1995

Annual Report

F i n a n c i a l   H i g h l i g h t s

In

Mission Success

Our commitment to

and total customer satisfaction in every goal we set and every task we

Dear Fellow Shareholders

A

Daniel M. Tellep
Chairman

Norman R. Augustine
President and
Chief Executive Officer

activities are on or ahead of schedule; and we had made substantive progress toward realizing the significant cost savings anticipated. In the first five years of the plan, we expect to realize net savings of about $5 billion; when fully implemented, by 1999, we expect to achieve annual savings of $1.8 billion. By increasing economies of scale, capitalizing on corporate-wide synergies and leveraging our added financial strength, consolidation will benefit shareholders, customers and employees.

Management Succession

Toward the end of Lockheed Martin's first year of operation, we also implemented the succession plan we set in place in the August 1994 agreement to merge. As part of this transition, Dan Tellep retired as chief executive officer effective January 1, 1996 and will continue throughout 1996 as chairman of the board. Norm Augustine, previously president, is now president and chief executive officer and will also serve as vice chairman of the board of directors. Vance Coffman was elected to the new position of executive vice president and chief operating officer, effective January 1, 1996. Vance was formerly president of the Corporation's Space & Strategic Missiles Sector and is succeeded in that position by Mel Brashears, previously executive vice president of Lockheed Martin Missiles & Space. This orderly transition helps to ensure the continued smooth evolution of our merger and strong management continuity in pursuing our strategic goals.

Other key management changes during 1995 were the retirements of Lockheed Martin executive vice presidents, A. Thomas Young and Vincent N. Marafino, following long and distinguished careers during which they made valuable contributions to our heritage Martin Marietta and Lockheed companies, respectively. Vince will continue as a member of the Lockheed Martin board of directors.

Strategic Combination with Loral

In January 1996, Lockheed Martin and Loral announced a strategic combination to solidify our industry leadership position for the 21st century. When the transaction is complete, Lockheed Martin's annual sales will approach $30 billion with a total backlog in excess of $50 billion, and we expect to generate between $1.5 billion and $2.0 billion in free cash annually. The Loral transaction is the "set piece" for our business portfolio, effectively balancing Lockheed Martin's prodigious strengths in major platform systems with additional capabilities in electronics, information systems and systems integration.

Under key terms of the agreement, Loral's defense electronics and systems integration businesses are integrated with those of Lockheed Martin, which also holds a 20 percent equity position in the newly formed Loral Space & Communications, expected to become one of the two or three leaders in the fast-growing space communications industry. A major benefit in the agreement is continued participation of Loral's senior management in itagre858 TTj0.134 Tc 0.986 054 Tc

Vision Statement

Our vision is for Lockheed Martin to be recognized as the world's premier systems engineering and technology enterprise. Our mission is to build on our aerospace heritage to meet the needs of our customers with high-quality products and services. And, in so doing, produce superior returns for our shareholders and foster growth and achievement for our employees.

Sector Operating Companies

Aeronautics

President and Chief Operating Officer
James A. Blackwell, Jr.

Lockheed Martin Skunk Works
Palmdale, California

Lockheed Martin Aircraft Center
Greenville, South Carolina

Lockheed Martin Aeronautics International
Ontario, California

Lockheed Martin Logistics Management
Arlington, Texas

Electronics

President and Chief Operating Officer
Thomas A. Corcoran

Lockheed Martin Armament Systems
Burlington, Vermont;
Milan, Tennessee

Lockheed Martin Communications Systems
Camden, New Jersey

Lockheed Martin Control Systems
Binghamton, New York;
Fort Wayne, Indiana

Lockheed Martin Defense Systems
Pittsfield, Massachusetts

Energy & Environment

President and Chief Operating Officer
Albert Narath

Lockheed Martin Energy Systems
Oak Ridge, Tennessee

Lockheed Martin Energy Research Corp.
Oak Ridge, Tennessee

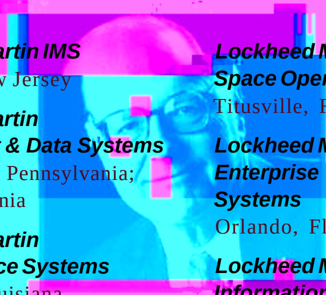
Innovative Ventures Corp.
Oak Ridge, Tennessee

Lockheed Martin Idaho Technologies
Idaho Falls, Idaho

Sandia Corporation
A Lockheed Martin Company
Albuquerque, New Mexico

Information & Technology Services

President and Chief Operating Officer
Peter B. Teets



Lockheed Martin IMS
Teaneck, New Jersey

Lockheed Martin Management & Data Systems
Valley Forge, Pennsylvania;
Reston, Virginia

Lockheed Martin Manned Space Systems
Michoud, Louisiana

Lockheed Martin Space Operations
Titusville, Florida

Lockheed Martin Enterprise Information Systems
Orlando, Florida

Lockheed Martin Information Systems
Orlando, Florida

Space & Strategic Missiles

President and Chief Operating Officer
Vance D. Coffman

Lockheed Martin Missiles & Space
Sunnyvale, California

Lockheed Martin Astronautics
Denver, Colorado

**As of January 1, 1996, Vance Coffman assumed the new post of executive vice president and chief operating officer. Melvin Brashears succeeded Mr. Coffman as president and chief operating officer of the Space & Strategic Missiles Sector.*

Lockheed Martin Aeronautical Systems
Marietta, Georgia

Lockheed Martin Tactical Aircraft Systems
Fort Worth, Texas

Lockheed Martin Aero & Naval Systems
Baltimore, Maryland

Subsidiaries and Other Investments

- **_Martin Marietta Materials, Inc._**
- **_Airport Group International, Inc._**
- **_Space Imaging, Inc._**
- **_Lockheed Martin Finance Corp._**
- **_M4 Environmental, L.P._**

Lockheed Martin Electronics 8 Missiles
Orlando and Ocala, Florida; Troy, Alabama

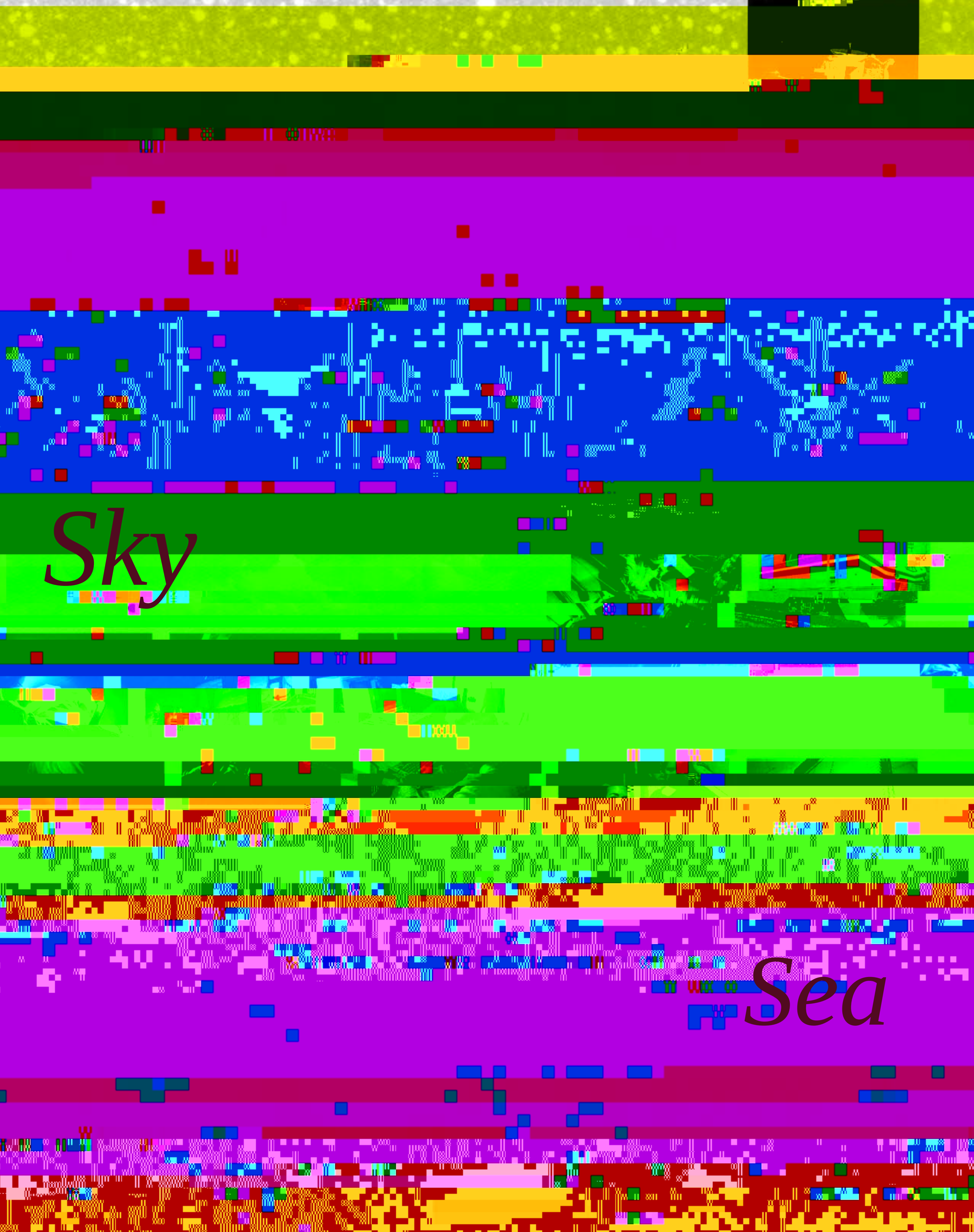
Lockheed Martin Government Electronic Systems
Moorestown, New Jersey

