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Chairman’s Message

At Lockheed Martin, our commitment to the environment and to the safety and health of our employees, customers and neighbors stretches beyond what’s required or expected. We take a strategic, integrated approach to protecting our environment, natural resources and the people who work in and live near our facilities. I’m proud to say that our continuous quest for improvement is making a difference today … and for future generations.

Lockheed Martin’s vision is “Powered By Innovation, Guided By Integrity, We Help Our Customers Achieve Their Most Challenging Goals.” Our employees—135,000 of the most talented people in the world—apply that innovation and integrity to environmental, safety and health performance every day. All employees—not just those in our Environment, Safety & Health (ESH) organization—are held accountable for our performance. Why? Because excellence can only be achieved when everyone works together toward common goals.

This past year, the Corporation focused more than ever on integrating environmental, safety and health activities into our daily business operations. Perhaps most critically, we have incorporated ESH initiatives into the Corporation’s LM21 Operating Excellence program, which means that Lockheed Martin businesses must consider environmental, safety and health imperatives as they chart their path to overall performance excellence.

We also made significant progress last year in our Target Zero program—an initiative launched in 2004 to enhance employee safety. The objective of Target Zero is to create a workplace where there are no injuries and all employees develop and maintain a “zero accidents” mentality. While our performance has improved, our next step is to accelerate the pace of change throughout our business operations.

The Corporation is equally committed to environmental excellence. Our performance in this arena has been strong, with substantial reductions achieved in hazardous waste generation as well as air and greenhouse gas emissions. New metrics looking past compliance parameters have been developed and will be rolled out over the next year. Our intention is to be as pro-active as possible on the environmental front.

Lockheed Martin provides society with some of world’s most-advanced products and services. In the process, we strive to leave no “footprints” and design our operations and environmental stewardship programs to actually strengthen the environment and the safety of our facilities and the communities of which they are a part. For us, that is a critical measure of success … and a tremendous legacy to pass on to future generations.

Bob Stevens
Chairman, President and Chief Executive Officer
ESH Leadership Message

At Lockheed Martin, our commitment to Environment, Safety & Health (ESH) operating excellence embodies the Corporation’s values and ensures we maintain a keen focus on protecting our environment, employees, customers and neighbors. This past year was tremendously rewarding for us, in part because we implemented a strategic direction that will guide ESH initiatives for years to come.

This new strategic direction highlights Lockheed Martin’s direction for environmental, safety and health excellence and drives ESH performance and reporting to new levels across the Corporation. It includes:

1. Broadening employees’ perspective beyond simply compliance to even more proactive risk management, so employees identify and address concerns before they escalate into actual problems.
2. Driving a corporatwide culture of excellence that expands the Target Zero safety initiative concept into other operational areas, such as protection of property or products and ensuring that we protect employees and information with perfect security.
3. Optimizing ESH systems, processes and programs across Lockheed Martin and leveraging best practices to improve performance.
4. Developing a corporatwide talent management program to leverage ESH resources and manage ESH talent across the Corporation.
5. Enhancing ESH communication, collaboration and teamwork across the Corporation.

Charting this path was one of many achievements in 2005. For me, another milestone worthy of celebration was that, for the first time ever, a Lockheed Martin business area set its safety goal at zero. Lockheed Martin Electronic Systems announced that it expects its employees to eliminate Lost Day Cases by 2008.

Many Lockheed Martin business areas improved their safety records last year. For example, our Aeronautics Company initiated a Behavior-Based Safety Program for the production of the forward fuselage of the F-16 multirole fighter aircraft. The program reduced safety incidents by 50 percent and proved so successful that two other Lockheed Martin business units have initiated behavior-based programs. Aeronautics has expanded the effort using its SAFTE teams.

ESH excellence requires buy-in from senior leaders, and no one is more supportive of ESH initiatives than Bob Stevens and the executive vice presidents of Lockheed Martin’s five business areas. These leaders discuss expectations in staff meetings and closely monitor their organization’s ESH performance. Each business area established environmental metrics in 2005, and the senior leadership team is kept abreast of performance against the metrics.
Lockheed Martin has much to be proud of, but there is more we can do. We are moving toward our corporatewide safety milestone of 50 percent reduction of injuries by 2008. And we’re continuing to reduce our greenhouse gas emissions, our hazardous waste generation and our use of hazardous chemicals in our factories.

