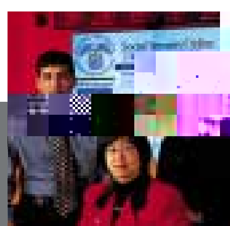
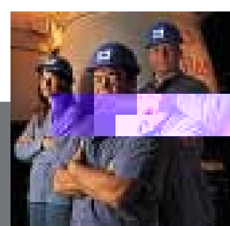
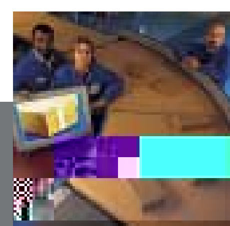
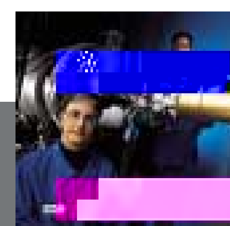
[illegible]	2001	2000	1
	$23,990		

Defining Moments™: United We Serve

The strength of a company is measured by its performance for customers, shareholders, employees, and the communities it serves. Every day, the men and women of Lockheed Martin renew their commitment to making our company the world's best advanced technology systems integrator, serving our customers at their defining moments.

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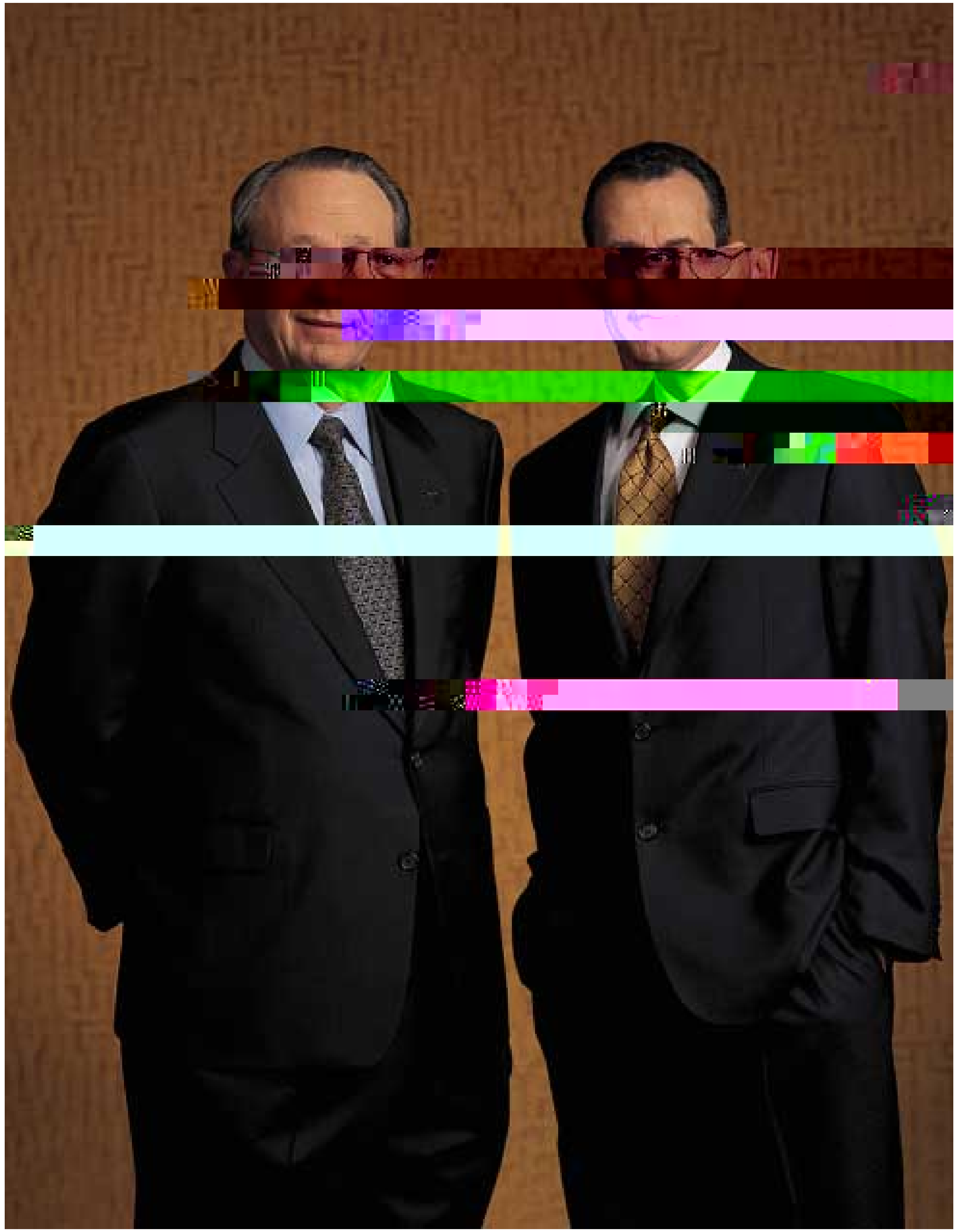


Dear Fellow Shareholder,

We, like all Americans, stood united and resolute in a year marked by tragedy and uncertainty. We are proud of the contributions our employees have made before and since September 11 in service to our customers, the nation and the world.

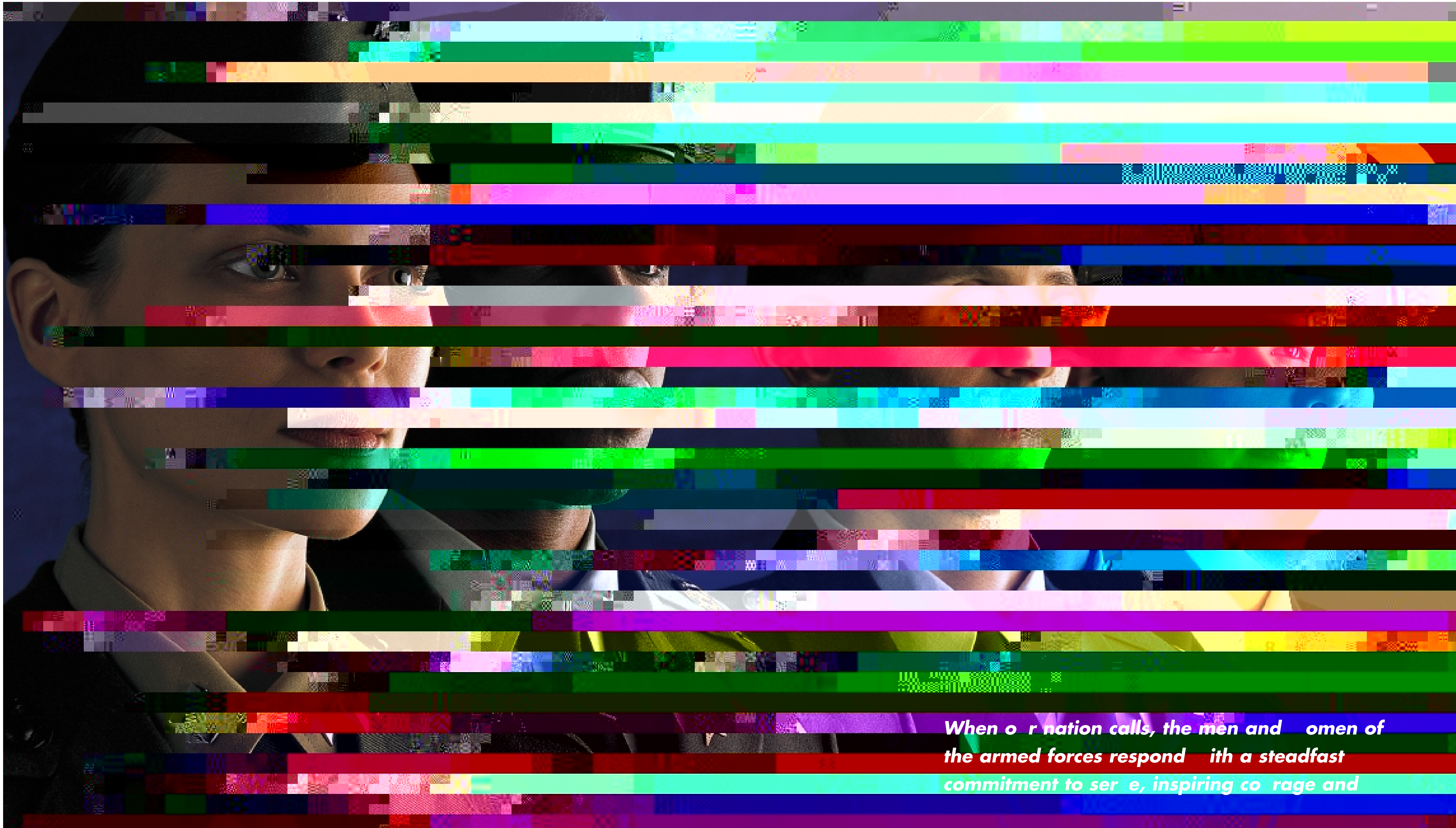
Your company is focused on the critical tasks ahead, equipping our armed forces and the forces of our allies, as they secure peace in a changing world. Lockheed Martin is also a united team, focused on its comprehensive strategy to transition from recovery to disciplined growth and to further drive a culture of performance at every level.

By all indicators, we achieved our goals with 2001 representing a second consecutive year of consistently strong operational and financial performance and enhanced shareholder value. It also included winning the Joint Strike Fighter program, arguably the most important competition in our Corporation's history.

As a premier systems integrator, we continue to meet the critical priorities of our customers. That singular vision has had its rewards. Last year our achievements included:

- Mission success for our customers
- Meeting or exceeding financial goals
- Winning the critical competitions
- Shaping the portfolio to adjust to changing market conditions.

We believe our most vital product is our customers' success. We know that 100 percent mission success is the only satisfactory objective. Anything short of this is not what we want to deliver.