Lockheed Martin Ocean, Radar & Sensor Systems
Syracuse and Utica, New York

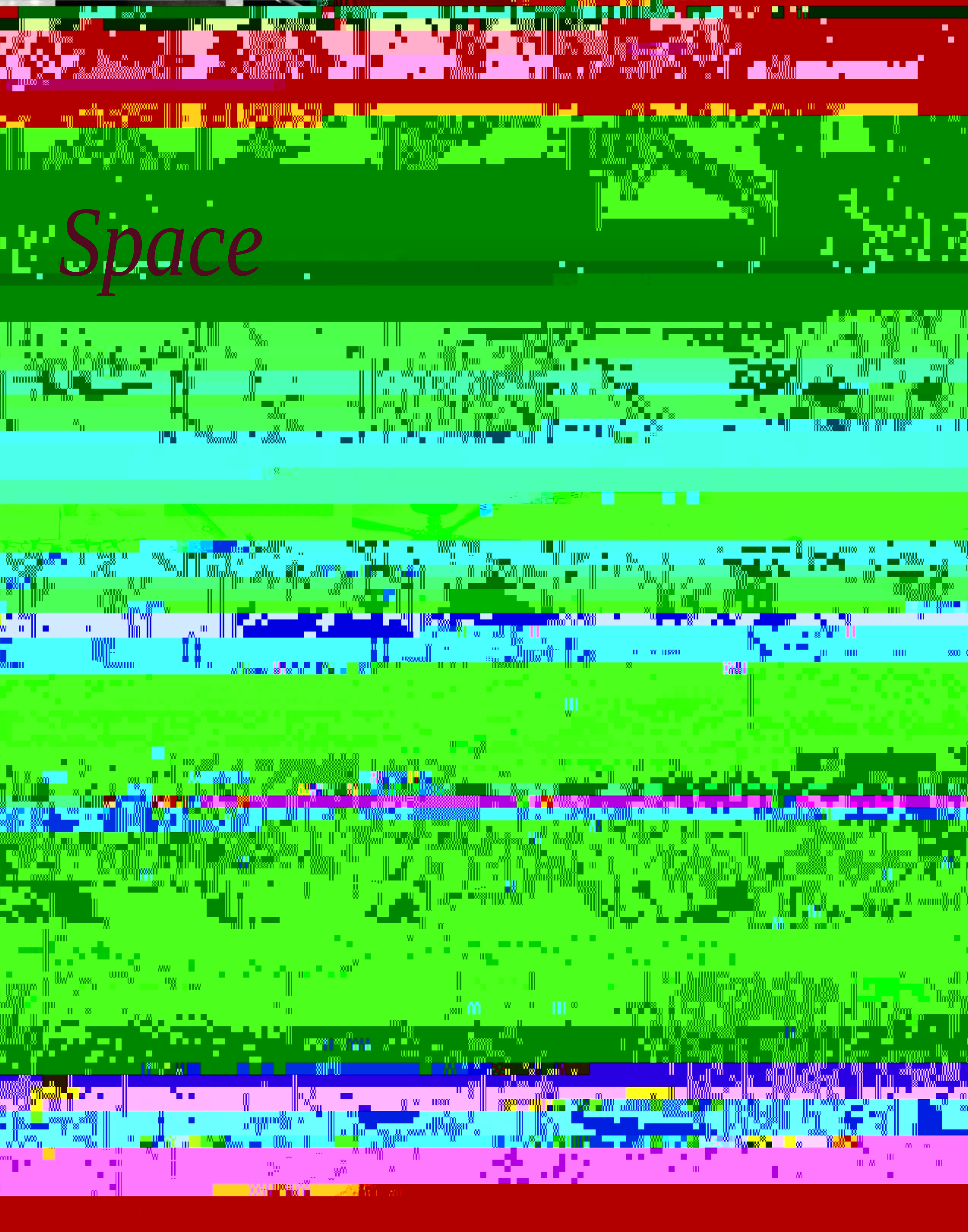
Sanders
Nashua,

From the depths of the Earth's oceans to the far reaches of space

Lockheed Martin products and services set the standard for industry leadership in aircraft, energy and environmental remediation, missiles, electronics, information systems, spacecraft and launch vehicles. Every day, our talented and dedicated employees utilize innovative technologies and redefine what is possible.


Sky
Sea

Space



Land

The F-22 is designed to dominate the air combat arena by integrating stealthy supercruise and advanced avionics.

F-16 Fighter

In 1995, Lockheed Martin Aeronautics Sector successfully pursued a strategy that sets the stage for continued profitability and enhanced competitiveness. Aeronautics enters 1996 as a major force ready to grow its core lines of military aircraft business as well as expand into related domestic and international markets.

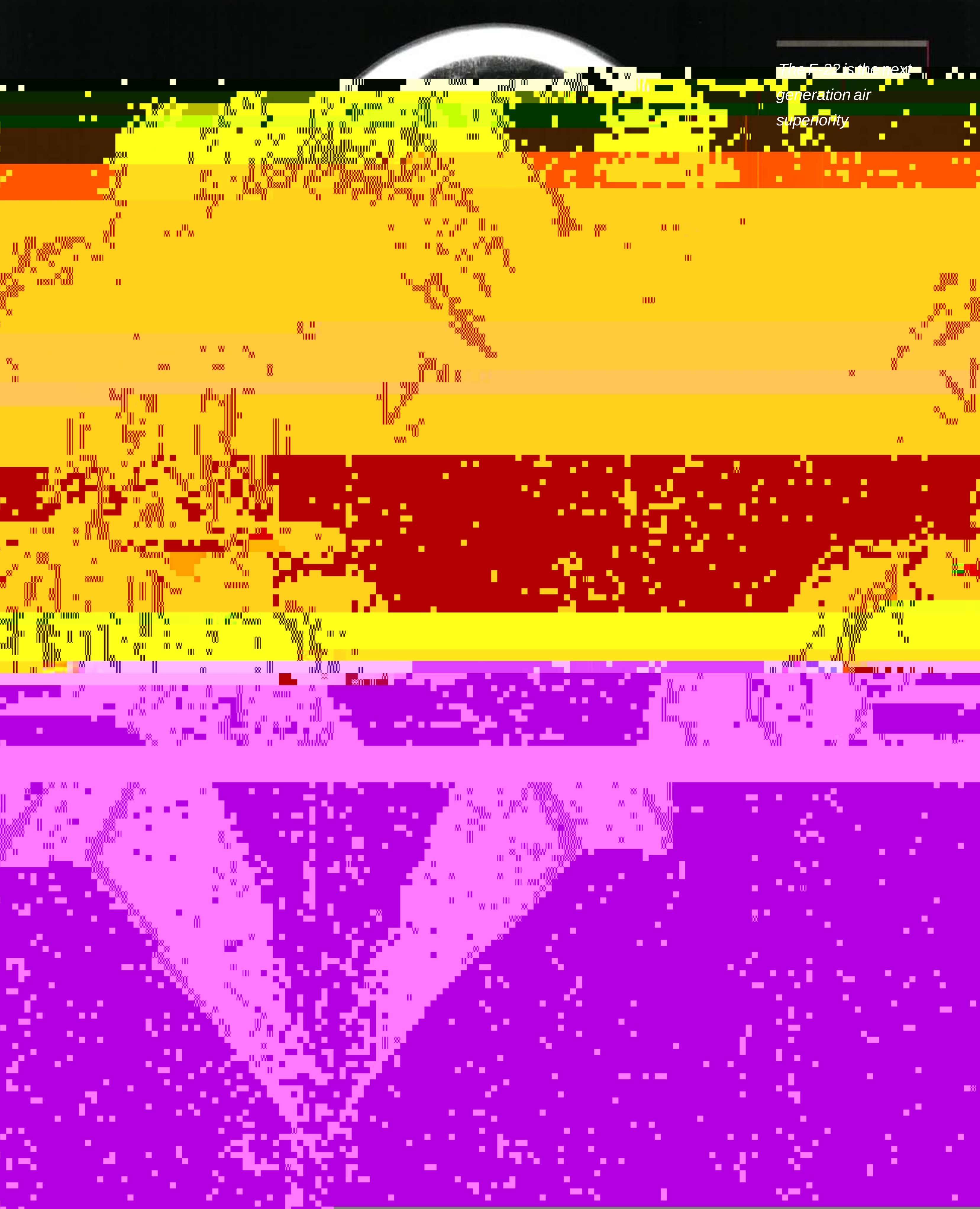
In an environment of declining defense budgets worldwide, the Aeronautics Sector retains a leading competitive position in the military aircraft market due to the breadth of its businesses, the capabilities of its products and the success of its lean manufacturing initiatives. In addition, the Aeronautics Sector has a strong international sales base with effective in-country presence in key areas.

The U.S. Air Force F-22 is a high priority tactical aircraft program. It completed a highly successful Critical Design Review in 1995. The F-22 team began fabrication and assembly, and the first flight of the Engineering and Manufacturing Development aircraft is expected in mid-1997. The F-22 is slated to replace the aging F-15 in the air superiority role in the 21st century and bring precision ground attack capability to the battlefield.

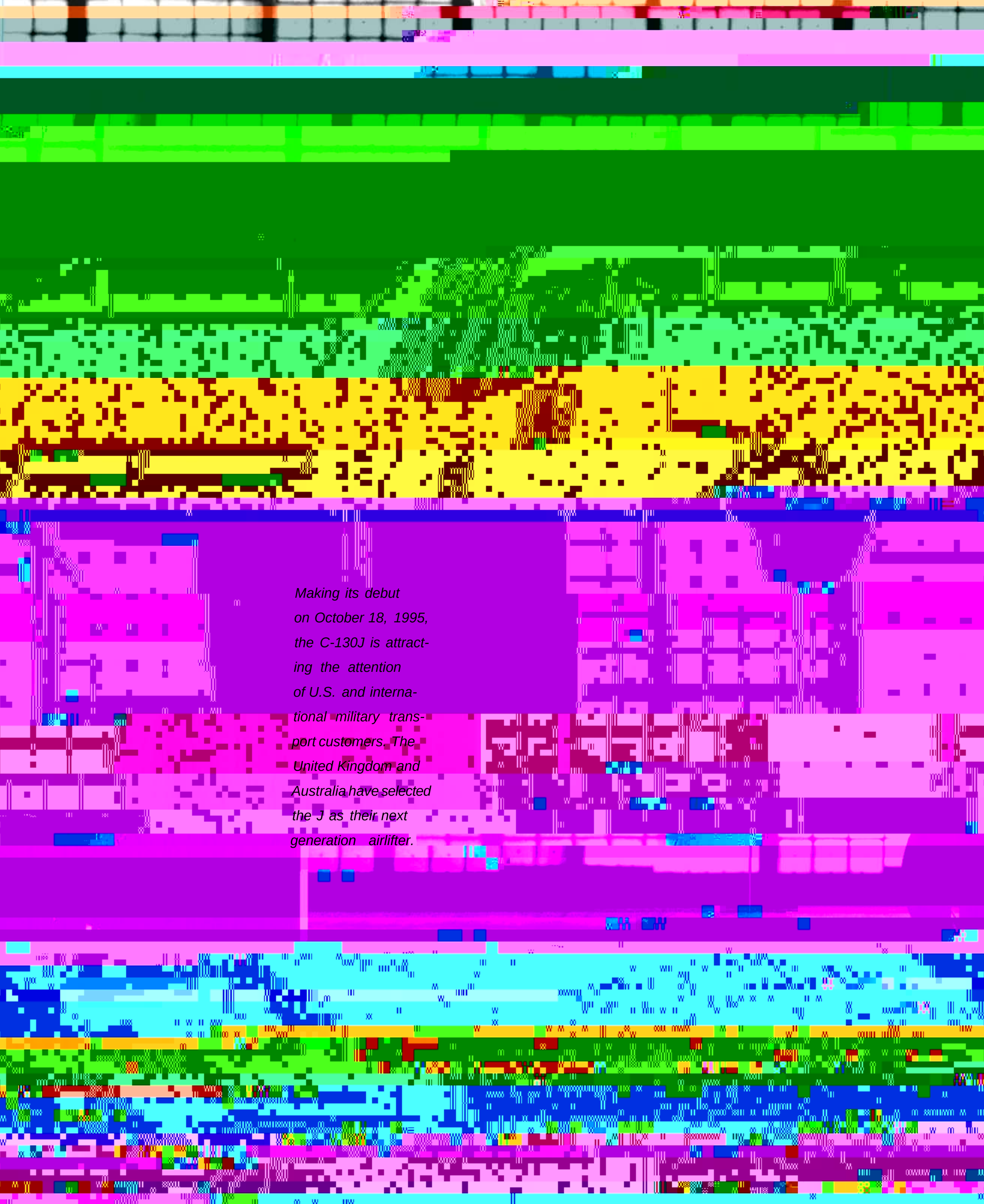
The F-22 is designed to dominate the air combat arena by integrating stealth, supercruise and advanced avionics. It will operate freely in the increasingly lethal surface-to-air and air-to-air missile environment, even when outnumbered. The F-22 is the key to theater air defense strategy; it allows allied forces to attack enemy ballistic and cruise missiles on the launcher or during boost phase. The aircraft's impressive ground attack capabilities are designed to provide a new level of versatility to future Joint Force Commanders. Production of 442 aircraft is expected to begin in 1998.