We are committed to ESH excellence and to being a good neighbor who protects the environment, protects employees and others in and near our facilities, and solves problems when they occur. ESH excellence is a business imperative. But it’s also much more. It’s a commitment that we’ll do our part to protect people and the environment.

Ken Meashey
Vice President, Environment, Safety & Health
Leadership Perspectives

Operating excellence requires the best efforts from all our employees every day. That excellence results in total customer satisfaction and is what makes Lockheed Martin one of the world’s best advanced-technology systems integrators. We apply that same level of excellence to ESH performance to ensure that we protect our employees and the environment. We’re committed to helping our customers achieve their most challenging goals.

— Christopher E. Kubasik, Executive Vice President and Chief Financial Officer, Lockheed Martin Corporation

In order for us to maintain our competitive advantage and live our core values, we need to focus on the protection of our employees. We need to have a mindset in which all injuries and accidents are preventable, and we must be steadfast in our commitment to safety, because it is a critical component of operating excellence.

— Michael F. Camardo, Executive Vice President, Lockheed Martin Information and Technology Services

Eliminating workplace injuries improves business performance by strengthening productivity and reducing costs associated with lost time away from work. Focusing on safety is simply the right way to do business. All of us should go home from work in the same good health we enjoyed when we arrived.

— Robert B. Coutts, Executive Vice President, Lockheed Martin Electronic Systems

At Lockheed Martin, we reach far beyond compliance, not because we have to, but because we’re committed to protecting and preserving the environment. By taking a proactive approach to pollution prevention, and by integrating environmental excellence into our daily business operations, we are ensuring the ongoing protection of our employees and the surrounding communities.

— Ralph D. Heath, Executive Vice President, Lockheed Martin Aeronautics

Our goal of zero injuries is in line with Space Systems’ commitment to 100 percent Mission Success. We remain focused on working safely through our actions, communications and commitments. The Space Systems Company safety culture continues to mature and we are seeing the results. It is imperative that we cultivate an injury-free workplace mindset in all of our activities to ensure all employees go home as healthy and whole as they arrived.

— G. Thomas Marsh, Executive Vice President, Lockheed Martin Space Systems
ESH Policy

Lockheed Martin Corporation is committed to operating in a manner that prevents accidents and ESH incidents, actively manages risk, conserves natural resources, protects the environment, and ensures the safety of employees, contractors, and the public. The Corporation’s policy is implemented through Functional Procedures that require all companies to:

- Include commitments to compliance; protect employees, the environment and local communities; and strive for continuous improvement.
- Include a commitment to establish and meet annual ESH objectives.
- Communicate the policy and procedures along with the ESH objectives to all employees.
- Review the policy and procedures annually, and update or revise as appropriate.
ESH Management System

Lockheed Martin is among the industry pioneers in instituting Environment, Safety and Health (ESH) management system requirements for all operations. Those requirements are based on the International Organization for Standardization (ISO) standards. To date, 32 Lockheed Martin facilities have obtained ISO 14001 certification and several other facilities have implemented programs to allow self-certification.

Lockheed Martin’s ESH management system consists of eight elements: policy, compliance requirements, risk assessment, objectives and targets, programs, training, self-assessment and senior management review. The requirements provide operating flexibility to business units while ensuring ESH is integrated into operations and managed in a similar manner to other aspects of the business.

Numerous tools have been developed to help assist businesses in implementing all aspects of the management system. The backbone is ESHWeb, an enterprise resource aiding ESH, hazardous materials transportation compliance and risk management. The site has several thousand pages of information on regulatory, corporate and voluntary programs as well as extensive databases that assist ESH users with their responsibilities. It contains a federal and state regulations retrieval service, audit checklists, international regulatory compliance guidance documents, chemical regulations lookup tables, plain-English guides to occupational safety, Lockheed Martin corporate policies and procedures, training resources, performance data, an ESH community of practice list, and numerous documents on corporate performance, awards and news. ESHWeb continues to be a strong resource for our talented ESH professionals.