When o r nation calls, the men and omen of the armed forces respond ith a steadfast commitment to ser e, inspiring co rage and

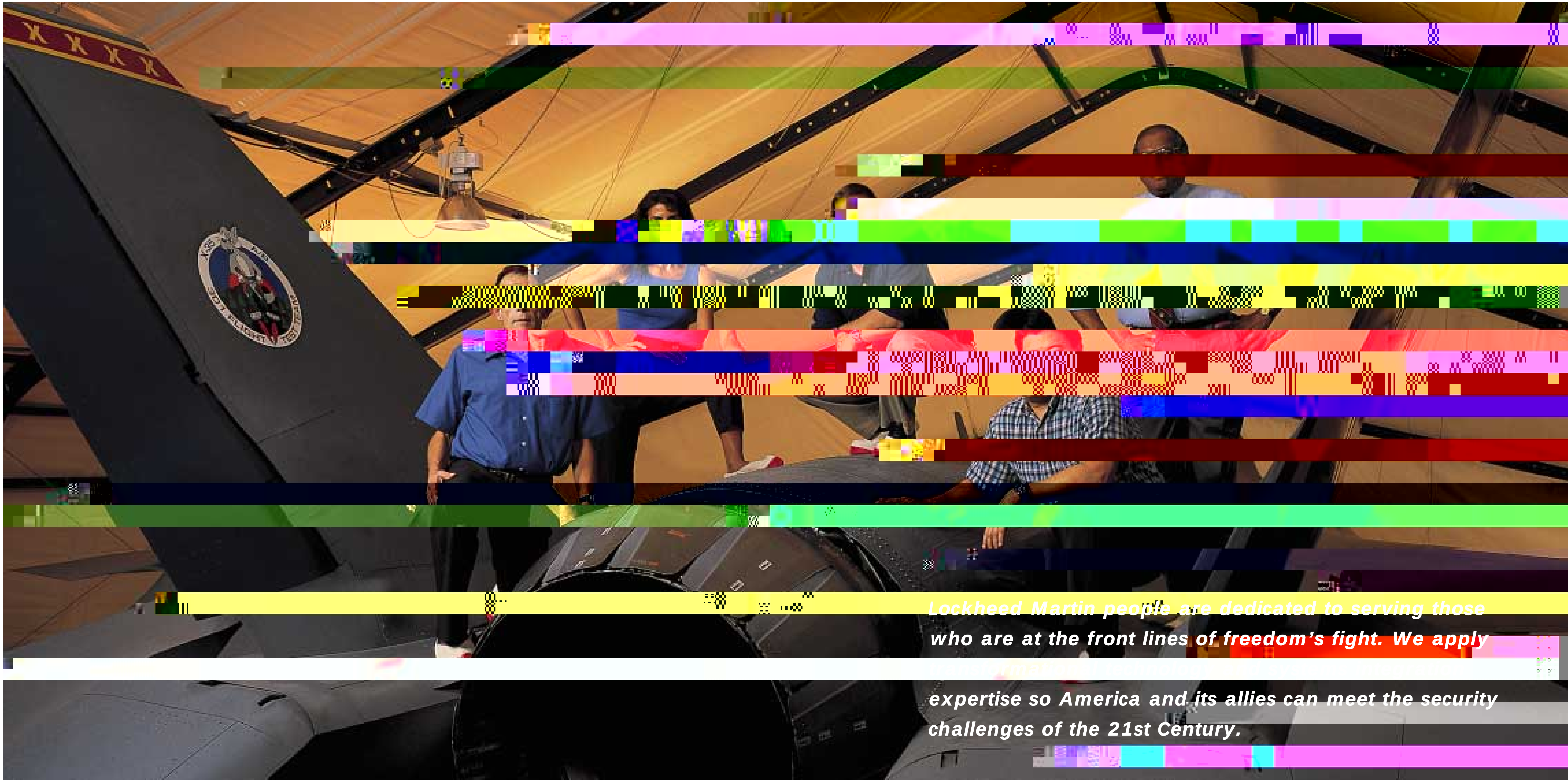
Civil Government Agencies: Bravely Meeting New Challenges

U.S. Government agencies are at the forefront of protecting our shores, delivering services that are vital to the lives of millions and ensuring that America remains a beacon—the hope and inspiration for people everywhere.

<<< Bringing Mail to Millions: The U.S. Postal Service, faced with new challenges, is resolved and dedicated—working around-the-clock to move more than 200 billion pieces of mail a year affordably and effectively under every condition. Lockheed Martin assists the U.S. Postal Service in its important mission with cutting-edge technologies that speed and improve the sorting, processing and delivery of the mail.

Protecting Our Shores: The U.S. Coast Guard ^^^ is sharply focused on its mission of keeping America's shores and waterways secure, safe and mobile, as well as its mission in national defense and the protection of natural resources. Lockheed Martin is proud to support the dedicated men and women of the U.S. Coast Guard in their important duty.

Managing the Skies: Air traffic management >>> customers worldwide are responding to new requirements posed by a world in transformation. Lockheed Martin serves air traffic management customers, such as the Federal Aviation Administration, with state-of-the-art software and hardware that is modernizing air traffic control for safer, more efficient air travel.

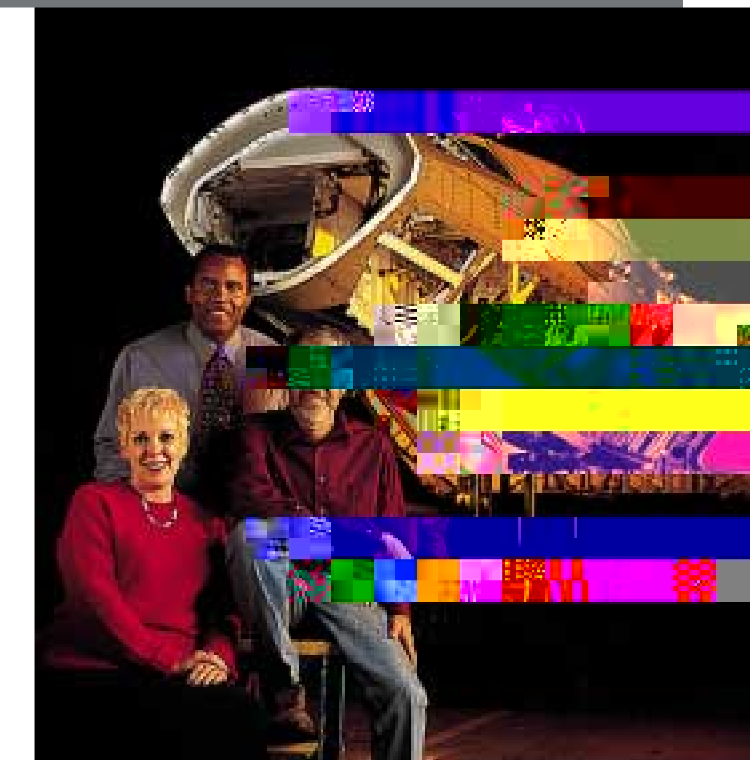


Lockheed Martin people are dedicated to serving those who are at the front lines of freedom's fight. We apply transformational technology [illegible] expertise so America and its allies can meet the security challenges of the 21st Century.

<<< Our customers depend on technologically advanced work processes, virtual design, and lean manufacturing to build an affordable aircraft that will be a cornerstone of future defense for the United States and its allies.

To carry out their critical missions, pilots require a

Lockheed Martin is united by a clarity of purpose: We help our customers succeed at their defining moments with transformational technology and expertise as a systems integrator.

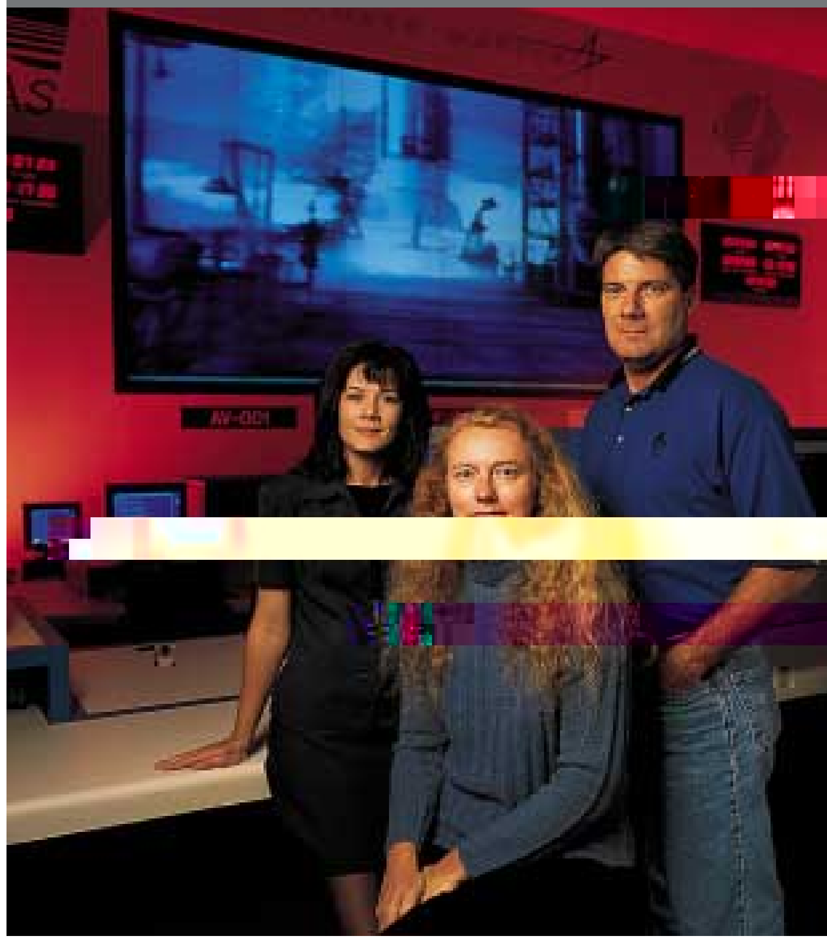


^ The F-22 Raptor, the next-generation air superiority fighter, will give the U.S. Air Force the ability to deter aggression or control the skies in the event of combat.

<<< Radars help governments accomplish a diverse range of missions—from managing air and vessel traffic to defending the skies. Lockheed Martin supplies advanced radar to defense and civil government customers worldwide.

<<< One of the Department of Defense's highest-priority programs, the stealthy Joint Air-to-Surface Standoff Missile (JASSM), will allow our military forces to strike their targets on the ground with precision from long ranges, reducing the risk to pilots.

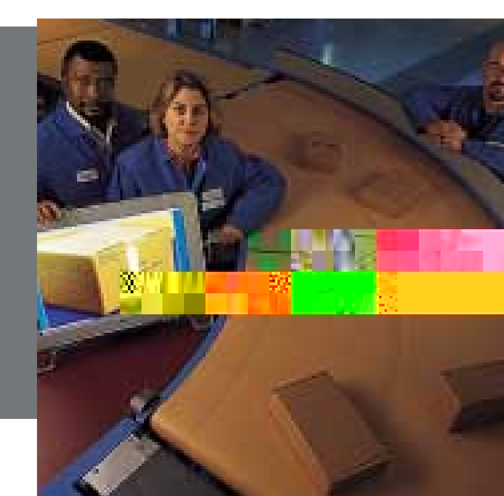
Surface ships and submarines depend on >>> high-performance radar, naval combat systems and advanced electronics to keep shipping lanes secure, project power and prevail in combat if called upon. As a premier systems integrator, Lockheed Martin provides these technologies to our naval customers so they can accomplish their crucial missions.



