LOCKHEED MARTIN CORPORATION

2024 ANNUAL REPORT

LOCKHEED MARTIN

prevent or lessen the benefit of collaboration. We may not be successful in identifying or developing emerging technologies and may spend significant resources on projects that ultimately are unsuccessful or yield a low return on the amount invested.

Our future success in delivering innovative and affordable solutions to our customers relies, in part, on our multi-year business transformation initiative that seeks to significantly enhance our digital infrastructure to increase efficiencies and collaboration throughout our business while reducing costs. This digital transformation effort requires substantial investment and if we are unable to successfully implement the strategy or do so in a timely manner, our results of operations and future competitiveness may be adversely affected.

If we fail in our development projects or if our new products or technologies fail to achieve customer acceptance or competitors develop more capable technologies or offerings or develop new technologies or offerings faster, we may be unsuccessful in obtaining new contracts or winning all or a portion of next generation programs, including in key areas such as hypersonics and classified work, and this could adversely affect our future performance and financial results.

Geopolitical, macroeconomic and public health events and conditions could adversely affect our business, financial condition and operating results.

Geopolitical. Changes in U.S. government and other nations' administration and their associated shifts in policy and priorities could also impact our operations and market conditions. Our business is highly sensitive to geopolitical and security issues, including foreign policy actions taken by governments such as tariffs, sanctions, embargoes, export and import controls, and other trade restrictions, which can affect the demand for, and our ability to sell, our products and services, cause disruptions to our supply chain, and, ultimately, could adversely affect our business.

Global conflicts, including Russia's invasion of Ukraine, conflicts in the Middle East, and heightened tensions in the Pacific region, have significantly elevated global geopolitical tensions and security concerns and resulted in increased demand for some of our products and services. However, if we are unable to increase production to meet demand in the timeframe expected by potential customers, whether due to supply constraints, government funding, or otherwise, then we may lose sales opportunities as those possible customers seek alternatives, even less capable ones, that may be delivered more quickly. Furthermore, the level of continuing demand and our ability to sell to customers to meet that demand is subject in part to changes in government policies and priorities.

Economic sanctions, export controls, and other trade restrictions, for instance those that the U.S. Government and other nations implemented against Russia in light of its invasion of Ukraine or those relating to the conflict in the Middle East, could directly and indirectly result in the disruption of our business and supply chain. Conflicts in Ukraine and elsewhere have increased the threat of malicious cyber activity from nation states and other actors. China has placed restrictions on and sanctioned our company and certain executives in connection with foreign military sales by the U.S. Government to Taiwan involving our products and services. We will continue to follow official U.S. Government guidance as it relates to sales to Taiwan and do not currently expect a material impact to our business from these actions. In 2023, China also implemented broad-based export restrictions on certain minerals used in the production of, among other things, semiconductors and missile systems; in 2024, China specifically banned export of certain minerals to the U.S. China may impose additional sanctions that could adversely affect Lockheed Martin, our suppliers, teammates and/or partners in the future.

Our international sales also could be adversely affected by actions taken by the U.S. Government, including the exercise of foreign policy, Congressional oversight or the financing of particular programs, that may prevent, restrict or otherwise impose conditions upon the sale and delivery of our products or the transfer of sensitive technology. For example, the U.S. Government has imposed certain sanctions on Türkish entities and persons, which has affected our ability to obtain certain U.S. export permits or authorizations necessary to perform under our existing contracts supporting the Türkish Utility Helicopter Program (TUHP), and could impact our work with Türkish industry and our opportunity for sales in Türkiye generally. See "Note 1 – Organization and Significant Accounting Policies" included in our Notes to Consolidated Financial Statements for more information on TUHP. Our inability to perform under, or compete for, contracts with international customers because of actions taken by the U.S. Government has resulted and may in the future result in our inability to recover our costs, incurrence of reach-forward losses, claims and contract terminations by these customers and suppliers, and limitations on our ability to pursue new business, which could have an adverse effect on our operating results.

Macroeconomic. Heightened levels of inflation and the potential worsening of macroeconomic conditions, including slower growth or recession, changes to fiscal and monetary policy, tighter credit, higher interest rates and currency fluctuations, present risks for us, our suppliers and the stability of the broader defense industrial base. If we are unable to successfully mitigate the impact, our future profits, margins and cash flows, particularly for existing fixed-price contracts, may be adversely affected. Although we believe defense spending is more resilient to adverse macroeconomic conditions than many other industrial sectors, our suppliers and other partners, many of which are more exposed to commercial markets or have fewer resources, may be adversely impacted to a more significant degree than we are by an economic downturn. Such an impact could affect their performance and adversely impact our operations. In addition, macroeconomic conditions could cause budgetary term program milestones. Based on that review, we identified higher projected costs in engineering and integration activities that are necessary to achieve those forthcoming milestones. As of December 31, 2024, cumulative losses recognized to date on this program were approximately $825 million. We will continue to proactively manage the technical requirements and our performance, the remaining work and any future changes in scope or schedule, and estimated costs to complete the program, including future phases, and we may have to record additional losses that become evident in future periods if we experience further performance issues, increases in scope, or cost growth, which could be material to our financial results. We and our industry team will continue to incur advanced procurement costs (also referred to as pre-contract costs) to enhance our ability to achieve the schedule and certain milestones. We will monitor the recoverability of pre-contract costs, which could be impacted by our assessment of the customer's decision regarding the funding of future phases of the program.