Four additional enterprise tools also have been launched, and a fifth is planned for 2007. Lockheed Martin’s Standard Injury and Illness (LMSII) tool supports the Corporation’s Target Zero safety initiative by tracking occupational injuries and illnesses with the intent of preventing recurrence. LMSII provides a standard recordkeeping and corrective action tracking system for the Corporation. The Site Information Database (SID) collects information on the ESH aspects of individual facilities. Based on the information in SID, the Self-Assessment Manager (SAM) provides site-specific audit checklists for the compliance-based aspects identified, including differences between federal and state regulations. Computer-based training courses provide standardized training information and on-demand delivery to support a variety of ESH training requirements. This e-training program can be customized to site-specific needs and is integrated into Lockheed Martin’s Learning Management System, a comprehensive tool designed to deliver and track employee training.

In 2007, Lockheed Martin plans to implement an updated ESH risk assessment tool to examine “beyond compliance” aspects of facility operations and hazard controls with the objective of further reducing ESH-related risks for people, the environment and Lockheed Martin’s stakeholders.
Safety Performance and Goals

In 2004, Lockheed Martin launched a new corporate initiative, Target Zero, to reduce workplace injury occurrences to zero. Many locations are operating without injuries thanks to a dedicated effort and firm belief that safety is our highest priority. Three performance measures have been established for Target Zero: OSHA Injury Recordable Rate, Days Away Case Rate (DACR) and Severity Rate. Historical performance and future goals are shown below.

The DACR is determined based on the number of OSHA recordable injury and illness cases involving days away from work per 100 employees. In 2005, we reached a DACR of .32, improved from .34 in 2004 and .42 in 2003. Lockheed Martin’s goal is to achieve a Days Away Case Rate of 0.2 by 2008.
The recordable injury and illness rate is determined based on the number of OSHA recordable injuries and illnesses per 100 employees. In 2005, we reached a recordable rate of 2.04, improved from 2.38 in 2004 and 2.80 in 2003. Lockheed Martin’s goal is to achieve a recordable injury and illness rate of 1.25 by 2008.

The severity rate is the number of days away from work as a result of occupational injuries and illnesses per 100 employees. In 2005, we reached a severity rate of 10.71, improved from 11.40 in 2004 and 16.37 in 2003. Lockheed Martin’s goal is to achieve a severity rate of 7.00 by 2008.
Lockheed Martin’s environmental program has focused on reducing, reusing and recycling chemicals used in our manufacturing operations. Specific compounds believed to adversely impact the environment have been eliminated from operations. Some of those compounds include polychlorinated biphenyls (PCBs) and ozone depleting compounds (ODCs). Several Lockheed Martin operating companies have developed hazardous material management programs and cooperatively work with their customers to eliminate chemicals of concern. Considerable effort also has been made toward reducing energy use and greenhouse gas emissions. Overall, our efforts have eliminated hundreds of tons of annual emissions and improved the environment where we operate.

Since 1995, production-related hazardous waste has been reduced 72 percent. That equates to 4,144 tons of hazardous waste annually that no longer requires packaging, transportation, and disposal or incineration. Future efforts will be focused on reducing hazardous material use in production operations.
Total chemical releases, as measured by toxic release inventory (TRI) reports, have been reduced 94 percent since 1995. A total of 450 tons of annual releases to our environment have been eliminated. Future efforts are focused on continuing to remove specific chemicals from operations that are recognized as potential hazards to human health and the environment.
In 2001, Lockheed Martin initiated a non-hazardous solid waste recycling program. As a result:

- In 2004, 55 percent, — an equivalent of 27,000 tons did not go to community landfills.
- In 2005, 58 percent of non-hazardous solid waste an equivalent of 28,000 tons did not go to community landfills

We intend to continually increase the amount of non-hazardous solid waste that is reduced, renewed, and recycle each year.
Climate Change

Climate change is an important environmental, economic and social issue. More than 90 percent of greenhouse gas (GHG) emission at Lockheed Martin derives from energy use. Lockheed Martin’s energy program, which operates within the ESH organization, sets energy management policy, tracks the Corporation’s energy usage and costs, and monitors progress in improving energy efficiency and reducing GHG emissions. The energy program manager works closely with ESH and facility operations managers across the Corporation to promote energy efficiency through employee education, improved maintenance practices and capital investments.