A passion for invention and a relentless dedication to excellence. These are qualities that America's pioneers in space have used to meet the great challenges of exploration, bringing the benefits of space to people on Earth in their everyday lives. Lockheed Martin has a long history of supporting America's space program and NASA—delivering the extraordinary to meet the next great challenge.

<<< The Social Security Administration delivers benefits to more than 35 million citizens with a customer satisfaction rate that consistently averages above 96 percent. Lockheed Martin assists the agency in meeting those goals with state-of-the-art e-government solutions. The result: efficient, accurate and timely delivery of Social Security benefits.

^^^ The Integrated Automated Fingerprint Identification System (IAFIS), with its database of more than 400 million fingerprints, is a critical tool for the FBI and law enforcement agencies nationwide. Developed by Lockheed Martin, the IAFIS database can match criminals to fingerprints in just hours, a fraction of the time it took previously.



Global Partnerships: Supporting Nationally Consequential Missions

Throughout the world, governments and industry are involved in meeting vital strategic goals to build robust economies, defend the peace or manage large infrastructure projects. Lockheed Martin is the partner of choice, with customers and alliances in over 30 countries, focusing on mutual benefit, as well as new technologies and quality jobs in-country.

Lockheed Martin and its partners in the United Kingdom are involved in programs as diverse as fighter and transport aircraft, air traffic management, anti-submarine warfare helicopters, advanced battlefield information systems, managing the nuclear stockpile, and simulation.

<<< Ensure a strong national defense with advanced aircraft. Modernize air traffic control systems. Explore new opportunities in space and telecommunications. Lockheed Martin is working in partnership with the Republic of Korea to address these national priorities.

<<< In Japan, Lockheed Martin is partnered with government and business in a variety of programs from advanced aircraft, to space exploration, simulation and maritime defense.

In Europe, Lockheed Martin is allied with government and industry partners in military and civil government programs that help realize vital strategic goals. For example, the Medium Extended Air Defense System (MEADS) is an alliance of Lockheed Martin and partners in Germany and Italy. >>>

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As a result, setbacks and failures can occur. It is important for the Corporation to resolve performance issues related to such programs in a timely manner to achieve success on these programs.

The Corporation also conducts business in related commercial and non-defense markets. Although these lines of business are not dependent on defense budgets, they share many of the risks associated with the Corporation's defense businesses, as well as other risks unique to the commercial marketplace. Such risks include development of competing products, technological feasibility and product obsolescence.

The launch vehicle industry continues to experience a reduction in demand due primarily to delays in completing certain satellite systems as a result of continuing overcapacity in the telecommunications industry. Continued economic uncertainty has adversely affected the capital markets and has made it difficult for many ventures, especially telecommunications and other high-technology companies, to attract the funding needed for new capital investment. Issues such as these were evidenced in 2001 by the inability of Astrolink International, LLC (Astrolink) to obtain additional funding to complete a broadband satellite constellation. The Corporation holds a 31% interest in Astrolink, and was under contract to manufacture four satellites and to provide related launch and other services. These contracts were terminated in the fourth quarter of 2001 due to funding considerations. Factors such as these have resulted in pricing pressures in the launch vehicle marketplace associated with reduced demand and increased competition. This comes at a time when the Corporation is making significant investments in the Evolved Expendable Launch Vehicle (Atlas V) program, the Corporation's next generation launch vehicle. This program has required investment of funds for research and development, start-up and certain other nonrecurring costs, and launch facilities. A portion of these expenditures have been funded under an agreement with the U.S. Government. Orders to-date for the Atlas V launch vehicle have been lower than expected, resulting in lower anticipated production levels.

The above factors relative to start-up issues and delays in completion of satellite systems also contributed to a reduction in commercial satellite orders. In addition, similar to the launch vehicle market, the commercial satellite market is experiencing pricing pressures due to excess capacity and reduced demand. Further impacting satellite demand have been the business difficulties encountered by certain commercial satellite systems, resulting in increased investor scrutiny and reduced access to capital for new ventures, and a reduction in the total market size in the near term. The Corporation is seeking to reduce costs related to its commercial satellite programs and is evaluating alternative strategies related to those businesses while maintaining its focus on successful operations, though it cannot predict the outcome of these efforts.

In connection with its portfolio of offered products and services in commercial space, the Corporation has entered into various joint venture, teaming and other business arrangements. Such arrangements generally include a formal plan for funding of the business which typically requires commitments for funding from the partners, and may require the business to obtain financing from other sources. To the extent the business is unable to obtain such financing, the business partners, including the Corporation, would be required to assess alternatives relative to further funding for the business. In addition, some of these business arrangements include foreign partners. The conduct of international business introduces other risks into the Corporation's operations, including changing economic conditions, fluctuations in relative currency values, regulation by foreign jurisdictions and the potential for unanticipated cost increases and timing issues resulting from the possible

Lockheed Martin owns 51 percent of Lockheed-Khrunichev-Energia International, Inc. (LKEI), a joint venture with two Russian government-owned space firms. LKEI has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton rocket from a launch site in Kazakhstan. In addition, the Corporation and LKEI each hold a 50 percent ownership interest in International Launch Services (ILS), a joint venture formed to market commercial Atlas and Proton launch services worldwide. The Corporation consolidates the results of operations of LKEI and ILS into its financial statements. Contracts for Proton launch services typically provide for substantial advances from the customer in advance of launch, and a sizable percentage of these advances are forwarded to Khrunichev State Research and Production Space Center (Khrunichev), the manufacturer in Russia, to provide for the manufacture of the related launch vehicle. Significant portions of such advances would be required to be refunded to each customer if launch services were not successfully provided within the contracted time frames. At December 31, 2001, $514 million related to launches not yet provided was included in customer advances and amounts in excess of costs incurred, and $672 million of payments to Khrunichev for launches not yet provided was included in inventories. Since inception, launch services provided through LKEI and ILS have been in accordance with contract terms.

The Corporation has entered into agreements 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 up to 101 RD-180 booster engines for use in two models of the Corporation's Atlas launch vehicle. Terms of the agreements call for payments to be made to RD AMROSS upon the achievement of certain milestones in the development and manufacturing processes. Payments of $58 million made under these agreements were included in the Corporation's inventories at December 31, 2001.

On December 7, 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. In connection with its decision, the Corporation reassigned certain of the businesses in the Global Telecommunications segment to other business segments, plans to sell the remaining operations, has positioned the remaining investments for monetization, and is eliminating the administrative infrastructure supporting such businesses and investments. Separately, the Corporation decided in the fourth quarter of 2001 not to provide further funding to Astrolink and, due primarily to Astrolink's inability to obtain additional funding from other sources, wrote off its investment in Astrolink. As a result of the above actions, the Global Telecommunications segment will no longer be reported as a separate business segment.

The Corporation recognized nonrecurring and 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 reduced net earnings by approximately $1.7 billion ($3.98 per diluted share). The cash impact of the fourth quarter charges discussed above is not expected to be material. Approximately 650 positions were eliminated from the former Global Telecommunications segment as a result of these actions.

Lockheed Martin Global Telecommunications (LMGT), a wholly-owned subsidiary of the Corporation, was formed in 1999 from the combination of investments in several existing joint ventures and certain other elements of the Corporation previously included in the Systems Integration and Space Systems segments. The Corporation began reporting LMGT as a separate business segment beginning in the third quarter of 2000. In August 2000, Lockheed Martin completed its merger with COMSAT Corporation (COMSAT). The operations of COMSAT have been included in the results of operations of LMGT since August 1, 2000. The total purchase price for COMSAT was approximately $2.6 billion. The

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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 at fair value and goodwill.

The LMGT businesses retained by the Corporation have been realigned as follows:

- The Systems & Technology line of business and the COMSAT General telecommunications business unit have been realigned within the Space Systems segment.
- Enterprise Solutions-U.S., a commercial information technology business, has been realigned within the Technology Services segment.

The LMGT equity investments positioned for monetization include Intelsat, Ltd. (Intelsat), Inmarsat Ventures plc (Inmarsat), New Skies Satellites, N.V. (New Skies), ACeS International, Ltd. (ACeS), Americom Asia-Pacific, LLC and Astrolink. These investments, which had an aggregate carrying value of approximately $1.6 billion at December 31, 2001, are now reported as part of the Corporate and Other segment. The investments in Intelsat, Inmarsat and New Skies are 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 entities. The ORBIT

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As part of a strategic and organizational review begun in 1999 the Corporation decided to evaluate the divestiture of certain non-core business units.

In connection with this review and as described more fully under the caption “Discontinued Operations” above, the Corporation completed the sale of IMS on August 24, 2001. The resulting gain increased net earnings by $309 million ($0.71 per diluted share). Net sales for the seven months ended July 31, 2001, the effective date of the divestiture, related to the IMS businesses totaled approximately $355 million, excluding intercompany sales. This transaction generated net cash proceeds of approximately $560 million after related transaction costs and federal and state income tax payments.

In January 2001, the Corporation completed the divestiture of two business units in the environmental management line of business. The impact of these divestitures was not material to the Corporation’s 2001 consolidated results of operations, cash flows or financial position due to the effects of nonrecurring and unusual impairment losses recorded in 2000 and 1999 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, the Corporation sold its Aerospace Electronics Systems (AES) businesses to BAE SYSTEMS for $1.67 billion in cash (the AES Transaction). The Corporation recorded a nonrecurring and 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 the Corporation recording a pretax loss, 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. Accordingly, the Corporation was 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, the Corporation sold Lockheed Martin Control Systems (Control Systems) to BAE SYSTEMS for $510 million in cash. This transaction resulted in the recognition of a nonrecurring and 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). Net sales for the first nine months of 2000 related to Control Systems totaled approximately $215 million, excluding intercompany sales. This transaction generated net cash proceeds of $350 million after related transaction costs and federal and state income tax payments.

IMS was the final business unit specifically identified for divestiture as part of the strategic and organizational review initiated in 1999; however, on an ongoing basis, the Corporation will continue to explore the sale of various non-core businesses, passive equity investments and surplus real estate. If the Corporation 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. The Corporation also continues to review its businesses on an ongoing basis to identify ways

In September 1999, the Corporation sold its interest in Airport Group International Holdings, LLC which resulted in a nonrecurring and unusual gain, net of state income taxes, of $33 million. In October 1999, the Corporation exited its commercial 3D graphics business through a series of transactions which resulted in the sale of its interest in Real 3D, Inc., a majority-owned subsidiary, and a nonrecurring and unusual gain, net of state income taxes, of $33 million. On a combined basis, these transactions increased 1999 net earnings by $43 million ($0.11 per diluted share).

