in 1996 may elect, between March 1 and April 1, 2008, to have their debentures repaid by the Corporation on May 1, 2008.

A leveraged employee stock ownership plan (ESOP) incorporated into the Corporation's salaried savings plan borrowed \$500 million through a private placement of notes in

1989. These notes are being repaid in quarterly installments over terms ending in 2004. The ESOP note agreement stipulates that, in the event that the ratings assigned to the Corporation's long-term senior unsecured debt are below investment grade, holders of the notes may require the Corporation to purchase the notes and pay accrued interest. These notes are obligations of the ESOP but are guaranteed by the Corporation and included as debt in the Corporation's consolidated balance sheet.

At December 31, 2002, the Corporation had in place a \$1.5 billion revolving credit facility; no borrowings were outstanding. This credit facility will expire in November 2006. Borrowings under the credit facility would be unsecured and bear interest at rates based, at the Corporation's option, on the Eurodollar rate or a bank Base Rate (as defined). Each bank's obligation to make loans under the credit facility is subject to, among other things, the Corporation's compliance with various representations, warranties and covenants, including covenants limiting the ability of the Corporation and certain of its subsidiaries to encumber assets and a covenant not to exceed a maximum leverage ratio. In October 2002, the Corporation terminated its \$1.0 billion 1-year credit facility.

The Corporation's long-term debt maturities for the five years following December 31, 2002 are: \$1,365 million in 2003; \$141 million in 2004; \$15 million in 2005; \$783 million in 2006; \$33 million in 2007; and \$5,220 million thereafter.

Certain of the Corporation's other financing agreements contain restrictive covenants relating to debt, limitations on encumbrances and sale and lease-back transactions, and provisions which relate to certain changes in control.

The estimated fair values of the Corporation's long-term debt instruments at December 31, 2002, aggregated approximately \$9.0 billion, compared with a carrying amount of approximately \$7.6 billion. The fair values were estimated based on quoted market prices for those instruments that are publicly traded. For privately placed debt, the fair values were estimated based on the quoted market prices for similar issues, or on current rates offered to the Corporation for debt with similar remaining maturities. Unless otherwise indicated elsewhere in the notes to the financial statements, the carrying values of the Corporation's other financial instruments approximate their fair values.

In June 2000, the Corporation paid \$207 million to settle its share of obligations of Globalstar, L.P. (Globalstar) under a revolving credit agreement on which Lockheed Martin was a partial guarantor. At the same time, Loral Space, under a separate indemnification agreement between the Corporation and Loral Space, paid Lockheed Martin \$57 million. In light of the uncertainty of the Corporation recovering the amounts paid on Globalstar's behalf from Globalstar, the Corporation recorded an unusual charge in the second quarter of 2000, net of state income tax benefits, of approximately \$141 million in other income and expenses. The charge reduced net earnings for 2000 by \$91 million (\$0.23 per diluted share).

Interest payments were \$586 million in 2002, \$707 million in 2001 and \$947 million in 2000.

NOTE 10—INCOME TAXES

The provision for federal and foreign income taxes attributable to continuing operations consisted of the following components:

<i>(In millions)</i>	2002	2001	2000
Federal income taxes:			
Current	\$ 469	\$ 170	\$ 728
Deferred	(463)	(118)	(96)
Total federal income taxes	6	52	632
Foreign income taxes	38	38	31
Total income taxes provided	\$ 44	\$ 90	\$ 663

Net provisions for state income taxes are included in general and administrative expenses, which are primarily allocable to government contracts. The net state income tax benefit was \$7 million for 2002 and \$8 million for 2001, and net state income tax expense was \$100 million for 2000.

A reconciliation of income tax expense computed using the U.S. federal statutory income tax rate to actual income tax expense is as follows:

<i>(In millions)</i>	2002	2001	2000
Income tax expense at the statutory federal rate	\$202	\$ 47	\$ 65
Increase (reduction) in tax expense from:			
R&D tax credit settlement	(90)	—	—
Revisions to prior years' estimated liabilities	(62)	(20)	13
Divestitures	—	—	505
Non-deductible amortization	—	62	77
Other, net	(6)	1	3
Actual income tax expense	\$ 44	\$ 90	\$ 663

The primary components of the Corporation's federal deferred income tax assets and liabilities at December 31 were as follows:

<i>(In millions)</i>	2002	2001
Deferred tax assets related to:		
Accumulated post-retirement benefit obligations	\$ 535	\$ 534
Contract accounting methods	493	459
Basis differences of impaired investments	407	370
Accrued compensation and benefits	344	286
Pensions ^(a)	110	—
Other	470	95
	2,359	1,744
Deferred tax liabilities related to:		
Intangible assets	345	378
Pensions ^(a)	—	637
Property, plant and equipment	178	155
	523	1,170
Net deferred tax assets	\$1,836 ^(b)	\$ 574

(a) The change in deferred tax balances related to pensions was primarily due to the recording of a minimum pension liability in 2002.

(b) This amount includes \$559 million of net noncurrent deferred tax assets which is included in "Other assets" on the consolidated balance sheet at December 31, 2002.

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Federal and foreign income tax payments, net of refunds received, were \$55 million in 2002, \$837 million in 2001 and \$249 million in 2000. Included in these amounts are tax payments related to the Corporation's divestiture activities. In addition, these amounts include net tax payments (refunds) related to discontinued operations of \$(22) million in 2002, \$179 million in 2001 and \$(16) million in 2000.

The Corporation realized an income tax benefit of \$140 million for 2002 as a result of exercises of employee stock options. This benefit is recorded in stockholders' equity under the caption "Stock awards and options, and ESOP activity."

NOTE 11—OTHER INCOME AND EXPENSES, NET

<i>(In millions)</i>	2002	2001	2000
Equity in earnings of equity investees, net	\$ 93	\$ 68	\$ 48
Interest income	47	91	89
Write-down of telecommunications investments	(776)	—	—
Write-down of Space Imaging and recognition of guarantee	(163)	—	—
Write-off of investment in Astrolink	—	(367)	—
Write-down of investment in Loral Space	—	(361)	—
Gain on sales of surplus real estate	—	111	28
Impairment loss related to Americom Asia-Pacific	—	(100)	—
Other charges related to the exit from global telecommunications	—	(73)	—
Early repayment of debt	—	(55)	(146)
Loss related to the AES Transaction	—	—	(598)
Gain on sale of Control Systems	—	—	302
Charge related to Globalstar guarantee	—	—	(141)
Impairment loss on ACeS	—	—	(117)
Other portfolio shaping activities and other items, net	8	(24)	(20)
	\$(791)	\$(710)	\$(555)

NOTE 12—STOCKHOLDERS' EQUITY AND RELATED ITEMS

Capital stock—At December 31, 2002, the authorized capital of the Corporation was composed of 1.5 billion shares of common stock (approximately 455 million shares issued), 50 million shares of series preferred stock (no shares issued), and 20 million shares of Series A Preferred Stock (no shares outstanding).

In October 2002, the Corporation announced that a new share repurchase authority had been authorized which provides for the repurchase of up to 23 million shares of its common stock from time-to-time if market and business conditions warrant. Under the authority, management has discretion to determine whether to purchase shares, the number and price of the shares to be repurchased, and the timing of any repurchases. The authority replaced a prior repurchase plan which had been authorized in 1995. In the fourth quarter of 2002, the Corporation repurchased 1 million common shares under the authority for a total of \$50 million.

