ANNUAL REPORT 2003

LOCKHEED MARTIN CORPORATION

WE NEVER FORGET

THE IMPORTANCE OF WHAT WE'RE DOING OR

WHO WE'RE DOING IT FOR

LOCK

Vance D. Coffman
Chairman and Chief Executive Officer

Robert J. Stevens
President and Chief Operating Officer

Financial performance and portfolio shaping are only part of the picture; Lockheed Martin consistently works to be a trusted and valued partner with our customers in the United States and worldwide. Consequently, last year we registered some impressive operational achievements:

- In 2003, the F/A-22 team continued to address avionics stability challenges, operational testing began on schedule, high quality aircraft are being delivered, and the team continues to make solid progress in the transition from development to production.
- In 2003, Lockheed Martin saw a resurgence in its space business with 11 new launches awarded and orders placed for five new commercial satellites.
- The Patriot Advanced Capability (PAC-3) missile, the world's first operational weapon system to employ hit-to-kill technology, made its operational debut during Operation Iraqi Freedom, defending troops and installations against ballistic missile threats.
- We

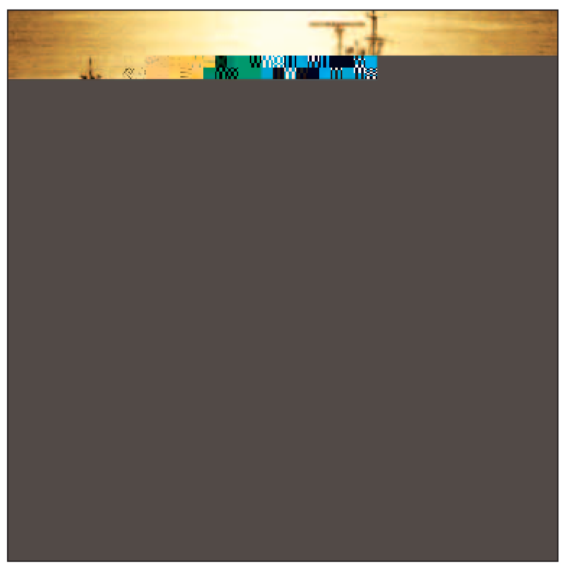
PARTNERING TO HELP CUSTOMERS MEET THEIR

DEFINING MOMENTS™

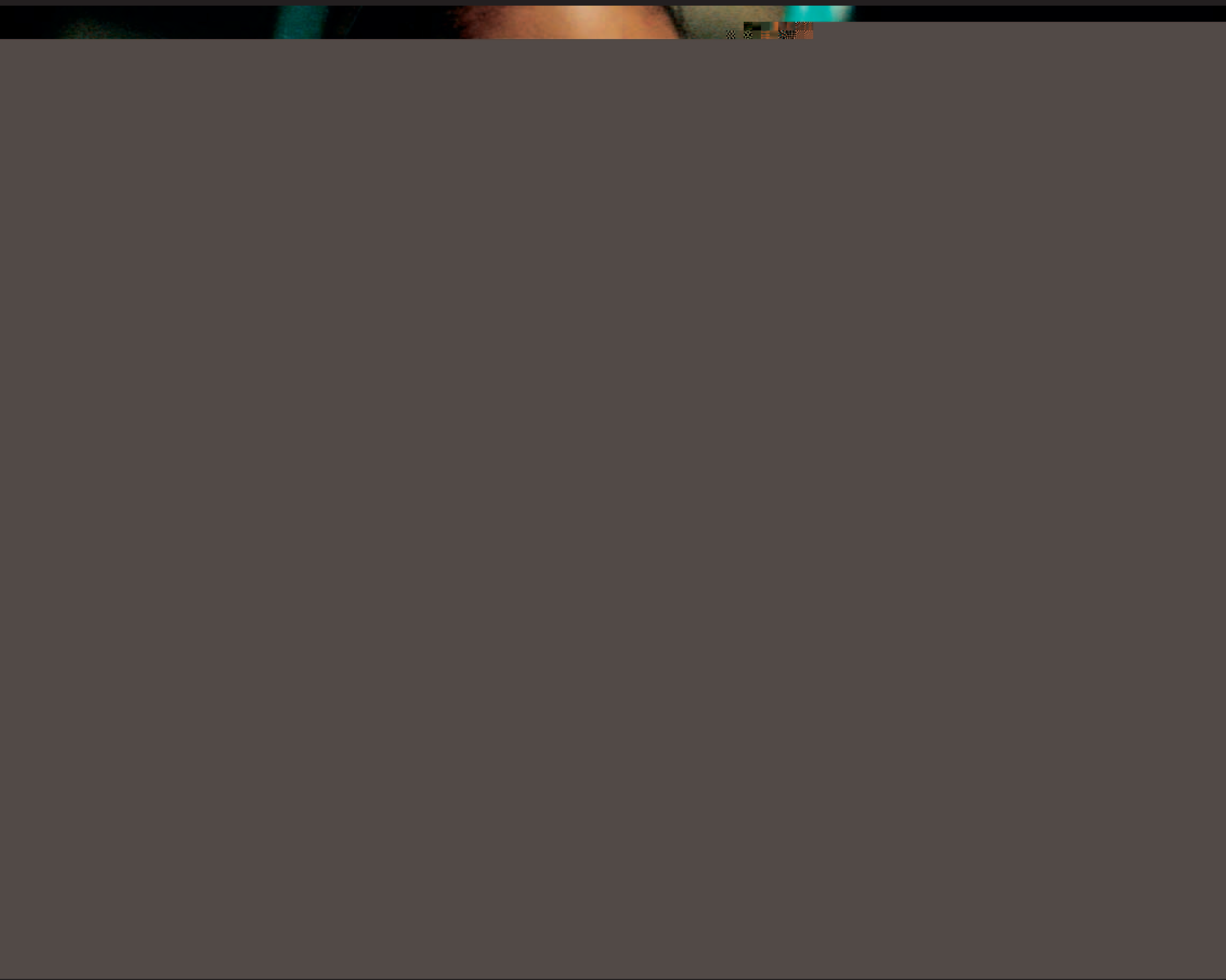
U.S. ARMED SERVICES and allied forces apply cutting-edge technologies from Lockheed Martin that enable them to turn data into knowledge, and knowledge into action. These systems link assets in space, in the air, at sea and on land with the goal of giving commanders the full picture of the battlespace in real-time. Information Superiority is the essence of the Department of Defense's drive to Net-Centric Operations.

LOCKHEED MARTIN'S CAPABILITIES are aligned strongly with the highest priorities of our customers, which are mainly large U.S. and allied government agencies responsible for their nations' most important challenges.

Whether the mission is defense, homeland security or managing complex civil government Information T



DISTINGUISHED BY WHOLE-SYSTEM THINKING AND ACTION™



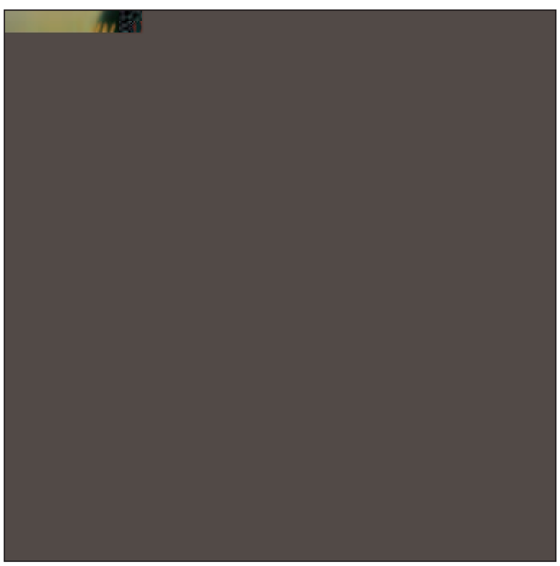
THE EFFECTIVENESS OF MISSILE DEFENSE SYSTEMS depends on robust and extraordinarily reliable command and control systems. Lockheed Martin is working on significant missile defense programs including: Space-Based Infrared System-High (SBIRS-H), Battle Management Command and Control, Terminal High Altitude Area Defense (THAAD), Patriot Advanced Capability (PAC-3) Missile, Medium Extended Air Defense System (MEADS), Multiple Kill Vehicle, Airborne Laser, Targets and Countermeasures, Aegis sea-based missile defense, and the Boost Vehicle Plus.

RECOGNIZING THAT THE COMPLEX issues facing our Defense, Homeland Security and Government IT customers require integrated solutions, Lockheed Martin embraces the challenge by taking a whole-system approach.

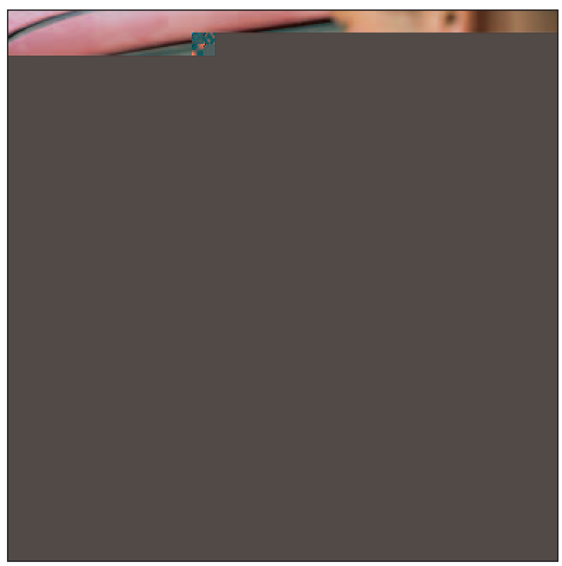
As a lead systems integrator, Lockheed Martin is adept at combining the best of technologies and teams of dedicated people — supporting Net-Centric military and Citizen-Centered civil government agencies. That includes defense electronics that raise the capabilities of platforms such as surface ships, submarines, helicopters and fixed-wing aircraft.

We are combining industry teams, information systems and advanced technologies on the Deepwater Project for the U.S. Coast Guard as it fulfills its mission of protecting America's coastlines. Deepwater will recapitalize the Coast Guard by upgrading ships, aircraft, logistics, and command and control systems.

As a leader in E-Government solutions, we at Lockheed Martin apply our extensive Information Technology capability across the breadth of more than a dozen federal agencies that serve the American people, such as the Social Security Administration, which processes and delivers 50 million checks a month.

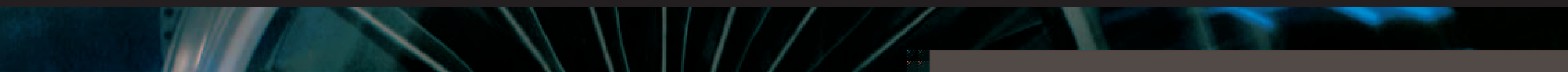


BY UTILIZING HIGH-SPEED and highly accurate IT solutions, government agencies can better assist the public with benefits, information and services. Lockheed Martin provides the Department of Veterans Affairs with IT infrastructure support so those who have served their country can be better served.

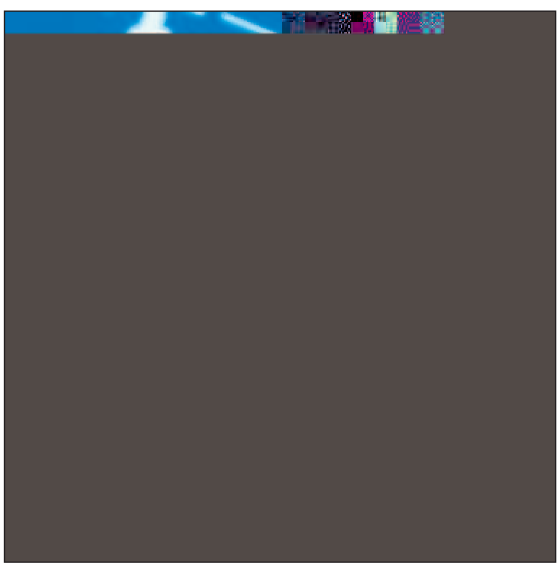


LOCKHEED MARTIN TECHNOLOGIES help the U.S. Coast Guard and U.S. Customs & Border Protection keep America secure. Our technologies are being applied to chemical and biological agent detection as well as biometrics that can help our government customers ensure the security and safety of their operations.