A significant portion of the Corporation's business is derived from long-term development and production contracts which are accounted for under the provisions of 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." The nature of these contracts and the types of products and services provided are considered in determining the proper accounting for a given contract. Generally, long-term fixed-price contracts are recorded on a percentage of completion basis using units of delivery as the measurement basis for progress toward completion and revenue recognition; however, certain other long-term fixed-price contracts which, among other things, provide for the delivery of minimal quantities over a longer period of time, or require a significant amount 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 revenue is recognized 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. As a general rule, sales and profits are recognized earlier in a production cycle under the cost-to-cost and milestone methods of percentage of completion accounting. The Corporation has accounting policies in place to address the complexities involved in accounting for long-term contracts. For additional information on critical accounting policies in place for recognizing sales and profits, see the discussion under the caption "Sales and earnings" in "Note 1—Significant Accounting Policies."

Contract accounting requires significant judgment relative to assessing risks, estimating contract costs and making related assumptions for schedule and technical issues. Due to the size and nature of many of the Corporation's contracts, the estimation of cost at completion is complicated and subject to numerous variables. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. Assumptions must be made relative to the length of time to complete the contract, as estimated costs also include anticipated increases in wages and prices for materials. With respect to contract change orders, claims or similar items, judgment must be used in estimating related amounts and assessing the potential for realization. Such amounts are only included in contract value when they can be reliably estimated and realization is probable. Incentives or penalties and awards applicable to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information to assess anticipated performance.

Goods and services provided under long-term development and production contracts represent a significant portion of the Corporation's business, and therefore amounts recorded in its consolidated financial statements using contract accounting methodologies and cost accounting standards are material. U.S. Government procurement standards are followed relative to assessing the allowability as well as the allocability of costs. Given the significance of the judgments and estimation processes described above, it is likely that materially different amounts could be recorded if different assumptions were used or if underlying circumstances were to change. The Corporation closely monitors compliance and consistency of application of its critical accounting policies related to contract accounting. Reviews of the status of contracts are performed by business segment personnel through periodic contract status and performance reviews. When adjustments in contract value or estimated costs are determined, any changes from prior estimates are generally reflected in earnings in the current period. In addition, regular and recurring evaluations of contract cost, scheduling and technical matters are performed by management personnel who are independent from the business area performing under the contract. Costs incurred and allocated to contracts with the U.S. Government are closely scrutinized for compliance with underlying regulatory standards by Lockheed Martin personnel, and are subject to audit by the Defense Contract Audit Agency.

Since the Corporation's 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

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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.

Effects of nonrecurring and unusual items:

(In millions)	Operating (loss) profit	Net (loss) earnings	(Loss) earnings per diluted share
Year ended December 31, 2001			
Continuing operations			
Write-off of investment in Astrolink and related costs	[illegible]	[illegible]	[illegible]
Write-down of investment in Loral Space	[illegible]	[illegible]	[illegible]
Other charges related to global telecommunications	[illegible]	[illegible]	[illegible]
Gain on sale of surplus real estate	[illegible]	[illegible]	[illegible]
Impairment charge related to Americom Asia-Pacific	[illegible]	[illegible]	[illegible]
Other portfolio shaping activities	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Discontinued operations—charges related to discontinued businesses, net of IMS gain	[illegible]	[illegible]	[illegible]
Extraordinary item—loss on early extinguishment of debt	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Year ended December 31, 2000			
Continuing operations			
Loss related to AES Transaction	$(598)	$ (878)	$(2.18)
Gain on sale of Control Systems	302	180	0.45
Charge related to Globalstar guarantee	(141)	(91)	(0.23)
Impairment charge related to ACeS	(117)	(77)	(0.19)
Partial reversal of CalComp reserve	33	21	0.05
Gain on sales of surplus real estate	28	19	0.05
Other portfolio shaping items	(46)	(30)	(0.07)
	(539)	(856)	(2.12)
Extraordinary item—loss on early extinguishment of debt	—	(95)	(0.24)
	$(539)	$ (951)	$(2.36)
Year ended December 31, 1999			
Continuing operations			
Gain on divestiture of interest in L-3	$ 155	$ 101	$ 0.26
Gain on sales of surplus real estate	57	37	0.10
Partial reversal of CalComp reserve	20	12	0.03
Divestitures and other portfolio shaping items	17	12	0.03
	249	162	0.42
Cumulative effect of change in accounting principle	—	(355)	(0.93)
	$ 249	$ (1]TJEnstate	28

Continuing Operations

The Corporation's consolidated net sales for 2001 were $24.0 billion, a decrease of two percent compared to 2000. Sales for 2000 were $24.5 billion, a decrease of two percent compared to 1999. Sales growth in the Aeronautics and Technology Services segments during 2001 were more than offset by decreases in the remaining business segments as compared to 2000. In 2000, increased sales in the Systems Integration, Space Systems and Technology Services segments were more than offset by lower sales in the Aeronautics segment. Adjusting for acquisitions and divestitures, sales remained comparable when comparing 2001 to 2000 and 2000 to 1999. The U.S. Government remained the Corporation's largest customer, accounting for approximately 78 percent of the Corporation's sales for 2001 compared to 72 percent in both 2000 and 1999.

The Corporation's operating profit (earnings from continuing operations before interest and taxes) for 2001 was $888 million, a decrease of 29 percent compared to 2000. Operating profit for 2000 was approximately $1.3 billion, a decrease of 37 percent compared to 1999. The reported amounts for the three years presented include various nonrecurring and unusual items. The impact of these items on operating profit, net (loss) earnings and amounts per diluted share is as follows:

Operating profit increased two percent in 2000 over 1999 after excluding the effects of nonrecurring and unusual items. Improved results in the Aeronautics, Systems Integration and Corporate and Other segments more than offset decreases in operating profit in the Space Systems and Technology Services segments. Operating profit for 2000 compared to 1999 in the Aeronautics and Space Systems segments was favorably impacted by the absence in 2000 of negative adjustments recorded in 1999 on the C-130J airlift aircraft and Titan IV launch vehicle programs, respectively.

As further discussed in "Note 14—Post-Retirement Benefit Plans," operating profit in 2001 included approximately $200 million in income related to the Corporation's qualified defined benefit plans and its retiree medical and life insurance plans on a combined basis, a decrease of approximately $85 million over the comparable 2000 amount. The decrease related primarily to the absence in 2001 of a nonrecurring and unusual curtailment gain associated with divestiture activities in 2000. The Corporation's earnings will continue to be affected positively or negatively by the level of income or expense related to employee benefit plans. As detailed in Note 14, various factors affect the calculation of the income or expense, including the actual rate of return on plan assets and the actuarial assumptions that are used to calculate benefit obligations (e.g., the assumed discount rate, expected future rates of return on plan assets, future pay increases and the demographics of our workforce). Based on actuarial assumptions and projected rates of return on plan assets, the Corporation anticipates that its income related to employee benefit plans will decline substantially in 2002 and generate a net expense in 2003.

Interest expense for 2001 was $700 million, $219 million lower than the comparable balance in 2000 as a result of reductions in the Corporation's debt portfolio. Interest expense for 2000 was $919 million, $110 million higher than the comparable balance in 1999 primarily as a result of increases in the Corporation's debt portfolio associated with the merger with COMSAT.

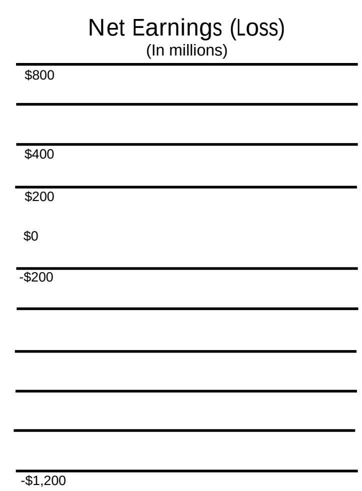
For 2001, the Corporation reported earnings from continuing operations before extraordinary items and cumulative effect of change in accounting of $79 million ($0.18 per diluted share), compared to a loss in 2000 of $382 million ($0.95 per diluted share). In 1999, the Corporation reported earnings on a comparable basis of $729 million ($1.90 per diluted share). The reported results from continuing operations include the impact of the nonrecurring and unusual items presented above. Excluding such items, earnings from continuing operations would have been $694 million ($1.60 per diluted share) in 2001, $474 million ($1.17 per diluted share) in 2000 and $567 million ($1.48 per diluted share) in 1999.

Discontinued Operations

The Corporation reported a loss from discontinued operations of $1.1 billion ($2.52 per diluted share) in 2001, a loss of $42 million ($0.10 per diluted share) in 2000 and income of $8 million ($0.02 per diluted share) in 1999.

Included in the 2001 loss from discontinued operations is a nonrecurring and unusual after-tax charge of $1.3 billion ($3.09 per diluted share) related to the Corporation's decision to exit the Global Telecommunications services business. The 2001 results also include a nonrecurring and unusual after-tax gain of $309 million ($0.71 per diluted share) from the third quarter 2001 sale of Lockheed Martin IMS Corporation.

The operating results for the businesses reported in discontinued operations were a loss of $62 million ($0.14 per diluted share) in 2001, a loss of $42 million ($0.10 per diluted share) in 2000 and income of $8 million ($0.02 per diluted share) in 1999.



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In 2001, the Corporation's net loss included an extraordinary loss of $36 million (net of a $22 million income tax benefit), or $0.08 per diluted share, on the early retirement of $117 million of 7% debentures due in 2011. In 2000, the Corporation's net loss included an extraordinary loss of $95 million (net of a $61 million income tax benefit), or $0.24 per diluted share, on the early retirement of approximately $1.9 billion in debt securities.

During 1999, the Corporation adopted the American Institute of Certified Public Accountants' Statement of Position (SOP) No. 98-5, "Reporting on the Costs of Start-Up Activities." The adoption of SOP No. 98-5 resulted in the recognition of a cumulative effect adjustment which reduced net earnings for the year ended December 31, 1999 by $355 million (net of a $227 million income tax benefit), or $0.93 per diluted share.

The Corporation reported a net loss of $1 billion ($2.42 per diluted share) in 2001, a net loss of $519 million ($1.29 per diluted share) in 2000 and net income of $382 million ($0.99 per diluted share) in 1999. Excluding the effects of the previously mentioned nonrecurring and unusual items, net earnings would have been $632 million ($1.46 per diluted share) in 2001, $432 million ($1.07 per diluted share) in 2000 and $575 million ($1.50 per diluted share) in 1999.