Lockheed Martin is pursuing a range of tactical aircraft program opportunities that include additional F-16 sales to international customers as well as the U.S. Air Force, a series of F-16 derivatives, and development of concepts for the future Joint Advanced Strike Technology (JAST) aircraft.

International sales of the F-16 fighter are a major factor in the Aeronautics Sector's financial strength. At year end, Tactical Aircraft Systems delivered the 3,500th F-16 and had a firm backlog of 414 F-16 orders worth about $6 billion, including aircraft to be produced for Taiwan, Turkey, South Korea, Greece and Singapore. Japan's FS-X, an F-16 derivative, successfully completed its



The F-22 is the next generation air superiority



Making its debut on October 18, 1995, the C-130J is attracting the attention of U.S. and international military transport customers. The United Kingdom and Australia have selected the J as their next generation airlifter.

first flight int

Lockheed Martin Skunk Works, a national asset since its inception during World War II, is a world leader in advanced aircraft design and low-observable technology. In 1995, the Skunk Works refurbished two SR-71A Blackbird reconnaissance aircraft for the U.S. Air Force and unveiled DarkStar, a low-observable, unpiloted air vehicle developed jointly with Boeing. DarkStar is designed to provide near real-time, continuous, all-weather, wide-area surveillance in support of tactical battlefield commanders.

The Skunk Works' technology leadership also extends to space. NASA selected Lockheed Martin as one of three competitors for Phase I of the X-33 program, a subscale version of a single-stage-to-orbit reusable launch vehicle. NASA is expected to make a downselect this year and launch the first prototype in 1999.

As part of our corporate-wide consolidation plan, we restructured Lockheed Martin Aircraft Services as a division within the Skunk Works. In 1995, Aircraft Services delivered 18 heavily-modified special mission C-130s to the Air Force and other customers. Modification work began on A-4M Skyhawk fighters for Argentina, and Lockheed Argentina began operating the former government modification facility at Cordoba. Lockheed Martin Aircraft Center, in Greenville, South Carolina, will continue to pursue modification, maintenance and contractor logistics support programs. The newly created Aeronautics International is developing a strategy to market and manage offshore modification and maintenance companies, as well as selected joint ventures.

In 1995, Lockheed Martin was at the forefront of the depot privatization initiative. Led by Lockheed Martin Logistics Management, a 34-member team was formed to examine the business potential of privatization. Initial efforts have focused on the Air Logistics Centers at Kelly Air Force Base in San Antonio and McClellan Air Force Base in Sacramento. Lockheed Martin's efforts are expected to position the Corporation to win new business opportunities as the Air Force institutes pilot programs for these depots.

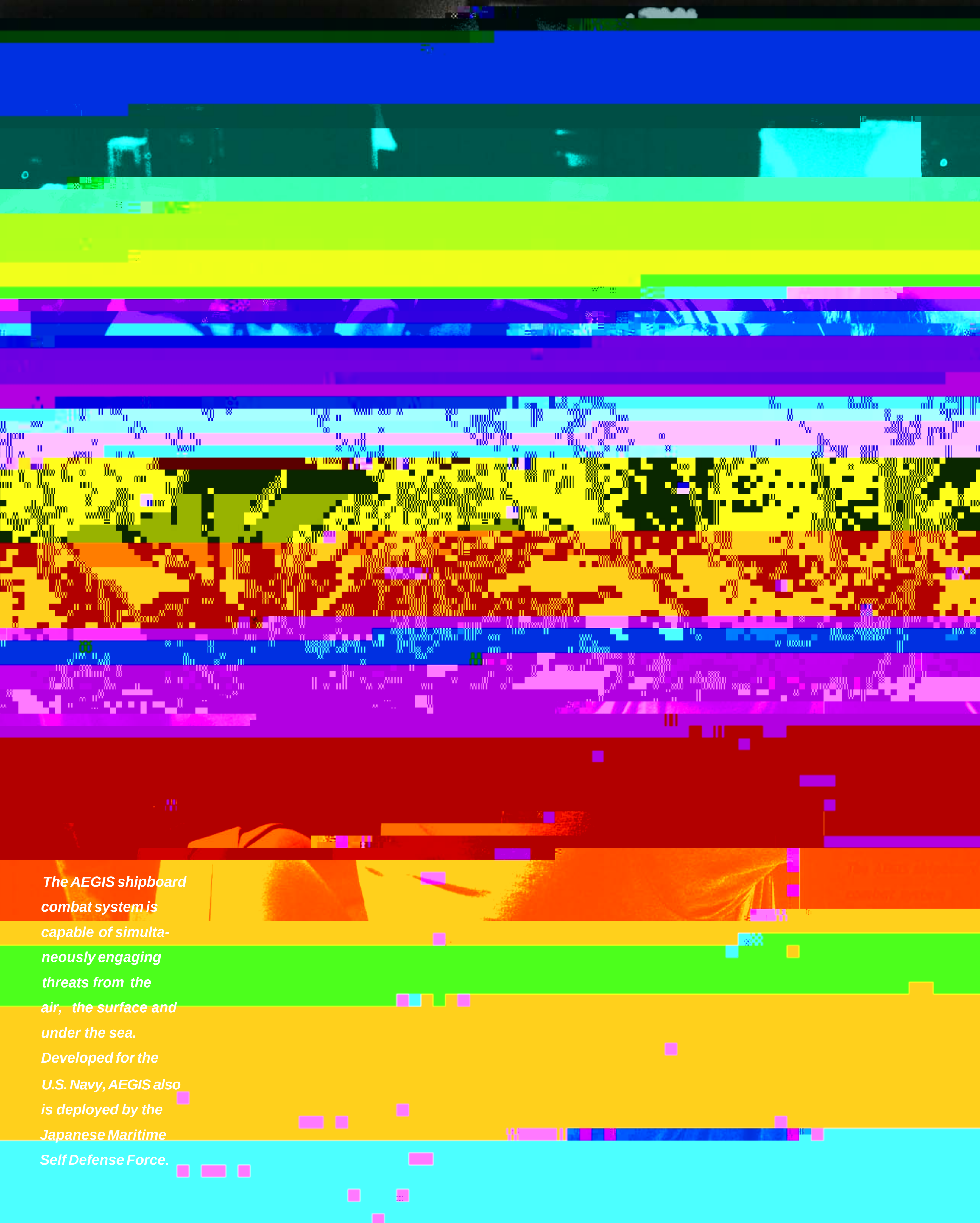
Aeronautics Sector's Aero & Naval Systems production of General Electric CF6 thrust reversers remained strong in 1995 with production deliveries exceeding plans. The CF6 overhaul and repair business doubled in 1995 and Ij1.206 Tw0.070 Tc(y) Tdr0-entures (e(n) nwj0 Tc(s) Tj1.061 Tw0.1