Stock option and award plans—In March 1995, the stockholders approved the Lockheed Martin 1995 Omnibus Performance Award Plan (the Omnibus Plan). Under the Omnibus Plan, employees of the Corporation may be granted stock-based incentive awards, including options to purchase common stock, stock appreciation rights, restricted stock or other stock-based incentive awards. Employees may also be granted cash-based incentive awards, such as performance units. These awards may be granted either individually or in combination with other awards. The Omnibus Plan requires that options to purchase common stock have an exercise price of not less than 100% of the market value of the underlying stock on the date of grant. The Omnibus Plan does not impose any minimum vesting periods on options or other awards. The maximum term of an option or any other award is 10 years. The Omnibus Plan allows the Corporation to provide for financing of purchases of its common stock, subject to certain conditions, by interest-bearing notes payable to the Corporation.

In 2001 and 2000, a total of 150,000 shares of restricted common stock (25,000, and 125,000 shares, respectively) were awarded under the Omnibus Plan to certain senior executives of the Corporation. No restricted common stock was awarded in 2002. The shares were recorded based on the market value of the Corporation's common stock on the date of the award. The award requires the recipients to pay the \$1 par value of each share of stock and provides for payment to be made in cash or in the form of a recourse note to the Corporation. There were no such notes outstanding at December 31, 2002. Recipients are entitled to receive cash dividends and to vote their respective shares, but are prohibited from selling or transferring shares prior to vesting. The restricted shares generally vest over 4 to 5-year periods from the grant date. The impact of these awards was not material to stockholders' equity or compensation expense in 2002, 2001 or 2000.

In April 1999, the stockholders approved the Lockheed Martin Directors Equity Plan (the Directors Plan). Approximately 50% of each director's annual compensation is awarded under the Directors Plan. Directors of the Corporation may elect to receive such compensation in the form of stock units which track investment return to changes in value of the Corporation's common stock with dividends reinvested, options to purchase common stock of the Corporation, or a combination of the two. The Directors Plan requires that options to purchase common stock have an exercise price of not less than 100% of the market value of the underlying stock on the date of grant. Except in certain circumstances, options and stock units issued under the Directors Plan vest on the first anniversary of the grant. The maximum term of an option is 10 years.

The Omnibus Plan and the Directors Plan, as well as the number of shares of Lockheed Martin common stock authorized for issuance under these plans, have been approved by the stockholders of the Corporation. At December 31, 2002, the number of shares of Lockheed Martin common stock reserved for issuance under the Corporation's stock option and award plans totaled 43 million.

The following table summarizes stock option and restricted stock activity related to the Corporation's plans during 2000, 2001 and 2002:

	Number of Shares (In thousands)		Weighted Average Exercise Price
	Available for Grant	Options Outstanding	
December 31, 1999	17,558	27,290	\$36.78
Options granted	(8,454)	8,454	19.85
COMSAT options assumed	—	4,263	22.43
Options exercised	—	(659)	16.15
Options terminated	755	(766)	33.23
Restricted stock awards	(125)	—	—
December 31, 2000	9,734	38,582	31.91
Additional shares reserved	16,000	—	—
Options granted	(7,016)	7,016	35.06
Options exercised	—	(7,024)	22.61
Options terminated	177	(177)	43.27
Restricted stock awards	(25)	—	—
December 31, 2001	18,870	38,397	34.12
Options granted	(7,049)	7,049	50.45
Options exercised	—	(14,231)	30.76
Options terminated	554	(581)	35.55
Restricted stock awards	—	—	—
December 31, 2002	12,375	30,634	39.42

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Approximately 19.6 million, 27.1 million and 27.9 million outstanding options were exercisable by employees at December 31, 2002, 2001 and 2000, respectively.

Information regarding options outstanding at December 31, 2002 follows (number of options in thousands):

Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding:			
Less than \$20.00	2,969	\$18.36	5.7
\$20.00–\$29.99	3,200	25.99	4.1
\$30.00–\$39.99	10,606	36.01	6.5
\$40.00–\$50.00	3,453	45.58	4.1
Greater than \$50.00	10,406	51.00	7.7
Total	30,634	39.42	6.3
Options exercisable:			
Less than \$20.00	2,959	\$18.36	5.7
\$20.00–\$29.99	2,486	25.77	3.2
\$30.00–\$39.99	7,253	36.45	5.8
\$40.00–\$50.00	3,443	45.57	4.1
Greater than \$50.00	3,483	52.06	5.0
Total	19,624	36.74	5.0

All stock options granted in 2002, 2001 and 2000 under the Omnibus Plan have 10-year terms and generally vest over a two-year service period. Exercise prices of options awarded in those years were equal to the market price of the stock on the date of grant. Pro forma information regarding net earnings and earnings per share as if the Corporation had accounted for its employee stock options under the fair value method is included in Note 1. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2002, 2001 and 2000, respectively: risk-free interest rates of 4.24%, 4.95% and 6.61%; dividend yields of 1.0%, 0.6% and 0.8%; volatility factors related to the expected market price of the Corporation's common stock of .376, .366 and .342; and a weighted average expected option life of five years. The weighted average fair value of each option granted during 2002, 2001 and 2000 was \$18.23, \$13.32 and \$7.62, respectively.

NOTE 13—POST-RETIREMENT BENEFIT PLANS

Defined contribution plans—The Corporation maintains a number of defined contribution plans which cover substantially all employees, the most significant of which are the 401(k) plans for salaried employees and hourly employees. Under the provisions of these 401(k) plans, employees' eligible contributions are matched by the Corporation at established rates. The Corporation's matching obligations were \$232 million in 2002, \$226 million in 2001 and \$221 million in 2000.

The Lockheed Martin Corporation Salaried Savings Plan includes an ESOP which purchased 34.8 million shares of the Corporation's common stock in 1989 with the proceeds from a \$500 million note issue which is guaranteed by the Corporation. The Corporation's match consisted of shares of its common stock, which was partially fulfilled with stock released from the ESOP at approximately 2.4 million shares per year based upon the debt repayment schedule through the year 2004. Compensation cost recognized relative to the ESOP shares was \$134 million, \$90 million and \$59 million in 2002, 2001 and 2000, respectively. The remainder of the Corporation's match to the Salaried Savings Plan was fulfilled through purchases of common stock from terminating participants or in the open market, or through newly issued shares from the Corporation. Interest incurred on the ESOP debt totaled \$10 million, \$13 million and \$17 million in 2002, 2001 and 2000, respectively. Dividends received by the ESOP with respect to unallocated shares held are used for debt service. The ESOP held approximately 45.8 million issued shares of the Corporation's common stock at December 31, 2002, of which approximately 42.3 million were allocated and 3.5 million were unallocated. The fair value of the unallocated ESOP shares at December 31, 2002 was approximately \$200 million. Unallocated common shares held by the ESOP are considered outstanding for voting and other Corporate purposes, but excluded from weighted average outstanding shares in calculating earnings per share. For 2002, 2001 and 2000, the weighted average unallocated ESOP shares excluded in calculating earnings per share totaled approximately 4.4 million, 6.7 million and 9.0 million common shares, respectively.

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Certain plans for hourly employees include non-leveraged ESOPs where the match is made, generally at the election of the participant, in the Corporation's common stock. The Corporation's match to these plans was made through cash contributions to the ESOP trusts which were used, if so elected, to purchase common stock from terminating participants and in the open market for allocation to participant accounts. These ESOP trusts held approximately 3.5 million issued and outstanding shares of common stock at December 31, 2002.