The Corporation operates in four principal business segments: Systems Integration, Space Systems, Aeronautics

In an effort to make the following discussion of significant operating results of each business segment more understandable, the effects of these nonrecurring and unusual items have been excluded. The Space Systems and Aeronautics segments generally include a smaller number of programs that are substantially larger in terms of sales and operating results than those included in the other segments. Accordingly, due to the large number of relatively small programs in the Systems Integration and Technology Services segments, the discussions of the results of operations of these business segments focus on lines of business.

Systems Integration

Net sales of the Systems Integration segment declined by seven percent in 2001 compared to 2000. Sales would have increased four percent for 2001 from the comparable year-ago period had the sales attributable to the segment's

Operating profit for the segment increased by 39 percent in 2000 compared to 1999. The current year increase is primarily attributable to the absence in 2000 of a $210 million negative adjustment recorded during the second quarter of 1999 that resulted from changes in estimates related to the C-130J program due to cost growth and a reduction in production rates. This increase was partially offset by an approximate $115 million reduction in 2000 operating profit resulting from the decrease in aircraft sales and deliveries mentioned in the preceding paragraph.

Technology Services

Net sales for the Technology Services segment increased by four percent 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 in December of 2001, sales would have increased seven percent for the year. Sales increased $190 million primarily due to increased volume on the segment's government information technology and aircraft and logistics programs. This growth was partially offset by lower sales volume of $15 million associated with the segment's energy-related contracts due to program completions.

Net sales of the Technology Services segment increased by three percent in 2000 as compared to 1999. The increase in 2000 sales is comprised of an approximate $150 million increase in various federal technology services programs including the Consolidated Space Operations Contract and the Rapid Response contract. These increases were partially offset by an approximate $95 million decline in volume on aircraft maintenance and logistics contracts and certain energy-related contracts due to program completions.

Operating profit for the segment increased by 12 percent for the year compared to 2000. Absent the earnings from the divested and acquired businesses, operating profit would have increased 11 percent for the year. Operating profit increased by approximately $25 million in 2001 from higher volumes in the segment's government information technology and aircraft maintenance and logistics contracts. This improvement was somewhat offset by a reduction in operating profit due to the completion of energy-related contracts.

Operating profit for the segment decreased by 15 percent in 2000 compared to 1999. The decline in operating profit is attributable directly to a loss of approximately $40 million incurred in the realigned commercial information technology lines of business and the impact of the previously mentioned volume declines on certain energy-related contracts. Somewhat offsetting the decline was increased operating profit attributable to various federal technology services programs including the impact of the volume increases discussed above and increased profitability on certain information services contracts, and improved performance on certain aircraft maintenance and logistics contracts.

In December 2001, the Corporation completed its acquisition of all of the outstanding stock of OAO Corporation (OAO), a provider of information technology solutions to the federal government. OAO will be included in the Technology Services segment. OAO's revenues for all of 2001 approximated 1% of the Corporation's 2001 net sales.

The segment has a business unit which provides services to the government of Argentina, and in which the Corporation's net investment at December 31, 2001 was approximately $25 million. Relative to this business unit, the Corporation does not expect that the current economic situation in Argentina, including the devaluation of the Argentine peso, will have a material impact on its results of operations, cash flows or financial position.

Corporate and Other

Net sales in the Corporate and Other segment were immaterial for 2001 and 2000 due to the reclassification of IMS results of operations to discontinued operations in connection with its divestiture in July 2001. The decline in net sales from 1999 was primarily due to reduced volume in the segment's properties line of business and the absence in 2000 of sales attributable to the Corporation's commercial graphics company, Real 3D, which was divested in the fourth quarter of 1999.

Operating profit for the Corporate and Other segment decreased by $52 million when comparing 2001 to 2000. The decline was principally due to lower equity earnings from investments and an increase in miscellaneous corporate expenses including stock-based compensation costs. Operating profit for the segment increased by $56 million in 2000 compared to 1999 mainly due to increased equity earnings from investments, primarily related to the merger with COMSAT.

(Continued)

by financing activities in 2000 from the cash provided by financing activities in 1999 reflects the Corporation's issuance of $3.0 billion in long-term debt in 1999 and the $1.0 billion increase in debt retirements in 2000 versus 1999, partially offset by a $405 million decrease in short-term debt repayments and a $162 million decrease in dividend payments. The increase in debt retirements was primarily attributable to the Corporation's completion of tender offers for certain of its long-term debt securities during the fourth quarter of 2000. The Corporation used $2.1 billion to consummate the tender offers, resulting in the early extinguishment of $1.9 billion in long-term debt and an extraordinary loss of $156 million, or $95 million after tax.

The Corporation paid dividends of $192 million in 2001 compared to $183 million in 2000 and $345 million in 1999.

Other

The Corporation receives advances on certain contracts to finance inventories. At December 31, 2001, approximately $2.9 billion in advances and progress payments related to work in process were received from customers and recorded as a reduction to inventories in the Corporation's consolidated balance sheet. Also at December 31, 2001, $566 million of customer advances and progress payments were recorded in receivables as a reduction to unbilled costs and accrued profits. Approximately $5.0 billion of customer advances and amounts in excess of costs incurred, which are typically from foreign governments and commercial customers, were included in current liabilities at the end of 2001.

The Corporation uses "free cash flow" as a measure to evaluate its performance. The calculation of free cash flow begins with net cash provided by operating activities from the consolidated statement of cash flows. This amount is then decreased by expenditures for property, plant and equipment, and increased by proceeds from the disposal of property, plant and equipment and by income taxes paid related to divested businesses and investments. Free cash flow was $2.0 billion for 2001 and $1.8 billion for 2000.

Total debt, including short-term borrowings, decreased by approximately $2.4 billion during 2001 from a balance of $10.0 billion at December 31, 2000. The decrease was primarily attributable to the pre-payment of $1.26 billion in notes issued to GE mentioned previously, originally scheduled to mature in November 2002, payments of $825 million in scheduled debt maturities, the early redemption of $200 million of 8.125% Monthly Income Preferred y loss of $15,sh pr millon in

The Corporation has agreements in place with certain banking institutions which provide for the issuance of commercial paper. There were no commercial paper borrowings outstanding at December 31, 2001. If the Corporation were to issue commercial paper, such borrowings would be supported by the Credit Facilities.

The Corporation has an effective shelf registration statement on file with the Securities and Exchange Commission to provide for the issuance of up to $1 billion in debt securities. Were the Corporation to issue debt securities under this shelf registration, it would expect to use the net proceeds for general corporate purposes. These purposes may include repayment of other debt, working capital needs, capital expenditures, acquisitions and any other general corporate purpose.

The Corporation actively seeks to finance its business in a manner that preserves financial flexibility while minimizing borrowing costs to the extent practicable. The Corporation's management continually reviews changes in financial, market and economic conditions to manage the types, amounts and maturities of the Corporation's indebtedness. Periodically, the Corporation may refinance existing indebtedness, vary its mix of variable rate and fixed rate debt, or seek alternative financing sources for its 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, and discretionary investment needs, during the next twelve months. In addition to the businesses held for sale discussed previously and consistent with the Corporation's desire to generate cash to reduce debt and invest in its core businesses, management anticipates that, subject to prevailing financial, market and economic conditions, the Corporation will continue to explore the sale of non-core businesses, passive equity investments and surplus real estate.

At December 31, 2001, the Corporation had contractual commitments to repay debt (including capital lease obligations), and to make payments under operating leases. Generally, the Corporation's long-term debt obligations are subject to, among other things, compliance with certain covenants, including, but not limited to, covenants limiting the ability of the Corporation and certain of its subsidiaries to encumber their assets. Payments due under these long-term obligations are as follows:

	Payments Due by Period				
(In millions)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt and capital lease obligations	$7,511	$ 89	$ 922	$ 795	$5,705
Operating lease commitments[(a)]	855	139	254	220	242
Total contractual cash obligations	$8,366	$228	$1,176	$1,015	$5,947

(a) *Amounts include future payments related to a leasing arrangement with a state government authority for Atlas V launch facilities. Total payments over the 10-year term of the lease are expected to be approximately $320 million. Lease payments are expected to begin in the second half of 2002. Amounts exclude lease commitments related to discontinued operations, as such commitments are expected to be transferred upon the sale of the discontinued businesses.*

The Corporation has entered into standby letter of credit agreements and other arrangements with financial institutions and customers primarily relating to the guarantee of future performance on certain contracts to provide products and services to customers. At December 31, 2001, the Corporation had contingent liabilities on outstanding letters of credit, guarantees and other arrangements, as follows:

	Commitment Expiration per Period				
(In millions)	Total Commitment	Less than 1 year	1–3 years	4–5 years	After 5 years
Surety bonds					

which are recorded in the consolidated balance sheet at December 31, 2001 as either offsets against “Inventories” or in “Customer advances and amounts in excess of costs incurred.” Of the $3.2 billion recorded in the consolidated balance sheet, $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 the Corporation’s nonperformance. Similar to the letter of credit supporting the F-16 contract, letters of credit and surety bonds for other contracts are available for draw down only in the event of the Corporation’s nonperformance.

The Corporation satisfied its contractual obligation with respect to its 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 the Corporation recording a nonrecurring and 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 10—Debt” for further discussion). The Corporation has 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.

The Corporation continues to guarantee up to $150 million in borrowings of Space Imaging LLC (Space Imaging), a joint venture in which it holds a 46 percent ownership interest. The amount of borrowings outstanding as of December 31, 2001 for which Lockheed Martin was guarantor was approximately $140 million. This amount is included in the amounts related to guarantees included in the table above. The Corporation’s investment in Space Imaging is accounted for under the equity method of accounting. At December 31, 2001, the Corporation’s investment in and receivables from Space Imaging amounted to approximately $111 million. Space Imaging is pursuing its business plan, including assessments relative to future investment in replacement satellites and related financing requirements, and Lockheed Martin, as an investor and partner, is working with its other partners and Space Imaging in this regard.

Effective March 31, 2000, the Corporation converted its 45.9 million shares of Loral Space & Communications Ltd. (Loral Space) Series A Preferred Stock into an equal number of shares of Loral Space common stock in preparation for divestiture of the shares. 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, the Corporation recorded a nonrecurring and unusual charge, net of state income tax benefits, of $361 million in the third quarter of 2001 related to its investment in Loral Space. The charge reduced net earnings by $235 million ($0.54 per diluted share).