Sanders

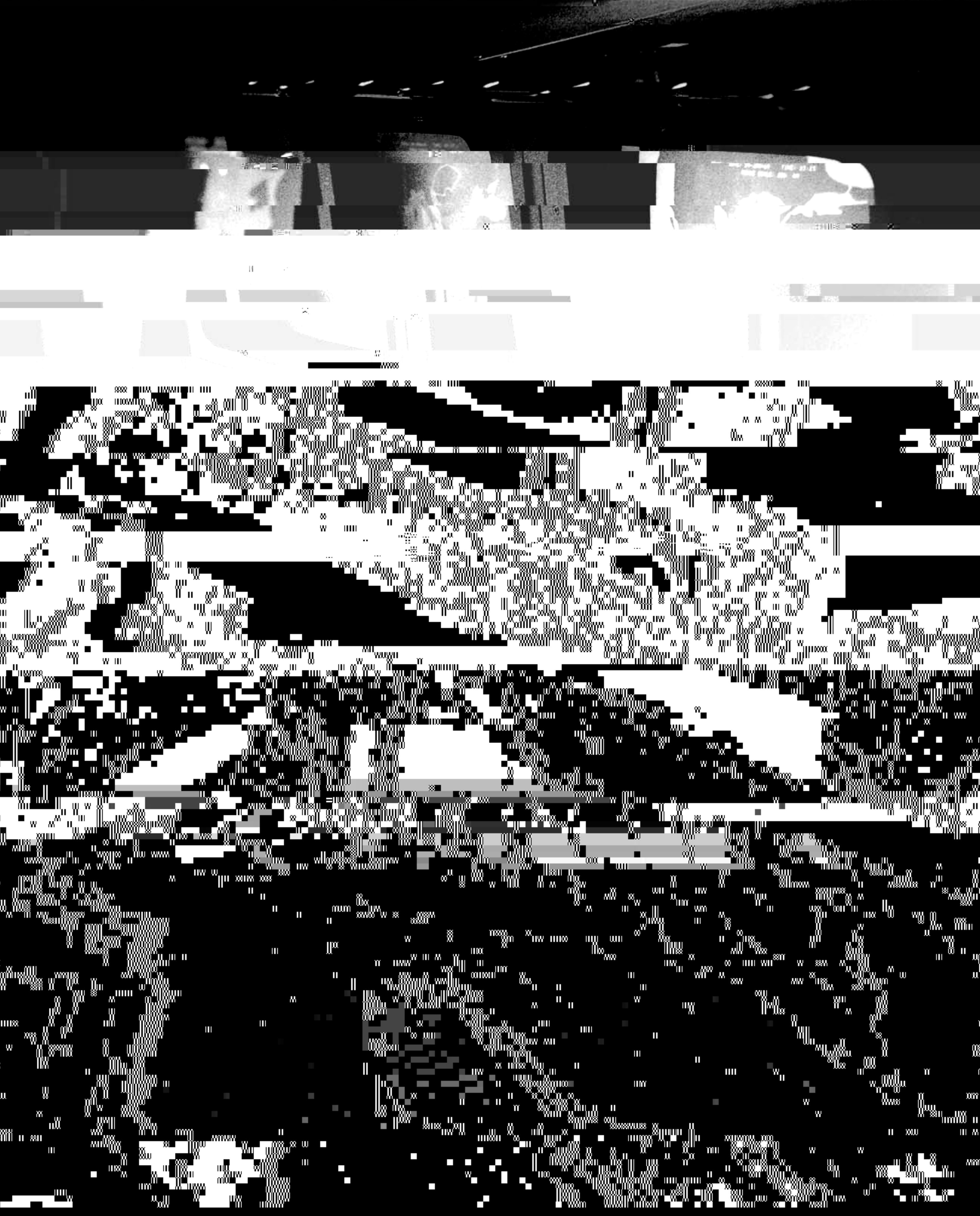
Integrated Defensive Electronic Countermeasures (IDECM) system consists of a variety of components that together improve the survivability of combat aircraft. The Fiber Optic Towed survivability dispensers for fighter and bomber aircraft. The U.S. Navy chose the Low Altitude Navigation & Targeting Infrared for Night system (LANTIRN) for the F-14 Tomcat as part of the service's Precision Strike Program. Electronics & Missiles also won its third contract under the Joint Advanced Strike Technology (JAST) program, a U.S. Navy/Air Force initiative to develop advanced technologies for a family of fighter aircraft in the next century.

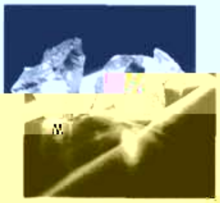
Lockheed Martin Defense Systems won a contract to perform transmission design work for the Crusader program, the U.S. Army's advanced field artillery system. Lockheed Martin Communications Systems won new business in the electronic key management systems area and was chosen to develop the next-generation digital secure terminal equipment (STE), which is designed to provide secure digital communications capability to military and civil government agencies into the next century. Lockheed Martin Canada leads a team that won the Canadian Army Electronic Warfare Control & Analysis Centre, the first in the Army's series of tactical information management programs.

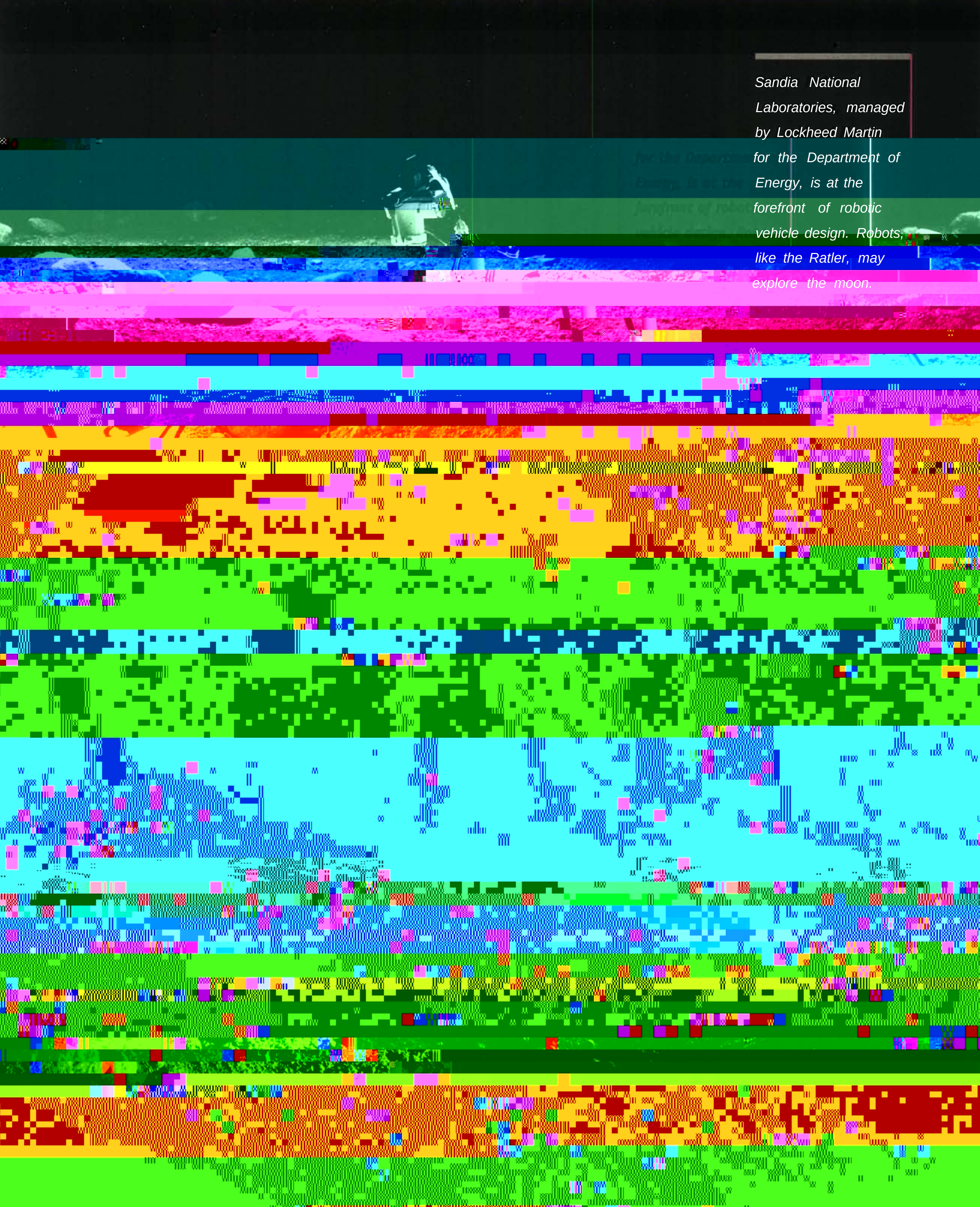
Electronics invested in three new operations to strengthen and expand business opportunities. Lockheed Martin acquired from GE Aircraft Engines its engine controls manufacturing and service business in Fort Wayne, Indiana. Combining the Fort Wayne operation with Lockheed Martin Control Systems in Binghamton, New York, creates a world-class organization specializing in design, development, production and service of advanced electronic engine controls, as well as a wide range of controls for other aircraft and industrial applications. Defense Systems formed AV Technology, LLC, which will supply turret systems and light armored combat vehicles to the global defense marketplace. Lockheed Martin has taken an 80 percent interest in the new company. Ocean, Radar & Sensor Systems continued to diversify beyond traditional product offerings with the purchase of ERAAM 0 1 189.120 355.9204 TwbTw0.060 0.105 t ERAj0 Tc(9.915 Twi51 Tc(transmissio)09) T



The AEGIS shipboard combat system is capable of simultaneously engaging threats from the air, the surface and under the sea. Developed for the U.S. Navy, AEGIS also is deployed by the Japanese Maritime Self Defense Force.







Sandia National Laboratories, managed by Lockheed Martin for the Department of Energy, is at the forefront of robotic vehicle design. Robots, like the Ratler, may explore the moon.

In 1995, the Department of Energy approved the resumption of nuclear materials receipt,

The Rimfire high voltage switch, shown left, controls more than 5 million volts for the Particle Beam Fusion Accelerator (PBFA) II at Sandia National Laboratories. PBFA is made up of 36 modules, each producing a powerful pulse of energy. Rimfire switches synchronize those pulses to within 10 billionths of a second.

programs. Our strategy is to implement the best management practices across all Lockheed Martin-managed facilities to reduce operating costs and improve their efficiency. We are examining ways to improve such functions as procurement, finance, training and construction, and will submit recommendations to the Secretary of Energy this year. We also are confident that this approach will yield significant new business opportunities in the public and private sectors.

Last year, Lockheed Martin Utility Services was awarded a three-year extension, through September 30, 1998, with an option for an additional two years under its existing contract, to maintain the Portsmouth and Paducah uranium enrichment facilities for the U.S. Enrichment Corporation. Under the extension, Lockheed Martin and the U.S. Enrichment Corporation will manage an operating budget in excess of $1 billion.