Defined benefit pension plans, and retiree medical and life insurance plans—Most employees are covered by defined benefit pension plans, and certain health care and life insurance benefits are provided to eligible retirees by the Corporation. The Corporation has made contributions to trusts (including Voluntary Employees' Beneficiary Association trusts and 401(h) accounts, the assets of which will be used to pay expenses of certain retiree medical plans) established to pay future benefits to eligible retirees and dependents. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Net pension and net retiree medical costs for 2002, 2001 and 2000 were based on assumptions in effect at the end of the respective preceding years.

The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

	Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
(In millions)	2002	2001	2002	2001
CHANGE IN BENEFIT OBLIGATIONS				
Benefit obligations at beginning of year	\$19,713	\$18,524	\$3,125	\$2,984
Service cost	565	523	37	41
Interest cost	1,401	1,357	213	211
Benefits paid	(1,247)	(1,223)	(320)	(281)
Actuarial losses	1,417	497	190	115
Amendments	102	38	13	11
Divestitures	(33)	(3)	(6)	—
Participants' contributions	—	—	64	44
Benefit obligations at end of year	\$21,918	\$19,713	\$3,316	\$3,125

	Defined Benefit Pension Plans		Retiree Medical and Life Insurance Plans	
(In millions)	2002	2001	2002	2001
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	\$20,300	\$22,738	\$ 1,026	\$ 1,098
Actual return on plan assets	(1,397)	(1,238)	(125)	(70)
Benefits paid	(1,247)	(1,223)	(318)	(181)
Corporation's contributions	69	8	259	135
Participants' contributions	—	—	64	44
Divestitures	(64)	15	—	—
Fair value of plan assets at end of year	\$17,661	\$20,300	\$ 906	\$ 1,026
Funded (unfunded) status of the plans	\$ (4,257)	\$ 587	\$ (2,410)	\$ (2,099)
Unrecognized net actuarial losses	6,075	1,036	891	512
Unrecognized prior service cost	568	538	39	22
Unrecognized transition asset	(3)	(5)	—	—
Net amount recognized	\$ 2,383	\$ 2,156	\$ (1,480)	\$ (1,565)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET:				
Prepaid (accrued) benefit cost	\$ (651)	\$ 2,081	\$ (1,480)	\$ (1,565)
Intangible asset	551	20	—	—
Accumulated other comprehensive loss related to minimum pension liability	2,483	55	—	—
Net amount recognized	\$ 2,383	\$ 2,156	\$ (1,480)	\$ (1,565)

At December 31, 2002 and 2001, the Corporation recorded pretax minimum pension liability adjustments of \$2.5 billion and \$55 million, respectively, related to certain of its defined benefit pension plans. This adjustment is calculated on a plan-by-plan basis, and is required if the accumulated benefit obligation of the plan exceeds the fair value of the plan assets and the plan's accrued pension liabilities.

The accumulated benefit obligation and fair value of plan assets for the benefit plans with accumulated benefit obligations in excess of the plans' assets totaled \$12.0 billion and

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\$10.1 billion, respectively, at December 31, 2002, and \$482 million and \$421 million, respectively, at December 31, 2001. At December 31, 2002, substantially all of the Corporation's plans had projected benefit obligations in excess of plan assets as reflected in the table above.

The net pension cost as determined by FAS 87, "Employers' Accounting for Pensions," and the net post-retirement benefit cost as determined by FAS 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions," related to the Corporation's plans include the following components:

<i>(In millions)</i>	2002	2001	2000
DEFINED BENEFIT PENSION PLANS			
Service cost	\$ 565	\$ 523	\$ 517
Interest cost	1,401	1,357	1,372
Expected return on plan assets	(2,162)	(2,177)	(2,130)
Amortization of prior service cost	72	64	75
Recognized net actuarial gains	(33)	(117)	(143)
Amortization of transition asset	(3)	(4)	(4)
Curtailment loss ^(a)	—	—	11
Total net pension income	\$ (160)	\$ (354)	\$ (302)
RETIREE MEDICAL AND LIFE			
INSURANCE PLANS			
Service cost	\$ 37	\$ 41	\$ 38
Interest cost	213	211	198
Expected return on plan assets	(89)	(99)	(105)
Amortization of prior service cost	(4)	(5)	(12)
Recognized net actuarial losses (gains)	20	9	(11)
Curtailment gain ^(a)	—	—	(87)
Total net post-retirement cost	\$ 177	\$ 157	\$ 21

(a) Amounts relate primarily to the divestiture of AES and Control Systems in 2000 and are included in the calculation of the gains or losses on the respective transactions.

The actuarial assumptions used to determine the benefit obligations and the net costs related to the Corporation's defined benefit pension and post-retirement benefit plans, as appropriate, are as follows:

	2002	2001	2000
Discount rates	6.75%	7.25%	7.50%
Expected long-term rates of return on assets	9.50 ^(a)	9.50	9.50
Rates of increase in future compensation levels	5.50	5.50	5.50

(a) The expected long-term rate of return on plan assets for determining the 2003 net pension and post-retirement costs was lowered to 8.50%.

The decrease in the discount rate from 7.25% at December 31, 2001 to 6.75% at December 31, 2002 resulted in an increase in the December 31, 2002 benefit obligation of \$1.2 billion.

The medical trend rates used in measuring the post-retirement benefit obligation were 9.1% in 2002 and 8.2% in 2001, and were assumed to ultimately decrease to 4.5% by the year 2011. An increase or decrease of one percentage point in the assumed medical trend rates would result in a change in the benefit obligation of approximately 4.7% and (4.2)%, respectively, at December 31, 2002, and a change in the 2002 post-retirement service cost plus interest cost of approximately 4.4% and (3.9)%, respectively. The medical trend rate for 2003 is 10.0%.

The Corporation sponsors nonqualified defined benefit plans to provide benefits in excess of qualified plan limits. The expense associated with these plans totaled \$54 million in 2002, \$47 million in 2001 and \$43 million in 2000.

NOTE 14—LEASES

Total rental expense under operating leases was \$235 million, \$223 million and \$232 million for 2002, 2001 and 2000, respectively.

Future minimum lease commitments at December 31, 2002 for all operating leases that have a remaining term of more than 1 year were approximately \$1 billion (\$222 million in 2003, \$189 million in 2004, \$167 million in 2005, \$130 million in 2006, \$106 million in 2007 and \$228 million in later years). Certain major plant facilities and equipment are furnished by the U.S. Government under short-term or cancelable arrangements.

NOTE 15—COMMITMENTS AND CONTINGENCIES

The Corporation or its subsidiaries are parties to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment. In the opinion of management and in-house counsel, the probability is remote that the outcome of these matters will have a material adverse effect on the Corporation's consolidated results of operations, financial position or cash flows. These matters include the following items:

Environmental matters—The Corporation is responding to three administrative orders issued by the California Regional

Water Quality Control Board (the Regional Board) in connection with the Corporation's former Lockheed Propulsion Company facilities in Redlands, California. Under the orders, the Corporation is investigating the impact and potential remediation of regional groundwater contamination by perchlorates and chlorinated solvents. The Regional Board has approved the Corporation's plan to maintain public water supplies with respect to chlorinated solvents during this investigation, and the Corporation continues to negotiate with local water purveyors to implement this plan, as well as to address water supply concerns relative to perchlorate contamination. The Corporation is also coordinating with the U.S. Air Force, which is working with the aerospace and defense industry to conduct preliminary studies of the potential health effects of perchlorate exposure in connection with several sites across the country, including the Redlands site. The results of these studies are intended to assist state and federal regulators in setting appropriate action levels for perchlorates in groundwater. In January 2002, the State of California reduced its provisional standard for perchlorate concentration in water from 18 parts per billion (ppb) to 4 ppb, a move that neither industry nor the Air Force believes is supported by the current studies.