Realization of the Corporation’s investments in equity securities, including those discussed above as well as the global telecommunications equity investments expected to be monetized mentioned previously, may be affected by the investee’s ability to obtain adequate funding and execute its business plans, general market conditions, industry considerations specific to the investee’s business, and/or other factors. The inability of an investee to obtain future funding or successfully execute its business plan could adversely affect the Corporation’s earnings in the periods affected by those events.

The Corporation records appropriate financial statement accruals for environmental issues in the period in which it is probable that a liability has been incurred and the amounts can be reasonably estimated (see related discussion in “Note 1

As more fully described in "Note 16—Commitments and Contingencies," the Corporation is responding to three administrative orders issued by the California Regional Water Quality Control Board (the Regional Board) in connection with its former facilities in Redlands, California. The Corporation estimates that expenditures required to implement work currently approved by the Regional Board related to the Redlands facilities will be approximately $85 million. In addition, the Corporation is 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 the Corporation in determining its ultimate clean-up obligation, if any, with respect to perchlorates. In January 2002, the State of California reduced its provisional standard for perchlorate concentration in water from 18 parts per billion (ppb) to four ppb. This provisional standard may be used by the State in providing guidelines to water purveyors; however, until such time as it is formally adopted after a public notice and comment period, it is not a legally enforceable standard. If formally adopted as a regulation, this change would lead to increased clean-up costs for the Corporation related to the Redlands site.

Also as described in Note 16, 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 (including the cities of Burbank and Glendale) associated with the Corporation's former operations in Burbank, California. Under an agreement reached with the U.S. Government and filed with the U.S. District Court in January 2000 (the Agreement), an amount equal to approximately 50 percent of future expenditures for certain remediation activities will be reimbursed by the U.S. Government as a responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The Corporation estimates that total expenditures required over the remaining terms of the consent decrees and orders related to the Burbank and Glendale sites, net of the effects of the Agreement, will be approximately $50 million.

The Corporation is a party to various other proceedings and potential proceedings related to environmental clean-up issues, including matters at various sites where it has been designated a PRP by the EPA or by a state agency. In the event the Corporation is ultimately found to have liability at those sites where it has been designated a PRP, it anticipates 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 and severally liable and, therefore, the Corporation is potentially liable for the full cost of funding such remediation. In the unlikely event that the Corporation was required to fund the entire cost of such remediation, the statutory framework provides that the Corporation may pursue rights of contribution from the other PRPs.

In addition to the matters with respect to the Redlands and Burbank properties and the city of Glendale described above, the Corporation has accrued approximately $165 million at December 31, 2001 for other matters in which an estimate of financial exposure could be determined. Management believes that it is unlikely that any additional liability the Corporation may incur for known environmental issues would have a material adverse effect on its consolidated results of operations or financial position.

Also as more fully described in Note 16, the Corporation is continuing to pursue recovery of a significant portion of the unanticipated costs incurred in connection with the $180 million fixed-price contract with the U.S. Department of Energy (DoE) for the remediation of waste found in Pit 9. The Corporation has been unsuccessful to date in reaching agreements with the DoE on cost recovery or other contract restructuring matters. In 1998, the DoE terminated the Pit 9 contract for default and filed suit against the Corporation seeking recovery of approximately $54 million previously paid to the Corporation under the contract. The Corporation is defending this action while continuing with its efforts to resolve the dispute through non-litigation means.

The Corporation's primary exposure to market risk relates to interest rates and, to a lesser extent, foreign currency exchange rates. The Corporation's financial instruments which are subject to interest rate risk principally include commercial paper and fixed rate long-term debt. At December 31, 2001, the Corporation had no commercial paper outstanding. The Corporation's long-term debt obligations are generally not callable until maturity. The Corporation uses interest rate swaps to manage its exposure to fixed and variable interest rates. At year-end 2001, the Corporation had such instruments in place to swap fixed interest rates on approximately $670 million of its

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheet of Lockheed Martin Corporation as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 of the Notes to Consolidated Financial Statements, in 2001 the Corporation adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and in 1999 adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 98-5, "Reporting on the Costs of Start-Up Activities."

McLean, Virginia
January 21, 2002

CONSOLIDATED STATEMENT OF OPERATIONS

Lockheed Martin Corporation

(In millions, except per share data)	*Year ended December 31,* 2000	1999
Net sales	$24,541	$24,999
Cost of sales	22,881	23,346
Earnings from operations	1,660	1,653
Other income and expenses, net	(409)	344
	1,251	1,997
Interest expense	919	809
Earnings from continuing operations before income taxes, extraordinary items and cumulative effect of change in accounting	332	1,188
Income tax expense	714	459
Earnings (loss) from continuing operations before extraordinary items and cumulative effect of change in accounting	(382)	729
Discontinued operations	(42)	8
Extraordinary loss on early extinguishments of debt	(95)	—
Cumulative effect of change in accounting	—	(355)
Net (loss) earnings	$ (519)	$ 382
Earnings (loss) per common share:		
Basic:		
Continuing operations before extraordinary items and cumulative effect of change in accounting	$ (0.95)	$ 1.91
Discontinued operations	(0.10)	0.02
Extraordinary loss on early extinguishments of debt	(0.24)	—
Cumulative effect of change in accounting	—	(0.93)
	$ (1.29)	$ 1.00
Diluted:		
Continuing operations before extraordinary items and cumulative effect of change in accounting	$ (0.95)	$ 1.90
Discontinued operations	(0.10)	0.02
Extraordinary loss on early extinguishments of debt	(0.24)	—
Cumulative effect of change in accounting	—	(0.93)
	$ (1.29)	$ 0.99

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Lockheed Martin Corporation

(In millions)	Year ended December 31, 2000	1999
Operating Activities		
Earnings (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting	$ (382)	$ 729
Adjustments to reconcile earnings (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting to net cash provided by operating activities:		
(Loss) earnings from discontinued operations	(42)	8
Depreciation and amortization	464	514
Amortization of goodwill and other intangible assets	423	438
Deferred federal income taxes	(96)	299
Net charges related to discontinued operations, write-off of Astrolink and other charges	—	—
Write-down of other investments	125	—
Loss related to AES Transaction	547	—
Gain on sale of Control Systems business	(325)	—
Changes in operating assets and liabilities:		
Receivables	239	146
Inventories	(194)	(386)
Customer advances and amounts in excess of costs incurred	352	353
Income taxes	522	(284)
Other	383	(740)
Net cash provided by operating activities	2,016	1,077
Investing Activities		
Expenditures for property, plant and equipment	(500)	(669)
Sale of IMS	—	—
Investments in affiliated companies	(257)	(170)
AES Transaction	1,670	—
Sale of Control Systems business	510	—
Sale of shares of Inmarsat	164	—
COMSAT tender offer	—	(1,203)
Sale of interest in L-3	—	263
Other	175	141
Net cash provided by (used for) investing activities	1,762	(1,638)
Financing Activities		
Net decrease in short-term borrowings	(463)	(868)
Increases in long-term debt	—	2,994
Repayments and early extinguishment of long-term debt	(2,096)	(1,067)
Issuances of common stock	14	17
Common stock dividends	(183)	(345)
Net cash (used for) provided by financing activities	(2,728)	731
Net (decrease) increase in cash and cash equivalents	1,050	170
Cash and cash equivalents at beginning of year	455	285
Cash and cash equivalents at end of year	$ 1,505	$ 455

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

Lockheed Martin Corporation

(In millions)	*December 31,* 2000
Assets	
Current assets:	
Cash and cash equivalents	$ 1,505
Receivables	3,986
Inventories	3,805
Deferred income taxes	1,213
Assets of businesses held for sale	2,332
Other current assets	498
Total current assets	13,339
Property, plant and equipment, net	2,941
Investments in equity securities	2,433
Intangible assets related to contracts and programs acquired	1,073
Goodwill	7,479
Prepaid pension cost	1,794
Other assets	1,367
	$30,426
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	$ 1,106
Customer advances and amounts in excess of costs incurred	4,697
Salaries, benefits and payroll taxes	978
Income taxes	519
Current maturities of long-term debt	882
Liabilities of businesses held for sale	467
Other current liabilities	1,653
Total current liabilities	10,302
Long-term debt	9,065
Post-retirement benefit liabilities	1,647
Deferred income taxes	790
Other liabilities	1,462
Stockholders' equity:	
Common stock, $1 par value per share	431
Additional paid-in capital	1,789
Retained earnings	5,199
Unearned ESOP shares	(115)
Accumulated other comprehensive loss	(144)
Total stockholders' equity	7,160
	$30,426

See accompanying Notes to Consolidated Financial Statements.

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. 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 use of estimates—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. 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. Actual results could differ from those estimates.

Classifications—Receivables and inventories are primarily attributable to long-term contracts or programs in progress for which the related operating cycles are longer than one year. In accordance with industry practice, these items are included in current assets. Certain amounts for prior years have been recomers ii5talts couli8ont indurelatint.

Otherwise, these investments 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

(Continued)

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 Statement also requires completion of the initial step of a transitional impairment test within six months of the adoption of SFAS No. 142 and, if applicable, completion of the final step of the impairment test by the end of the fiscal year of adoption. In connection with the impairment provisions of the new rules, the Corporation has completed the initial step of the goodwill impairment test and has concluded that no adjustment to the balance of goodwill at the date of adoption is 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 useful life of the intangible asset related to the F-16 fighter aircraft program has been extended. This change is expected to decrease annual amortization expense associated with that intangible asset by approximately $30 million on a pretax basis. If the Statement had been adopted at the beginning of 2001, the extension of the estimated useful life of that intangible asset and the absence of goodwill amortization would have increased earnings from continuing operations before extraordinary item by approximately $240 million ($0.55 per diluted share).

The Corporation elected to early adopt, effective January 1, 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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—Exit From the Global Telecommunications Services Business"), 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.

The results of operations and related gains or losses associated with businesses divested prior to the effective date of the Corporation's adoption of SFAS No. 144, including the divestitures of the Corporation's Aerospace Electronics Systems (AES) businesses and Lockheed Martin Control Systems in 2000, have not been reclassified to discontinued operations in accordance with the Statement.

Effective January 1, 1999, the Corporation adopted

Astrolink). As a result of these actions, the Global Telecommunications segment will no longer be reported as a separate business segment.

The Corporation recognized nonrecurring and 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 Global Telecommunications segment businesses retained by the Corporation have been realigned as follows:

- The Systems & Technology line of business and the COMSAT General telecommunications business unit has been realigned within the Space Systems segment.
- Enterprise Solutions-U.S., a commercial information technology business, has been realigned within the Technology Services segment.