TAKING ON CHALLENGES WITH A



OUR COMBAT AIRCRAFT are designed and built with the same passion that has inspired inventors and innovators through a century of powered flight. Lockheed Martin's Paul Bevilaqua *(above)* designed the unique and advanced convertible lift fan propulsion system that powers the F-35 Joint Strike Fighter. The first truly global combat aircraft, the F-35 has become an innovative model for U.S. and international partnering.



DELIVERING DISCIPLINED PERFORMANCE™

REDEFINING WHAT IS POSSIBLE is a term that well describes America's exploration of space for the sake of scientific discovery, defense, telecommunications and a better understanding of our own planet Earth, including its weather and natural resources. We will launch aboard our Atlas V vehicle *(interior shown above)* the first-ever probe to Pluto in 2006.

LOCKHEED MARTIN IS EQUALLY committed to operational and financial performance with a balanced business base and a focus on keeping programs on budget, on schedule and on target. As we make our customers' mission our own, we are dedicated to delivering products and services that perform with extraordinary reliability.

We must have the best talent available to meet the complex requirements of our customers in the United States and worldwide. Lockheed Martin is dedicated to hiring and retaining a diverse workforce with the creativity and innovation that will continue our long-standing commitment to excellent performance.

Disciplined performance also means adherence to a high standard of corporate governance and a rigorous program of ethics training among all our employees. We are motivated by a continually reinforced set of values:

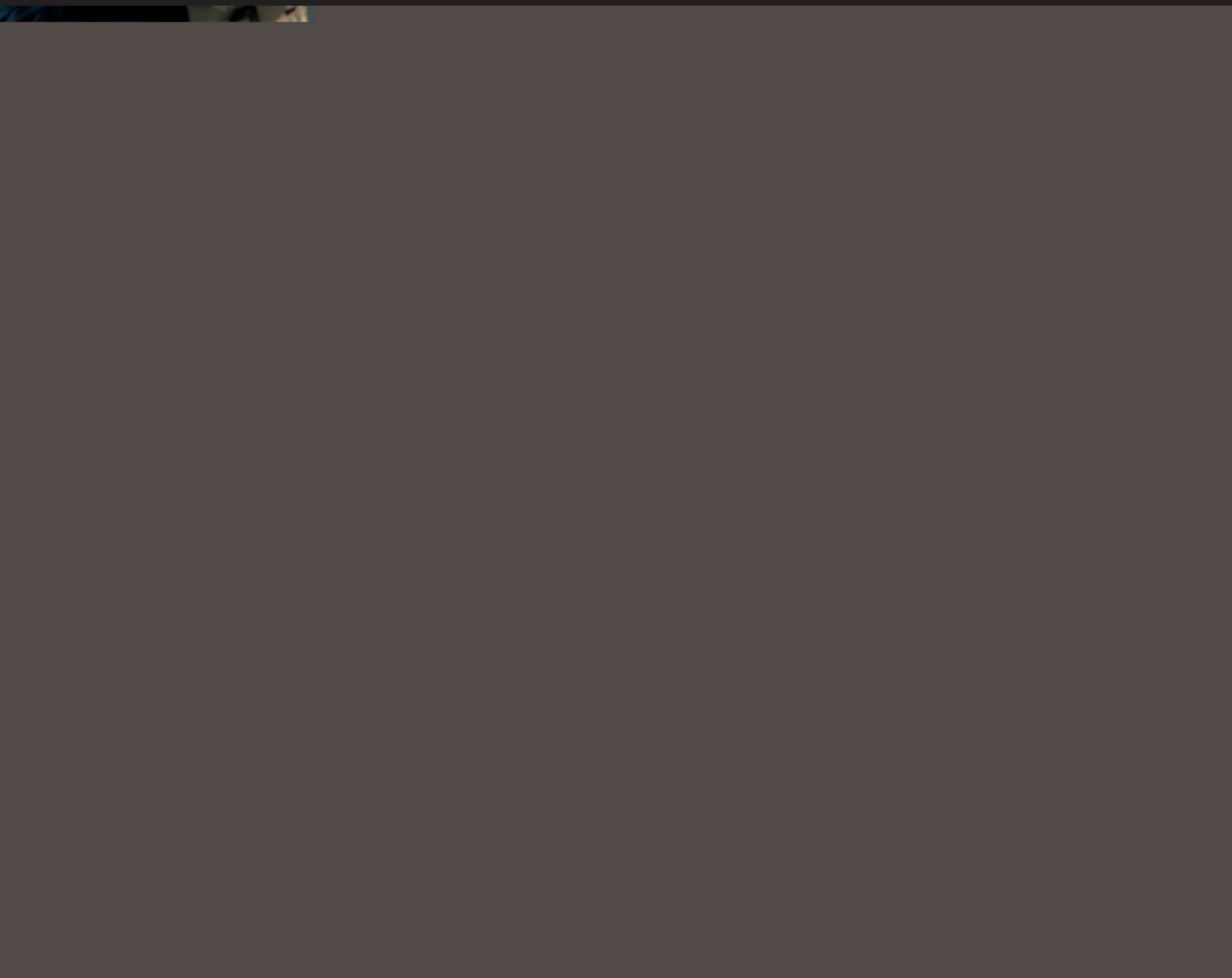
- Ethics and Integrity
- People and Teamwork
- Excellence and a "Can-Do" Spirit

THE SERIOUSNESS AND URGENCY of the work the people of Lockheed Martin perform for the nation and our allies around the world are keenly felt by each and every one of us, such as when our C-130J airlifter is called to duty delivering aid after a natural disaster or when it is necessary to deploy military forces.

WE ALSO SUPPORT our NASA customer's mission to return the U.S. Space Shuttle to flight, as well as support the President's goal to establish a manned presence on the moon and to eventually send astronauts to Mars.

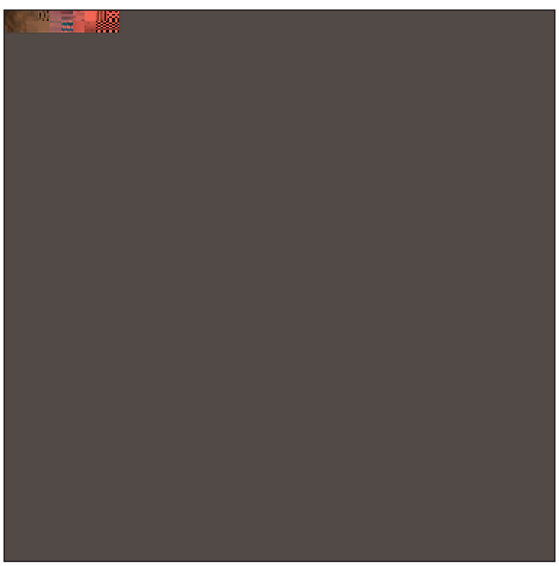
LOCKHEED MARTIN:

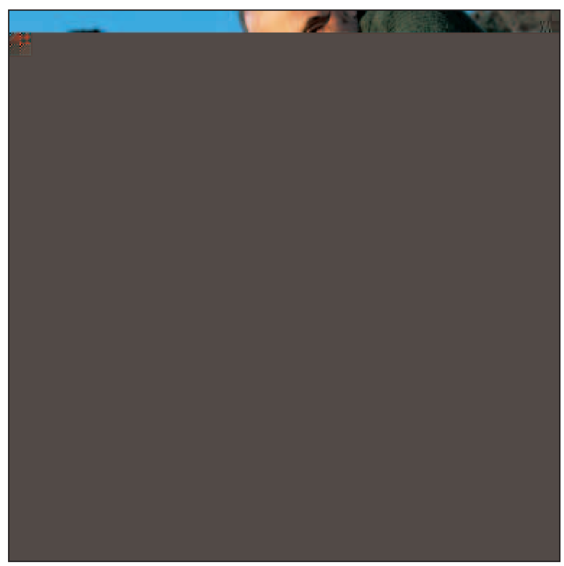
A TRUSTED AND VALUED PARTNER™



A NEW GENERATION OF INVENTORS, inspired by the pioneers who took to the skies a century ago, is experiencing the excitement of learning through Space Day. Lockheed Martin is a proud sponsor of Space Day, dedicated to encouraging those who yearn to push the boundaries of what is possible. Aspiring astronauts, these students *(shown above)* put learning into action in Space Day activities.

AS A CORPORATE CITIZEN, we are a trusted and valued partner with the communities in which we work. That includes joining with our schools and communities in





FINANCIAL SECTION

OF THE 2003 ANNUAL REPORT

FINANCIAL SECTION ROADMAP

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

Lockheed Martin's Business

Lockheed Martin Corporation is mainly involved in the research, design, development, manufacture, integration, operation and support of advanced technology systems, products and services. We have customers in domestic and international defense, civil government, and commercial markets, and over 75% of our sales over the past three years have been to agencies of the U.S. Government. Our main areas of focus are in the defense, space, homeland security, and government information technology markets.

We operate in five principal business segments: Aeronautics, Electronic Systems, Space Systems, Integrated Systems & Solutions and Information & Technology Services. As a lead systems integrator, our products and services range from aircraft, spacecraft and launch vehicles to missiles, electronics and information systems, including integrated net-centric solutions.

Financial Section Overview

The financial section includes the following:

Management's discussion and analysis, or MD&A Finni.8 TF1cvCsuD -0v7AInfor9ngion and m4.8(w)]TJ /F2dr MD(e)enal s9.-0.0i 3ing4F

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

The Office of Management and Budget recently announced its intention to conduct a comprehensive review of the F/A-22 Raptor program. This independent assessment will evaluate the performance, requirements and cost aspects of the program. We believe sustained improved performance in production and testing of the F/A-22 will re-validate the transformational qualities of this weapons system, and the suitability of the F/A-22 for continued production by the U.S. Air Force.

We continue to expand our capabilities in critical intelligence, knowledge management and E-Government solutions. Consistent with the President's agenda, the expected growth in business process outsourcing has been enabled by recent rule changes for public/private competitions. In addition, recent trends have indicated an increase in demand by federal and civil government agencies for upgrading and investing in new information technology systems and solutions. As a result, we continue to focus our resources in support of infrastructure modernization that allows for interoperability and communication across agencies.

In addition, the increase in emphasis on homeland security may increase demand for our capabilities in areas such as air traffic management, ports and waterways security, biohazard detection systems for postal equipment, information systems security and other technical systems solutions.

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

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

Space Business

The commercial launch vehicle marketplace remains very competitive due mainly to low demand for new satellites as a result of excess capacity in the telecommunications industry. The reduction in demand has resulted in pricing pressures in both the launch vehicle and satellite markets. We received new orders for both commercial satellites and launch vehicles in 2003; however, the majority of those orders relate to replacement satellites versus an expansion of telecommunications capacity.

The above factors have impacted orders for all of our commercial launch vehicles, including the Evolved Expendable Launch Vehicle (EELV or Atlas V), our next generation launch vehicle program in which we have made significant investments over the past few years. The Atlas V is available for both commercial and government use. This program has required investment of funds for research and development, start-up and other nonrecurring costs, and launch facilities. Some of these expenditures have been funded under an agreement with the U.S. Government. Commercial orders

Lockheed-Khrunichev-Energia International, Inc. (LKEI), a joint venture we have with two Russian government-owned space firms, has exclusive rights to market launches of commercial, non-Russian-origin space payloads on the Proton family of rockets from a launch site in Kazakhstan. Commercial Atlas and Proton launch services are marketed around the world through International Launch Services (ILS), a joint venture between Lockheed Martin and LKEI. We consolidate the results of operations of LKEI and ILS into our financial statements based on controlling financial interest. We received 7 new awards for launches on Proton vehicles in 2003. Contracts for launch services usually require substantial advances from the customer prior to launch. At the end of 2003,

Khrunichev for launches we purchased which have not yet been assigned to customers. The advances sent to Khrunichev are included on our balance sheet in inventories. Advances for launches not under contract are subject to an agreement entered into in 2002 which provides for reduced future launch payments from us to Khrunichev, contingent on the receipt of new orders as well as a minimum number of actual launches each year. As a result of this agreement, as well as our assessment in 2002 of the likelihood of customer terminations for convenience for launches under contract, we reduced the carrying value of our advances to Khrunichev and recognized a charge, net of state income tax benefits, of $173 million. The charge reduced 2002 net earnings by $112 million ($0.25 per diluted share). At year-end 2003, payments to Khrunichev included in inventories, net of the amount of the reserve recorded in 2002, totaled $327 million. Our ability to realize the remaining amounts may be affected by Khrunichev's ability to provide the launch services and the political environment in Russia. Through the end of 2003, launch services through LKEI and ILS have been provided according to contract terms.