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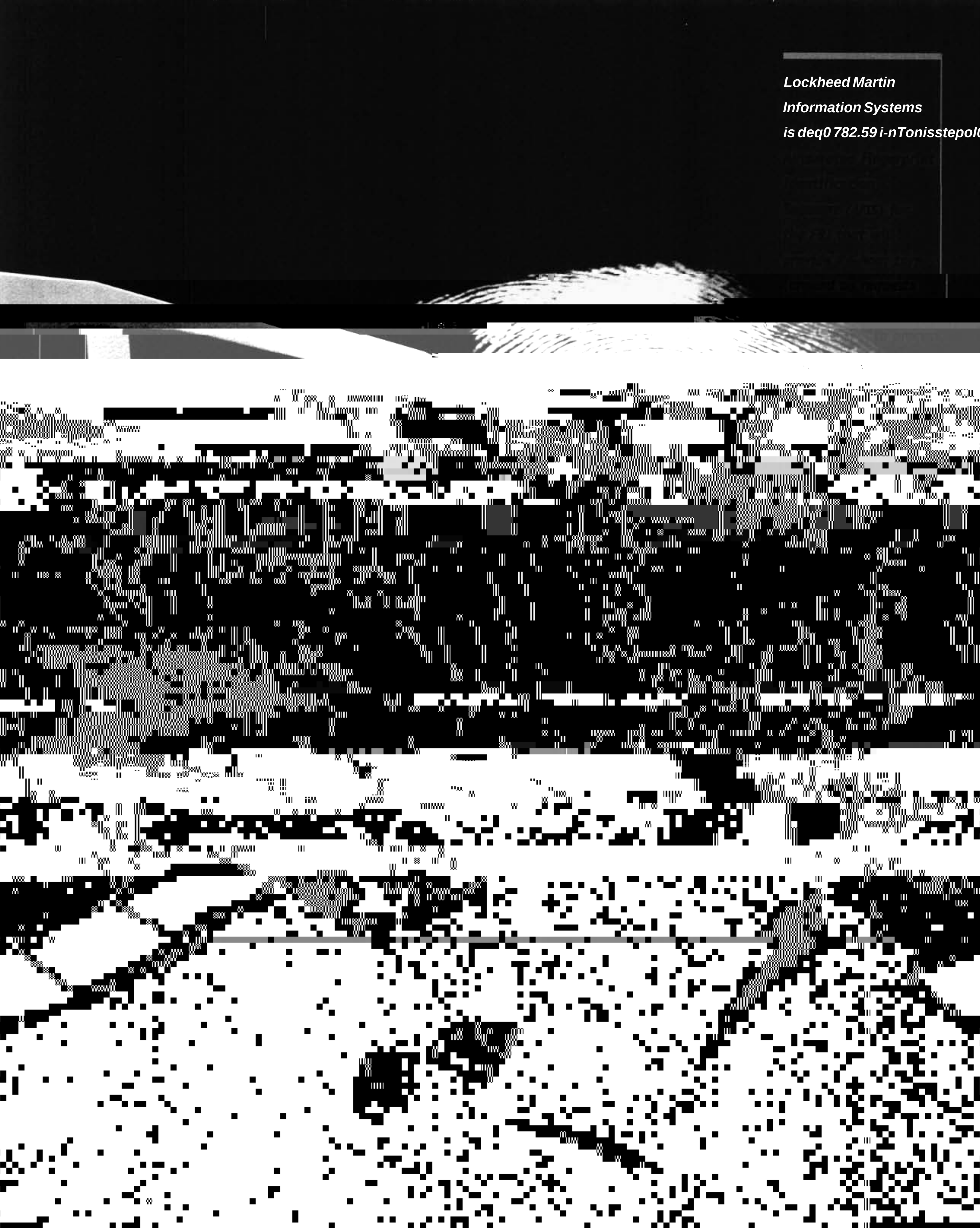
Lockheed Martin is penetrating the federal civil market, supporting a number of government agencies as they update their information systems.

Lockheed Martin Information & Technology Services Sector provides systems design, development, integration and operations for federal, state and municipal governments, as well as information systems and products to commercial customers. In 1995, the Information & Technology Services Sector continued an outstanding competitive win rate by providing cost-effective flexible, full-service solutions for complex customer problems.

The Lockheed Martin IMS experience in providing solutions to state federiw (avC4 (e)Tj008(r)Tj0.2


Lockheed Martin
Information Systems
is deq0 782.59 i-nTonisstepol

Motorists using the Verrazano-Narrows Bridge in New York City can save time

The Services Group also operates

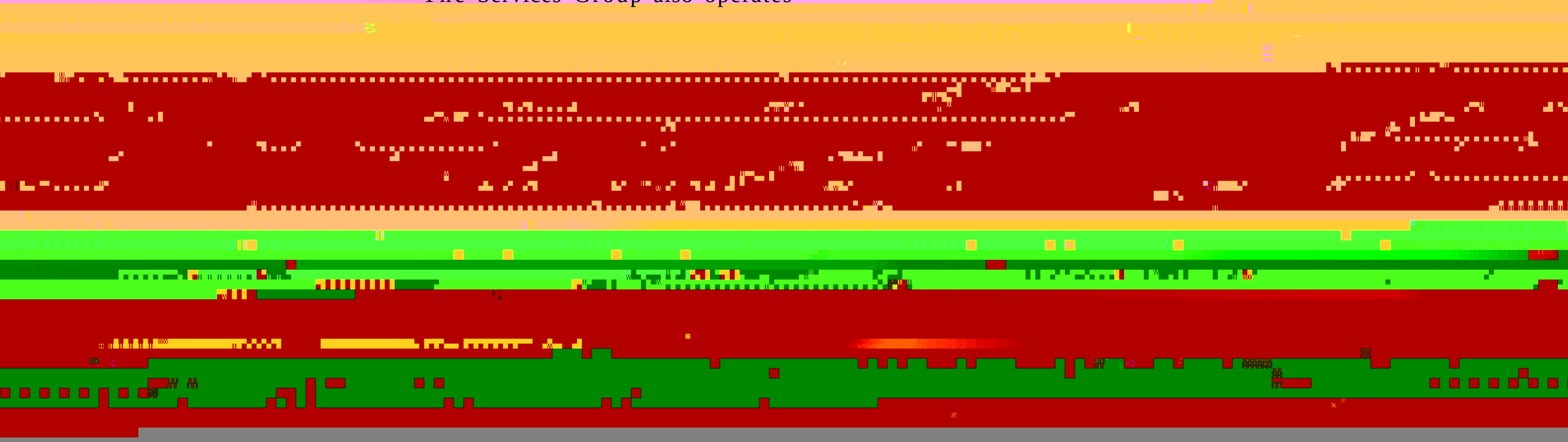


Photo Right:
NASA has selected United Space Alliance, a joint venture between Lockheed Martin and Rockwell International, to negotiate a sole-source contract that will consolidate the Space Shuttle Program under a single prime contractor.

CalComp, a Lockheed Martin company, had a successful year in 1995 focusing on Graphics Arts applications, including color inkjet printing and a 4 x 5-inch input tablet, and restructured its global distribution channels. Lockheed Martin Commercial Electronics continued its outstanding record of high quality electronic manufacturing services for its diverse set of customers in the computer and telecommunications industries.

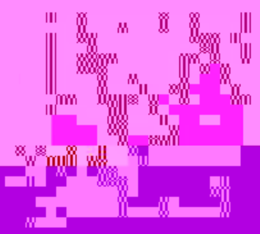
Underlying the Sector's growth businesses is a solid core of NASA programs. The Corporation's effort to achieve 100 percent mission success has been a key to sustaining our role with this important customer. In 1995, that commitment to mission success was demonstrated by seven successful Space Shuttle launches, including two historic linkups with the Russian Mir space station. Lockheed Martin Space Operations performs all ground processing operations from Shuttle landing through launch, as well as solid rocket booster retrieval and launch facility maintenance.

NASA has announced its intention to negotiate on a sole-source basis a contract for its Space Flight Operations with the United Space Alliance (USA), a joint venture between Lockheed Martin and Rockwell International. USA was formed to provide NASA and its Space Shuttle program reduced costs through streamlined operations while maintaining dedication to safety and mission success.

Lockheed Martin Manned Space Systems continues to develop the Super Light Weight Tank (SLWT) for the Space Shuttle's scheduled December 1997 launch. Employing NA2 Tj SpS Tc(globa44) Tj

Space & Strategic Missiles Sector

Our commitment to mission success was demonstrated in 1995 with the successful launches of four national security payloads aboard Titan IV vehicles, 12 Atlas launches and seven Lockheed Martin-built satellites placed into orbit.



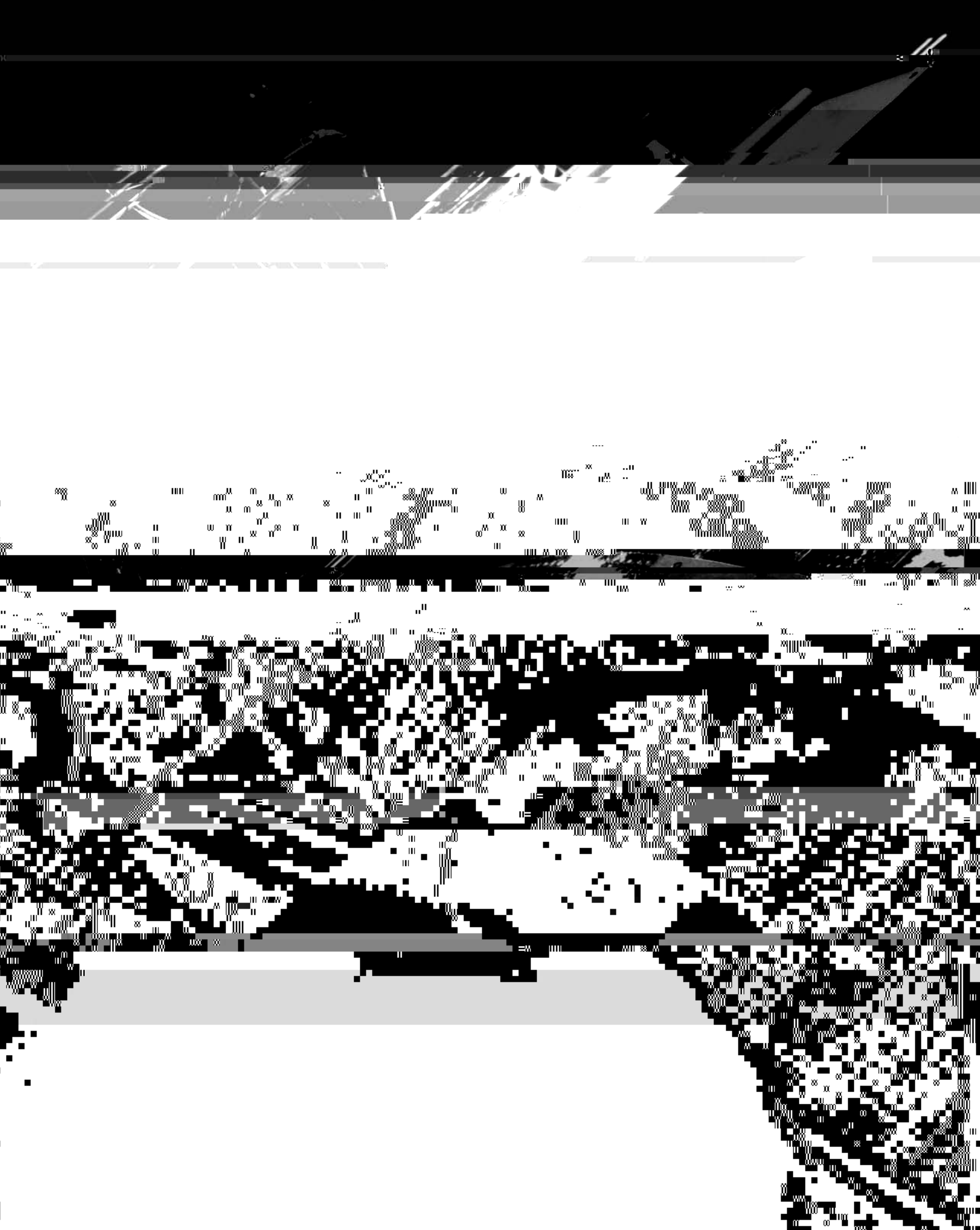
Art of Solar Arrays

The Space & Strategic Missiles Sector took actions last year that should position Lockheed Martin to remain the world's space systems leader well into the 21st century. To this end, in 1995, Lockheed Martin announced a strategic investment in its family of launch vehicles, expanded its presence in the telecommunications services market, and consolidated its commercial satellite production.