Although this provisional standard does not create any legally enforceable requirements for the Corporation at this time, the Corporation has developed a preliminary remediation plan that would meet the provisional standard if it were to become final. Because this plan entails a long lead-time for implementation, the Corporation has elected to begin implementing this plan and recognize the increased costs that are associated with the plan. The consolidated balance sheet at December 31, 2002 includes a liability of approximately \$185 million representing the Corporation's estimate of the remaining expenditures necessary to implement the remediation and other work at the site over the next 30 years. This amount represents an approximate \$100 million increase in the liability since December 31, 2001. As at other sites, the Corporation is pursuing claims against other potentially responsible parties (PRPs), including the U.S. Government, for contribution to site clean-up costs.

The Corporation has been conducting remediation activities to address soil and groundwater contamination by chlorinated solvents at its former operations in Great Neck, New York which it acquired as part of its acquisition of Loral Corporation in 1996. This work is being done pursuant to a

series of orders and agreements with the New York State Department of Environmental Conservation beginning with a 1991 administrative order entered by Unisys Tactical Defense Systems, a predecessor company at the site. Until the third quarter of 2002, all of the remediation work associated with this site had been performed on the site itself. In the third quarter, the Corporation entered into negotiations with the state of New York to implement an off-site interim remedial measure intended to address an off-site plume of groundwater contamination that was found to be moving more rapidly than originally anticipated. This has led to an increase of approximately \$50 million in the projected future costs for the site. Total projected future costs are now estimated to be approximately \$70 million through 2025. This amount is included in the consolidated balance sheet at December 31, 2002. As at other sites, the Corporation is pursuing claims against other PRPs, including the U.S. Government, for contribution to site clean-up costs.

Since 1990, the Corporation has been responding to various consent decrees and orders relating to soil and regional groundwater contamination in the San Fernando Valley associated with the Corporation's former operations in Burbank and Glendale, California. Among other things, these consent decrees and orders obligate the Corporation to construct and fund the operations of soil and groundwater treatment facilities in Burbank and Glendale, California through 2018 and 2012, respectively; however, responsibility for the long-term operation of these facilities was assumed by the respective localities in 2001. The Corporation has been successful in limiting its financial responsibility for these activities to date to its pro rata share as a result of litigation and settlements with other PRPs. In addition, under an agreement reached with the U.S. Government in 2000, the Corporation will continue to be reimbursed in an amount equal to approximately 50% of future expenditures for certain remediation activities by the U.S. Government in its capacity as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act. The Corporation has recorded a liability of approximately \$60 million representing its estimate of the total expenditures required over the remaining terms of the consent decrees and orders described above, net of the effects of the agreement.

The Corporation is involved in proceedings and potential proceedings relating to environmental matters at other facilities, including disposal of hazardous wastes and soil and water

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contamination. The extent of the Corporation's financial exposure cannot in all cases be reasonably determined at this time. In addition to the amounts with respect to the Redlands, Burbank, Glendale and Great Neck sites described above, a liability of approximately \$130 million for the other properties (including current operating facilities and certain facilities operated in prior years) in which an estimate of financial exposure can be determined has been recorded.

Under agreements reached with the U.S. Government in 1990 and 2000, certain groundwater treatment and soil remediation expenditures referenced above are being allocated to the Corporation's operations as general and administrative costs and, under existing government regulations, these and other environmental expenditures related to U.S. Government business, after deducting any recoveries from insurance or other PRPs, are allowable in establishing the prices of the Corporation's products and services. As a result, a substantial portion of the expenditures are being reflected in the Corporation's sales and cost of sales pursuant to U.S. Government agreement or regulation.

At December 31, 2002 and December 31, 2001, the aggregate amount of liabilities recorded relative to environmental matters was \$445 million and \$300 million, respectively. The Corporation has recorded an asset for the portion of environmental costs that are probable of future recovery in pricing of the Corporation's products and services for U.S. Government business. The portion that is expected to be allocated to commercial business has been reflected in cost of sales. The recorded amounts do not reflect the possible future recoveries of portions of the environmental costs through insurance policy coverage or from other PRPs, which the Corporation is pursuing as required by agreement and U.S. Government regulation. Any such recoveries, when received, would reduce the allocated amounts to be included in the Corporation's U.S. Government sales and cost of sales.

Waste remediation contract—In 1994, the Corporation was awarded a \$180 million fixed-price contract by the U.S. Department of Energy (DoE) for remediation of waste found in Pit 9, located on the Idaho National Engineering and Environmental Laboratory reservation. The Corporation incurred significant unanticipated costs and scheduling issues due to complex technical and contractual matters, which it sought to remedy through submission of a request for equitable

adjustment. To date, the Corporation has been unsuccessful in reaching any agreements with the DoE on cost recovery or other contract restructuring matters. In 1998, the management contractor for the project, a wholly-owned subsidiary of the Corporation, at the DoE's direction, terminated the Pit 9 contract for default. As a result, the Corporation filed a lawsuit against the DoE in the Court of Federal Claims seeking to overturn the default termination and recover its costs, which are included in inventories. Also in 1998, the management contractor, also at the DoE's direction, filed suit against the Corporation in the United States District Court for the District of Idaho seeking, among other things, recovery of approximately \$54 million previously paid to the Corporation under the Pit 9 contract. The Corporation counterclaimed seeking to overturn the default termination and recover its costs. The Corporation is defending this action which is set for trial in August 2003.

In 2001, the Court of Federal Claims granted the DoE's motion to dismiss the Corporation's complaint, finding that there was no privity of contract between the Corporation and the United States sufficient to provide the Court with jurisdiction over the dispute. On September 30, 2002, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the Court of Federal Claims. The Corporation did not appeal the decision further and will continue to seek resolution of the Pit 9 dispute through non-litigation means while preparing for trial in the Idaho proceeding.

Letters of credit and other matters—The Corporation has entered into standby letter of credit agreements and other arrangements with financial institutions primarily relating to the guarantee of future performance on certain of its contracts. At December 31, 2002, the Corporation had contingent liabilities on outstanding letters of credit and other arrangements aggregating \$582 million.

NOTE 16—INFORMATION ON BUSINESS SEGMENTS AND MAJOR CUSTOMERS

In the fourth quarter of 2002, the Corporation changed the manner in which it reports the results of its business segments. This change in presentation was made to align the measurement criteria used by the Corporation's senior management in their evaluation of the performance of the business segments.