We have contracted with the Canadian government for the CMHP at our RMS business segment that provides for design, development, and production of CH-148 aircraft (the Original Equipment contract), which is a military variant of the S-92 helicopter, and for logistical support to the fleet (the In Service Support contract) over an extended time period. The last of the 28 CH-148 aircraft is scheduled to be delivered in 2025. The program has experienced performance issues, including delays in the final aircraft deliveries from the original contract requirement, and the Royal Canadian Air Force's flight hours have been significantly less than originally anticipated, which has impacted program revenues and the recovery of our costs under this program. We have incurred significant costs and recognized the related sales, of which about $955 million are currently included in contract assets on the balance sheet which could become at risk for future recovery. Such assets are recovered based on future flight hours, which are not entirely within our control and are dependent upon aircraft availability and performance and the availability of Canadian government resources. During 2024, we entered into a modification to the In Service Support contract to better align contract scope with the Canadian government's needs. This modification mitigates but does not eliminate the risk related to future sales and recovery of our costs. We continue to engage in discussions with the Canadian government to potentially restructure certain contractual terms and conditions that may be beneficial to both parties. However, any restructuring discussions may be prolonged or unsuccessful and are dependent upon Canadian government resources and priorities and other factors outside of our control. Under the contract terms as modified, future sales and recovery of costs are dependent upon the Royal Canadian Air Force's flight hours and program costs and performance. As of December 31, 2024, cumulative losses remained at approximately $100 million. Future performance issues or changes in our estimates may affect our ability to recover our costs, including recovery of the contract assets recognized on the balance sheet and our assessment of the reach-forward loss, which could be material to our operating results.

We also have a number of contracts with Türkish industry for the Türkish Utility Helicopter Program (TUHP), which anticipates co-production with Türkish industry for production of T70 helicopters for use in Türkiye, as well as the related provision of Türkish goods and services under buy-back or offset obligations, to include the future sales of helicopters built in Türkiye for sale globally. In 2020, the U.S. Government imposed certain sanctions on Türkish entities and persons that have affected our ability to perform under the TUHP contracts, and we have provided force majeure notices under the affected contracts. We partially stopped work on TUHP effective October 5, 2024. We are currently in discussions with our customer regarding the path forward for the program in light of the continued impact of the sanctions on our ability to perform under the TUHP contracts and our decision to partially stop work. As of December 31, 2024, cumulative losses related to development work for the program remained insignificant and the program remains in a contract liability position on the balance sheet. The TUHP contracts may be negotiated to be restructured or terminated, either in whole or in part, and as a result, we could be at risk of recording significant reach-forward losses in future periods. Additionally, our customer and subcontractor have asserted that we do not have the contractual right to stop work. If we are unable to reach an agreement in the near term, we or our customer could elect to pursue other relief or remedies, which could result in a further reduction in sales, the imposition of penalties or assessment of damages, and increased unrecoverable costs, which could be material to our financial results.

Our MFC business segment has been performing under a competitively bid classified contract, which includes a cost-reimbursable base contract for the initial phase of the program and multiple fixed-price options for additional phases. We previously disclosed that the options may be exercised over the next several years and if performed expect they would each be at a loss. During the first quarter of 2024, we concluded it was probable that the first option would be exercised and recognized a reach forward loss of approximately $100 million. During the fourth quarter of 2024, we again assessed the likelihood that additional options may be exercised and now believe it is probable that all options will be exercised based on performance to date, future requirements of the program, discussions with the customer and suppliers, and anticipated customer funding, among other factors, resulting in the recognition of additional reach-forward losses of approximately $1.31 billion. For the year ended December 31, 2024, MFC recognized losses of $1.41 billion for this program, bringing the cumulative losses recognized on the program to approximately $1.46 billion, including charges for pre-contract costs recognized in prior periods. As of December 31, 2024, $1.36 billion of the losses were accrued in other current liabilities in our consolidated balance sheet.

Research and development and similar costs – We conduct research and development (R&D) activities using our own funds (referred to as company-funded or independent R&D (IR&D)) and under contractual arrangements with our customers