

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6057(b) and 6058(a) of the Internal Revenue Code (the Code). <p style="text-align: center;">▶ Complete all entries in accordance with the instructions to the Form 5500.</p>	OMB Nos. 1210-0110 1210-0089 <div style="text-align: center; font-size: 1.5em; font-weight: bold;">2018</div> This Form is Open to Public Inspection
---	---	--

Part I	Annual Report Identification Information
For calendar plan year 2018 or fiscal plan year beginning <u>01/01/2018</u> and ending <u>12/31/2018</u>	
A This return/report is for:	<input type="checkbox"/> a multiemployer plan <input type="checkbox"/> a multiple-employer plan (Filers checking this box must attach a list of participating employer information in accordance with the form instructions.) <input checked="" type="checkbox"/> a single-employer plan <input type="checkbox"/> a DFE (specify) _____
B This return/report is:	<input type="checkbox"/> the first return/report <input type="checkbox"/> the final return/report <input type="checkbox"/> an amended return/report <input type="checkbox"/> a short plan year return/report (less than 12 months)
C If the plan is a collectively-bargained plan, check here.	<input checked="" type="checkbox"/>
D Check box if filing under:	<input checked="" type="checkbox"/> Form 5558 <input type="checkbox"/> automatic extension <input type="checkbox"/> the DFVC program <input type="checkbox"/> special extension (enter description)

Part II	Basic Plan Information—enter all requested information										
1a Name of plan <u>HEALTH REIMBURSEMENT ARRANGEMENT FOR CERTAIN MEDICARE ELIGIBLE RETIREES OF LOCKHEED MARTIN CORPORATION</u>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">1b Three-digit plan number (PN) ▶</td> <td style="width: 20%; text-align: center;"><u>595</u></td> </tr> <tr> <td colspan="2">1c Effective date of plan <u>06/01/2015</u></td> </tr> <tr> <td colspan="2">2b Employer Identification Number (EIN) <u>52-1893632</u></td> </tr> <tr> <td colspan="2">2c Plan Sponsor's telephone number <u>863-647-0370</u></td> </tr> <tr> <td colspan="2">2d Business code (see instructions) <u>335900</u></td> </tr> </table>	1b Three-digit plan number (PN) ▶	<u>595</u>	1c Effective date of plan <u>06/01/2015</u>		2b Employer Identification Number (EIN) <u>52-1893632</u>		2c Plan Sponsor's telephone number <u>863-647-0370</u>		2d Business code (see instructions) <u>335900</u>	
1b Three-digit plan number (PN) ▶	<u>595</u>										
1c Effective date of plan <u>06/01/2015</u>											
2b Employer Identification Number (EIN) <u>52-1893632</u>											
2c Plan Sponsor's telephone number <u>863-647-0370</u>											
2d Business code (see instructions) <u>335900</u>											
2a Plan sponsor's name (employer, if for a single-employer plan) Mailing address (include room, apt., suite no. and street, or P.O. Box) City or town, state or province, country, and ZIP or foreign postal code (if foreign, see instructions) <u>LOCKHEED MARTIN CORPORATION</u> <u>6801 ROCKLEDGE DRIVE, CCT-115</u> <u>BETHESDA, MD 20817</u>											

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	10/14/2019	ROBERT MUENINGHOFF
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE

For Paperwork Reduction Act Notice, see the Instructions for Form 5500.

Form 5500 (2018)
v. 171027

3a Plan administrator's name and address <input checked="" type="checkbox"/> Same as Plan Sponsor	3b Administrator's EIN 3c Administrator's telephone number <div style="background-color: #cccccc; height: 40px;"></div>
4 If the name and/or EIN of the plan sponsor or the plan name has changed since the last return/report filed for this plan, enter the plan sponsor's name, EIN, the plan name and the plan number from the last return/report: a Sponsor's name c Plan Name	4b EIN 4d PN
5 Total number of participants at the beginning of the plan year	5 31306
6 Number of participants as of the end of the plan year unless otherwise stated (welfare plans complete only lines 6a(1) , 6a(2) , 6b , 6c , and 6d). a(1) Total number of active participants at the beginning of the plan year a(2) Total number of active participants at the end of the plan year b Retired or separated participants receiving benefits..... c Other retired or separated participants entitled to future benefits d Subtotal. Add lines 6a(2) , 6b , and 6c e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits. f Total. Add lines 6d and 6e g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item) h Number of participants who terminated employment during the plan year with accrued benefits that were less than 100% vested	6a(1) 0 6a(2) 0 6b 33291 6c 0 6d 33291 6e 6f 6g 6h
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)	7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions: 4Q	