The Corporation continues to operate in four principal business segments: Systems Integration, Space Systems, Aeronautics and Technology Services. The changes include the following:

- The Corporate and Other segment has been eliminated;
- The operating profit or loss (earnings or loss from continuing operations before interest and taxes) from the operations of the four principal business segments is reconciled to the reported consolidated results utilizing the following items:
 - Unallocated Corporate income (expense), net—this caption includes—
 - Unusual items—The effects of unusual items that are not considered part of management’s evaluation of the segment’s operating results (e.g., sales of surplus real estate, impairment charges, divestitures and other portfolio shaping activities) are excluded from the business segment results;
 - The difference between pension costs calculated and funded in accordance with Cost Accounting Standards (CAS), which are reported in the business segment results, and pension expense or income determined in accordance with FAS 87 as reported in Note 13 (FAS/CAS adjustment). This amount was previously allocated to the business segments (see further discussion below);
 - The costs of the Corporation’s common stock-based compensation plans. This amount was also allocated to the business segments previously;
 - Corporate costs not allocated to the business segments and other miscellaneous Corporate activities, including interest income and earnings and losses from the Corporation’s equity investments.
 - Impact of adoption of FAS 142—As a result of the Corporation’s adoption of FAS 142 (see Note 1), goodwill is no longer being amortized and the estimated remaining useful life of the contract intangible asset related to the F-16 program was extended. In connection with the adoption of the new standard, goodwill amortization expense and the impact of the change in the estimated remaining useful life of the F-16 intangible asset for all periods prior to January 1, 2002 are excluded from business segment results.

With respect to pension costs and funding, FAS 87 determines pension expense or income for financial reporting purposes under Generally Accepted Accounting Principles (GAAP), not necessarily the funding requirements of pension plans, which are determined by other factors. A major factor for determining pension funding requirements for the Corporation is the CAS, which governs the extent of allocability and recoverability of pension costs on government contracts. The CAS expense is recovered through the pricing of the Corporation’s products and services on U.S. Government contracts, and therefore is recognized in net sales of the applicable segment. Previously, business segment results included pension income or expense as determined in accordance with FAS 87. The results of operations of the Corporation’s segments will now only include pension expense as determined and funded in accordance with CAS rules.

Transactions between segments are generally negotiated and accounted for under terms and conditions that are similar to other government and commercial contracts; however, these intercompany transactions are eliminated in consolidation. Other accounting policies of the business segments are the same as those described in Note 1.

Following is a brief description of the activities of the principal business segments:

- *Systems Integration*—Engaged in the design, development, integration and production of high performance systems for undersea, shipboard, land, and airborne applications. Major product lines include missiles and fire control systems; air and theater missile defense systems; surface ship and submarine combat systems; anti-submarine and undersea warfare systems; avionics and ground combat vehicle integration; radars; platform integration services; command, control, communications, computers and intelligence (C4I) systems for naval, airborne and ground applications; homeland security systems; surveillance and reconnaissance systems; air traffic control systems; simulation and training systems; and postal automation systems.
- *Space Systems*—Engaged in the design, development, engineering and production of commercial and military space systems, including those systems that perform intelligence, surveillance and reconnaissance functions. Major lines of business include government satellites and defensive systems, commercial satellites, ground systems and supporting

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services, launch services, and strategic missiles. In addition, the segment has investments in joint ventures that are principally engaged in businesses which complement and enhance other activities of the segment.

- *Aeronautics*—Engaged in design, research and development, systems integration, production and support of advanced military aircraft and related technologies. Its customers include the military services of the United States and allied countries throughout the world. Major products and programs include the F-16 multi-role fighter, F/A-22 air dominance and strike fighter, F-35 Joint Strike Fighter, Japanese F-2 combat aircraft, Korean T-50 advanced trainer, C-130 and C-130J tactical airlift aircraft, C-5 strategic airlift aircraft, and support for the F-117 stealth fighter and special mission and reconnaissance aircraft (e.g., Big Safari modifications, and the P-3 Orion, S-3 Viking and U-2).
- *Technology Services*—Engaged in a wide array of information management, engineering, scientific and logistic services to federal agencies and other customers. Major product lines include complete life-cycle software support; information systems development; information assurance and enterprise integration for the U.S. Department of Defense, civil government agencies and commercial customers; aircraft and engine maintenance and modification services; management, operation, maintenance, training, and logistics support for military, homeland security and civilian systems; launch, mission, and analysis services for military, classified and commercial satellites; engineering, science and information services for NASA; and research, development, engineering and science in support of nuclear weapons stewardship and naval reactor programs.

Consistent with the requirements of FAS 131, “Disclosures about Segments of an Enterprise and Related Information,” the following tables of financial data have been adjusted to reflect the new presentation of its segment operating results noted above. For financial statement captions presented in the following tables other than “Operating profit (loss),” all activities other than those pertaining to the principal business segments will be included on a line item entitled “Other.”

Selected Financial Data by Business Segment

<i>(In millions)</i>	2002	2001	2000
NET SALES			
Systems Integration	\$ 9,603	\$ 9,014	\$ 9,647
Space Systems	7,384	6,836	7,339
Aeronautics	6,471	5,355	4,885
Technology Services	3,104	2,763	2,649
Total business segments	26,562	23,968	24,520
Other	16	22	21
	\$26,578	\$23,990	\$24,541
OPERATING PROFIT (LOSS)			
Systems Integration	\$ 952	\$ 906	\$ 981
Space Systems	443	360	345
Aeronautics	448	329	280
Technology Services	177	114	106
Total business segments	2,020	1,709	1,712
Unallocated Corporate expense, net ^(a)	(862)	(602)	(310)
Impact of FAS 142 adoption	—	(274)	(297)
	\$ 1,158	\$ 833	\$ 1,105
INTERSEGMENT REVENUE			
Systems Integration	\$ 331	\$ 235	\$ 472
Space Systems	148	80	67
Aeronautics	28	52	78
Technology Services	707	814	746
Total business segments	1,214	1,181	1,363
Other	75	77	48
	\$ 1,289	\$ 1,258	\$ 1,411
DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT			
Systems Integration	\$ 159	\$ 149	\$ 183
Space Systems	136	147	152
Aeronautics	74	84	88
Technology Services	36	22	15
Total business segments	405	402	438
Other	28	23	26
	\$ 433	\$ 425	\$ 464

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Selected Financial Data by Business Segment *(continued)*

<i>(In millions)</i>	2002	2001	2000
AMORTIZATION OF INTANGIBLE			
ASSETS OTHER THAN GOODWILL			
Systems Integration	\$ 49	\$ 50	\$ 52
Space Systems	19	18	18
Aeronautics	50	51	51
Technology Services	7	5	5
Total business segments	125	124	126
Other	—	30	30
	\$ 125	\$ 154	\$ 156
EQUITY IN EARNINGS (LOSSES)			
OF EQUITY INVESTEEES			
Systems Integration	\$ 1	\$ (3)	\$ (16)
Space Systems	39	51	40
Aeronautics	—	—	—
Technology Services	10	10	7
Total business segments	50	58	31
Other	43	10	17
	\$ 93	\$ 68	\$ 48
EXPENDITURES FOR PROPERTY, PLANT AND EQUIPMENT^(b)			
Systems Integration	\$ 208	\$ 190	\$ 185
Space Systems	173	144	126
Aeronautics	205	142	89
Technology Services	44	30	15
Total business segments	630	506	415
Other	22	39	27
	\$ 652	\$ 545	\$ 442
ASSETS^(c)			
Systems Integration	\$ 9,597	\$ 9,612	\$ 9,758
Space Systems	4,313	5,208	6,005
Aeronautics	2,835	3,017	3,173
Technology Services	1,634	1,911	1,588
Total business segments	18,379	19,748	20,524
Assets held for sale	210	638	2,332
Other ^(d)	7,169	7,268	7,570
	\$25,758	\$27,654	\$30,426

<i>(In millions)</i>	2002	2001	2000
GOODWILL			
Systems Integration	\$ 5,775	\$ 5,775	\$ 5,941
Space Systems	1,064	1,064	1,052
Aeronautics	—	—	—
Technology Services	541	532	434
Total business segments	7,380	7,371	7,427
Other	—	—	52
	\$ 7,380	\$ 7,371	\$ 7,479
CUSTOMER ADVANCES AND AMOUNTS IN EXCESS OF COSTS INCURRED			
Systems Integration	\$ 836	\$ 797	\$ 899
Space Systems	1,275	1,784	2,087
Aeronautics	2,408	2,406	1,636
Technology Services	19	15	60
Total business segments	4,538	5,002	4,682
Other	4	—	15
	\$ 4,542	\$ 5,002	\$ 4,697

(a) *Unallocated Corporate income (expense), net includes the following (in millions):*

	2002	2001	2000
Unusual items	\$(1,112)	\$(973)	\$(685)
FAS/CAS pension income	243	360	309
Other	7	11	66
	\$ (862)	\$(602)	\$(310)

For information regarding unusual items, see Notes 2, 3, 6, 8 and 9 to the consolidated financial statements.