The Global Telecommunications segment equity investments positioned for monetization include Intelsat, Ltd. (Intelsat), Inmarsat Ventures plc (Inmarsat), New Skies, ACeS International, Ltd. (ACeS), Americom Asia-Pacific, LLC and Astrolink. These investments are now reported as part of the Corporate and Other segment.

Following is a discussion which describes the components of the $2.0 billion in charges based on their classification in the Corporation's consolidated financial statements.

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 2001 by $1.3 billion ($3.09 per diluted share), are included in discontinued operations in the Corporation's statement of operations in accordance with SFAS No. 144. In addition, the results of operations of these businesses have been classified as discontinued operations in the Corporation's consolidated statements of operations for all periods presented, and excluded from business segment information. Similarly, the assets and liabilities of these businesses have been separately identified in the consolidated balance sheet as being held for sale. The Corporation expects to complete the sale of these businesses by the end of 2002. Depreciation and amortization expense are no longer being recorded with respect to the assets of these businesses in accordance with SFAS No. 144. These businesses are recorded at estimated fair value less cost to sell at December 31, 2001. Changes in the estimated fair value will be recorded in future periods as determined. The businesses held for sale are as follows:

- Satellite Services businesses—includes COMSAT Mobile Communications, COMSAT World Systems and Lockheed Martin Intersputnik. In the first quarter of 2002, the Corporation completed the sale of COMSAT Mobile Communications. The transaction is not expected to have a material impact on the Corporation's consolidated results of operations.
- COMSAT-International (formerly Enterprise Solutions-International)—provides telecommunications network services in Latin America, primarily Argentina and Brazil.

Of the $1.4 billion of charges included in discontinued operations, approximately $1.2 billion related to impairment of goodwill recorded in the Global Telecommunications segment. The goodwill was recorded in connection with the Corporation's acquisition of COMSAT as discussed in "Note 3—Acquisitions and Other Divestiture Activities." 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 are 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' operations for all periods presented, as well as the gain on the sale, have been reclassified to discontinued operations in accordance with SFAS No. 144. IMS' assets and liabilities as of December 31, 2000 have been reclassified as held for sale.

(Continued)

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

(In millions)	*Year ended December 31,* 2000	1999
Net sales	$788	$531
(Loss) earnings before income taxes:		
Results of operations of discontinued businesses	$ (46)	$ 12
Charges related to discontinued businesses, net of IMS gain	—	—
	$ (46)	$ 12

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:

(In millions)	*December 31,* 2000
Assets	
Receivables	$ 210
Deferred income taxes	91
Property, plant and equipment	504
Goodwill	1,376
Other assets	151
	$2,332
Liabilities	
Accounts payable	$ 78
Customer advances	82
Other liabilities	307
	$ 467

Other Charges Related to Global Telecommunications

The charges recorded in the fourth quarter also included nonrecurring and 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 nonrecurring and unusual charges reduced net earnings for 2001 by $117 million ($0.27 per diluted share).

Business Combination with COMSAT Corporation

In September 1998, the Corporation and COMSAT Corporation (COMSAT) announced that they had entered into an Agreement and Plan of Merger to combine the companies in a two-phase transaction. The Corporation completed a cash tender offer for 49 percent of the outstanding stock of COMSAT on September 18, 1999. The total value of this phase of the transaction was $1.2 billion. The Corporation accounted for its 49 percent investment in COMSAT under the equity method of accounting.

On August 3, 2000, the second phase of the transaction was completed. The total amount recorded related to this 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 represents 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

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.

In March 1997, the Corporation repositioned 10 of its non-core business units as a new independent company, L-3 Communications Holdings, Inc. (L-3). In 1999, the Corporation sold its remaining interest in L-3 in two separate transactions. On a combined basis, these transactions resulted in a nonrecurring and unusual gain, net of state income taxes, of $155 million which increased net earnings by $101 million ($0.26 per diluted share).

In September 1999, the Corporation sold its interest in Airport Group International Holdings, LLC which resulted in a nonrecurring and unusual gain, net of state income taxes, of $33 million in other income and expenses. In October 1999, the Corporation exited its commercial 3D graphics business through consummation of a series of transactions which resulted in the sale of its interest in Real 3D, Inc., a majority-owned subsidiary, and a nonrecurring and unusual gain, net of state income taxes, of $33 million in other income and expenses. On a combined basis, these transactions increased net earnings by $43 million ($0.11 per diluted share).

In the fourth quarter of 1998, the Corporation recorded a nonrecurring and unusual pretax charge, net of state income tax benefits, of $233 million related to actions surrounding the decision to fund a timely non-bankruptcy shutdown of the business of CalComp Technology, Inc. (CalComp), a majority-owned subsidiary. The financial impacts of actions taken in 1999 to shut down the business were less than anticipated in the Corporation's plans and estimates and, in the fourth quarter of 1999, the Corporation reversed approximately 10 percent of the original charge recorded in 1998. Based on management's assessment of the remaining actions to be taken as of December 31, 2000 to complete initiatives contemplated in the Corporation's original plans and estimates, the Corporation reversed approximately $33 million of the original charge, which increased net earnings for 2000 by $21 million ($0.05 per diluted share). As of December 31, 2001, the Corporation had substantially completed the shutdown of CalComp's operations and related initiatives.

Under existing U.S. Government regulations, certain costs incurred for consolidation actions that can be demonstrated to result in savings in excess of the cost to implement 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, 2001 is approximately $260 million of deferred costs related to various consolidation actions.

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 SFAS No. 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, extraordinary items and cumulative effects of changes in accounting), as such adjustments would otherwise be antidilutive to earnings per share from continuing operations.

(Continued)

In October 2001, the Corporation made the decision and so advised Astrolink that it did not plan to make any additional investment in the joint venture. In addition to its equity investment, Lockheed Martin's Space Systems segment had contracts with Astrolink to manufacture four satellites and provide related launch services, and LMGT had contracts to perform system development and other services. Those contracts were terminated due to Astrolink's funding considerations. In the fourth quarter of 2001, the Corporation recognized a nonrecurring and unusual charge, net of state income tax benefits, of approximately $367 million in other income and expenses which reflects the other than temporary decline in value of its investment in Astrolink based on the above circumstances. In addition, approximately $20 million of charges were recorded in cost of sales for certain other costs related to Astrolink. On a combined basis, these charges reduced net earnings for the year ended December 31, 2001 by approximately $267 million ($0.62 per diluted share).

In the third quarter of 2001, the Corporation recorded a nonrecurring and 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 current business plans.

In the first quarter of 2001, the Corporation recorded a nonrecurring and 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, a joint venture in which the Corporation holds a 50 percent interest. 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, which serves Southeast Asia, 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 a nonrecurring and unusual charge, net of state income tax benefits, of $117 million related to impairment of its investment in ACeS due to an other than temporary decline in the value of the investment. ACeS is a joint venture in which the Corporation holds a 33 percent interest at December 31, 2001. ACeS operates the Asian Cellular Satellite System, 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 may reduce the overall capacity of the system by about 30 to 35 percent. 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 share).

[illegible]

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) *(In millions, except interest rate data)*	Range of Interest Rates	[illegible]	2000
Notes (2002–2022)	6.5–9.0%	[illegible]	$5,202
Debentures (2011–2036)	7.0–9.1%	[illegible]	4,312
Monthly Income			
Preferred Securities	8.125%	[illegible]	200
ESOP obligations (2002–2004)	8.4%	[illegible]	177
Other obligations (2002–2016)	1.0–13.1%	[illegible]	56
		[illegible]	9,947
Less current maturities		[illegible]	(882)
		[illegible]	$9,065

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 percent of their principal amount. The debentures were redeemed at face value, resulting in an extraordinary loss on early extinguishment of debt, net of $22 million in income tax benefits, of $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 subamounts due from Globalstar, the Corporation recorded a nonrecurring and 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). On February 15, 2002, Globalstar and certain of its affiliates filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code.

Interest payments were $707 million in 2001, $947 million in 2000 and $790 million in 1999.

[illegible]

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

(In millions)	[illegible]	2000	1999
Federal income taxes:			
Current	[illegible]	$779	$126
Deferred	[illegible]	(96)	299
Total federal income taxes	[illegible]	683	425
Foreign income taxes		31	34
Total income taxes provided	[illegible]	$714	$459

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 for 2001 was $8 million, and net state income tax expense was $100 million for 2000 and $22 million for 1999.

The Corporation's effective income tax rate attributable to continuing operations varied from the statutory federal income tax rate because of the following differences:

	[illegible]	2000	1999
Statutory federal tax rate	[illegible]	35.0%	35.0%
Increase (reduction) in tax rate from:			
Nondeductible amortization	[illegible]	23.3	7.7
Revisions to prior years' estimated liabilities	[illegible]	3.8	(6.1)
Divestitures	[illegible]	152.0	—
Other, net			

Capital stock—At December 31, 2001, the authorized capital of the Corporation was composed of 1.5 billion shares of common stock (approximately 441 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).

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 percent 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, 2000 and 1999, a total of 325,000 shares of restricted common stock (25,000, 125,000 and 175,000 shares, respectively) were awarded under the Omnibus Plan to certain senior executives of the Corporation. 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. 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 four- to five-year periods from the grant date. The impact of these awards was not material to stockholders' equity or compensation expense in 2001, 2000 or 1999.

In April 1999, the stockholders approved the Lockheed Martin Directors Equity Plan (the Directors Plan). Approximately 50 percent 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 percent of the market value of the underlying stock on the date of grant. Except in certain circumstances, options and stock units issued under the

(Continued)

Information regarding options outstanding at December 31, 2001 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	7,301	$17.95	6.3
$20.00–$29.99	6,105	25.97	4.6
$30.00–$39.99	15,581	36.06	7.3
$40.00–$50.00	4,762	45.57	5.1
Greater than $50.00	4,648	52.08	6.1
Total	38,397	34.12	6.2
Options Exercisable:			
Less than $20.00	3,895	$17.47	
$20.00–$29.99	5,285	26.05	
$30.00–$39.99	8,555	36.87	
$40.00–$50.00	4,762	45.57	
Greater than $50.00	4,648	52.08	
Total	27,145	36.11	

All stock options granted in 2001, 2000 and 1999 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 required by SFAS No. 123 has been prepared as if the Corporation had accounted for its employee stock options under the fair value method. 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 2001, 2000 and 1999, respectively: risk-free interest rates of 4.95 percent, 6.61 percent and 4.64 percent; dividend yields of 0.6 percent, 0.8 percent and 2.4 percent; volatility factors related to the expected market price of the Corporation's common stock of .366, .342 and .247; and a weighted average expected option life of five years. The weighted average fair value of each option granted during 2001, 2000 and 1999 was $13.32, $7.62 and $8.53, respectively.