The Corporation has entered into an agreement with RD including technological uncertainties and obsolescence, and having to depend on Congressional appropriation and allotment of funds each year. Many of our programs involve the development and over a longer period of time or to perform a substantial level of development effort in comparison to the total value of the contract, revenues are recorded when we achieve performance milestones or using the cost-to-cost method to measure percentage of completion. Under the cost-to-cost method of accounting, we recognize revenue based on the ratio of costs incurred to our estimate of total costs at completion. As examples, we use this methodology for our F/A-22 Raptor program and the AEGIS Weapons System program. In some instances, long-term production programs may require a significant level of development and/or a low level of initial production units in management personnel who are independent from the business segment performing work under the contract. Costs incurred and allocated to contracts with the U.S. Government are reviewed for compliance with regulatory standards by our personnel, and are subject to audit by the Defense Contract Audit Agency.

Post-Retirement Benefit Plans

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

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

We use judgment in reassessing these assumptions each year because we have to consider current market conditions and, in the case of the expected long-term rate of return on plan assets, past investment experience, judgments about future market trends, changes in interest rates and equity market performance. We also have to consider factors like the timing and amounts of expectedAlso, at the end of 2002, we recorded a noncash after-tax adjustment of $1.5 billion in the stockholders' equity section of our balance sheet to reflect a minimum pension liability for most of our pension plans. The adjustment did not impact earnings, but reduced our stockholders' equity. This adjustment is calculated on a plan-by-plan basis, and is determined by comparing the accumulated benefit obligation (ABO) for each plan to the fair value of that plan's assets. The amount by which the ABO exceeds the fair value of the plan assets, after adjusting for previously recorded accrued or prepaid pension cost for the plan, must be recorded as a minimum pension liability, with a corresponding increase in an intangible asset, if appropriate, and a reduction to stockholders' equity, consistent with FAS 87. In 2003, we reduced the adjustment recorded in stockholders' equity in 2002 by about $300 million, mainly due to favorable asset returns fort io3urable under contracts with the U.S. Government. Funded amounts are recovered over time through the pricing of our products and services on U.S. Government contracts, and therefore are recog-

The FAS/CAS pension adjustment represents the difference between pension expense or income calculated in accordance with FAS 87 and pension costs calculated and funded in accordance with CAS. Since the CAS expense is recovered through the pricing of our products and services on U.S. Government contracts, and therefore recognized in a particular segment's net sales, the results of operations of our segments only include pension expense as determined and funded in accordance with CAS rules. Accordingly, the FAS/CAS adjustment is an amount included in the reconciliation of total segment operating profit to consolidated operating profit under GAAP. See the discussion of "Unallocated Corporate (Expense) Income, Net" under "Discussion of Business Segments."

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law by the President in December 2003. Historically, Medicare has not provided prescription drug benefits. Under the new law, Medicare will provide a prescription drug benefit beginning in 2006. The Act also provides for a federal subsidy to eligible sponsors of retiree health care benefits. At this point, there is a lack of clarity regarding how some of the key provisions of the Act will be applied and administered, and how it will impact the prescription drug benefits that we provide our retirees. In addition, specific authoritative guidance on the accounting for the federal subsidy is still pending and that guidance, when issued, could require a change to previously reported information. In recognition of these uncertainties, the Financial Accounting Standards Board decided to allow companies to defer recognition of the impact of the new law on the benefit obligations remediation are allocated to our operations as general and administrative costs. Under existing government regulations, these and other environmental expenditures relating to our U.S. Government business, after deducting any recoveries received from insurance or other PRPs, are allowable in establishing prices of our products and services. As a result, a substantial amount of the expenditures we incur are being included in our sales and cost of sales according to U.S. Government agreement or regulation.

At the end of 2003 and 2002, the total amount of liabilities recorded on our balance sheet for environmental matters was approximately $425 million and $445 million, respectively. About two-thirds of the liability recorded at the end of 2003 related to sites in Redlands, Burbank and Glendale, California, and in Great Neck, New York, mainly for remediation of soil and groundwater contamination. The remainder of the liability related to other properties (including current operating facilities and certain facilities operated in prior years) for which the financial exposure can be estimated. We

reduce the allocated amounts included in our future U.S. Government sales and cost of sales.

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consultants for Titan or its subsidiaries directly or indirectly to foreign officials. The alleged payments and provision of items of value, if true, raise questions concerning whether there has been a violation of the Foreign Corrupt Practices Act. We also are reviewing with Titan whether payments made by Titan to consultants were accurately reflected on Titan's books and records. Our review is ongoing. Together with Titan, we disclosed the allegations to the SEC and the Department of Justice. During that meeting, Lockheed Martin and Titan were informed that the Department of Justice has initiated a criminal inquiry into this matter.

Closing of the Titan transaction is subject to approval of Titan's stockholders, the absence of any material adverse change in Titan and other conditions set forth in the merger agreement. Either Lockheed Martin or Titan may terminate the merger agreement if the merger is not completed by March 31, 2004, provided that the party seeking to terminate the agreement is not then in material breach of its obligations under the merger agreement in a manner that has contributed to the failure to consummate the merger. The

(In millions, except per share data)	Operating (Loss) Profit	Net (Loss) Earnings	(Loss) Earnings per Diluted Share
YEAR ENDED DECEMBER 31, 2002			
Write-down of telecommunications investments	$ (776)	$(504)	$(1.12)
Charge related to a Russian launch services provider	(173)	(112)	(0.25)
Write-down of investment in Space Imaging and charge related to recording of guarantee	(163)	(106)	(0.23)
Benefit from R&D tax credit settlement	—	90	0.20

The FAS/CAS pension adjustment represents the difference between pension expense or income calculated for financial reporting purposes in accordance with FAS 87, and pension costs calculated and funded in accordance with U.S. Government CAS, which are reflected in the business segment results. CAS is a major factor in determining our pension funding requirements, and governs the extent of allocability and recoverability of pension costs on government contracts. The CAS expense is recovered through the pricing of our products and services on U.S. Government contracts, and therefore recognized in segment net sales. The results of operations of the segments only include pension expense as determined and funded in accordance with CAS rules.

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

Electronic Systems

Electronic Systems' operating results included the following:

(In millions)	**2003**	2002	2001
Net sales	**$ 8,991**	$ 8,685	$ 8,079
Operating profit	**858**	875	816
Backlog at year-end	**17,339**	16,034	15,333

Net sales for Electronic Systems increased 4% in 2003 as compared to 2002. Sales increases in Missiles & Fire Control (M&FC) and Maritime Systems & Sensors (MS2) more than offset a decline at Platform, Training & Transportation Systems (PT&TS). Increased volume in air defense and tactical missile programs accounted for the majority of M&FC's $250 million sales growth over 2002. In MS2, the $155 million increase in sales was primarily due to higher volume on radar and surface systems programs. The PT&TS decline of $100 million was the result of lower volume on transportation and security system activities. The majority of this decline is attributable to the 2002 rapid deployment of Transportation Security Administration (TSA) programs.

Net sales for Electronic Systems increased 8% in 2002 as compared to 2001. Sales increased as a result of higher volume in all three of the segment's lines of business. Increased sales at M&FC of $285 million were mainly due to higher volumes in air defense and on certain tactical missile programs. PT&TS' sales increased by driven by higher volumes at M&FC and PT&TS as noted in the preceding discussion of sales.

The increase in backlog during 2003 over 2002 resulted from increased orders on development programs which more than offset declines in orders on mature production programs.

Space Systems

Space Systems' operating results included the following:

(In millions)	**2003**	2002	2001
Net sales	**$ 6,021**	$ 5,287	$ 4,801
Operating profit	**403**	279	225
Backlog at year-end	**12,813**	10,701	10,797

Net sales for Space Systems increased by 14% in 2003 compared to 2002. Sales increased by $570 million in Satellites and $140 million in Strategic & Defensive Missile Systems (S&DMS) compared to 2002. The growth in Satellites is due to higher volume on government satellite programs. The growth in S&DMS is attributable to increases in both fleet ballistic missile and missile defense activities. In Launch Services, increased Titan activities offset lower sales resulting from a decline in Proton deliveries (2 in 2003 and 4 in 2002). There were 5 Atlas launches in both 2003 and 2002.

Net sales for Space Systems increased by 10% in 2002 compared to 2001. The increase in sales for 2002 resulted from higher volume in Satellites of $520 million, due to government satellite activities. This growth was partially offset by sales declines in both

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settlement costs. The 2001 results included charges for market and pricing pressures, which reduced that year's operating profit by $145 million.

The increase in backlog during 2003 as compared to 2002 was mainly due to an increase in orders for launch services, commercial satellites, and missile defense and classified activities.

Integrated Systems & Solutions

Integrated Systems & Solutions' operating results included the following:

(In millions)	**2003**	2002	2001
Net sales	**$3,420**	$3,015	$2,970
Operating profit	**291**	241	225
Backlog at year-end	**4,350**	3,556	3,874

Net sales for IS&S increased by 13% in 2003 as compared to 2002 and by 2% for 2002 over 2001. For both comparative periods, the sales increases were primarily attributable to a higher volume of intelligence, defense and information assurance activities.

Operating profit for the segment increased 21% in 2003 as compared to 2002 and by 7% for 2002 over 2001. The increases in operating profit for both comparative periods were primarily attributable to higher volume and performance improvements on the activities described above.

Information & Technology Services

Information & Technology Services' operating results included the following:

(In millions)	**2003**	2002	2001
Net sales	**$3,174**	$3,104	$2,763
Operating profit	**226**	177	114
Backlog at year-end	**4,817**	4,617	5,116

Net sales for I&TS increased by 2% in 2003 as compared to 2002. The sales increase for the year was mainly the result of volume increases of $110 million in Information Technology, wuo 9(, s. 184.661o82 lcn ulliincw,3 2Eles iase fo24 Tw i19ib)2p06. 2d8e 0 6 TD 298

(In millions)	**2003**	2002	2001
FAS/CAS pension adjustment	**$(300)**	$ 243	$ 360
Items not considered in segment operating performance	**(153)**	(1,112)	(973)
Other, net	**4**	7	11
	$(449)	$ (862)	$(602)

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

The change in the FAS/CAS pension adjustment in 2003 was mainly due to the Corporation reporting FAS pension expense versus FAS pension income in 2002. The following table shows the CAS funding that is included as expense in the segments' operating results, the related FAS (expense) income, and the resulting FAS/CAS adjustment:

(In millions)	**2003**	2002	2001
FAS 87 (expense) income	**$(484)**	$156	$354
Less: CAS expense and funding	**(184)**	(87)	(6)
FAS/CAS pension adjustment — (expense) income	**$(300)**	$243	$360

LIQUIDITY AND CASH FLOWS

Our management has set forth strategic cash deployment objectives to help ensure that we keep a focus toward growing our core business and increasing shareholder value, and that we are in a position to take advantage of opportunities to do so when they arise. Those objectives include internal investment in our business (e.g., capital expenditures, independent research and development), share repurchases, increases in dividends, debt reduction and management, and acquisitions of businesses that will complement our core operations. The following discussion highlights our cash depolyment activities over the past three years as well as our future plans.