A key element of the Corporation's $300 million Launch Vehicle Leadership strategy is to develop a re-engined single-stage Atlas booster with a single-engine cryogenic Centaur upper stage. The new Atlas IIAR is designed for greater reliability and cost effectiveness due principally to simplifying and reducing the number of propulsion systems. The first Atlas IIAR should be launched in late 1998.

The Atlas IIAR is the building block of Lockheed Martin's plan for common hardware. The use of common boosters, Centaur upper stages, common adapters, avionics and engines simplifies manufacturing and reduces launch costs. The Atlas IIAR also effectively positions Lockheed Martin to compete for the U.S. Air Force's Evolved Expendable Launch Vehicle (EELV). In 1995, Lockheed Martin Astronautics was one of four companies selected to develop EELV designs. Another element of our launch vehicle strategy is an improved Titan IV/B with a Solid Rocket Motor Upgrade that is expected to increase the Titan's lift capability significantly.

As part of Lockheed Martin's strategy to serve the broadest range of launch vehicle customers, we formed ILS International Launch Services in 1995 — a joint venture with Russia's Khrunichev State Research and Production Space Center and RSC Energia — to market the Atlas and Proton rockets to commercial customers worldwide. The combined capabilities of Titan, Atlas, Proton and Lockheed Martin Launch Vehicle will offer customers services across the orbit and payload spectrum, makings ou0.41 Tc 2.17 Tw .812 Tw (Marti)Tj0 Tc (n)Tj0.791 Tc 1.63



Lockheed Martin is a premier designer and producer of environmental monitoring satellites such as TIROS, here. Today, TIROS weather satellites meet the data requirements of 140 nations.

The Space & Strategic Missiles Sector in 1995 laid the groundwork for a global telecommunications business with plans to build, launch and operate a satellite system, called Astrolink.™ This project reflects the Corporation's commitment to the commercial space business and should expand our role in the growing telecommunications services industry. Lockheed Martin expects to proceed with the project after obtaining regulatory approval, strategic alliance commitments and external investment.

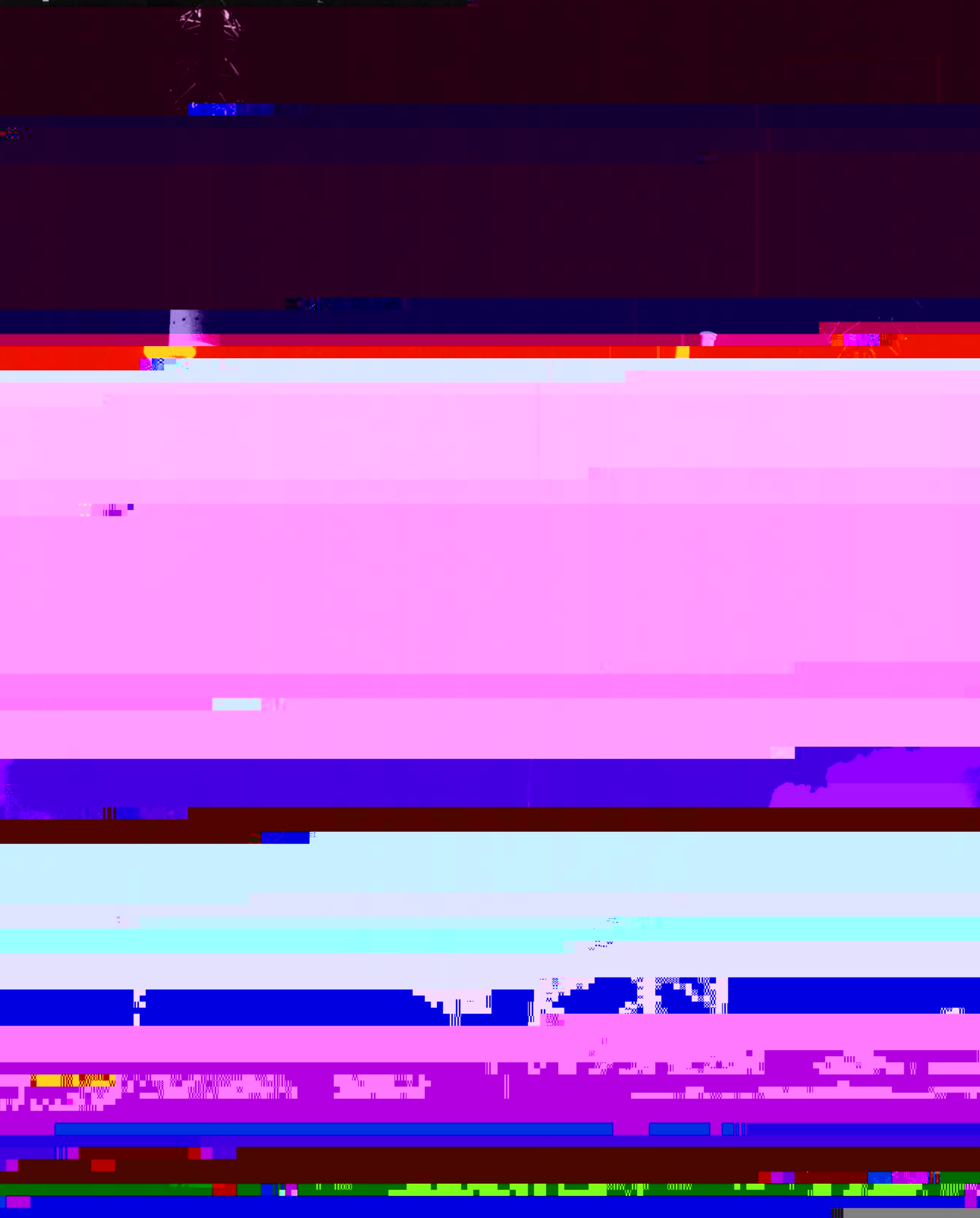
Lockheed Martin's Astro Space Commercial will build on a rich heritage of commercial satellite design and production. A new world-class facility in Sunnyvale, California, should accelerate production cycle times and reduce costs. Our initial commercial goals call for making the new factory operational in early 1997 and capable of meeting an 18-month delivery cycle, with capacity for producing eight satellites annually. We expect productivity improvements eventually will increase the annual throughput to 16 spacecraft.

Indicative of Lockheed Martin's commitment to provide customers with total system solutions is the Asia Cellular Satellite System (ACeS). With this key win in 1995, Lockheed Martin will provide a full turnkey operation — the first regional wireless mobile system of its kinde

NASA last year chose Lockheed Martin Astronautics to provide the lander and orbiting spacecraft for the Mars Surveyor Program, which will study the martian atmosphere and soil as well as search for water on the red planet. Late in the year, NASA also selected Astronautics to build the Stardust spacecraft for its Discovery Program. Stardust will collect interstellar material and dust from a comet and return them to Earth for laboratory studies. In addition, we remain a principal subcontractor on the International Space Station with work valued at $1.3 billion.

Lockheed Martin Technical Operations continued its record of mission success in engineering and technical services for the Department of Defense, NASA and other government and private sector customers, and has consistently received award fees in the "excellent" category. Among the 50 orbiting satellites controlled from Lockheed Martin Technical Operations is Hubble Space

The complementary capabilities inherent in the Lockheed Martin merger are evident in the products and services of the Space & Strategic Missiles S0 Tc/shTc(g)40 1405,



Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Acquisitions

Effective May 1, 1994, the Corporation purchased the Space Systems Division of General Dynamics Corporation (GD Space Systems) for approximately $160 million in cash, expanding the Corporation's presence in the intermediate-lift space launch vehicle market with the Atlas series of launch vehicles. On April 2, 1993, the Corporation consummated a transaction with General Electric Company (GE) valued at approximately $3 billion to combine the aerospace and certain other businesses of GE (collectively, the GE Aerospace businesses) with the businesses of the Corporation in the form of affiliated corporations. Effective February 28, 1993, the Corporation acquired the tactical military aircraft business of General Dynamics for approximately $1.5 billion in cash, plus the assumption of certain liabilities related to the business. All of the acquisitions discussed above were recorded under the purchase method of accounting, with operating results from each acquisition included with those of the Corporation beginning on the respective closing dates.

Results of Operations

The Corporation's operating cycle is long-term and involves various types of production contracts and varying production delivery schedules. Accordingly, results of a particular year, or year-to-year comparisons of recorded sales and profits, may not be indicative of future operating results. The following comparative analysis should be viewed in this context.

The Corporation's consolidated net sales for 1995 were $22.9 billion. Net sales for the year remained relatively unchanged as

(a) Excluding the effects of the Materials IPO, the acquisition termination fee, and the change in ESOP accounting, 1994 net earnings would have been $955 million.

(b) Excluding the merger related and consolidation charges, 1995 net earnings would have been $1,118 million.

Earnings per Common Share, Assuming Full Dilution

(a) Excluding the effects of the Materials IPO, the acquisition termination fee, and the change in ESOP accounting, 1994 earnings per share would have been $4.37.

(b) Excluding the merger related and consolidation charges, 1995 earnings per would worldwide political and economic developments have strongly affected these markets, requiring significant adaptation by market participants.

The Federal defense budgets for research, development, test and evaluation and procurement have been reduced dramatically (after adjusting for inflation) over the last decade. These reductions have caused participants in the aerospace/defense industry to consolidate in order to maintain critical mass and production economies. The Corporation has actively participated in this consolidation activity. The Corporation's recent acquisitions described above are examples of actions that have been taken to blend successful operations and broaden the business portfolio, create opportunities for increased efficiency and cost competitiveness, improve access to new markets and reduce exposure to further defense budget program reductions. In prior years, the Corporation acquired both the tactical military aircraft and space systems businesses of General Dynamics, as well as the GE Aerospace businesses.

Operating profit by industry segment for each of the three years in the period ended December 31, 1995 is also presented in Note 15 to the consolidated financial statements. The following table displays the pretax impact of the nonrecurring items as reflected in operating profit for both 1995 and 1994 as identified to each segment.

(In millions)	***1995***
Nonrecurring Items	
Space & Strategic Missiles	$(263)
Aeronautics	(138)
Information & Technology Services	(24)
Electronics	(93) fs
Energy, Materials and Other	

The 1995 total in the above table reflects the merger related and consolidation expenses discussed previously, while the 1994 total consists of the $118 million Materials IPO gain and the receipt of the $50 million acquisition termination fee from the proposed Grumman acquisition discussed previously.