9a Plan funding arrangement (check all that apply) (1) <input checked="" type="checkbox"/> Insurance (2) <input type="checkbox"/> Code section 412(e)(3) insurance contracts (3) <input checked="" type="checkbox"/> Trust (4) <input checked="" type="checkbox"/> General assets of the sponsor	9b Plan benefit arrangement (check all that apply) (1) <input checked="" type="checkbox"/> Insurance (2) <input type="checkbox"/> Code section 412(e)(3) insurance contracts (3) <input checked="" type="checkbox"/> Trust (4) <input checked="" type="checkbox"/> General assets of the sponsor
---	---

10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)

a Pension Schedules

- (1)** ☐ **R** (Retirement Plan Information)
- (2)** ☐ **MB** (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary
- (3)** ☐ **SB** (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary

b General Schedules

- (1)** ☒ **H** (Financial Information)
- (2)** ☐ **I** (Financial Information – Small Plan)
- (3)** ☐ 0 **A** (Insurance Information)
- (4)** ☐ **C** (Service Provider Information)
- (5)** ☐ **D** (DFE/Participating Plan Information)
- (6)** ☐ **G** (Financial Transaction Schedules)

Part III Form M-1 Compliance Information (to be completed by welfare benefit plans)

11a If the plan provides welfare benefits, was the plan subject to the Form M-1 filing requirements during the plan year? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☒ No

If "Yes" is checked, complete lines 11b and 11c.

11b Is the plan currently in compliance with the Form M-1 filing requirements? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

11c Enter the Receipt Confirmation Code for the 2018 Form M-1 annual report. If the plan was not required to file the 2018 Form M-1 annual report, enter the Receipt Confirmation Code for the most recent Form M-1 that was required to be filed under the Form M-1 filing requirements. (Failure to enter a valid Receipt Confirmation Code will subject the Form 5500 filing to rejection as incomplete.)

Receipt Confirmation Code _____

SCHEDULE H (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	<small>OMB No. 1210-0110</small> 2018 This Form is Open to Public Inspection
For calendar plan year 2018 or fiscal plan year beginning <u>01/01/2018</u> and ending <u>12/31/2018</u>		
A Name of plan <u>HEALTH REIMBURSEMENT ARRANGEMENT FOR CERTAIN MEDICARE ELIGIBLE RETIREES OF LOCKHEED MARTIN CORPORATION</u>		B Three-digit plan number (PN) ► <u>595</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>LOCKHEED MARTIN CORPORATION</u>		D Employer Identification Number (EIN) <u>52-1893632</u>

Part I	Asset and Liability Statement		(a) Beginning of Year	(b) End of Year
1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.				
	Assets			
a	Total noninterest-bearing cash	1a		
b	Receivables (less allowance for doubtful accounts):			
	(1) Employer contributions.....	1b(1)		
	(2) Participant contributions	1b(2)		
	(3) Other.....	1b(3)		
c	General investments:			
	(1) Interest-bearing cash (include money market accounts & certificates of deposit).....	1c(1)		
	(2) U.S. Government securities	1c(2)		
	(3) Corporate debt instruments (other than employer securities):			
	(A) Preferred	1c(3)(A)		
	(B) All other.....	1c(3)(B)		
	(4) Corporate stocks (other than employer securities):			
	(A) Preferred	1c(4)(A)		
	(B) Common.....	1c(4)(B)		
	(5) Partnership/joint venture interests	1c(5)		
	(6) Real estate (other than employer real property).....	1c(6)		
	(7) Loans (other than to participants)	1c(7)		
	(8) Participant loans.....	1c(8)		
	(9) Value of interest in common/collective trusts	1c(9)		
	(10) Value of interest in pooled separate accounts	1c(10)		
	(11) Value of interest in master trust investment accounts	1c(11)		
	(12) Value of interest in 103-12 investment entities.....	1c(12)		
	(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)		
	(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
	(15) Other.....	1c(15)		

1d Employer-related investments:		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	0	0
Liabilities			
g Benefit claims payable	1g	1739400	1976388
h Operating payables	1h		
i Acquisition indebtedness	1i		
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through 1j)	1k	1739400	1976388
Net Assets			
l Net assets (subtract line 1k from line 1f)	1l	-1739400	-1976388