Operating Activities

Our operating cash flow continues to be the primary source of funds for financing our activities. Cash from operations amounted to $1.8 billion in 2003, $2.3 billion in 2002 and $1.8 billion in 2001. Our earnings, adjusted for non-cash items such as depreciation, amortization and impairment charges, were the driving force behind these cash flows. Our working capital has remained relatively stable the last 2 years, even though our sales have increased by 20 percent in 2003 and 11 percent in 2002 when compared to the prior year. We attribute this to our continued discipline in managing our cash conversion cycle, including the negotiation of performance-based progress payment or advance payment terms in our contracts, inventory management, and billing and collection activities. Cash from operations is net of internal investments we have made in our business relative to independent research and development and bid and proposal activities aggregating $903 million in 2003, $830 million in 2002 and $679 million in 2001. In December 2003, we made a discretionary prepayment of $450 million to our defined benefit pension plan trust that reduced cash from operations, the majority of which will reduce our cash funding

Investing Activities

Capital expenditures — Capital expenditures for property, plant and equipment amounted to $687 million in 2003, $662 million in 2002 and $619 million in 2001. We expect our capital expenditures to increase over the next 2 years consistent with the expected growth in our business.

Acquisitions and divestitures — In addition to our internal investment in capital expenditures and independent research and development activities, we also selectively identify businesses for potential acquisition. During 2003, we paid approximately $645 million for two businesses that will strengthen our capabilities in providing IT services to defense, intelligence and other government customers. Relative to our pending acquisition of Titan, we plan to finance the cash portion of the transaction principally using existing cash and short-term investment holdings.

During the past 3 years, we have divested non-core businesses, primarily those serving commercial markets. We received cash of approximately $110 million in 2003 from the sale of our commercial IT business, $134 million in 2002 from the sale of certain discontinued telecommunications businesses and $825 million in 2001 from the sale of IMS.

In December 2003, Inmarsat Ventures, Ltd., a venture in which we held a 14% interest, was acquired by a consortium of private equity firms in a leveraged buyout transaction. In exchange for our interest, we received cash of $114 million and a 14% ownership interest in the new Inmarsat holding company, Inmarsat Holdings, Ltd., valued at $96 million. We recorded a deferred gain of $42 million from the transaction, which we would expect to recognize at such time as we sell all or a portion of our interest in the new company.

Financing Activities

Issuance and repayment of long-term debt — Cash provided from operations has been our principal source of funds to reduce our long-term debt. In 2003, we issued $1.0 billion of floating rate convertible senior debentures that bear interest at three-month LIBOR less 25 basis points, reset quarterly (the interest rate on this debt at December 31, 2003 was 0.93%). We used the proceeds from that issuance, along with cash provided by operations, to repay $2.2 billion of debt in advance of its maturity and retire other high cost debt. We used $175 million of cash for debt issuance and repayment costs to complete those transactions. Interest rates on the debt we retired early ranged from 7.25% to 8.375%. We also used $110 million in 2002 and $2.6 billion in 2001, to repay our long-term debt. The result has been a decrease in our total debt balance from $9.9 billion at December 31, 2000 to $6.2 billion at December 31, 2003, and a decrease in interest paid from $707 million in 2001 to $519 million in 2003. We expect interest payments to decline further in 2004 when the full impact of the debt repayment and refinancing activities in 2003 will be reflected in our operating results. Scheduled debt maturities are $136 million in 2004 and $15 million in 2005. We currently do not expect any material early repayments of long-term debt over the next 2 years.

Share repurchases and dividends — We also used cash to opportunistically repurchase 10.7 million of our common shares for $482 million in 2003 and 1.0 million of our common shares for $50 million in 2002. These transactions were pursuant to our share repurchase program initiated in 2002. In February 2004, an additional 20 million shares were authorized for repurchase under the program. As a result of the increase, a total of 31.3 million shares may be repurchased in the future under the program.

Shareholders were paid dividends of $261 million in 2003, $199 million in 2002 and $192 million in 2001. We paid a quarterly dividend of $0.12 per share during each of the first three quarters of 2003 and $0.22 per share for the last quarter of 2003. Quarterly dividends of $0.11 per share were paid during 2002 and 2001.

We are currently expecting to deploy a majority of the cash we generate from operations over the next 2 years (after capital expenditures) to repurchase shares and pay dividends.

CAPITAL STRUCTURE AND RESOURCES

At December 31, 2003, our total long-term debt amounted to $6.2 billion. Our long-term debt is mainly in the form of publicly issued notes and debentures. m dtgd.9(m d2T)s5.s Tc) . 0 and the22 -term debt bears interest at fixed rates. Through our repayment activities, our long-term debt balance has declined from a balance of $9.9 billion at December 31, 2000. During the last 3 years, we improved our debt-to-total capital ratio from 58% at December 31, 2000 to 48% at December 31, 2003.

Our stockholders' equity amounted to $6.8 billion at December 31, 2003, an increase of about $900 million from December 31, 2002. Net earnings, stock plan activities and a reduction of our minimum pension liability, more than offset our payment of dividends and share repurchase activities.

The $1.0 billion in floating rate convertible debentures we issued in 2003 are due in 2033. They bear interest at a rate equal to three-month LIBOR less 25 basis points, reset quarterly. Accordingly, to the extent three-month LIBOR increases or decreases by 1%, our interest expense would increase or including covenants limiting our ability and the ability of certain of our subsidiaries to encumber our assets.

Purchase obligations include agreements and requirements contracts that give the supplier recourse to us for cancellation or nonperformance under the contract or contain terms that would subject us to liquidated damages. Such agreements and contracts may, for example, be related to direct materials, obligations to sub-contractors, outsourcing arrangements, and non-cancelable commitments for property, plant and equipment. Generally, amounts for purchase obligations in the preceding table exclude contractual commitments entered into as a result of contracts we have with our U.S. Government customers. These commitments are excluded because the U.S. Government would be required to pay us for any costs we incur if they terminate our contracts with them "for convenience" pursuant to the FAR. For example, if we had commitments to purchase goods and services that were entered into as a result of a specific contract we received from a U.S. Government customer and the customer terminated the contract for convenience, any amounts we would be required to pay to settle the related commitments, as well as amounts previously incurred, would generally be reimbursed by the customer. This would also be true in cases where we perform sub-contract work for a prime contractor under a U.S. Government contract. The termination for convenience language may also be included in contracts with foreign, state projected over the next 3 years. Consistent with our desire to generate cash to reduce debt and invest in our core businesses, we expect that, depending on prevailing financial, market and economic conditions, we will continue to explore the sale of non-core businesses, passive equity investments and surplus real estate.

EQUITY INVESTMENTS

In 2002, we recorded impairment charges, net of state income tax benefits, totaling $776 million related to our investments in Intelsat, Ltd. (Intelsat), Inmarsat and New Skies Satellites, N.V. (New Skies). The charges reduced net earnings by $504 million ($1.12 per diluted share). The charges were recorded primarily due to unfavorable trends in the satellite services and telecommunications industries that were not expected to be resolved in the near term.

Intelsat, Inmarsat and New Skies are subwb-B 0.025]u(a(4uid primar2)uid et).7mai7-1.4 TDkvO(egdJ)msB 0tdate, and unless otherwise exte to complete their initial public offerings by June 30, 2004. Their ability to do so may be impacted by changes in trends and market conditions in the telecommunications industry, as well as in the capital markets. If those deadlines are not met or extended by further amendments to the legislation, the FCC may limit access by U.S. users to the satellite capacity of the privatized entities for

we paid $130 million to acquire Space Imaging's outstanding borrowings under Space Imaging's credit facility, and the guarantee was eliminated. We therefore reversed, net of state income taxes, approximately $19 million of the charge recorded in December 2002, representing the unutilized portion of the credit facility covered by our guarantee. This gain increased 2003 net earnings by $13 million ($0.03 per diluted share).

In 2001, we recorded a charge, net of state income tax benefits, of $361 million related to the impairment of our investment in Loral Space & Communications Ltd. (see Note 8 to the finanterminated, and we acquired the remaining ownership interests in Astrolink. The restructuring also entailed the settlement of existing claims related to termination of Astrolink's procurement contracts with its members, certain of their affiliates and other vendors. Under these settlements, we retained our work in process. Completion of the restructuring did not have a material impact on our financial position, results of operations or cash flows.

In 2001 we recorded charges, net of state income tax benefits, of approximately $232 million related to commitments to and impairment in the values of investments in satellite joint ventures, primarily Asia Cellular Satellite System and Americom Asia-Pacific, LLC. The charges reduced net earnings for 2001 by $153 million ($0.35 per diluted share).

Realization and valuation of our investments in equity securities may be affected by an investee's ability to obtain adequate funding, including through public and private sales of its debt and equity securities, and execute its business plans, as well as by 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 our earnings in with elimination of administrative functions. We completed sales of all of the businesses classified as held for sale in 2002 with the exception of Lockheed Martin Intersputnik (LMI). Those transactions did not have a material impact on our consolidated results of operations or financial position.

We reached an agreement to sell LMI in the third quarter of 2002; however, in April 2003, the agreement was terminated. We are continuing to treat LMI as a discontinued operation, as we are such time as we sell the business), or its ultimate sale, will have a material effect on our consolidated results of operations, financial position or cash flows.

We completed the sale of IMS, a wholly-owned subsidiary, for $825 million in cash in August 2001. This transaction resulted in a gain, net of state income taxes, of $476 million and increased net earnings by $309 million ($0.71 per diluted share). The results of IMS' operations, as well as the gain on the sale, were classified as discontinued operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

Our main exposure to market risk relates to interest rates and, to a lesser extent, foreign currency exchange rates. Our financial instruments that are subject to interest rate risk principally include short-term investments and long-term debt. Our long-term debt obligations, other than the $1.0 billion in convertible debentures issued in 2003, are generally not callable until maturity. We sometimes use interest rate swaps to manage our exposure to fixed and variable interest rates. At year-end 2003, we had agreements in place to swap fixed interest rates on approximately $70 million of our long-term debt for variable interest rates based on LIBOR. The interest rate swap agreements are designated as effective hedges of the fair value of the underlying fixed-rate debt instruments. At December 31, 2003, the fair values of interest rate swap agreements outstanding were not material. The amounts of gains and losses from changes in the fair values of the swap agreements were entirely offset by those from changes in the fair value of the associated debt obligations. Changes in swap rates would affect the market value of the agreements, but those changes in value would be offset by changes in the value of the underlying debt obligations.

We use forward foreign exchange contracts to manage our exposure to fluctuations in foreign exchange rates. These contracts are designated as qualifying hedges of the cash flows associated with firm commitments or specific anticipated transactions, and related gains and losses on the contracts, to the

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

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, the Corporation maintains a system of internal controls over financial reporting designed and intended to provide reasonable assurance, based on an appropriate cost-benefit relationship, that assets are safeguarded and transactions are properly executed and recorded. The Corporation also maintains a system of disclosure controls and procedures which includes controls and procedures designed to

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, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. 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, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 of the Notes to Consolidated Financial Statements, in 2002 the Corporation adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

McLean, Virginia
January 27, 2004

Lockheed Martin Corporation

CONSOLIDATED STATEMENT OF OPERATIONS

(In millions, except per share data)	**2003**	2002	2001
	Year ended December 31,		
NET SALES	**$31,824**	$26,578	$23,990
Cost of sales	**29,848**	24,629	22,447
Earnings from operations	**1,976**	1,949	1,543
Other income and expenses, net	**43**	(791)	(710)
	2,019	1,158	833
Interest expense	**487**	581	700
Earnings from continuing operations before taxes	**1,532**	577	133
Income tax expense	**479**	44	90
Earnings from continuing operations	**1,053**	533	43
Discontinued operations	**—**	(33)	(1,089)
NET EARNINGS (LOSS)	**$ 1,053**	$ 500	$(1,046)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic:			
Continuing operations	**$ 2.36**	$ 1.20	$ 0.10
Discontinued operations	**—**	(0.07)	(2.55)
	$ 2.36	$ 1.13	$ (2.45)
Diluted:			
Continuing operations	**$ 2.34**	$ 1.18	$ 0.10
Discontinued operations	**—**	(0.07)	(2.52)
	$ 2.34	$ 1.11	$ (2.42)

See accompanying Notes to Consolidated Financial Statements.