(b) *Amounts exclude expenditures related to discontinued businesses totaling \$10 million, \$74 million and \$58 million in 2002, 2001 and 2000, respectively.*

(c) *The Corporation has no significant long-lived assets located in foreign countries.*

(d) *Assets primarily include cash, investments, deferred income taxes and, for 2001 and 2000, the prepaid pension asset.*

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Net Sales by Customer Category

<i>(In millions)</i>	2002	2001	2000
U.S. GOVERNMENT			
Systems Integration	\$ 7,741	\$ 6,952	\$ 6,855
Space Systems	6,276	5,956	5,932
Aeronautics	4,483	3,437	2,784
Technology Services	2,735	2,269	2,120
	\$21,235	\$18,614	\$17,691
FOREIGN GOVERNMENTS (a)(b)			
Systems Integration	\$ 1,583	\$ 1,790	\$ 2,231
Space Systems	60	94	79
Aeronautics	1,971	1,899	2,061
Technology Services	76	104	117
	\$ 3,690	\$ 3,887	\$ 4,488
COMMERCIAL (b)			
Systems Integration	\$ 279	\$ 272	\$ 561
Space Systems	1,048	786	1,328
Aeronautics	17	19	40
Technology Services	293	390	413
Total business segments	1,637	1,467	2,342
Other	16	22	20
	\$ 1,653	\$ 1,489	\$ 2,362

(a) Sales made to foreign governments through the U.S. Government are included in the foreign governments category above.

(b) Export sales included in the foreign governments and commercial categories above were approximately \$4.3 billion, \$4.1 billion and \$5.2 billion in 2002, 2001 and 2000, respectively.

**NOTE 17—SUMMARY OF QUARTERLY INFORMATION
(UNAUDITED)**

<i>(In millions, except per share data)</i>	2002 Quarters			
	First	Second ^(a)	Third	Fourth ^(b)
Net sales	\$5,966	\$6,290	\$6,542	\$7,780
Earnings from operations	438	483	553	475
Earnings (loss) from				
continuing operations	224	351	300	(342)
Net earnings (loss)	218	339	290	(347)
Diluted earnings (loss)				
per share from				
continuing operations	0.50	0.78	0.66	(0.76)
Diluted earnings (loss)				
per share	0.49	0.75	0.64	(0.77)

<i>(In millions, except per share data)</i>	2001 Quarters			
	First ^(d)	Second	Third ^(e)	Fourth ^(f)
Net sales	\$4,747	\$5,688	\$6,221	\$7,334
Earnings from operations	350	399	438	356
Earnings (loss) from				
continuing operations	126	150	(87)	(146)
Net earnings (loss)	105	144	213	(1,508)
Diluted earnings (loss)				
per share from				
continuing operations	0.30	0.34	(0.20)	(0.34)
Diluted earnings				
(loss) per share ^(c)	0.25	0.33	0.50	(3.49)

(a) Net earnings for the second quarter of 2002 included the effects of an unusual item relating to the settlement of a research and development tax credit claim. The settlement increased net earnings by \$90 million (\$0.20 per diluted share) and was recorded as a reduction of income tax expense.

(b) The net loss for the fourth quarter of 2002 included the following unusual items: impairment charges related to certain of the Corporation's telecommunications equity investments which increased the net loss by \$504 million (\$1.12 per diluted share); a charge related to advances to Russian manufacturers which increased the net loss by \$112 million (\$0.25 per diluted share); and a charge related to the Corporation's investment in and its guarantee of certain obligations of Space Imaging which increased the net loss by \$106 million (\$0.24 per diluted share).

(c) The sum of the diluted earnings (loss) per share amounts for the four quarters of 2001 do not equal the related amount included in the consolidated statement of operations for the year ended December 31, 2001 due to the exclusion of the impact of dilutive stock options from the third quarter calculation of per share amounts.

(d) Net earnings for the first quarter of 2001 included the following unusual items: a gain on the sale of surplus real estate which increased net earnings by \$72 million (\$0.17 per diluted share); and an impairment charge related to the Corporation's investment in Americom Asia-Pacific which reduced net earnings by \$65 million (\$0.15 per diluted share).

(e) Net earnings for the third quarter of 2001 included the following unusual items: an impairment charge related to the Corporation's investment in Loral Space which reduced net earnings by \$235 million (\$0.54 per diluted share); a loss on the early repayment of debt which reduced net earnings by \$36 million (\$0.08 per diluted share); and divestiture and other portfolio shaping activities which, on a combined basis, decreased net earnings by \$3 million. Net earnings also includes a gain on the sale of IMS which is included in discontinued operations and which increased net earnings by \$309 million (\$0.71 per diluted share).

(f) The net loss for the fourth quarter of 2001 included the following unusual items: a write-down of the Corporation's investment in Astrolink and related costs which increased the net loss by \$267 million (\$0.62 per diluted share); and charges related to the Corporation's exit from its global telecommunications services business which increased the net loss by \$117 million (\$0.27 per diluted share). The net loss also includes other unusual charges related to impairment of goodwill and other assets, and other costs associated with certain global telecommunications businesses held for sale. These charges are recorded in discontinued operations and increased the net loss by \$1.3 billion (\$3.09 per diluted share).