Part II Income and Expense Statement

- 2** Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income		(a) Amount	(b) Total
a Contributions:			
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	60671	
(B) Participants	2a(1)(B)		
(C) Others (including rollovers)	2a(1)(C)	1739400	
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A), (B), (C), and line 2a(2)	2a(3)		1800071
b Earnings on investments:			
(1) Interest:			
(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)		
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)		
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		0
(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)		
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)		
(D) Total dividends. Add lines 2b(2)(A), (B), and (C)	2b(2)(D)		0
(3) Rents	2b(3)		
(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0
(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		0

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds)	2b(10)		
c Other income	2c		
d Total income. Add all income amounts in column (b) and enter total	2d		1800071

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)		
(2) To insurance carriers for the provision of benefits	2e(2)	2037059	
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		2037059
f Corrective distributions (see instructions)	2f		
g Certain deemed distributions of participant loans (see instructions)	2g		
h Interest expense	2h		
i Administrative expenses: (1) Professional fees	2i(1)		
(2) Contract administrator fees	2i(2)		
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)		
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		0
j Total expenses. Add all expense amounts in column (b) and enter total	2j		2037059

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		-236988
l Transfers of assets:			
(1) To this plan	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☐ Unqualified (2) ☐ Qualified (3) ☒ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)?

☒ Yes ☐ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: MITCHELL & TITUS, LLP

(2) EIN: 13-2781641

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.)

b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.)

	Yes	No	Amount
4a		X	
4b		X	

	Yes	No	Amount
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.).....		X	
e Was this plan covered by a fidelity bond?	X		100000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.)		X	
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.)		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?		X	
l Has the plan failed to provide any benefit when due under the plan?		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.)			
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.			

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?..... ☐ Yes ☒ No
If "Yes," enter the amount of any plan assets that reverted to the employer this year _____.

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	5b(2) EIN(s)	5b(3) PN(s)

5c If the plan is a defined benefit plan, is it covered under the PBGC insurance program (See ERISA section 4021.)? ☐ Yes ☐ No ☐ Not determined
If "Yes" is checked, enter the My PAA confirmation number from the PBGC premium filing for this plan year _____. (See instructions.)

Health Reimbursement Arrangement for Certain Medicare Eligible
Retirees of Lockheed Martin Corporation

Financial Statements as of December 31, 2018 and 2017,
and for the Year Ended December 31, 2018, with Independent Auditor's Report

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation**

Financial Statements

Year Ended December 31, 2018

Table of Contents

Independent Auditor's Report	1
Financial Statements:	
Statements of Net Assets Available for Benefits as of December 31, 2018 and 2017	3
Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2018	4
Notes to Financial Statements	5



INDEPENDENT AUDITOR'S REPORT

Plan Administrator
Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of Lockheed Martin Corporation

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of Lockheed Martin Corporation, which comprise the statements of net assets available for benefits as of December 31, 2018 and 2017, and the related statement of changes in net assets available for benefits for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's (DOL) Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA), the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4, which was certified by The Northern Trust Company, the trustee of the plan, except for comparing such information with the related information included in the financial statements. We have been informed by the plan administrator that the trustee holds the plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of

200 East Pratt Street
Suite 4100
Baltimore, MD 21202
mitchelltitus.com



December 31, 2018 and 2017 and for the year ended December 31, 2018, that the information provided to the plan administrator by the trustee is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Report on Form and Content in Compliance with DOL Rules and Regulations

The form and content of the information included in the financial statements, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

Mitchell Titus, LLP

October 7, 2019

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Statements of Net Assets Available for Benefits
(in thousands)**

	December 31,	
	2018	2017
Assets		
Net assets held in Lockheed Martin Corporation Salaried Employee Retirement Program 401(h) account	\$ 623,768	\$ 697,705
Net assets held in Lockheed Martin Corporation Salaried Savings Plan 401(h) account	—	10
Total assets	623,768	697,715
Liabilities		
Payable to Lockheed Martin Corporation.....	1,976	1,740
Net assets available for benefits.....	\$ 621,792	\$ 695,975

The accompanying notes are an integral part of these financial statements.

Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of Lockheed Martin Corporation
Statement of Changes in Net Assets Available for Benefits
(in thousands)

	Year Ended December 31, 2018
Net assets available for benefits at beginning of year	\$ 695,975
Additions to net assets:	
Contributions:	
Employer contributions	61
Deductions from net assets:	
Net decrease in Lockheed Martin Corporation Salaried Savings Plan 401(h) account	10
Net decrease in Lockheed Martin Corporation Salaried Employee Retirement Program 401(h) account.....	72,197
Claim payments	2,037
Total deductions	74,244
Change in net assets	(74,183)
Net assets available for benefits at end of year.....	\$ 621,792

The accompanying notes are an integral part of these financial statements.

Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of Lockheed Martin Corporation

Notes to Financial Statements

1. Description of the Plan

The following description of the Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of Lockheed Martin Corporation (the Plan) provides only general information about the Plan's provisions. Participants should refer to the Plan document and Summary Plan Descriptions for a more complete description of the Plan's provisions.

General

The Plan, which was established on June 1, 2015, is a qualified self-insured health reimbursement plan covering certain Medicare Eligible retirees of Lockheed Martin Corporation (the Corporation). The Plan reimburses retirees for certain health care expenses based on a fixed amount established by the Plan (Benefit Credits). Generally, retirees who reach age 65 and are not eligible for any other group retiree medical plan sponsored by the Corporation, are eligible to participate in the Plan. The Corporation is the Plan Sponsor and the Plan Administrator.

The assets of the Plan are held and invested on a commingled basis in the Lockheed Martin Corporation Salaried Employee Retirement Program (LMRP) 401(h) account and Lockheed Martin Corporation Salaried Savings Plan (SSP) 401(h) account, which were established for the investment of the Plan's assets and the assets of certain other plans sponsored by the Corporation. The LMRP and the SSP each have an IRS determination letter stating that the plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC), and therefore, the related trust is exempt from taxation. These plans have been amended since issuance of the determination letter. However, the Plan Administrator and the Corporation's counsel believe that the current design and operations of the plans are in compliance with the applicable provisions of the IRC, and therefore, believe the plans, as amended, are qualified and the related trusts are tax exempt. The assets of the 401(h) accounts in these plans are held by The Northern Trust Company (the Trustee).

Funding Policy

The Corporation's cash contributions to the 401(h) accounts in the LMRP and SSP are determined on an accrual basis in accordance with the requirements under Section 105 and 106 of the IRC and requirements for health reimbursement arrangements as defined in Internal Revenue Service (IRS) Notice 2002-45. In addition, the cash contributions satisfy the funding requirements for U.S. Government Cost Accounting Standards (CAS) reimbursements. The cash contributions are established based on actuarially determined amounts, as described in "Postretirement Benefit Obligations" below.

Although the Corporation expects to continue the Plan indefinitely, the Corporation may amend, suspend, or terminate the Plan for any reason at any time. If the Plan is terminated, any benefits with respect to claims or expenses incurred prior to the date of such Plan termination will be an obligation of the Plan. Such benefits may be fully or partially provided for by the existing assets of the Plan, with any excess provided for by the Corporation.

401(h) account

In order to fund the postretirement obligations for Benefit Credits of retirees and their spouses, the Corporation contributes to 401(h) accounts in the LMRP and the SSP in accordance with Section 401(h) of the IRC. Separate accounts have been established and maintained in the LMRP and SSP for the net assets related to the medical benefits funded by the Plan. In accordance with IRC Section 401(h), the investments in the 401(h) accounts may not be used for, or diverted to, any purpose other than providing health benefits for participants in the Corporation's postretirement medical plans. The related obligations for health benefits are not included in the LMRP or SSP obligations, but are reported as obligations in the accompanying financial statements of the Plan.

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

Contributions

The Plan provides Benefit Credits to participants each year based on a fixed dollar amount. Participant contributions are not permitted. Generally, a Benefit Credit for a full Plan year is \$900 for each participating retiree and participating spouse. The Benefit Credit is prorated for the number of months remaining in the year if the participant becomes covered after January 1 in a Plan year. Benefit Credits that are not used by participants in each plan year are carried over and may be used in subsequent years throughout each participant's lifetime.

Payment of Claims

The Plan reimburses participants for eligible medical expenses incurred up to their Benefit Credit amounts each year. Benefit Credits in the Plan are reduced by the amount of reimbursements.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Payment of Claims

Claims payments are recorded when paid by the Corporation. Amounts due to the Corporation for claims paid out but not yet reimbursed by the Plan are recorded as a payable to the Corporation in the Statement of Net Assets Available for Benefits.