(In millions)	December 31, 2003	2002
ASSETS		

(In millions)	Year ended December 31, 2003	2002	2001
OPERATING ACTIVITIES			
Earnings from continuing operations	**$ 1,053**	$ 533	$ 43
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	**480**	433	425

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

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

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

Certain amounts for prior years have been reclassified to conform with the 2003 presentation.

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

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

Short-term investments — The Corporation's short-term investments consist of marketable securities that are categorized as available-for-sale securities as defined by Statement of Financial Accounting Standards (FAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized gains and losses on those securities are reflected as a net amount under the caption of accumulated other comprehensive income (loss) in the statement of stockholders' equity. Realized gains and losses are recorded in the statement of operations under the caption other income or expenses. For purposes of computing realized gains and losses, cost is determined on a specific identification basis. The fair values of marketable securities are estimated based on quoted market price for the respective securities.

At December 31, 2003, the Corporation recorded short-term investments with an aggregate amortized cost of $239 million and fair value of $240 million. There were no short-term investments at December 31, 2002. The investment portfolio w and administrative expenses. Pursuant to contract provisions, agencies of the U.S. Government and certain other customers have title to, or a security interest in, inventories related to such contracts as a result of advances, performance-based payments and progress payments. Such advances and payments are reflected as an offset against the related inventory balances. General and administrative expenses related to commercial products and services provided essentially under commercial terms and conditions are expensed as incurred. Costs of other product and supply inventories are principally determined by the first-in first-out or average cost methods.

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

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

Derivative financial instruments — The Corporation sometimes uses derivative financial instruments to manage its exposure to fluctuations in interest rates and foreign exchange rates. The Corporation accounts for derivative financial instruments in accordance with FAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Under FAS 133, all derivatives are recorded as either assets or liabilities in the consolidated balance sheet, and periodically adjusted to fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on the intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives that are not considered highly [illegible] ed-rate debt

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

For purposes of pro forma disclosures, the options' estimated fair values are amortized to expense over the options'

(In millions, except per share data)	**2003**	2002	2001
NET EARNINGS (LOSS):			
As reported	**$1,053**	$ 500	$(1,046)
Fair value-based compensation cost, net of taxes	**(61)**	(67)	(49)
Pro forma net earnings (loss)	**$ 992**	$ 433	$(1,095)
EARNINGS (LOSS) PER BASIC SHARE:			
As reported	**$ 2.36**	$1.13	$ (2.45)
Pro forma	**$ 2.22**	$0.97	$ (2.56)
EARNINGS (LOSS) PER DILUTED SHARE:			
As reported	**$ 2.34**	$1.11	$ (2.42)
Pro forma	**$ 2.20**	$0.96	$ (2.53)

Comprehensive income — Comprehensive income (loss) for the Corporation consists primarily of net earnings (loss) and the after-tax impact of: the additional minimum pension liability, unrealized gains and losses related to available-for-sale investments, reclassification adjustments related to available-for-sale investments, and other activities related to hedging activities and foreign currency translation. Income taxes related to components of other comprehensive income are generally recorded based on an effective tax rate, including the effects of federal and state taxes, of 37%.

The accumulated balances of the components of other comprehensive income (loss) at December 31, 2003 are as follows: minimum pension liability — $(1,239) million; net unrealized gains from available-for-sale investments — $44 million; and other activities — $(9) million.

Recent accounting pronouncements — In December 2003, the Financial Accounting Standards Board issued a Staff Position that allows companies to defer recognition of the impact that the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) might have on the benefit obligations they provide their retirees, pending the issuance of specific guidance on the accounting for the federal subsidy introduced by the Act which, when issued, could require a change to previously reported information. The Corporation elected to defer recognition of the impact of the Act; accordingly, the accumulated post-retirement benefit obligation (APBO) for its retiree health care benefits, as well as the net periodic post-retirement benefit cost, included in the Corporation's financial statements and the accompanying notes do not currently reflect the effects of the Act. It is expected that any such change would result in some reduction to the APBO and the net periodic post-retirement benefit cost.

As required, the Corporation adopted FAS 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. Among other things, the Statement prohibits the amortization of goodwill and sets forth a new methodology for periodically assessing and, if warranted, recording impairment of goodwill. The Corporation completed the initial step of the goodwill impairment test required by the new rules and concluded that no adjustment to the balance of goodwill at the date of adoption was required. In addition, the Corporation reassessed the estimated remaining useful lives of other intangible assets as part of its adoption of the Statement. As a result of that review, the estimated remaining useful life of the intangible asset related to the F-16 fighter aircraft program was extended from 6 to 10 years, effective January 1, 2002. This change resulted in a decrease in annual amortization expense associated with that intangible asset of approximately $30 million on a pretax basis.

The following table provides a reconciliation of reported earnings from continuing operations and related per share amounts for the year ended December 31, 2001 to adjusted amounts which exclude the effects of goodwill amortization and reflect the change in amortization related to the F-16 pro-

	—	—	215
Purchased intangibles amortization change	—	—	21
Adjusted	**$ 1,053**	$ 533	$ 279
EARNINGS PER DILUTED SHARE FROM CONTINUING OPERATIONS:			
As reported	**$ 2.34**	$1.18	$0.10
Impact of:			
Goodwill amortization	—	—	0.50
Purchased intangibles amortization change	—	—	0.05
Adjusted	**$ 2.34**	$1.18	$0.65

NOTE 2 — ACQUISITIONS AND DIVESTITURES

In November 2003, the Corporation and Affiliated Computer Services, Inc. (ACS) completed transactions whereby the Corporation acquired ACS' federal government information technology (IT) business, and ACS concurrently acquired the Corporation's commercial IT business. The total purchase price related to the Corporation's acquisition of ACS' federal government IT business, including transaction-related costs, was approximately $585 million. The acquisition was accounted for by allocating the purchase price to the assets acquired and liabilities assumed based on their fair values, and included recording an intangible asset of $57 million related to a covenant not to compete that will be amortized over 5 years, an intangible asset of approximately $55 million related to contracts acquired that will be amortized over 7 years, and goodwill of approximately $460 million which is not tax deductible. The acquisition expands the Corporation's capabilities in business process outsourcing and managed services, thereby enhancing its ability to support civil and defense government agencies. The divestiture of the Corporation's commercial IT business resulted in a gain, net of state income taxes, of $15 million which was recorded in other income and expenses. The gain increased net earnings by approximately $8 million ($0.02 per diluted share).

In September 2003, the Corporation announced that a definitive agreement had been reached to acquire The Titan Corporation (Titan). Under the terms of the merger agreement, stockholders of Titan may elect to receive $22 in cash for each share of Titan common stock, an amount of Lockheed Martin common stock based on an exchange rate, or a combination of cash and stock. Titan stockholders who elect to receive all cash or all stock willvmerger agreement which require that, in the aggregate, 50% o the shares of outstanding Titan common stock must be exchanged for the Corporation's common stock and 50% of the Titan common stock must be exchanged for cash. The announced value of the transaction, including the assumption of Titan's long-term debt, is approximately $2.4 billion before accumulated tax benefits. Nearly all of Titan's sales are to the U.S. Government. The acquisition remains subject to approval by Titan stockholders and satisfaction of other closing conditions.

NOTE 3 — DISCONTINUED OPERATIONS

In December 2001, the Corporation announced that it would exit its global telecommunications services business as a result of continuing overcapacity in the telecommunications industry and deteriorating business and economic conditions in Latin America. The Corporation recorded charges, net of state income tax benefits, totaling approximately $1.4 billion in 2001 related to this action. The charges decreased net earnings by approximately $1.3 billion ($3.09 per diluted share).

The charges related to certain global telecommunications services businesses held for sale included, net of state income tax benefits, approximately $1.2 billion for the impairment of

periods presented and were excluded from business segment information. The Corporation completed sales of all of the businesses classified as held for sale in 2002 with the exception of Lockheed Martin Intersputnik (LMI). Those transactions did not have a material impact on the Corporation's consolidated results of operations or financial position.

The Corporation is continuing to treat LMI as a discontinued operation, as the Corporation is still holding and actively marketing the business for sale, and there are interested potential buyers. The operating results of LMI had no impact on the statement of earnings for the year ended December 31, 2003, and were not material for the years ended December 31, 2002 and 2001. LMI's assets and liabilities represented less than 1% of the Corporation's consolidated assets and liabilities at December 31, 2003 and 2002, and were included in the consolidated balance sheet in other current assets and other current liabilities.

In addition, the Corporation completed the sale of Lockheed Martin IMS Corporation (IMS), a wholly-owned subsidiary, for $825 million in cash in August 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, as well as the gain on the sale, are classified as discontinued operations.

Net sales and loss before income taxes included in discontinued operations were as follows:

(In millions)	**2003**	2002	2001
Net sales	**$ 20**	$228	$ 803
Loss before income taxes:			
Results of operations of discontinued businesses	**$ —**	$ (19)	$ (52)
Charges related to discontinued businesses, net of IMS gain	**—**	—	(970)
	$ —	$ (19)	$(1,022)

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

NOTE 4 — EARNINGS PER SHARE

Basic and diluted per share results for all periods presented were computed based on the net earnings or loss for the respective periods. The weighted average number of common shares outstanding during the period was used in the calculation of basic earnings (loss) per share. In accordance with FAS 128, The following table sets forth the computations of basic and diluted earnings (loss) per share:

(In millions, except per share data)	**2003**	2002	2001
NET EARNINGS (LOSS):			
Continuing operations	**$ 1,053**	$ 533	$ 43
Discontinued operations:			
Results of operations from discontinued businesses	**—**	(33)	(62)
Charges related to discontinued businesses, net of IMS gain	**—**	—	(1,027)
Net earnings (loss) for basic and diluted computations	**$ 1,053**	$ 500	$ (1,046)
AVERAGE COMMON SHARES OUTSTANDING:			
Average number of common shares outstanding for basic computations	**446.5**	445.1	427.4
Dilutive stock options — based on the treasury stock method	**3.5**	6.9	5.1
Average number of common shares outstanding for diluted computations	**450.0**	452.0	432.5
EARNINGS (LOSS) PER COMMON SHARE:			
Basic:			
Continuing operations	**$ 2.36**	$1.20	$ 0.10
Discontinued operations:			
Results of operations from discontinued businesses	**—**	(0.07)	(0.15)
Charges related to discontinued businesses, net of IMS gain	**—**	—	(2.40)
	$ 2.36	$1.13	$ (2.45)
Diluted:			
Continuing operations	**$ 2.34**	$1.18	$ 0.10
Discontinued operations:			
Results of operations from discontinued businesses	**—**	(0.07)	(0.14)
Charges related to discontinued businesses, net of IMS gain	**—**	—	(2.38)
	$ 2.34	$1.11	$ (2.42)

NOTE 5 — RECEIVABLES

(In millions)	**2003**	2002
U.S. Government:		
Amounts billed	**$ 1,421**	$ 1,048
Unbilled costs and accrued profits	**2,351**	2,116
Less customer advances and progress payments	**(470)**	(422)
Commercial and foreign governments:		
Amounts billed	**335**	483
Unbilled costs and accrued profits	**448**	474
Less customer advances	**(46)**	(44)
	$ 4,039	$ 3,655

Less than 10% of the December 31, 2003 unbilled costs and accrued profits are expected to be recovered after 1 year.