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<i>(In millions, except per share data)</i>	2002 ^(a)	2001 ^(b)	2000 ^(c)	1999 ^(d)	1998 ^(e)
OPERATING RESULTS					
Net sales	\$26,578	\$23,990	\$24,541	\$24,999	\$25,809
Cost of sales	24,629	22,447	22,881	23,346	23,492
Earnings from operations	1,949	1,543	1,660	1,653	2,317
Other income and expenses, net	(791)	(710)	(555)	344	170
	1,158	833	1,105	1,997	2,487
Interest expense	581	700	919	809	861
Earnings from continuing operations before income taxes and cumulative effect of change in accounting	577	133	186	1,188	1,626
Income tax expense	44	90	663	459	648
Earnings (loss) from continuing operations before cumulative effect of change in accounting	533	43	(477)	729	978
Discontinued operations	(33)	(1,089)	(42)	8	23
Cumulative effect of change in accounting	—	—	—	(355)	—
Net earnings (loss)	\$ 500	\$ (1,046)	\$ (519)	\$ 382	\$ 1,001
EARNINGS (LOSS) PER COMMON SHARE					
Basic:					
Continuing operations before cumulative effect of change in accounting	\$ 1.20	\$ 0.10	\$ (1.19)	\$ 1.91	\$ 2.60
Discontinued operations	(0.07)	(2.55)	(0.10)	0.02	0.06
Cumulative effect of change in accounting	—	—	—	(0.93)	—
	\$ 1.13	\$ (2.45)	\$ (1.29)	\$ 1.00	\$ 2.66
Diluted:					
Continuing operations before cumulative effect of change in accounting	\$ 1.18	\$ 0.10	\$ (1.19)	\$ 1.90	\$ 2.57
Discontinued operations	(0.07)	(2.52)	(0.10)	0.02	0.06
Cumulative effect of change in accounting	—	—	—	(0.93)	—
	\$ 1.11	\$ (2.42)	\$ (1.29)	\$ 0.99	\$ 2.63
Cash dividends	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.88	\$ 0.82
CONDENSED BALANCE SHEET DATA					
Current assets	\$10,626	\$10,778	\$13,339	\$11,080	\$10,706
Property, plant and equipment, net	3,258	2,991	2,941	3,361	3,489
Intangible assets related to contracts and programs acquired	814	939	1,073	1,259	1,418
Goodwill	7,380	7,371	7,479	9,152	9,521
Other assets	3,680	5,575	5,594	5,409	3,610
Total	\$25,758	\$27,654	\$30,426	\$30,261	\$28,744
Short-term borrowings	\$ —	\$ —	\$ 12	\$ 475	\$ 1,043
Current maturities of long-term debt	1,365	89	882	52	886
Other current liabilities	8,456	9,600	9,408	8,298	8,338
Long-term debt	6,217	7,422	9,065	11,427	8,957
Post-retirement benefit liabilities	1,480	1,565	1,647	1,805	1,903
Other liabilities	2,375	2,535	2,252	1,843	1,480
Stockholders' equity	5,865	6,443	7,160	6,361	6,137
Total	\$25,758	\$27,654	\$30,426	\$30,261	\$28,744
Common shares outstanding at year-end	455.5	441.2	431.4	397.8	393.3

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CONSOLIDATED FINANCIAL DATA—FIVE YEAR SUMMARY

NOTES TO FIVE-YEAR SUMMARY

- (a) *Includes the effects of unusual items which, on a combined basis, decreased earnings from continuing operations before income taxes by \$1,112 million, \$632 million after tax (\$1.40 per diluted share). In 2002, the Corporation adopted FAS 142 which prohibits the amortization of goodwill.*
- (b) *Includes the effects of unusual items which, on a combined basis, decreased earnings from continuing operations before income taxes by \$973 million, \$651 million after tax (\$1.50 per diluted share). Also includes an unusual gain from the disposal of a business and charges for the Corporation's exit from its global telecommunications services business which is included in discontinued operations and which, on a combined basis, increased the net loss by \$1 billion (\$2.38 per diluted share).*
- (c) *Reflects the business combination with COMSAT Corporation effective August 2000. Includes the effects of unusual items which, on a combined basis, decreased earnings from continuing operations before income taxes by \$685 million, \$951 million after tax (\$2.36 per diluted share).*
- (d) *Includes the effects of unusual items which, on a combined basis, increased earnings from continuing operations before income taxes by \$249 million, \$162 million after tax (\$0.42 per diluted share). Also includes a cumulative effect adjustment relating to the adoption of SOP No. 98-5 regarding costs for start-up activities which resulted in an unusual charge that reduced net earnings by \$355 million (\$0.93 per diluted share).*
- (e) *Includes the effects of unusual items which, on a combined basis, decreased net earnings by \$162 million, \$136 million after tax (\$0.36 per diluted share).*

Lockheed Martin Corporation

CORPORATE DIRECTORY

As of March 1, 2003

BOARD OF DIRECTORS

Nolan D. Archibald

*Chairman, President &
Chief Executive Officer
The Black & Decker Corporation*

Norman R. Augustine

*Chairman of the Executive Committee
Lockheed Martin Corporation*

Marcus C. Bennett

*Retired Executive Vice President and
Chief Financial Officer
Lockheed Martin Corporation*

Vance D. Coffman

*Chairman and Chief Executive Officer
Lockheed Martin Corporation*

Gwendolyn S. King

*President
Podium Prose
(A Washington, D.C.-based
Speaker's Bureau)*

Douglas H. McCorkindale

*Chairman, President &
Chief Executive Officer
Gannett Co., Inc.*

Eugene F. Murphy

*Retired Vice Chairman and
Executive Officer
General Electric Company*

Frank Savage

*Chief Executive Officer
Savage Holdings LLC*

Anne Stevens

*Vice President
North America Vehicle Operations
Ford Motor Company*

Robert J. Stevens

*President and Chief Operating Officer
Lockheed Martin Corporation*

James R. Ukropina

*Chief Executive Officer
Directions, LLC
(A Management and Consulting Firm)*

Douglas C. Yearley

*Chairman Emeritus
Phelps Dodge Corporation*

COMMITTEES

Audit and Ethics Committee

*Mrs. King, Chairman
Ms. Stevens, and Messrs. Archibald,
Murphy, Ukropina and Yearley*

Executive Committee

*Mr. Augustine, Chairman
Mrs. King, and Messrs. Bennett,
Coffman, Murphy and Savage*

Finance Committee

*Mr. Savage, Chairman
Messrs. Archibald, Augustine,
Bennett, McCorkindale and Yearley*

**Management Development and
Compensation Committee and
Stock Option Subcommittee**

*Mr. Murphy, Chairman
Mrs. King, Ms. Stevens, and
Messrs. McCorkindale and Savage*

**Nominating and
Corporate Governance Committee**

*Mr. Augustine, Chairman
Messrs. McCorkindale, Murphy and
Ukropina*

Lockheed Martin Corporation

CORPORATE DIRECTORY

As of March 1, 2003

OFFICERS

James F. Berry
Vice President

Rajeev Bhalla
Vice President and Contoller

Dennis R. Boxx
Senior Vice President

Charles T. Burbage
Vice President

Michael F. Camardo
*Executive Vice President
Technology Services*

Joseph R. Cleveland
Vice President

Vance D. Coffman
*Chairman and
Chief Executive Officer*

Robert B. Coutts
*Executive Vice President
Systems Integration*

Brian D. Dailey
Senior Vice President

Terrance M. Drabant
Vice President

Robert T. Elrod
Vice President

John J. Freeh
Vice President

Kimberly P. Gavaletz
Vice President

Theofanis G. Gavrilis
Vice President

Linda R. Gooden
Vice President

John Hallal
Vice President

Dain M. Hancock
*Executive Vice President
Aeronautics*

Marcus C. Hansen
Vice President

Jeffrey K. Harris
Vice President

Marillyn A. Hewson
Senior Vice President

Nancy M. Higgins
Vice President

Jay F. Honeycutt
Vice President

Arthur E. Johnson
Senior Vice President

Michael J. Joyce
Vice President

Christopher E. Kubasik
*Senior Vice President and
Chief Financial Officer*

G. Thomas Marsh
Vice President

Janet L. McGregor
Vice President

Frank H. Menaker, Jr.
*Senior Vice President and
General Counsel*

Frank C. Meyer
Vice President

Malcolm R. O'Neill
Vice President

David J. Posek
Vice President

Terry F. Powell
Senior Vice President

James R. Ryan
Vice President

Albert E. Smith
*Executive Vice President
Space Systems*

Michael A. Smith
Vice President

Robert J. Stevens
*President and
Chief Operating Officer*

Robert H. Trice
Senior Vice President

Lillian M. Trippett
*Vice President, Corporate Secretary and
Associate General Counsel*

Anthony G. Van Schaick
Vice President and Treasurer

Lockheed Martin Corporation

GENERAL INFORMATION

December 31, 2002

As of December 31, 2002, there were approximately 49,226 holders of record of Lockheed Martin common stock and 455,467,768 shares outstanding.