Postretirement Benefit Obligations

Postretirement benefit obligations represent the actuarial present value of those estimated future Benefit Credits that are attributed by the terms of the Plan to employees' service rendered to the valuation date. Postretirement benefits include future Benefit Credits expected to be paid to (i) currently retired employees and their beneficiaries and dependents and (ii) active employees and their beneficiaries and dependents, after retirement from service with the Corporation. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date. The benefit obligations information is presented in Note 3 to the financial statements.

Risks and Uncertainties

The Plan, through the 401(h) accounts, invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets Available for Benefits.

Plan contributions are made and the actuarial present value of benefit obligations are reported based on certain assumptions pertaining to interest rates, health care inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption processes, it is at least reasonably possible that changes in these

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

estimates and assumptions in the near term could materially affect the amounts reported and disclosed in the financial statements.

Investment Valuation and Income Recognition

The net assets of the 401(h) accounts are reported at fair value. Fair value is the price that would have been received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The net assets of the 401(h) accounts' gains and losses on investments bought and sold as well as held during the year are included in the net increase or decrease in the 401(h) accounts.

Administrative Expenses

Direct and indirect administrative expenses are paid by the Corporation and are excluded from the Plan's financial statements.

Recent Accounting Pronouncements

In February 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2017-06 – *Employee Benefit Plan Master Trust Reporting*, which clarifies the presentation and disclosure requirements for an employee benefit plan's interest in a master trust. The new standard requires a plan's interests in master trust balances and activities to be presented on the face of the Plan's financial statements as a single line item for each interest in a master trust. The new standard also requires the disclosure of the master trust's investments by general type and the dollar amount of the plan's interest in each type; and the disclosure of the master trust's other assets and liabilities on a gross basis and the dollar amount of the plan's interest in each balance. The adoption of the new standard will eliminate the requirement to disclose the Plan's overall percentage interest in the trust and the health and welfare plans' requirement to disclose 401(h) investment account information, in which such information will be disclosed in the defined benefit plan. The standard is effective for the Plan beginning on January 1, 2019, with early adoption permitted. The Plan's management is currently evaluating the impact of the standard on the financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which amends ASC 820, *Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The effective date is January 1, 2020, with early adoption of the entire standard permitted or only the provisions that eliminate or modify disclosure requirements. The Plan's management early adopted the entire standard in 2018. The adoption did not have a material effect on the Plan's financial statements and related disclosures.

Subsequent Events

The Plan has evaluated subsequent events through October 7, 2019, the date the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2018 that required recognition or disclosure in these financial statements.

3. Benefit Obligations

The actuarial present value of the estimated postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money and the probability of payment between the valuation

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

date and the expected date of payment, and to reflect the portion of those costs expected to be borne by Medicare, the retired participants, and other providers.

Significant assumptions used in the valuations are as follows:

	December 31,	
	2018	2017
Weighted average discount rate	4.25%	3.625%
Average retirement age	63	63
Turnover	Based on termination experience of the Plan	Based on termination experience of the Plan
Mortality	RP-2014 Total Dataset Adjusted to 2006 with Scale MP-2018	RP-2014 Total Dataset Adjusted to 2006 with Scale MP-2017

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

The postretirement benefit obligation is as follows (in thousands):

	December 31,	
	2018	2017
Active employees, fully eligible for benefits	\$ 163,688	\$ 190,848
Active employees, not yet fully eligible for benefits	157,428	198,891
Retirees	536,387	610,616
Postretirement benefit obligation	<u>\$ 857,503</u>	<u>\$ 1,000,355</u>

The change in the Plan's postretirement benefit obligations is as follows (in thousands):

	Year Ended December 31, 2018
Balance at beginning of period	\$ 1,000,355
Increase (decrease) in postretirement benefits attributable to:	
Increase for interest due to the decrease in the discount period	35,345
Benefits paid	(43,591)
Benefits earned and other changes	(14,043)
Changes in actuarial assumptions	<u>(120,563)</u>
Net increase	<u>(142,852)</u>
Total postretirement benefit obligations at end of period	<u>\$ 857,503</u>

The changes in actuarial assumptions in the table above reflect the increase in the discount rate, trend and updated mortality table that impacted the postretirement benefit obligation by \$(56,033,000), \$(61,934,000) and \$(2,596,000), respectively. A

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

1% increase in the assumed health care cost trend rates would increase the postretirement benefit obligation by approximately 2.5% and 2.3% as of December 31, 2018 and December 31, 2017, respectively.