Lockheed Martin has invested more than $20 million from 2002-2005 in capital improvements specifically targeted at increasing energy efficiency and lowering GHG emissions across the Corporation. To date, nearly 100 projects have been completed in a variety of project categories. Through these projects, the Corporation has realized cumulative energy savings of more than $10 million. In January 2006, an additional 31 projects were approved and funded, bringing the total investment amount to $26 million.

Lockheed Martin is a member of the EPA’s Climate Leaders program, a voluntary industry-government partnership that encourages companies to develop long-term comprehensive climate change strategies and set GHG emission reduction goals. The Corporation also participates in the Business Roundtable’s (BRT) Climate RESOLVE, a program that seeks to mobilize resources and expertise of BRT member companies behind the goal of enhanced voluntary action to reduce the GHG intensity of the U.S. economy.

Lockheed Martin estimates GHG emissions from our operating activities using established EPA protocols. Our GHG emissions are evaluated using a GHG intensity ratio that compares equivalent CO2 emissions to dollars of sales. Sales revenue is a productivity surrogate that provides a convenient means to standardize GHG measurements across the Corporation’s diverse operations. In 2005, the EPA accepted Lockheed Martin’s goal to reduce GHG intensity by 30 percent by 2010 measured against the 2001 baseline. Sales revenue is also normalized to 2001 dollars for calculations of progress toward this goal. Through the Corporation’s energy efficiency investments, the GHG emissions intensity ratio at the end of 2005 had been reduced by approximately 29 percent versus 2001 levels.
The ratio of total energy usage to sales revenue is used as a measure of energy efficiency. Although operations and sales revenue at Lockheed Martin have grown, energy use for the Corporation has remained relatively constant.
Environmental Stewardship

Environmental stewardship is an important aspect of Lockheed Martin’s commitment to communities in which we operate. Through its Foundation and operating companies, the Corporation supports several initiatives, including:

- The National Geographic’s Water Trail Program;
- The Chesapeake Bay Foundation’s inquiry-based environmental education program for public schools;
- The Izaak Walton League of America’s Save Our Streams and Wetlands programs;
- Environmental Expo at California State University, San Bernardino;
- The Nature Conservancy’s Mountains to Marshes program to protect more than 92 million acres of valuable lands and waters worldwide;
- A national teacher training program at The Keystone Center, where teachers learn how to effectively investigate environmental issues with their students; and
- The Conservation Fund’s efforts to preserve the country’s natural resources through public and private partnerships.

Lockheed Martin businesses support initiatives in their local communities as well. For example:

**Lockheed Martin Aeronautics in Fort Worth, Texas:**

- Conducted breeding birds surveys sponsored by the U.S. Geological Survey in four geographic locations in Texas. Data are used to track changes in bird populations and to develop conservation measures to mitigate population declines.
- Conducted Clean Air Fair at two locations at the Fort Worth Plant in July 2005. Provided literature and giveaways related to RideShare and ozone reduction measures. Also published daily “Ozone Alerts” on company’s Web site and published weekly articles in company’s electronic newsletter on measures to reduce ozone.
- Organized a Tarrant County birdwatching “scavenger hunt” for the Fort Worth Audubon Society. Event is intended to heighten awareness of urban wildlife and the environment and the affects of urban activities on bird populations.
- Held a “Make Cans Count” Event. Event broke all previous records for the Make Cans Count program, bringing in 1,860 pounds of aluminum cans and adding $966 to the Habitat for Humanity house fund. The fund now holds $14,311, which is 28 percent of the $50,000 goal.
- Participated in “Environmental Careers” at Brewer High School Career Day located in Fort Worth, Texas.
- Adopted a portion of State Highway 341 located south of the Fort Worth Plant and provided quarterly litter pickup of the roadway.
Lockheed Martin Aeronautics in Palmdale, Calif:

- Partnered with the Antelope Valley Air Quality Management District and the Sanitation Districts for Los Angeles County, to send four teachers from local schools to the Keystone Center’s Key Issues Institute: Bringing Environmental Issues to the Classroom in Colorado. Key Issues Institute is a national teacher training workshop that provides creative and innovative middle-level educators with the tools to investigate environmental issues with their students.
- Collaborated with the L.A. Country Sanitation District to present the “Sewer Science” program in two AP Environmental Science classes at Lancaster High School. Sewer Science is a hands-on lab that teaches high school students about municipal wastewater treatment using specially designed tanks, analytical equipment, and a student workbook.
- Sponsored and judged the annual Antelope Valley Air Quality Management District’s clean air poster contest. The contest is open to all students in the Antelope Valley area. The winning art work is printed on the annual AVAQMD calendar.
- Joined the Antelope Valley Illegal Dumping Task Force in June 2005. The group meets once a month to discuss illegal dumping issues, education programs and prevention projects.
- Established an Antelope Valley Environmental Education Consortium in July 2005. The consortium is a collaborative partnership of business, education and government to develop environmental education projects and facilitate teacher needs in the valley.

Lockheed Martin Aeronautics in Marietta, Ga:

- Supported a local elementary school in launching a recycling program. Posters, videos and other promotional information were provided to the school, and information related to the LM Aero-Marietta recycling program was relayed during a visit to the school on Nov. 9, 2005. ESH also supported the school’s fall festival on Nov. 12, 2005, by manning a booth and providing information about recycling.
- Hosted a team of 12 Georgia Clean Air Campaign (CAC) representatives on June 28, 2005. The purpose of the CAC’s visit was to sign up LM Aero employees for the CAC-sponsored rideshare program. This program encourages employees to get involved in van and car pools as a means of commuting to and from work, and offers incentives for those who participate.

Lockheed Martin Space Systems in Denver, Co.:

- Worked with local governmental agencies to study wildlife and habitat conservation and to develop a wildlife corridor within the Chatfield Reservoir Basin. During 2005, Space Systems assisted in the selection of a potential wildlife corridor route between riparian areas along Plum Creek and those adjacent to the South Platte River.
At Lockheed Martin Space Systems – Michoud Operations in New Orleans, Louisiana:

- Employee volunteers have helped 46 fellow employees gut their homes, which were badly damaged by Hurricane Katrina. The employee volunteers, who call themselves the “House Busters,” have enhanced the environment as well. Local health officials have encouraged the destruction or gutting of severely damaged homes in New Orleans to reduce the risk of vermin infestation.
Public/Private Partnerships

OSHA and EPA have found that traditional approaches to regulating industry have limitations and that public/private partnerships provide a means to achieve better results and satisfy specific needs of all parties. Both agencies have implemented voluntary participation programs that yield performance beyond compliance levels. Lockheed Martin supports the concept of public/private partnerships and participates in these types of programs.

To date, six Lockheed Martin businesses have achieved OSHA’s Voluntary Protection Programs (VPP) Star certification and 11 are participating in EPA’s Performance Track program. In addition, Lockheed Martin Aeronautics negotiated a relationship similar to the OSHA VPP Star program that better addresses the needs of both the union and management for its operation in Fort Worth, Texas.

OSHA Voluntary Protection Program (VPP) sites
- Maritime Systems & Sensors – Moorestown, N.J.
- Maritime Systems & Sensors – Syracuse, N.Y.
- Aeronautics Company – Palmdale, Calif.
- Systems Integration – Owego, N.Y.
- Simulation, Training & Support – Orlando, Fla.

EPA’s Performance Track (PT) sites
- Aeronautics Company – Marietta, Ga.
- Aeronautics Company - Palmdale, Calif.
- Maritime Systems & Sensors, Baltimore, Md.
- Maritime Systems & Sensors, Syracuse, N.Y.
- Maritime Systems & Sensors, Moorestown, N.J.
- Missiles and Fire Control – Camden, Ariz.
- Missiles and Fire Control – Dallas, Texas
- Missiles and Fire Control – Orlando, Fla.
- Space Systems Company, Littleton, Colo.
- Systems Integration – Owego, N.Y.