COMMON STOCK PRICES

Table with columns: (In dollars), High, Low, Close. Rows for 2002 QUARTERS (1st, 2nd, 3rd, 4th) and 2001 QUARTERS (1st, 2nd, 3rd, 4th).

TRANSFER AGENT & REGISTRAR

EquiServe Trust Company, N.A. Shareholder Services P.O. Box 43010 Providence, Rhode Island 02940-3010 Telephone: 1-800-519-3111 TDD for the hearing impaired: 1-800-952-9245 Internet: http://www.equiserve.com

DIVIDEND REINVESTMENT PLAN

Lockheed Martin Direct Invest, our direct stock purchase and dividend reinvestment plan, provides new investors and current stockholders with a convenient, cost-effective way to purchase Lockheed Martin common stock, increase holdings and manage the investment. For more information about Lockheed Martin Direct Invest, contact our transfer agent, EquiServe Trust Company, N.A. at 1-800-446-2617, or to view plan materials online and enroll electronically, access Internet site http://www.shareholder.com/lmt/shareholder.cfm#drip.

INDEPENDENT AUDITORS

Ernst & Young LLP 8484 Westpark Drive McLean, Virginia 22102

COMMON STOCK

Stock symbol: LMT Listed: New York Stock Exchange

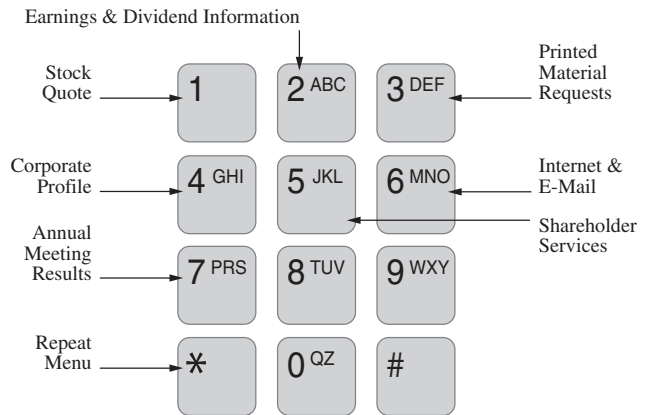
ANNUAL REPORT ON FORM 10-K

Stockholders may obtain, without charge, a copy of Lockheed Martin's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission for the year ended December 31, 2002 by writing to:

Lockheed Martin Investor Relations 6801 Rockledge Drive Bethesda, MD 20817

For accessing the Lockheed Martin Investor Relations homepage on the Internet use the Uniform Resource Locator: http://www.lockheedmartin.com/investor

Lockheed Martin Shareholder Direct 1-800-568-9758



Financial results, stock quotes, earnings and dividend news as well as other Lockheed Martin announcements are available by calling the above toll-free number. The information will be read to the caller and can also be received by mail, fax or e-mail. You may also reach Shareholder Services for account information or Investor Relations for additional information on Lockheed Martin via the toll-free number.

FORWARD-LOOKING STATEMENTS—SAFE HARBOR PROVISIONS

December 31, 2002

This Annual Report contains statements which, to the extent that they are not recitations of historical fact, constitute forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. The words “believe,” “estimate,” “anticipate,” “project,” “intend,” “expect,” “plan,” “outlook,” “forecast” and similar expressions are intended to identify forward-looking statements. Numerous factors, including potentially the following factors, could affect the Corporation’s forward-looking statements and actual performance: the ability to obtain or the timing of obtaining future government awards; the availability of government funding and customer requirements both domestically and internationally; changes in government or customer priorities due to program reviews or revisions to strategic objectives (including changes in priorities to respond to terrorist threats or to improve homeland security); the level of returns on pension and retirement plan assets; the termination of programs or contracts for convenience by customers; difficulties in developing and producing operationally advanced technology systems; launch failures and potential problems that might result, including potential loss of future or existing orders; the ability to procure insurance to cover operational and contractual risks, including launch and satellite failures, on commercially reasonable terms; the competitive environment (including continued pricing pressures associated with commercial satellites and launch services); the ability to achieve savings through cost-cutting and other financial management programs; economic business and political conditions both domestically and internationally; government import and export policies; program performance and the timing of contract payments (including the ability to perform fixed-price contracts within estimated costs, subcontractor performance, and the timing of product deliveries and customer acceptance); and the outcome of contingencies (including completion of acquisitions and divestitures, litigation and environmental remediation efforts).

Realization of the value of the Corporation’s investments in equity securities, or related equity earnings for a given period, may be affected by the investee’s ability to obtain adequate funding and execute its business plan, general market conditions, industry considerations specific to the investee’s business, and/or other factors.

For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the Corporation’s filings with the Securities and Exchange Commission including, but not limited to, the discussion of “Government Contracts and Regulation” and “Risk Factors and Forward-Looking Statements” on pages 19 through 20 and pages 23 through 28, respectively, of the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2002 (Form 10-K), “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on pages 26 through 48 of this Annual Report, and “Note 1—Summary of Significant Accounting Policies,” “Note 2—Exit from The Global Telecommunications Services Business,” and “Note 15—Commitments and Contingencies” of the Notes to Consolidated Financial Statements of the Audited Consolidated Financial Statements on pages 55 through 59, pages 59 through 61, and pages 72 through 74, respectively, included in this Annual Report and included in the Form 10-K.

The Corporation’s actual financial results likely will be different from those projected due to the inherent nature of projections. Given these uncertainties, you should not rely on forward-looking statements in making investment decisions. The forward-looking statements contained in this Annual Report speak only as of the date of the Report. The Corporation expressly disclaims a duty to provide updates to forward-looking statements after the date of this Annual Report to reflect the occurrence of subsequent events, changed circumstances, changes in its expectations, or the estimates and assumptions associated with them. The forward-looking statements in this Annual Report are intended to be subject to the safe harbor protection provided by the federal securities laws.

LOCKHEED MARTIN APPLIES ITS VISION, ITS PURPOSE AND ITS VALUES TO CUSTOMER PRIORITIES

OUR VISION:

TO BE THE WORLD'S BEST ADVANCED TECHNOLOGY SYSTEMS INTEGRATOR.

OUR PURPOSE:

TO ACHIEVE MISSION SUCCESS BY ATTAINING TOTAL CUSTOMER SATISFACTION
AND MEETING ALL OUR COMMITMENTS.

OUR VALUES:

ETHICS

EXCELLENCE

“CAN-DO”

INTEGRITY

PEOPLE

TEAMWORK

ACHIEVING RESULTS THROUGH...

LEADERSHIP AND TEAMWORK

COMMITMENT OF OUR PEOPLE TO OUR CUSTOMERS

EXCELLENCE AS A PREMIER SYSTEMS INTEGRATOR

INNOVATION IN TECHNOLOGY AND BUSINESS

ALLIANCES WORLDWIDE



Lockheed Martin Corporation
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www.lockheedmartin.com