It is expected that the excess of postretirement benefit obligations over net assets available for benefits will be funded through future actuarially determined contributions to the LMRP 401(h) account and the SSP 401(h) account.

4. Fair Value Measurements

General

Investment information disclosed in the fair value of assets tables including investments held as of December 31, 2018 and 2017, and net appreciation in fair value of investments, interest income, and dividend income for the year ended December 31, 2018, was obtained or derived from information provided to the Plan Administrator and certified as complete and accurate by The Northern Trust Company, the Trustee of the two 401(h) accounts.

Fair Value of Assets

The accounting standard for fair value measurements defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and requires disclosures regarding fair value measurements. The standard is applicable whenever assets and liabilities are measured and included in the financial statements at fair value.

The fair value hierarchy established in the standard prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 – Quoted prices in active markets for identical assets and liabilities;
- Level 2 – Observable inputs, other than Level 1 prices, such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and
- Level 3 – Unobservable inputs where valuation models are supported by little or no market activity that one or more significant inputs are unobservable and require us to develop relevant assumptions.

Certain other investments are measured at fair value using their NAV per share and do not have readily determined values and are thus not subject to leveling in the fair value hierarchy. The NAV is the total value of the fund divided by the number of shares outstanding.

SSP 401(h) account

The following table presents the fair value of the assets in the SSP 401(h) account by asset category and their level within the fair value hierarchy as of December 31, 2018 (in thousands):

	<u>Level 1</u>	<u>Total</u>
Cash and cash equivalents and short term investment fund	\$ (4)	\$ (4)
Total investment assets at fair value.....	\$ (4)	\$ (4)
Receivables, net.....		5
Total net assets		<u>\$ 1</u>

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

The net appreciation for the year ended December 31, 2018 was \$4,000. Other income for the year ended December 31, 2018 was \$1,000. Health and Welfare benefits payments to retirees for the year ended December 31, 2018 were \$(37,000).

The following table presents the fair value of the assets in the 401(h) account by asset category and their level within the fair value hierarchy as of December 31, 2017 (in thousands):

	<u>Level 1</u>	<u>Total</u>
Cash and cash equivalents and short term investment fund	\$ 19	\$ 19
Corporate stock - common	4	4
Total investment assets at fair value.....	<u>\$ 23</u>	<u>\$ 23</u>
Receivables, net.....		<u>11</u>
Total net assets		<u><u>\$ 34</u></u>

LMRP 401(h) account

The following table presents the fair value of the assets in the LMRP 401(h) account by asset category and their level within the fair value hierarchy as of December 31, 2018 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents and short-term investment fund.....	\$ 53,490	\$ —	\$ —	\$ 53,490
Common and preferred stocks	290,399	489	97	290,985
Registered investment companies	36,970	—	—	36,970
Common collective trusts	—	63,945	—	63,945
Corporate debt securities.....	—	149,491	60	149,551
U.S. Government securities ^(c)	—	105,370	—	105,370
Other investments ^(d)	503	72,292	3,825	76,620
Commodities.....	7	—	—	7
Total investment assets at fair value	<u>\$ 381,369</u>	<u>\$ 391,587</u>	<u>\$ 3,982</u>	<u>\$ 776,938</u>
Investments measured at NAV ^(e) :				
Common collective trusts.....				2,887
Registered investment companies				1,485
Private equity funds				124,882
Real estate funds				65,510
Hedge funds				<u>25,416</u>
Total investment assets at NAV				220,180
Receivables, net				<u>1,149</u>
Total net assets				<u><u>\$ 998,267</u></u>

Interest and dividend income earned by the LMRP 401(h) account for the year ended December 31, 2018 was \$6,611,000 and \$12,909,000 respectively. The net depreciation for the year ended December 31, 2018 was \$65,699,000. Other loss for the year ended December 31, 2018 was \$4,843,000.