NOTE 6 — INVENTORIES

(In millions)	**2003**	2002
Work in process, primarily related to long-term contracts and programs in progress	**$ 5,434**	$ 6,221
Less customer advances and progress payments	**(3,396)**	(4,272)
	2,038	1,949
Other inventories	**310**	301
	$ 2,348	$ 2,250

Inventories included amounts advanced to Khrunichev State Research and Production Space Center (Khrunichev), the Russian manufacturer of Proton launch vehicles and provider of related launch services, of $327 million and $391 million at December 31, 2003 and 2002, respectively, to provide launch services. These amounts are net of a reserve recorded in 2002 related to the Corporation's assessment of the probability of termination of certain launches under contract, as well as amounts related to advances for launches not under contract. Advances for launches not under contract are subject to an agreement which provides for reduced future payments from Lockheed Martin to Khrunichev on launches contingent on the receipt of new orders as well as a minimum number of actual launches each year, in lieu of the requirement to provide launch services. The charge related to the reserve, net of state income tax benefits, was $173 million, and reduced 2002 net earnings by $112 million ($0.25 per diluted share). In addition, commercial launch vehicle inventories included amounts advanced to RD AMROSS, a joint venture between Pratt & Whitney and NPO Energomash, of $57 million and $61 million at December 31, 2003 and 2002, respectively, for the development and purchase, subject to certain conditions, of RD-180 booster engines used for Atlas launch vehicles.

In 2003, the Corporation recorded a charge, net of state income tax benefits, of $41 million in cost of sales related to its decision to exit the commercial mail sorting business. The charge, which related primarily to the impairment of inventories of the business, reduced net earnings by $27 million ($0.06 per diluted share).

Work in process inventories at December 31, 2003 and 2002 included general and administrative costs, including independent research and development costs and bid and proposal costs, of $381 million and $502 million, respectively. General and administrative costs charged to cost of sales from inventories for the years ended December 31, 2003, 2002 and 2001, including independent research and development costs and bid and proposal costs, totaled $2.0 billion, $1.7 billion and $1.8 billion, respectively.

Approximately $534 million of costs included in 2003 inventories, including $166 million advanced to Khrunichev, are not expected to be recovered within 1 year.

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT

(In millions)	**2003**	2002
Land	**$ 106**	$ 102
Buildings	**3,365**	3,197
Machinery and equipment	**5,198**	5,017
	8,669	8,316
Less accumulated depreciation and amortization	**(5,180)**	(5,058)
	$ 3,489	$ 3,258

During the year ended December 31, 2003, the Corporation recorded write-offs of fully depreciated property, plant and equipment totaling approximately $330 million.

NOTE 8 —84INVESTMENTS IN EQUITY SECURITIES

	823	766
Cost method investments (ownership interest):		
New Skies Satellites, N.V. (16%)	**133**	56
Inmarsat Holdings, Ltd. (14%)	**96**	—
Inmarsat Ventures, Ltd. (14%)	**—**	168
Other	**8**	19
	237	243
	$ 1,060	$ 1,009

Other equity method investments include United Space Alliance, LLC (50% ownership interest) and other smaller joint ventures in which the Corporation participates. The carrying value of the Corporation’s investment in New Skies is marked to market.

In 2002, the Corporation recorded charges relating to its telecommunications investments, including Intelsat, Ltd. (Intelsat), Inmarsat Ventures, Ltd. (Inmarsat Ventures) and New Skies Satellites, N.V. (New Skies). The charges were recorded as a result of the decline in the values of the investments which the Corporation assessed as being other than temporary, primarily due to unfavorable trends in the satellite services and telecommunications industries that were not expected to be tion received and the carrying value of its investment in Inmarsat Ventures of $168 million. The Corporation would expect to recognize the deferred gain at such time as it sells all or a portion of its interest in the new company, Inmarsat Holdings, Ltd.

In 2001, the Corporation decided not to make any further investment in Astrolink International LLC (Astrolink), and wrote off its 31% equity interest. As a result, the Corporation recorded a charone- or two-satellite system. On October 24, 2003, Liberty Satellite & Technology notified the Corporation that they would not exercise the option to acquire Astrolink's assets and build the satellite system. As a result, as part of the previously disclosed restructuring agreement, Astrolink's procurement contracts were terminated, and the Corporation acquired the remaining ownership interests in Astrolink. The restructuring also entailed the settlement of existing claims related to termination of Astrolink's procurement contracts with its members, certain of their affiliates and other vendors. Under these settlements, the Corporation retained its work in process. Completion of the restructuring did not have a material impact on the Corporation's financial position, results of operations or cash flows.

In 2001, the Corporation recorded a charge, net of state income tax benefits, of $361 million in other income and expenses related to its investment in Loral Space & Communications, Ltd. (Loral Space). The charge reduced net earnings by $235 million ($0.54 per diluted share). The decline in the value of the investment was assessed to be other than temporary due to the downward trend in the market price of Loral Space's stock and the potential impact of market and industry conditions on its ability to execute its business plans. In July 2003, Loral Space

cash flows.

In 2001, the Corporation recorded charges, net of state income tax benefits, of approximately $232 million in other income and expenses related to commitments to and impairment in the values of investments in certain satellite joint ventures, primarily Asia Cellular Satellite System (ACeS) and Americom Asia-Pacific, LLC (AAP). These charges reduced net earnings by $153 million ($0.35 per diluted share).

Also in August 2003, the Corporation issued $1.0 billion in floating rate convertible debentures due in 2033. The debentures bear interest at a rate equal to three-month LIBOR less 25 basis points, reset quarterly. The interest rate in effect at December 31, 2003 was 0.93%. Interest on the debentures is payable quarterly through August 15, 2008, after which the interest will accrue as part of the value of the debenture and will be payable, along with the principal amount of the debenture, at maturity. The debentures are convertible by their holders into the Corporation's common stock in certain limited circumstances as outlined in the indenture agreement. Absent certain events not currently anticipated, the debentures are not convertible unless the price of the Corporation's common stock is greater than or equal to 130% of the applicable conversion price for a specified period during a quarter. The conversion price was $75.79 per share at December 31, 2003, and is expected to change over time as provided for in the indenture agreement. Upon conversion, the Corporation has the right to deliver, in lieu of common stock, cash or a combination of cash and common stock, and also has the right to redeem any or all of the debentures at any time after August 15, 2008.

In the first quarter of 2003, the Corporation issued irrevocable redemption notices to the trustees for two issuances of callable debentures totaling $450 million. This amount was included in current maturities of long-term debt on the balance sheet at December 31, 2002. One notice was for $300 million of 7.875% debentures due on March 15, 2023, which were repaid on March 15, 2003. The second notice was for $150 million of 7.75% debentures due on April 15, 2023, which were repaid on April 15, 2003. The Corporation recorded a loss, net of state income tax benefits, of $19 million in other income and expenses related to the early repayment of the $450 million of debt. The loss reduced 2003 net earnings by $13 million ($0.03 per diluted share).

In December 2002, the Corporation recorded a charge, net of state income tax benefits, of $163 million related to its investment in Space Imaging, LLC and its guarantee of up to $150 million of Space Imaging's borrowings under a credit facility that matured on March 30, 2003. The charge was recorded in light of the Corporation's decision, and the decision of its other major partner in the joint venture, not to provide further funding, its assessment that Space Imaging will likely not be able to repay their obligation under the credit facility when due, and the uncertainties as to whether Space Imaging would be successful in obtaining the additional investment necessary to fund replacement satellites consistent with their business plans. On March 31, 2003, the Corporation paid $130 million to acquire Space Imaging's outstanding borrowings under Space Imaging's credit facility, and the guarantee was eliminated. The Corporation therefore reversed, net of state income taxes, approximately $19 million of the charge recorded in December 2002, representing the unutilized portion of the credit facility covered by its guarantee. This gain increased first quarter 2003 net earnings by $13 million ($0.03 per diluted share).

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

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

The Corporation's scheduled long-term debt maturities for the 5 years following December 31, 2003 are: $136 million in 2004; $15 million in 2005; $238 million in 2006; $33 million in 2007; $692 million in 2008; and $5,094 million thereafter.

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

The estimated fair values of the Corporation's long-term debt instruments at December 31, 2003, aggregated approximately $7.4 billion, compared with a carrying amount of approximately $6.2 billion. The fair values were estimated based on quoted market prices for those instruments that are publicly traded. For privately placed debt, the fair values were estimated based on the quoted market prices for similar issues, or on current rates offered to the Corporation for debt with similar remaining maturities. Unless otherwise indicated elsewhere in the notes to the financial statements, the carrying values of the Corporation's other financial instruments approximate their fair values.

Interest payments were $519 million in 2003, $586 million in 2002 and $707 million in 2001.

NOTE 10 — INCOME TAXES

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

(In millions)	**2003**	2002	2001
Federal income taxes:			
Current	**$ (14)**	$ 469	$ 170
Deferred	**467**	(463)	(118)
Total federal income taxes	**453**	6	52
Foreign income taxes	**26**	38	38
Total income taxes provided	**$ 479**	$ 44	$ 90

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 expense was $38 million for 2003, and net state income tax benefits were $7 million for 2002 and $8 million for 2001.

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

(In millions)	**2003**	2002	2001
Income tax expense at the statutory federal tax rate	**$ 536**	$ 202	$ 47
Increase (reduction) in tax expense from:			
Extraterritorial income exclusion benefit	**(46)**	(42)	(38)
Revisions to prior years' estimated liabilities	**(28)**	(62)	(20)
R&D tax credit settlement	**—**	(90)	—
Nondeductible amortization	**—**	—	62
Other, net	**17**	36	39
Actual income tax expense	**$ 479**	$ 44	$ 90

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

(In millions)	**2003**	2002
Deferred tax assets related to:		
Accumulated post-retirement		

Federal and foreign income tax payments, net of refunds received, were $170 million in 2003, $55 million in 2002 and $837 million in 2001. Included in these amounts are tax payments and refunds related to the Corporation's divestiture activities. In addition, these amounts include net tax payments (refunds) related to discontinued operations of $(123) million in 2003, $(22) million in 2002 and $179 million in 2001.

The Corporation realized an income tax cash benefit of $140 million in 2002 as a result of exercises of employee stock options. This benefit is recorded in stockholders' equity under the caption, "Stock awards and options, and ESOP activity." The benefit for 2003 was not material.

NOTE 11 — OTHER INCOME AND EXPENSES, NET

(In millions)	**2003**	2002	2001
Equity in earnings of equity investees, net	**$ 107**	$ 93	$ 68
Interest income	**75**	47	91
Loss on early repayment of debt	**(146)**	—	(55)
Gain on sale of commercial IT business	**15**	—	—
Space Imaging and related guarantee	**19**	(163)	—
Write-down of telecommunications investments	**—**	(776)	—
Write-off of investments in Astrolink and Loral Space	**—**	—	(728)
Gain on sales of surplus real estate	**—**	—	111
Impairment loss related to AAP	**—**	—	(100)
Other charges related to the exit from global telecommunications	**—**	—	(73)
Other activities, net	**(27)**	8	(24)
	$ 43	$ (791)	$ (710)

The Award Plan allows the Corporation to provide for financing by award recipients other than executive officers of the exercise or purchase price of common stock underlying an award, subject to certain conditions, by interest-bearing notes payable to the Corporation.

Prior to April 2003, the Corporation granted stock-based and cash-based incentive awards pursuant to the Lockheed Martin Corporation 1995 Omnibus Performance Award Plan (the "Omnibus Plan"), which was approved by the stockholders in March 1995. Awards under the Omnibus Plan were similar to those authorized by the Award Plan except that the Omnibus Plan did not include any minimum vesting requirements.

In 2003, 25,000 shares of restricted common stock were issued under the Award Plan. In 2001, 25,000 restricted shares were awarded under the Omnibus Plan. No restricted common stock was awarded in 2002. The shares were recorded based on the market value of the Corporation's common stock on the date of the award. Recipients are entitled to receive cash dividends and to vote their respective shares, but are prohibited from selling or transferring shares prior to vesting. The restricted shares generally vest over 4 to 5 year periods from the grant date. The impact of restricted stock awards was not material to stockholders' equity or compensation expense in 2003, 2002 or 2001.