State Programs
- Aeronautics – Fort Worth, Texas, with Texas OSHA
• Aeronautics – Palmdale, Calif., with Cal/EPA
• Space Systems – Denver, Colo., with Colorado Environmental Leadership Program
• Maritime Systems & Sensors – Manassas, Va., with Virginia Environmental Excellence Program
Public Policy

In our efforts toward continuous improvement, Lockheed Martin participates in public policy processes that promote the development of laws and regulations that protect the environment and human health. Our participation in such activities is based on sound science and appropriate risk assessment principles. When emerging legislation, regulation requirements or industry trends are recognized, Lockheed Martin alerts its business units of the pending changes. Through the identification of best practices from throughout the enterprise, Lockheed Martin is able to leverage the experience and expertise of its vast resources to implement the most efficient solutions to the challenges of today’s ever-changing business environment.
Providing Community Solutions

With heritage operations dating back to the early 20th century, Lockheed Martin has built its success on long-standing innovation and business excellence as well as strategic acquisitions. Some of the operations conducted over the years, even though in compliance with relevant laws at the time, resulted in soil or groundwater contamination. Where remedial actions are warranted, Lockheed Martin has worked aggressively with regulatory agencies and the community to remedy the impact of the contamination. Some of our accomplishments are summarized below.

Lockheed Martin began remediating a portion of its former Potrero site in Riverside County, Calif., several years ago and currently is conducting a comprehensive environmental investigation to determine if additional remediation is necessary. A portion of the 9,100-acre property was used for rocket motor testing in the 1960s and ‘70s. This site also is the home to threatened and endangered species. The Corporation and The Conservation Fund partnered with Riverside County, the State of California, and the U.S. Fish & Wildlife Service to create a conservation area that is considered the crown jewel of Riverside County's Multiple Species Habitat Conservation Plan. The Corporation sold the property to the state and the county for a reduced price to create the conservation area.

Historical airplane manufacturing operations at the former Burbank, Calif., facility resulted in groundwater contamination in the San Fernando Valley. Working under a Consent Decree with the U.S. EPA, Lockheed Martin, in cooperation with the City of Burbank, constructed a 9,000 gallon per minute water treatment system that now supplies the city with 50 percent of its water requirements. Lockheed Martin also contributed to the construction of a similar facility in Glendale, Calif.

The offsite groundwater treatment system associated with a former operating facility in Great Neck, N.Y., went into normal operations this year, treating more than 500 gallons per minute. Construction and testing of the newly operational treatment system began in 2004. This system complements a similar groundwater treatment plant that has been operating at the former facility since 2002. Two new monitoring wells also were constructed at the leading edge of the groundwater plume to provide advance warning of potential impacts to nearby public water supply wells and to help define the leading edge of the groundwater plume.

At a heritage site in Middle River, Md., where Lockheed Martin operates an assembly plant, leases another facility and has sold other parcels of land, the Corporation over the past several years has collected thousands of samples from about 300 soil, 150 groundwater and 80 creek locations. Chemicals known to have been used during former industrial operations (including solvents, petroleum, metals and polychlorinated biphenyls) were detected, but the chemicals present in the environment at the site do not pose health risks to employees, visitors or residents in the community. Committed to being a good corporate citizen, Lockheed Martin has entered into the Maryland Department of the Environment’s Voluntary Cleanup Program (VCP), which will ensure
the health and safety of future site users as well as protect the environment. The Corporation also is conducting environmental investigations on the Martin State Airport property under Maryland’s Superfund program.

During a due diligence assessment conducted in 2000 to support Lockheed Martin’s sale of the former American Beryllium Company (ABC) property in Tallevast, Fla., volatile organic compounds (VOCs) were identified in shallow groundwater beneath former concrete sumps located on-site at the eastern portion of the facility. Working with the Florida Department of Environmental Protection, Lockheed Martin received approval to implement an interim remedial measure groundwater pump and treat system at the former ABC facility. The third site assessment has been completed and submitted to the state. The assessment indicates that groundwater in the vicinity of the site is impacted with VOCs and 1,4-dioxane. These impacts cover an area of approximately 200 acres and extend below ground surface approximately 200 feet. Lockheed Martin made a medical program and a property value guarantee program available to residents in the vicinity of the site. The medical program provides free examinations to residents and former employees. The property value guarantee provides gap payments to residents and property owners wishing to sell their property if they are unable to get full market value due to the groundwater contamination in the area.

The above highlights a small fraction of our ongoing environmental remediation projects. Lockheed Martin will continue to work aggressively with regulatory agencies and the community to remedy the impact of historical contamination where remedial action is warranted.