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

The following table presents the fair value of the assets in the LMRP 401(h) account by asset category and their level within the fair value hierarchy as of December 31, 2017 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents and short term investment fund	\$ 47,541	\$ —	\$ —	\$ 47,541
Common and preferred stocks	337,507	837	88	338,432
Registered investment companies	42,436	—	—	42,436
Common collective trusts	—	100,783	—	100,783
Corporate debt securities.....	—	166,466	163	166,629
U.S. Government securities ^(b)	—	152,521	—	152,521
Other investments ^(c)	432	58,742	171	59,345
Commodities.....	43	30	—	73
Total investment assets at fair value	<u>\$ 427,959</u>	<u>\$ 479,379</u>	<u>\$ 422</u>	<u>\$ 907,760</u>
Investments measured at NAV ^(d) :				
Common collective trusts.....				1,840
Registered investment companies				1,867
Other investments ^(c)				2,275
Private equity funds				143,341
Real estate funds				51,821
Hedge funds				23,797
Total investment assets at NAV				<u>224,941</u>
Receivables, net				2,081
Total net assets				<u><u>\$ 1,134,782</u></u>

The following table identifies certain transactions associated with the fair value of the LMRP 401(h) account Level 3 assets for the year ended December 31, 2018 (in thousands):

	Purchases	Transfers into Level 3	Transfers out of Level 3
Common and preferred stocks.....	\$ 2	\$ 37	\$ (2)
Other investments ^(d)	1,830	1,985	—
Total	<u>\$ 1,832</u>	<u>\$ 2,022</u>	<u>\$ (2)</u>

(a) Certain Common collective trusts have been measured at fair value using the NAV per share (or its equivalent) and not as a practical expedient which accordingly has been classified in the fair value hierarchy.

(b) Includes U.S. Government-sponsored enterprise securities.

(c) Includes collateralized mortgage obligations, municipals, asset-backed securities, inflation index linked bonds, foreign government securities, swaps, guaranteed investment contracts, repurchase agreements, and private debt.

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

- (d) Certain investments that are valued using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy and are included in the table to permit reconciliation of the fair value hierarchy to the aggregate postretirement benefit plan assets.

Certain assets that were previously classified outside of the leveling table were transferred into Level 3 as a result of management's current year assessment of the inputs used to determine fair value. Transfers out of Level 3 include assets that were transferred into Level 2 at the end of the year as a result of changes in the inputs used to determine fair value. The Master Trust recognizes transfers between levels of the fair value hierarchy as of the date of the change in circumstances that causes the transfer. Management is unaware of measurement uncertainty within Level 3 fair value measurements as of December 31, 2018.

Valuation Techniques

Cash and cash equivalents and short term investment fund (STIF) investments are mostly comprised of cash and short-term money-market instruments and are valued at cost, which approximates fair value.

Common and preferred stock securities categorized as Level 1 are traded on active national and international exchanges and are valued at their closing prices on the last trading day of the year. For common and preferred stock securities not traded on an active exchange, or if the closing price is not available, the Trustee obtains indicative quotes from a pricing vendor, broker, or investment manager. These securities are generally categorized as Level 2 if the custodian obtains corroborated quotes from a pricing vendor or generally categorized as Level 3 if the custodian obtains uncorroborated quotes from a broker or investment manager.

Common collective trusts are investment vehicles valued using the NAV provided by the fund managers. The NAV is the total value of the fund divided by the number of shares outstanding. Common Collective Trusts are categorized as Level 2 if the NAV is corroborated by observable market data (e.g., purchases or sales activity), or not categorized in a level of fair value hierarchy (excluded from the fair value table) where certain liquidity provisions apply and the NAV is deemed a practical expedient with regards to valuation. Common collective trusts and registered investment companies valued using the NAV as a practical expedient are typically redeemable within 90 days.

Registered investment company securities categorized as Level 1 are traded on active national and international exchanges and are generally valued at their closing prices on the last trading day of the year. In the cases where the valuation is based on NAV at the close of the year, these represent open-ended mutual funds valued by multiple pricing sources. For those securities not categorized in a level of fair value hierarchy, the Corporation cannot fully redeem the investment in the near-term and NAV as a practical expedient is deemed to apply to those assets.

Corporate debt instruments and U.S. Government securities categorized as Level 2 are valued by the Trustee using pricing models that use verifiable observable market data (e.g., interest rates and yield curves observable at commonly quoted intervals and credit spreads), bids provided by brokers or dealers, or quoted prices of securities with similar characteristics. Corporate debt instruments are categorized at Level 3 when valuations using observable inputs are unavailable. The Trustee obtains pricing based on indicative quotes or bid evaluations from vendors, brokers, or the investment manager.