The following table depicts operating profit excluding nonrecurring items for each of the three years in the period ended December 31, 1995. The subsequent discussion of significant operating results of each business segment excludes the impact of the nonrecurring items. This discussion should also be read in conjunction with the industry segment information contained in Note 15 to the consolidated financial statements.

Space & Strategic Missiles

Net sales of the Space & Strategic Missiles segment increased by 12 percent in 1995 compared to 1994 after decreasing by eight percent in 1994 compared to 1993. The increase in 1995 can be attributed primarily to the inclusion for the full year of the former GD Space Systems, which the Corporation acquired on May 1, 1994. The operations of this acquired unit consist primarily of the Atlas launch services program, which recorded twelve successful Atlas II and Atlas E launches in

1995 versus four launches in the eight months of 1994 when the program results were included in the Corporation's results of operations. The 1995 net sales were also favorably impacted by an increase in activity in various classified programs throughout the segment.

The decrease in net sales between 1994 and 1993 was principally the result of a 21 percen-0.232 Tc 1.119 T

Lockheed antinued

have liability at those sites where it has been designated a PRP, the Corporation 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 cleanups 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,

The Corporation's Responsibility for Financial Reporting

The management of Lockheed Martin Corporation prepared and is responsible for the consolidated financial statements and all related financial information contained in this report. The consolidated financial statements, which include amounts based on estimates and judgments, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis.

The Corporation maintains a system of internal accounting controls designed and intended to provide reasonable assurance that assets are safeguarded, transactions are properly executed and recorded in accordance with management's authorization, and accountability for assets is maintained. An environment that establishes an appropriate level of control consciousness is maintained and monitored and includes examinations by an internal audit staff and by the independent auditors in connection with their annual audit.

The Corporation's management recognizes its responsibility to foster a strong ethical climate. Management has issued written policy statements which document the Corporation's business code of ethics. The importance of ethical behavior is regularly communicated to all employees through the distribution of written codes of ethics and standards of business conduct and through ongoing education and review programs designed to create a strong compliance environment.

The Audit and Ethics Committee of the Board of Directors is composed of eight outside directors. This Committee meets periodically with the independent auditors, internal auditors and management to review their activities.

The consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report follows.

Marcus C. Bennett
Senior Vice President and Chief Financial Officer

Robert E. Rulon
Vice President and Controller

Report of Ernst & Young LLP, Independent Auditors

Board of Directors and Stockholders
Lockheed Martin Corporation

We have audited the accompanying consolidated balance sheet of Lockheed Martin Corporation as of December 31, 1995 and 1994, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whethe (e)Tj0.093 Tc 0iTj0.274 T73 Tc 0.22 Tw (management)Tj0 Tc i(obtai)Ta cgj0 Tc (.)Tj0.7

Consolidated Statement of Earnings

(In millions, except per share data)	***1995***	*Year Ended December 31* *1994*	*1993*
Net sales	**$22,853**	$22,906	$22,397
Costs and expenses:			
Cost of sales	**20,881**	21,127	20,857
Merger related and consolidation expenses	**690**		
Earnings from operations	**1,282**	1,779	1,540
Other income and expenses, net	**95**	200	44
	1,377	1,979	1,584
Interest expense	**288**	304	278
Earnings before income taxes and cumulative effect of change in accounting	**1,089**	1,675	1,306
Income tax expense	**407**	620	477
Earnings before cumulative effect of change in accounting	**682**	1,055	829
Cumulative effect of change in accounting		(37)	
Net earnings	**$ 682**	$ 1,018	$ 829
Earnings per common share:			
Assuming no dilution:			
Before cumulative effect of change in accounting	**$ 3.28**	$ 5.32	$ 3.99
Cumulative effect of change in accounting		(.20)	
	$ 3.28	$ 5.12	$ 3.99
Assuming full dilution:			
Before cumulative effect of change in accounting	**$ 3.05**	$ 4.83	$ 3.75
Cumulative effect of change in accounting		(.17)	
	$ 3.05	$ 4.66	$ 3.75

 See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(In millions)	1995	Year Ended December 31 1994	1993
Operating Activities			
Earnings before cumulative effect of change in accounting	**$ 682**	$1,055	$ 829
Adjustments to reconcile earnings to net cash provided by operating activities:			
Merger related and consolidation — expenses	**690**	—	—
— payments	**(208)**	—	—
Depreciation and amortization	**605**	638	680
Amortization of intangible assets	**316**	299	256
Deferred federal income taxes	**(116)**	73	165
Gain—Materials public offering	**—**	(118)	—
Acquisition termination fee	**—**	(50)	—
Changes in operating assets and liabilities:			
Receivables	**(394)**	(169)	80
Inventories	**430**	(221)	63
Customer advances and amounts in excess of costs incurred	**(294)**	20	(209)
Other	**(419)**	(34)	(405)
Net cash provided by operating activities	**1,292**	1,493	1,459
Investing Activities			
Additions to properties, net of purchased operations	**(531)**	(509)	(536)
Acquisition, investment and divestiture activities	**(294)**	(125)	(2,420)
Net proceeds — Materials public offering	**—**	189	—
Other	**126**	(57)	148
Net cash used for investing activities	**(699)**	(502)	(2,808)
Financing Activities			
Decreases in short-term borrowings	**(14)**	(7)	(9)
Increases in long-term debt	**125**	43	2,281
Repayments and extinguishments of long-term debt	**(287)**	(512)	(741)
Issuances of common stock	**61**	32	88
Purchases of common stock	**(150)**	—	—
Dividends on common stock	**(254)**	(214)	(215)
Dividends on preferred stock	**(60)**	(60)	(45)
Net cash (used for) provided by financing activities	**(579)**	(718)	1,359
Net increase in cash and cash equivalents	**14**	273	10
Cash and cash equivalents at beginning of year	**639**	366	356
Cash and cash equivalents at end of year	**$ 653**	$ 639	$ 366

See accompanying Notes to Consolidated Financial Statements.

C o n s o l i d a t e d   B a l a n c e   S h e e

(In millions)

Note 1 - Summary of Significant Accounting Policies

Organization - Lockheed Martin Corporation (Lockheed Martin or the Corporation) is engaged in the design, manufacture, integration and operation of a broad array of products and services ranging from aircraft, spacecraft and launch vehicles to energy management, missiles, electronics, and information systems. The Corporation serves customers in both domestic and international defense and civilian 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 and majority-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions, in particular estimates of anticipated contract costs and revenues utilized in the earnings recognition process, that affect the profits are taken into

Note 2 - Formation of Lockheed Martin and Related Consolidation Activities

On August 29, 1994, Lockheed Martin Corporation, a newly formed corporation, Lockheed Corporation (Lockheed) and Martin Marietta Corporation (Martin Marietta) (collectively, the Corporations) entered into an Agreement and Plan of Reorganization (the Reorganization Agreement) whereby the Corporations would merge through an exchange of stock (the Business Combination). The Business Combination was consummated after stockholders' approval on March 15,1995.

Under the terms of the Reorganization Agreement, each outstanding share of Lockheed common stock was exchanged for 1.63 shares of Lockheed Martin common stock, and each outstanding share of Martin Marietta common stock and preferred stock was exchanged for one share of Lockheed Martin common stock and preferred stock, respectively.

The Business Combination constituted a tax-free reorganization and qualified for the pooling of interests method of accounting. Under this accounting method, the assets and liabilities of Lockheed and Martin Marietta were carried forward to Lockheed Martin at their historical recorded bases. Subsequent to the Business Combination, Lockheed, Martin Marietta and certain other subsidiaries were merged with and into the Corporation. The accompanying consolidated financial statements, which reflect the combined balance sheets, results of operations and cash flows for Lockheed Martin, have been derived from the balance sheets, results of operations and cash flows of the separate Corporations for periods before the Business Combination, combined, reclassified and conformed, as appropriate, to reflect amounts for the combined entity. Sales and earnings of the individual entities were as follows:

[a] Amounts for Lockheed have been adjusted for the 1.63 exchange ratio related to the Business Combination.
[b] Amounts for Martin Marietta do not include the cumulative effect of changes in accounting for post-retirement benefits other than pensions and for postemployment benefits as the timing of the adoption of such changes was adjusted to January 1, 1992 to conform to Lockheed's timing of adoption.

Combining adjustments were recorded to eliminate intercompany sales and cost of sales in each year. No adjustments were made to eliminate the related intercompany profit in ending inventories as such amounts were not material. Adjustments were also made to conform Lockheed's method of accounting for timing differences in cost recognition between SFAS No. 87, "Employers' Accounting for Pensions," and applicable government contract accounting principles to be consistent with Martin Marietta's method, and to conform Lockheed's provisions for state income taxes to Martin Marietta's methodology. Further adjustments were recorded to reflect the tax impact of these adjustments.

During the first quarter of 1995, the Corporation recorded a $165 million pretax charge for merger related expenses. On June 26, 1995, the Corporation announced a corporate-wide consolidation plan under which the Corporation would close 12 facilities and laboratories as well as 26 duplicative field offices in the U.S. and abroad, eliminating up to approximately 12,000 positions. In conjunction with the announcement, the Corporation recorded accruals for severance, lease termination and certain other costs as well as approximately 1 0 0 1 375.84 152.64

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 amortized for government contracting purposes and included in future pricing of the Corporation's products and services. The Corporation anticipates that a substantial portion of the total costs of the consolidation plan will be reflected in future sales and cost of sales. The Corporation recorded a pretax charge of $525 million for the consolidation plan which represents the portion of the accrued costs and net realizable value adjustments that are not probable of recovery. The after-tax effect of these charges was $436 million, or $1.96 per common share assuming full dilution. As of December 31, 1995, the total merger related and consolidation plan expenditures were approximately $208 million which primarily relate to the Business Combination, the elimination of positions and the closure of foreign and domestic marketing offices. Approximately $400 million of accrued merger and consolidation costs are included in other current liabilities at December 31, 1995.

Other costs of the consolidation plan, which include relocation of personnel and programs, retraining, process re-engineering and certain capital expenditures, among others, generally will be recognized when incurred. The Corporation currently anticipates that the remaining consolidation costs will be incurred by the end of 1997.