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

The Award Plan, the Omnibus Plan and the Directors Plan, Information regarding options outstanding at December 31, 2003 follows (number of options in thousands):

Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding:			
Less than $20.00	2,578	$ 18.35	5.0
$20.00–$29.99	2,514	26.54	3.1
$30.00–$39.99	10,074	36.05	5.5
$40.00–$50.00	3,468	45.58	3.1
Greater than $50.00	16,846	51.04	7.6
Total	35,480	42.14	6.1
Options exercisable:			
Less than $20.00	2,578	$ 18.35	5.0
$20.00–$29.99	2,514	26.54	3.1
$30.00–$39.99	10,074	36.05	5.5
$40.00–$50.00	3,443	45.58	3.1
Greater than $50.00	6,924	51.26	6.1
Total	25,533	38.74	5.0

Stock options granted in 2003 under the Omnibus Plan have 10-year terms and generally vest over a 3-year service period. Options granted in 2002 and 2001 under the Omnibus Plan also have 10-year terms, but generally vest over a 2-year service period. Exercise prices of options awarded for all years were equal to the market price of the stock on the date of grant. Pro forma information regarding net earnings and earnings per share as if the Corporation had accounted for its employee stock options under the fair value method is included in Note 1. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2003	2002	2001
Risk-free interest rate	**2.91%**	4.24%	4.95%
Dividend yield	**1.00%**	1.00%	0.60%
Volatility factors related to expected price of Lockheed Martin stock	**0.387**	0.376	0.366
Expected option life	**5 years**	5 years	5 years

The weighted average fair value of each option granted during 2003, 2002 and 2001 was $17.78, $18.23 and $13.32, respectively.

NOTE 13 — POST-RETIREMENT BENEFIT PLANS

Defined contribution plans — The Corporation maintains a number of defined contribution plans with 401(k) features that cover substantially all employees, the most significant of which are the 401(k) plans for salaried employees and hourly employees. Under the provisions of these 401(k) plans, employees' eligible contributions are matched by the Corporation at established rates. The Corporation's matching obligations were $238 million in 2003, $232 million in 2002 and $226 million in 2001, the majority of which were funded in Lockheed Martin common stock.

The Lockheed Martin Corporation Salaried Savings Plan is a defined contribution plan with a 401(k) feature that includes an ESOP. The ESOP purchased 34.8 million shares of the Corporation's common stock in 1989 with the proceeds from a $500 million note issue which is guaranteed by the Corporation. The Corporation's match consisted of shares of its common stock, which was partially fulfilled with stock released from the ESOP at approximately 2.4 million shares per year based upon the debt repayment schedule through June 2004. Compensation costs recognized relative to the ESOP shares were $108 million, $134 million and $90 million in 2003, 2002 and 2001, respectively. The remainder of the Corporation's match to the Salaried Savings Plan was fulfilled through purchases of common stock from terminating participants or in the open market, or through newly issued shares from the Corporation. Interest incurred on the ESOP debt totaled $5 million, $10 million and $13 million in 2003, 2002 and 2001, respectively. Dividends received by the ESOP with respect to unallocated shares held are used for debt service. The ESOP held approximately 48.2 million issued shares of the Corporation's common stock at December 31, 2003, of which Ethe

Certain plans for hourly employees include a non-leveraged ESOP. In one such plan, the match is made, generally at the election of the participant, in either the Corporation's common stock or a different investment choice. The Corporation's contributions to these plans were made through cash contributed to the ESOP trust which was used, if so elected, to purchase common stock from terminating participants or in the open market for allocation to participant accounts. This ESOP trust held approximately 3.3 million issued and outstanding shares of common stock at December 31, 2003.

Defined benefit pension plans, and retiree medical and life insurance plans — Most employees are covered by defined benefit pension plans, and certain health care and life insurance benefits are provided to eligible retirees by the Corporation. The Corporation has made contributions to trusts (including Voluntary Employees' Beneficiary Association trusts and 401(h) accounts, the assets of which will be used to pay expenses of certain retiree medical plans) established to pay future benefits to eligible retirees and dependents. The Corporation uses December 31 as its measurement date. Benefit obligations as of the end of each year reflect assumptions in effect as of those dates. Net pension and net retiree medical costs for each of the years presented were based on assumptions in effect at

	ension Plans	**424**	Insurance Plans	190
46	102	**80**	13	
—	(33)	**3**	(6)	
—	—	**80**	64	

	Defined Benefit Pension Plans	Retiree Medical and Life Insurance Plans
(In millions)	**2003**	

Benefit obligations at end of year	**$24,364**	$21,918	**$3,810**	$3,316

bilities. The ABO for all defined benefit pension plans was approximately $21 billion and $19 billion at December 31, 2003 and 2002, respectively.

For defined benefit pension plans in which the ABO was in excess of the fair value of the plans' assets, the PBO, ABO and fair value of the plans' assets were as follows:

(In millions)	**2003**	2002
Projected benefit obligation	**$15,228**	$13,648
Accumulated benefit obligation	**13,312**	11,994
Fair value of plan assets	**12,211**	10,122

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

(In millions)	**2003**	2002	2001
DEFINED BENEFIT PENSION PLANS			
Service cost	**$ 640**	$ 565	$ 523
Interest cost	**1,453**	1,401	1,357
Expected return on plan assets	**(1,748)**	(2,162)	(2,177)
Amortization of prior service cost	**79**	72	64
Recognized net actuarial losses (gains)	**62**	(33)	(117)
Amortization of transition asset	**(2)**	(3)	(4)
Total net pension expense (income)	**$ 484**	$ (160)	$ (354)
RETIREE MEDICAL AND LIFE INSURANCE PLANS			
Service cost	**$ 40**	$ 37	$ 41
Interest cost	**211**	213	211
Expected return on plan assets	**(69)**	(89)	(99)
Amortization of prior service cost	**1**	(4)	(5)
Recognized net actuarial losses	**49**	20	9
Total net post-retirement expense	**$ 232**	$ 177	$ 157

The actuarial assumptions used to determine the benefit obligations at December 31, 2003 and 2002 related to the Corporation's defined benefit pension and post-retirement benefit plans, as appropriate, are as follows:

	Benefit Obligation Assumptions	
	2003	2002
Discount rates	**6.25%**	6.75%
Rates of increase in future compensation levels	**5.50**	5.50

The actuarial assumptions used to determine the net expense (income) related to the Corporation's defined benefit pension and post-retirement benefit plans for the years ended December 31, 2003, 2002 and 2001, as appropriate, are as follows:

	Pension Cost Assumptions		
	2003	2002	2001
Discount rates	**6.75%**	7.25%	7.50%
Expected long-term rates of			

medical trend rates would result in a change in the benefit obli-

The Corporation sponsors nonqualified defined benefit plans to provide benefits in excess of qualified plan limits. The expense associated with these plans totaled $60 million in 2003, $54 million in 2002 and $47 million in 2001.

NOTE 14 — LEASES

Total rental expense under operating leases was $301 million, $235 million and $223 million for 2003, 2002 and 2001, respectively.

Future minimum lease commitments at December 31, 2003 for all operating leases that have a remaining term of more than 1 year were approximately $1.1 billion ($254 million in 2004, $194 million in 2005, $155 million in 2006, $120 million in 2007, $99 million in 2008 and $313 million in later years). Certain major plant facilities and equipment are furnished by the U.S. Government under short-term or cancelable arrangements.

NOTE 15 — COMMITMENTS AND CONTINGENCIES

The Corporation or its subsidiaries are parties to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment. In the opinion of management and in-house counsel, the probability is remote that the outcome of these matters share as a result of litigation and settlements with other PRPs. In addition, under an agreement reached with the U.S. Government in 2000, the Corporation will continue to be reimbursed in an amount equal to approximately 50% of future expenditures for certain remediation activities by the U.S. Government in its capacity as a PRP under the Comprehensive Environmental Response, Compensation and Liability Act. The Corporation has recorded a liability of approximately $55 million representing its estimate of the total expenditures required over the remaining terms of the consent decrees and orders described above, net of the effects of the agreement.

The Corporation is involved in proceedings and potential proceedings relating to environmental matters at other facilities, including disposal of hazardous wastes and soil and groundwater contamination. The extent of the Corporation's financial exposure cannot in all cases be reasonably determined at this time. In addition to the amounts with respect to the Redlands, Great Neck, Burbank and Glendale sites described above, a liability of approximately $140 million for the other properties (including current operating facilities and certain facilities operated in prior years) in which an estimate of financial exposure can be determined has been recorded. In cases where a date to complete activities at a particular environmental site cannot be estimated by reference to agreements or otherwise, the Corporation projects costs over a reasonable time frame not to exceed 20 years.

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

At December 31, 2003 and 2002, the aggregate amount of liabilities recorded relative to environmental matters was approximately $425 million and $445 million, respectively. The Corporation has recorded an asset for the portion of environmental costs that are probable of future recovery in pricing of the Corporation's products and services for U.S. Government business. The portion that is expected to be allocated to commercial business has been reflected in cost of sales. The recorded amounts do not reflect the possible future recoveries of portions of the environmental costs through insurance policy coverage or from other PRPs, which the Corporation is pursuing as required by agreement and U.S. Government regulation. Any such recoveries, when received, would reduce the allocated amounts to be included in the Corporation's U.S. Government sales and cost of sales.

Waste remediation contract —

ence between pension expense or income calculated for finan-
cial reporting purposes under GAAP in accordance with FAS

Selected Financial Data by Business Segment (continued)

(In millions)	**2003**	2002	2001	
AMORTIZATION OF PURCHASED INTANGIBLES				
Aeronautics	**$ 50**	$ 50	$ 51	
Electronic Systems	**47**	49	47	
Space Systems	**8**	7	8	
Integrated Systems & Solutions	**14**	12	13	
Information & Technology Services	**8**	7	5	
Total business segments	**127**	125	124	
Other	**2**	—	30	
	$ 129	$ 125	$ 154	
EXPENDITURES FOR PROPERTY, PLANT AND EQUIPMENT[c]				
Aeronautics	**$ 210**	$ 205	$ 142	
Electronic Systems	**204**	200	184	
Space Systems	**143**	147	112	
Integrated Systems & Solutions	**35**	34	38	
Information & Technology Services	**41**	44	30	
Total business segments	**633**	630	506	
Other	**54**	22	39	
	$ 687	$ 652	$ 545	
ASSETS[d]				
Aeronautics	**$ 3,061**	$ 2,835	$ 3,017	
Electronic Systems	**8,740**	8,697	8,685	
Space Systems	**2,986**	3,147	3,916	
Integrated Systems & Solutions	**2,223**	2,070	2,219	
Information & Technology Services	**2,342**	1,634	1,911	
Total business segments	**19,352**	18,383	19,748	
Other[e]	**6,823**	8,596	7,9668,596453453	453
Integrated Systems & Solutions	**1,357**	1,311	1,311	
Information & Technology Services	**994**	541	532	
	$ 7,879	$ 7,380	$ 7,371	

(In millions)	**2003**	2002	2001
CUSTOMER ADVANCES AND AMOUNTS IN EXCESS OF COSTS INCURRED			
Aeronautics	**$**		

Net Sales by Customer Category

(In millions)	**2003**	2002	2001
U.S. GOVERNMENT			
Aeronautics	**$ 6,613**	$ 4,483	$ 3,437
Electronic Systems	**7,363**	6,910	6,114
Space Systems	**4,928**	4,303	4,148
Integrated Systems & Solutions	**3,252**	2,804	2,646
Information & Technology Services	**2,799**	2,735	2,269
	$24,955	$21,235	$18,614
FOREIGN GOVERNMENTS[(a)(b)]			
Aeronautics	**$ 3,580**	$ 1,971	$ 1,899
Electronic Systems	**1,467**	1,592	1,804
Space Systems	**—**	—	36
Integrated Systems & Solutions	**16**	51	44
Information & Technology Services	**79**	76	104
	$ 5,142	$ 3,690	$ 3,887
COMMERCIAL[(b)]			
Aeronautics	**$ 9**	$ 17	$ 19
Electronic Systems	**161**	183	161
Space Systems	**1,093**	984	617
Integrated Systems & Solutions	**152**	160	280
Information & Technology Services	**296**	293	390
Total business segments	**1,711**	1,637	1,467
Other	**16**	16	22
	$ 1,727	$ 1,653	$ 1,489

(a) Sales made to foreign governments through the U.S. Government are included in the foreign governments category above.
(b) International sales, including export sales included in the foreign governments and commercial categories above, were approximately $5.6 billion, $4.3 billion and $4.1 billion in 2003, 2002 and 2001, respectively.