Other investments consists of securities such as derivatives and fixed income securities not classified as corporate debt instruments or U.S. Government securities. Level 1 securities are comprised of derivative securities traded on national and international exchanges. Level 2 securities are mainly comprised of over-the-counter (OTC) derivatives and fixed income investments valued by the Trustee using pricing models that use verifiable observable market data (e.g., interest rates and yield curves observable at commonly quoted intervals and credit spreads), bids provided by brokers or dealers, or quoted prices of securities with similar characteristics. Other investments are categorized at Level 3 when valuations using observable inputs are unavailable. The Trustee obtains pricing based on bid evaluations from vendors or the investment manager. For those

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

securities not categorized within a level of fair value hierarchy, the Corporation cannot fully redeem the investment in the near-term and NAV as a practical expedient is deemed to apply to those assets.

Commodities categorized as Level 1 are traded on an active commodity exchange and are valued at their closing prices on the last trading day of the year. Commodities categorized as Level 2 represent over the counter derivative instruments using observable inputs other than quoted prices in active markets.

Private equity funds, real estate funds, and hedge funds are valued using the NAV based on the valuation models of underlying securities which generally include significant unobservable inputs that cannot be corroborated using verifiable observable market data. Valuations for private equity funds and real estate funds are determined by the general partners. Depending on the nature of the assets, the general partners may use various valuation methodologies, including the income and market approaches in their models. The market approach consists of analyzing market transactions for comparable assets while the income approach uses earnings or the net present value of estimated future cash flows adjusted for liquidity and other risk factors. Hedge funds are valued by independent administrators using various pricing sources and models based on the nature of the securities. Private equity funds, real estate funds, and hedge funds are generally not categorized in a level of fair value hierarchy as the Corporation cannot fully redeem the investment in the near-term and NAV as a practical expedient is deemed to apply to those assets. Hedge funds contain liquidity provisions which generally allow redemptions within several months.

Private equity funds consist of investments held primarily by limited partnerships in various strategies, including venture capital, corporate finance, opportunistic, and distressed. The term of each private equity fund is generally typically eight to twelve years, and the private equity fund's investors do not have the right to redeem their investment at its NAV. Instead, the investors receive distributions as the underlying assets of the fund are liquidated. Real estate funds consist of investments in U.S. and international commercial real estate held primarily by limited partnerships. The term of each real estate fund is generally eight to ten years, and the real estate fund's investors do not have the right to redeem their investment at its NAV. Instead, the investors receive distributions as the underlying assets of the fund are liquidated. Unfunded capital commitments related to the LMRP's 401(h) account's investment in private equity and real estate funds as of December 31, 2018 and 2017 totaled 112,932,000 and \$118,061,000, respectively. Hedge fund investments are made through commingled fund vehicles and depending on the hedge fund, redemptions can be monthly or annually. The redemption notice period, depending on the hedge fund, is typically 45 to 180 days in advance.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In estimating the fair value of the investments not in a level of fair value hierarchy, management may use third-party pricing sources or appraisers. In substantiating the reasonableness of the pricing data provided by third parties, management evaluates a variety of factors including review of methods and assumptions used by external sources, recently executed transactions, existing contracts, economic conditions, industry and market developments, and overall credit ratings.

5. Parties-in-Interest Transactions

The Trusts invest in funds managed by The Northern Trust Company, the Trustee. Investments in these funds qualify as party-in-interest transactions for which a statutory exemption from the prohibited transaction regulation exists.

**Health Reimbursement Arrangement for Certain Medicare Eligible Retirees of
Lockheed Martin Corporation
Notes to Financial Statements (continued)**

6. Reconciliation of financial statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 (in thousands):

	December 31,	
	2018	2017
Net assets available for benefits per the financial statements	\$ 621,792	\$ 695,975
Less: Net assets held in LMRP 401(h) account	623,768	697,705
Less: Net assets held in SSP 401(h) account	—	10
Net assets available for benefits per the Form 5500	<u>\$ (1,976)</u>	<u>\$ (1,740)</u>

The following is a reconciliation of the change in net asset available for benefits per the financial statements to the Form 5500 (in thousands):

	Year Ended December 31, 2018
Net decrease per the financial statements	\$ (74,183)
Less: Net decrease in LMRP and SSP 401(h) accounts	(72,207)
Add: accrued claim payment prior year	<u>1,740</u>
Net loss per Form 5500	<u>\$ 236</u>

The net assets and related activity of the 401(h) account included in the financial statements are not included in the Form 5500 because the assets of the LMRP 401(h) account are held by the Lockheed Martin Corporation Salaried Employee Retirement Program, and the assets of the SSP 401(h) account are held by the Lockheed Martin Corporation Salaried Savings Plan.