Note 3 - Transaction Agreement with Loral Corporation

In January 1996, the Corporation entered into an Agreement and Plan of Merger (the Merger Agreement), dated as of January 7, 1996, with Loral Corporation (Loral) for a series of interrelated transactions with a total estimated value of approximately $9.4 billion. Under the terms of the Merger Agreement, the Corporation intends to acquire the defense electronics and systems integration businesses and certain other businesses of Loral for approximately $9.1 billion, including $2.1 billion of assumed debt. Of the total, approximately $7 billion will be paid directly to Loral shareholders by the Corporation through a tender offer for all outstanding shares of Loral common stock for $38.00 per share in cash. A Schedule 14D-1 relating to the tender offer was filed with the Securities and Exchange Commission on January 12, 1996. Following the consummation of the tender offer, Loral will distribute, for each share of Loral common stock previously held, one share of common stock of a newly-formed company, Loral Space & Communications, Ltd. (Loral Space), which will own substantially all of the space and satellite telecommunications interests of Loral. Finally, the Corporation will invest $344 million in Loral Space for the acquisition of shares of preferred stock that are convertible into 20 percent of Loral Space's common stock on a fully diluted basis. The Corporation's offer is contingent, among other things, on the tendering of two-thirds of Loral's outstanding shares and on regulatory approvals, and is expected to close in the first half of 1996. If the business combination with Loral is consummated, the purchase method ofCorpor816 Tw (lTw (acquisitio)Tj-e)T

Note 7 - Property, Plant and Equipment

Property, plant and equipment consisted of the following components:

(In millions)	***1995***	*1994*
Land	**$ 362**	$ 332
Buildings	**2,494**	2,419
Machinery and equipment	**5,329**	5,425
	8,185	8,176
Less accumulated depreciation and amortization	**(5,020)**	(4,721)
	$3,165	$3,455

Note 8 - Debt

Long-term debt consisted of the following components:

Type (Maturity Dates) *(In millions)*	Range of Interest Rates	***1995***	*1994*
Notes Payable:			
Fixed rate (1996-2023)	4.5-9.4%	**$2,172**	$2,215
Variable rate (1995)	(a)	**—**	200
Debentures (2011-2025)	7.0-7.9%	**828**	703
ESOP obligations (1996-2004)	8.3-8.4%	**355**	382
Payment obligations assumed from GE (1996)	5.0%	**303**	310
Other obligations	6.0-9.0%	**74**	69
		3,732	3,879
Less current maturities		**(722)**	(285)
		$3,010	$3,594

During the second quarter of 1995, the Corporation retired $200 million of variable rate Notes Payable and $43 million of fixed rate Notes Payable. During the fourth quarter, Martin Marietta q0e-le) Tj0 Tc4)7n20.02e

$4.0 billion, compared with a carrying amount of approximately $3.7 billion on the consolidated balance sheet. The fair values were estimated based on quoted market prices for those instruments publicly traded. For privately placed debt, the fair values were estimated based on the quoted market prices for the same or similar issues, or on current rates offered to the Corporation for debt of the same remaining maturities.

On March 15, 1995, the Corporation entered into a revolving credit agreement (the Credit Agreement) with a group of domestic and foreign banks. The Credit Agreement makes available $1.5 billion through March 14, 2000. Borrowings under the Credit Agreement would be unsecured and bear interest, at the Corporation's option, at rates based on the Eurodollar rate or a bank base rate (as defined). The Credit Agreement contains a financial covenant relating to leverage, and provisions which relate to certain changes in control. There have been no borrowings under the Credit Agreement.

Interest payments were $275 million in 1995, $276 million in 1994 and $262 million in 1993.

Note 9 - Income Taxes

The provision for federal and foreign income taxes consisted of the following components:

(In millions)	***1995***	*1994*	*1993*
Federal income taxes:			
Current	**$510**	$538	$304
Deferred	**(116)**	73	165
Total federal income taxes	**394**	611	469
Foreign income taxes	**13**	9	8
Total income taxes provided	**$407**	$620	$477

Net provisions for state income taxes are included in general and administrative expenses, which are primarily allocable to government contracts. Such state income taxes were $86 million for 1995, $50 million for 1994 and $86 million for 1993.

Note 10 - Other Income and Expenses

Other income and expenses, net consisted of the also be granted cash-based incentive awards, such as performance units. These awards may be granted either individually or in combination with other awards. Options to purchase common stock will be at an part, with stock released from the suspense account at approximately 1.2 million shares per year based upon the debt repayment schedule through the year 2004. The balance of the stock portion of the matching obligation is fulfilled through purchases of common stock from terminating participants or on the open market.

Effective January 1, 1994, the Corporation adopted SOP No. 93-6. Among other things, under this method of accounting, the cost of the ESOP includes the interest paid by the ESOP trust to service the debt (approximately $31 million and $33 million for 1995 and 1994, respectively).

The Lockheed salaried ESOP trust held approximately 22 million and 23 million issued shares of the Corporation's common stock at December 31, 1995 and 1994, respectively, representing about 11 percent of the Corporation's total common shares outstanding in each period. The 22 million shares held at December 31, 1995 consisted of approximately 12 million allocated shares and 10 million unallocated shares. The fair value of th

Actuarial determinations were base

Notes

ship and land-based radar; radio frequency, infrared, and electro-optical countermeasure systems; surveillance systems; control systems; ordn (87tf10 Tc (p)Tj0.146 T4 631.44 Tm(ed)Tj0 36 (,)Tj0.059 Tc 0 Tw 1 008. 1

Net Sales By Customer Category

(In millions)	1995	1994	1993
U.S. Government[a]			
Space & Strategic Missiles	**$ 6,025**	$ 5,594	$ 6,663
Aeronautics	**4,274**	4,970	4,937
Information & Technology Services	**2,885**	2,849	2,737
Electronics	**2,418**	2,999	3,042
Energy, Materials and Other	**168**	152	118
	$15,770	$16,564	$17,497
Foreign governments			
Space & Strategic Missiles	**$ 112**	$ 290	$ 282
Aeronautics	**1,966**	1,958	1,408
Information & Technology Services	**72**	155	9
Electronics	**837**	1,037	1,028
Energy, Materials and Other	**—**	—	—
	$2,987	$3,440	$2,727
Commercial			
Space & Strategic Missiles	**$1,384**	$ 835	$ 348
Aeronautics	**377**	163	256
Information & Technology Services	**1,571**	1,267	966
Electronics	**39**	19	22
Energy, Materials and Other	**725**	618	581
	$4,096	$2,902	$2,173

[a] *Sales made to foreign governments through the U.S. Government are included in sales to foreign governments.*

Export sales were $3.7 billion, $3.6 billion and $2.8 billion in 1995, 1994 and 1993, respectively.

Note 16 - Summary of Quarterly Information (Unaudited)

(In millions, except a)

Consolidated Financial Data

Six Year Summary

Board of Directors

Norman R. Augustine
President and Chief Executive Officer, Lockheed Martin Corporation

Marcus C. Bennett
Senior Vice President and Chief Financial Officer, Lockheed Martin Corporation

Lynne V. Cheney
W.H.Brady, Jr., Distinguished Fellow, American Enterprise Institute

A. James Clark
Chairman and President, Clark Enterprises, Inc.

Vance D. Coffman
Executive Vice President and Chief Operating Officer, Lockheed Martin Corporation

Edwin I. Colodny
Of Counsel, Paul, Hastings, Janofsky & Walker

Lodwrick M. Cook
Chairman Emeritus, ARCO

James L. Everett, III
Retired Chairman, Philadelphia Electric Company

Houston I. Flournoy
Special Assistant to the President, Governmental Affairs, University of Southern California

James F. Gibbons
Dean, School of Engineering, Stanford University

Edward L. Hennessy, Jr.
Retired Chairman, AlliedSignal Inc.

Edward E. Hood, Jr.
Retired Vice Chairman, General Electric Company

Caleb B. Hurtt
Retired President and Chief Operating Officer, Martin Marietta

Gwendolyn S. King
Senior Vice President, Corporate and Public Affairs, PECO Energy Company

Lawrence O. Kitchen
Retired Chairman of the Board and Chief Executive Officer, Lockheed Corporation

Gordon S. Macklin
Chairman, White River Corporation

Vincent N. Marafino
Retired Executive Vice President, Lockheed Martin Corporation

Eugene F. Murphy
President and Chief Executive Officer, GE Aircraft Engines.

James A. Blackwell, Jr.
Vice President and President and Chief Operating Officer, Aeronautics Sector

Harold T. Bowling
Vice President

Peter A. Bracken
Vice President

Melvin R. Brashears
Vice President and President and Chief Operating Officer, Space & Strategic Missiles Sector

William B. Bullock
Vice President

Michael F. Camardo
Vice President

Joseph R. Cleveland
Vice President

Vance D. Coffman
Executive Vice President and Chief Operating Officer

Thomas A. Corcoran
Vice President and President and Chief Operating Officer, Electronics Sector

Robert B. Corlett
Vice President

Peter DeMayo
Vice President

Philip J. Duke
Vice President

John F. Egan
Vice President

Ronald R. Finkbiner
Vice President

Jack S. Gordon
Vice President

General Information

As of December 31, 1995, there were approximately 43,361 holders of record of Lockheed Martin common stock and 198,601,608 shares outstanding.

Common Stock Prices (New York Stock Exchange—composite transactions)

1995 Quarters	High	Low	Close
1st*	54 3/8	50 1/4	52 7/8
2nd	64 7/8	50	63 1/8
3rd	68 1/8	59 3/8	67 1/8
4th	79 1/2	63	79

Transfer Agent & Registrar

First Chicago Trust Company of New York
P. 0. Box 2536, Suite 4694
Jersey City, New Jersey 07303-2536
Telephone: 1-800-519-3111

Dividend Reinvestment Plan

Lockheed Martin's Dividend Reinvestment and Stock Purchase Plan offers stockholders an opportunity to purchase additional shares through automatic dividend reinvestment and/or voluntary cash investments. For more information, contact our transfer agent, First Chicago Trust Company of New York at 1-800-519-3111.

Independent Auditors

Ernst & Young LLP
1225 Connecticut Avenue, N. W.
Washington, D.C. 20036

Common Stock

Stock symbol: LMT
Listed: New York

Annual Report on Form 10-K

Stockholders may obtain, without charge, a copy of Lockheed Mar- tin

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 Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All forward looking statements involve risks and uncertainties. The forward looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A and 21E. For a discussion identifying some important factors that could cause actual results to differ materially from those anticipated in the forward looking statements see the Corporation's Securities and Exchange Commission filings, including but not limited to, the discussion of "Competition and Risk" and the discussion of "Government Contracts and Regulations" on pages 10 through 12 and pages 13 through 14, respectively, of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results off

[illegible] earnings objectives and to exercising prudence in the use of our assets and resources.

For our suppliers we are committed to fair competition and the sense of responsibility required of a good customer.

Shareholders desiring additional information

Principal photography by Eric Schulzinger. Designed and produced by Taylor & Ives, Inc., NYC.

LOCKHEED MARTIN

Lockheed Martin Corporation
6801 Rockledge Drive
Bethesda,MD 20817