NOTE 17 — SUMMARY OF QUARTERLY INFORMATION (UNAUDITED)

(In millions, except per share data)	**2003 Quarters**			
	First[(a)]	**Second[(b)]**	**Third[(c)]**	**Fourth[(d)]**
Net sales	**$ 7,059**	**$ 7,709**	**$ 8,078**	**$ 8,978**
Earnings from operations	**472**	**410**	**538**	**556**
Net earnings	**250**	**242**	**217**	**344**
Earnings per diluted share	**0.55**	**0.54**	**0.48**	**0.77**

(In millions, except per share data)	2002 Quarters			
	First	Second[(e)]	Third	Fourth[(f)]
Net sales	$ 5,966	$ 6,290	$ 6,542	$ 7,780
Earnings from operations	438	483	553	475
Earnings (loss) from continuing operations	224	351	300	(342)
Net earnings (loss)	218	339	290	(347)
Earnings (loss) per diluted share from				

CONSOLIDATED FINANCIAL DATA — FIVE YEAR SUMMARY

(In millions, except per share data)	2003[a]	2002[b]	2001[c]	2000[d]	1999[e]
OPERATING RESULTS					
Net sales	$ 31,824	$ 26,578	$ 23,990	$ 24,541	$ 24,999
Cost of sales	29,848	24,629	22,447	22,881	23,346
Earnings from operations	1,976	1,949	1,543	1,660	1,653
Other income and expenses, net	43	(791)	(710)	(555)	344
	2,019	1,158	833	1,105	1,997
Interest expense	487	581	700	919	809
Earnings from continuing operations before income taxes and cumulative effect of change in accounting	1,532	577	133	186	1,188
Income tax expense	479	44	90	663	459
Earnings (loss) from continuing operations before cumulative effect of change in accounting	1,053	533	43	(477)	729
Discontinued operations	—	(33)	(1,089)	(42)	8
Cumulative effect of change in accounting	—	—	—	—	(355)
Net earnings (loss)	$ 1,053	$ 500	$ (1,046)	$ (519)	$ 382
EARNINGS (LOSS) PER COMMON SHARE					
Basic:					
Continuing operations before cumulative effect of change in accounting	$ 2.36	$ 1.20	$ 0.10	$ (1.19)	$ 1.91
Discontinued operations	—	(0.07)	(2.55)	(0.10)	0.02
Cumulative effect of change in accounting	—	—	—	—	(0.93)
	$ 2.36	$ 1.13	$ (2.45)	$ (1.29)	$ 1.00
Diluted:					
Continuing operations before cumulative effect of change in accounting	$ 2.34	$ 1.18	$ 0.10	$ (1.19)	$ 1.90
Discontinued operations	—	(0.07)	(2.52)	(0.10)	0.02
Cumulative effect of change in accounting	—	—	—	—	3
Goodwill				7,879	7,380
Purchased intangibles, net				807	814
Other assets				4,599	4,901
Total	$ 26,175	$ 26,979	$ 27,714	$ 30,426	$ 30,261
Short-term borrowings	$ —	$ —	$ —	$ 12	$ 475
Current maturities of long-term debt	136	1,365	89	882	52
Other current liabilities	8,757	8,456	9,600	9,408	8,298
Long-term debt	6,072	6,217	7,422	9,065	11,427
Post-retirement benefit liabilities	1,440	1,480	1,565	1,647	1,805
Other liabilities	3,014	3,596	2,595	2,252	1,843
Stockholders' equity	6,756	5,865	6,443	7,160	6,361
Total	$ 26,175	$ 26,979	$ 27,714	$ 30,426	$ 30,261
COMMON SHARES OUTSTANDING AT YEAR-END	446.5	455.5	441.2	431.4	397.8
CASH FLOW DATA					
Cash from operating activities	$ 1,809	$ 2,288	$ 1,825	$ 2,016	$ 1,077
Cash (used by) from investing activities	(1,461)	(539)	139	1,762	(1,638)431(-2 1 T.025

NOTES TO FIVE YEAR SUMMARY

(a) Includes the effects of items not considered in senior management's assessment of the operating performance of the Corporation's business segments (see the section "Results of Operations" in Management's Discussion and Analysis of Financial Condition and Results of Operations) which, on a combined basis, decreased earnings from continuing operations before income taxes by $153 million, $102 million after tax ($0.22 per diluted share).

(b) Includes the effects of items not considered in senior management's assessment of the operating performance of the Corporation's business segments (see the section "Results of Operations" in Management's Discussion and Analysis of Financial Condition and Results of Operations) which, on a combined basis, decreased earnings from continuing operations before income taxes by $1,112 million, $632 million after tax ($1.40 per diluted share). In 2002, the Corporation adopted FAS 142 which prohibits the amortization of goodwill.

(c) Includes the effects of items not considered in senior management's assessment of the operating performance of the Corporation's business segments (see the section "Results of Operations" in Management's Discussion and Analysis of Financial Condition and Results of Operations) which, on a combined basis, decreased earnings from continuing operations before income taxes by $973 million, $651 million after tax ($1.50 per diluted share). Also includes a gain from the disposal of a business and charges for the Corporation's exit from its global telecommunications services business which is included in discontinued operations and which, on a combined basis, increased the net loss by $1 billion ($2.38 per diluted share).

(d) Reflects the business combination with COMSAT Corporation effective August 2000. Includes the effects of items not considered in senior management's assessment of the operating performance of the Corporation's business segments which, on a combined basis, decreased earnings from continuing operations before income taxes by $685 million, $951 million after tax ($2.36 per diluted share).

(e) Includes the effects of items not considered in senior management's assessment of the operating performance of the Corporation's business segments which, on a combined basis, increased earnings from continuing operations before income taxes by $249 million, $162 million after tax ($0.42 per diluted share). Also includes a cumulative effect adjustment relating to the adoption of SOP No. 98-5 regarding costs for start-up activities which resulted in a charge that reduced net earnings by $355 million ($0.93 per diluted share).

CORPORATE DIRECTORY

(As of March 1, 2004)

BOARD OF DIRECTORS

E. C. Pete Aldridge, Jr.
Former Under Secretary of Defense

Nolan D. Archibald
Chairman, President &
Chief Executive Officer
The Black & Decker Corporation

Norman R. Augustine
Chairman of the Executive Committee
Lockheed Martin Corporation

Marcus C. Bennett
Retired Executive Vice President and
Chief Financial Officer
Lockheed Martin Corporation

Vance D. Coffman
Chairman and Chief Executive Officer
Lockheed Martin Corporation

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

Douglas H. McCorkindale
Chairman, President &
Chief Executive Officer
Gannett Co., Inc.

Eugene F. Murphy
Retired Vice Chairman and
Executive Officer
General Electric Company

Joseph W. Ralston
Vice Chairman
The Cohen Group

Frank Savage
Chief Executive Officer
Savage Holdings, LLC

Anne Stevens
Group Vice President
Canada, Mexico and South America
Ford Motor Company

Robert J. Stevens
President and Chief Operating Officer
Lockheed Martin Corporation

James R. Ukropina
Chief Executive Officer
Directions, LLC
(A Management and Consulting Firm)

Douglas C. Yearley
Chairman Emeritus
Phelps Dodge Corporation

COMMITTEES

Audit and Ethics Committee
Mr. Yearley, Chairman
Mrs. King, Ms. Stevens and Messrs.
Aldridge, Archibald, Murphy and
Ukropina

Executive Committee
Mr. Augustine, Chairman
Mrs. King, and Messrs. Bennett, Coffman,
McCorkindale, Ukropina and Yearley

Strategic Affairs and
Finance Committee
Mr. McCorkindale, Chairman
Messrs. Archibald, Augustine, Bennett,
Ralston, Savage and Yearley

Management Development and
Compensation Committee and
Stock Option Subcommittee
Mrs. King, Chairman
Ms. Stevens, and Messrs. Aldridge,
McCorkindale, Murphy and Savage

Nominating and
Corporate Governance Committee
Mr. Ukropina, Chairman
Messrs. Augustine, McCorkindale,
Murphy and Ralston

Lockheed Martin Corporation

CORPORATE DIRECTORY

(As of March 1, 2004)

OFFICERS

Kenneth Asbury
Vice President

James F. Berry
Vice President

Rajeev Bhalla
Vice President and Controller

Dennis R. Boxx
Senior Vice President

Charles T. Burbage
Vice President

Michael F. Camardo
Executive Vice President
Information & Technology Services

Joseph R. Cleveland
Vice President

Vance D. Coffman
Chairman and
Chief Executive Officer

Robert B. Coutts
Executive Vice President
Electronic Systems

Brian D. Dailey
Senior Vice President

Robert T. Elrod
Vice President

John J. Freeh
Vice President

Kimberly P. Gavaletz
Vice President

Theofanis G. Gavrilis
Vice President

Linda R. Gooden
Vice President

Dain M. Hancock
Executive Vice President
Aeronautics

Jeffrey K. Harris
Vice President

Marillyn A. Hewson
Senior Vice President

Jay F. Honeycutt
Vice President

Arthur E. Johnson
Senior Vice President

Michael J. Joyce
Vice President

Christopher E. Kubasik
Senior Vice President and
Chief Financial Officer

Maryanne R. Lavan
Vice President

G. Thomas Marsh
Executive Vice President
Space Systems

Janet L. McGregor
Vice President

Frank H. Menaker
Senior Vice President and
General Counsel

Frank C. Meyer
Vice President

Fred P. Moosally
Vice President

Malcolm R. O'Neill
Vice President

David J. Posek
Vice President

James R. Ryan
Vice President

Stanton D. Sloane
Vice President

Albert E. Smith
Executive Vice President
Integrated Systems & Solutions

Robert J. Stevens
President and
Chief Operating Officer

Edward S. Taft
Senior Vice President

Robert H. Trice
Senior Vice President

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

Anthony G. Van Schaick
Vice President and Treasurer

As of December 31, 2003, there were approximately 44,682 holders of record of Lockheed Martin common stock and 446,737,018 shares outstanding.

COMMON STOCK PRICES

(In dollars)	High	Low	Close
2003 Quarters			
1st	**58.95**	**40.64**	**47.55**
2nd	**51.66**	**43.32**	**47.57**
3rd	**55.00**	**44.09**	**46.15**
4th	**51.47**	**44.78**	**51.40**
2002 Quarters			
1st	59.96	45.85	57.58
2nd	71.52	57.35	69.50
3rd	69.97	52.30	64.67
4th	65.55	48.64	57.75

TRANSFER AGENT & REGISTRAR

EquiServe Trust Company, N.A.
Shareholder Services
P.O. Box 43010
Providence, Rhode Island 02940-3010
Telephone: 1-800-519-3111
TDD for the hearing impaired: 1-800-490-1493 or 781-575-2692
Internet: http://www.equiserve.com

DIVIDEND REINVESTMENT PLAN

Lockheed Martin Direct Invest, our direct stock purchase and dividend reinvestment plan, provides new investors and current stockholders with a convenient, cost-effective way to purchase Lockheed Martin common stock, increase holdings and manage the investment. For more information about Lockheed Martin Direct Invest, contact our transfer agent, EquiServe Trust Company, N.A. at 1-800-446-2617, or to view plan

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 federal securities laws. The words “believe,” “estimate,” “anticipate,” “project,” “intend,” “expect,” “plan,” “outlook,” “forecast” and similar expressions are intended to identify forward-looking statements. Numerous factors, including potentially the following factors, could affect the Corporation’s forward-looking statements and actual performance: the ability to obtain or the timing of obtaining future government awards; the availability of government funding and customer requirements both domestically and internationally; changes in government or customer priorities due to program reviews or revisions to strategic objectives (including changes in priorities to respond to terrorist threats or to improve homeland security); the level of returns on pension and retirement plan assets; the termination of programs or contracts for convenience by

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.