For purposes of pro forma disclosures, the options' estimated fair values are amortized to expense over the or 2001, 2027 unallocated ESOP shares at December 31, 2001 was approximately $270 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 2001, 2000 and 1999, the weighted average unallocated ESOP shares excluded in calculating earnings per share totaled approximately 6.7 million, 9.0 million and 11.3 million common shares, respectively.

Certain plans for hourly employees include non-leveraged ESOPs. The Corporation's match to these plans was made through cash contributions to the ESOP trusts which were used, in part, to purchase common stock from terminating participants and in the open market for allocation to participant accounts. These ESOP trusts held approximately 3.8 million issued and outstanding shares of common stock at December 31, 2001.

(Continued)

1998, the management contractor, also at the DoE's direction, filed suit against the Corporation seeking, among other things, recovery of approximately $54 million previously paid to the Corporation under the Pit 9 contract. The Corporation is defending this action in which discovery has been pending since August 1999. In January 2001, in the Court of Federal Claims, the DoE filed a motion for summary judgment seeking to dismiss the Corporation's complaint on jurisdictional grounds. On October 16, 2001, the Court of Federal Claims granted the DoE's motion to dismiss, finding that there was no privity of contract between the Corporation and the United States sufficient to provide the Court with the jurisdiction over the dispute. The Corporation recently appealed the Court's decision to the United States Court of Appeals for the Federal Circuit. The Corporation continues to seek resolution of the Pit 9 dispute through non-litigation means.

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 contracts. At December 31, 2001, the Corporation had contingent liabilities on outstanding letters of credit, guarantees, and other arrangements aggregating approximately $900 million.

The Corporation operates in four principal business segments. The four segments include Systems Integration, Space Systems, Aeronautics and Technology Services. All other activities of the Corporation fall within the Corporate and Other segment.

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—Significant Accounting Policies."

As mentioned previously, Lockheed Martin announced in December 2001 its decision to exit its global telecommunications services business. In connection with this decision, the Global Telecommunications segment will no longer be presented as a separate operating segment. Certain of the businesses previously included in the segment have been classified as discontinued operations; therefore, financial information related to such businesses has been excluded from the segment information presented below for all periods. The remaining businesses and investments previously included in the Global Telecommunications segment have been realigned with other business segments as discussed more fully in "Note 2—Exit From the Global Telecommunications Services Business."

The following segment descriptions and financial data have been adjusted to reflect elimination of the Corporation's Global Telecommunications segment noted above for the periods presented. Following is a brief description of the activities of each business segment:

Systems Integration—Engaged in the design, development, integration and production of high performance electronic 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; platform integration systems; Command, Control, Communications, Computers and Intelligence (C4I) systems for naval, airborne and ground applications; surveillance and reconnaissance systems; air traffic control systems; and postal automation systems.

Space Systems—Engaged in the design, development, engineering and production of civil, commercial and military space systems. Major product lines include spacecraft, space launch vehicles and manned space systems; their supporting ground systems and services; and strategic fleet ballistic missiles. In addition to its consolidated business units, 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, and production of combat and air mobility aircraft, surveillance/command systems, reconnaissance systems, platform systems integration and advanced development programs. Major products and programs include the F-35 (Joint Strike Fighter), the F-16 multi-role fighter, the F-22 air-superiority fighter, the C-130J tactical airlift aircraft, and support for the C-5, F-117 and U2 aircraft.

Technology Services—Provides a wide array of management, engineering, scientific, logistic and information management services to federal agencies and other customers. Major product lines include e-commerce, enterprise information services, software modernization, information assurance and data center management primarily for DoD and civil government agencies, and also for commercial customers; engineering, science and information services for NASA; aircraft and engine maintenance and modification services; management, operation, maintenance, training, and logistics support for military and civilian systems; launch, mission, and analysis services for military, classified and commercial satellites; and research, development, engineering and science in support of nuclear weapons stewardship and naval reactor programs.

Corporate and Other—Includes the Corporation's properties line of business, equity investments, including Intelsat, Inmarsat, Loral Space and New Skies, as well as various other Corporate activities.

Selected Financial Data by Business Segment

(In millions)	2000	1999
Net sales		
Systems Integration	$ 9,647	$ 9,570
Space Systems	7,339	7,285
Aeronautics	4,885	5,499
Technology Services	2,649	2,574
Corporate and Other	21	71
	$24,541	$24,999
Operating profit (loss)		
Systems Integration	$ 583	$ 880
Space Systems	401	506
Aeronautics	343	247
Technology Services	82	137
Corporate and Other	(158)	227
	$ 1,251	$ 1,997
Intersegment revenue		
Systems Integration	$ 472	$ 470
Space Systems	67	135
Aeronautics	78	88
Technology Services	746	656
Corporate and Other	48	47
	$ 1,411	$ 1,396
Depreciation and amortization		
Systems Integration	$ 183	$ 223
Space Systems	152	165
Aeronautics	88	82
Technology Services	15	15
Corporate and Other	26	29
	$ 464	$ 514

(In millions)	2000	1999
Amortization of goodwill and other intangible assets		
Systems Integration	$ 245	$ 276
Space Systems	56	57
Aeronautics	81	80
Technology Services	18	18
Corporate and Other	23	7
	$ 423	$ 438
Equity in earnings (losses) of equity investees		
Systems Integration	$ (16)	$ —
Space Systems	40	35
Aeronautics	—	—
Technology Services	7	—

CONSOLIDATED FINANCIAL DATA—FIVE YEAR SUMMARY

Lockheed Martin Corporation

(In millions, except per share data)	2000[b]	1999[c]	1998[d]	1997[e]
Operating Results				
Net sales	$24,541	$24,999	$25,809	$27,764
Cost of sales	22,881	23,346	23,492	25,380
Earnings from operations	1,660	1,653	2,317	2,384
Other income and expenses, net	(409)	344	170	482
	1,251	1,997	2,487	2,866
Interest expense	919	809	861	842
Earnings from continuing operations before income taxes, extraordinary item and cumulative effect of change in accounting	332	1,188	1,626	2,024
Income tax expense	714	459	648	667
Earnings (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting	(382)	729	978	1,357
Discontinued operations	(42)	8	23	(57)
Extraordinary item	(95)	—	—	—
Cumulative effect of change in accounting	—	(355)	—	—
Net (loss) earnings	$ (519)	$ 382	$ 1,001	$ 1,300
Earnings (Loss) Per Common Share				
Basic:				
From continuing operations before extraordinary item and cumulative effect of change in accounting				

CORPORATE DIRECTORY

Lockheed Martin Corporation

(As of March 1, 2002)

Chairman of the Executive Committee
Lockheed Martin Corporation

Retired Executive Vice President and
Chief Financial Officer
Lockheed Martin Corporation

Chairman and Chief Executive Officer
Lockheed Martin Corporation

Professor of Electrical Engineering
Stanford University

Retired President and
Chief Operating Officer
Martin Marietta Corporation

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

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

Retired Vice Chairman and
Executive Officer
General Electric Company

Chief Executive Officer
Savage Holdings LLC

President and Chief Operating Officer
Lockheed Martin Corporation

Of Counsel
O'Melveny & Myers

Chairman Emeritus
Phelps Dodge Corporation

Mrs. King, Chairman
Messrs. Gibbons, Hurtt, McCorkindale, Ukropina and Yearley

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

Mr. Savage, Chairman
Messrs. Augustine, Bennett, Hurtt, McCorkindale and Yearley

Mr. Murphy, Chairman
Mrs. King and Messrs. Gibbons and Savage

Mr. Augustine, Chairman
Messrs. Gibbons, Murphy and Ukropina

As of December 31, 2001, there were approximately 49,479 holders of record of Lockheed Martin common stock and 441,222,446 shares outstanding.

[illegible]

(In dollars)	High	Low	Close
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
2000 Quarters			
1st	22.31	16.50	20.44
2nd	27.31	19.81	24.81
3rd	33.60	24.06	32.93
4th	37.58	30.06	33.95

[illegible]

EquiServe Trust Company, N.A.
P.O. Box 2500
Jersey City, New Jersey 07303-2500
Telephone: 1-800-519-3111
TDD for the hearing impaired: 201-222-4955
Internet: http://www.equiserve.com

[illegible]

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.

[illegible]

Ernst & Young LLP
8484 Westpark Drive.
McLean, Virginia 22102

[illegible]

Stock symbol: LMT
Listed: New York Stock Exchange

[illegible]

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, 2001 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

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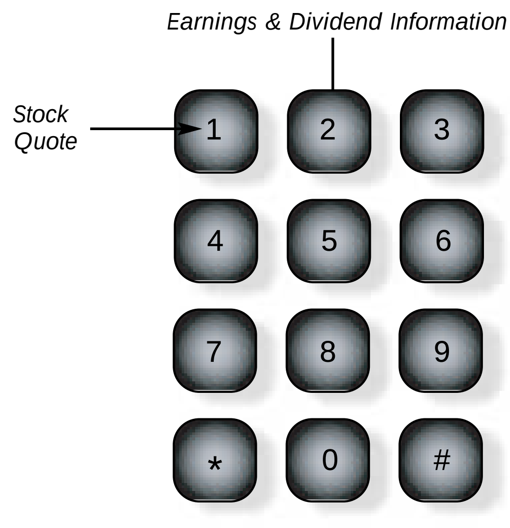

Financial results, stock quotes, earnings and dividend news as well as other Lockheed Martin announcements are available by calling the above toll-free number. The information will be read to the caller and can also be received by mail, fax or e-mail. You may also reach Shareholder Services for account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

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, 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 revisions to strategic objectives (including changes in priorities to respond to recent terrorist acts or to improve homeland security); 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); economic business and political conditions (including economic disruption caused by recent terrorist acts, government import and export policies, and economic uncertainties in Latin America); program performance (including the ability to perform fixed-price contracts within estimated costs, subcontractor performance, and the timing of product deliveries and customer acceptance); the level of returns on pension and retirement plan assets; and the outcome of contingencies (including completion of acquisitions and divestitures, litigation and environmental remediation efforts). The Corporation's ability to monetize investments held for sale or businesses placed in discontinued operations will depend upon market and economic conditions, negotiation of acceptable terms with prospective purchasers and other factors, and may require receipt of regulatory or governmental approvals. 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 SEC including, but not limited to, the discussion of "Competition and Risk" and "Government Contracts and Regulat.4569 0 TD-myuontracts and RegÑ -1 Tw/F1pltEr[(unw()Òj

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*
- *Partnerships Worldwide*

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