Memorandum

DATE: November 26, 2019
TO: Lockheed Martin Aeronautics Global Supply Chain
FROM: Janet Duffey, Vice President, Supply Chain Management
       Shari Foret, Vice President, Quality & Mission Success
SUBJECT: 2020 Aeronautics Supplier Performance Enhancements

Our suppliers play a vital role in supporting our business and we acknowledge those who are highly committed in both service and quality of their products. In 2017, Lockheed Martin Aeronautics implemented a Supplier Performance Diamond as part of our strategy which focused on rewarding performers through formal recognition, bid list inclusion, and strategic collaboration in addition to addressing poor performing suppliers through program review escalation, improvement plans, and executive management reviews. As we continue to strive for excellence with our suppliers and to provide transparency into all performance metrics, we are excited to incorporate the following changes to our performance ratings and the Diamond:

- New Quality Rating formula will be based on defect yield multiplied by impact factors of defect occurrences along with volume normalization
- Quality and Delivery Ratings will be based on 3-month ratings
- Quality Performance Thresholds will be ≥98 -100 = Blue (Preferred);
  ≥90 = Green (Acceptable); ≥80 = Yellow (Marginal); <80 = Red (Unsatisfactory)
- Delivery Performance Thresholds will be ≥98-100 = Blue (Preferred); ≥95 = Green
  (Acceptable); ≥90 = Yellow (Marginal); <90 = Red (Unsatisfactory)
- Diamond scoring will be based on 3-month ratings in a rolling 12-month period
- ELITE Level will be changed to TOP PERFORMER on the Diamond.

These changes are further detailed in the attachment and will take effect on January 10, 2020. Suppliers striving to improve their performance should see earlier results from their efforts.

We appreciate your commitment to ensure we deliver innovative, affordable, and agile supply chain solutions that exceed our customer expectations.

Regards,

Janet Duffey
Vice President
Supply Chain Management

Shari Foret
Vice President
Quality & Mission Success

Enclosure: 2020 Aeronautics Supplier Performance Enhancements in Detail
2020 AERONAUTICS SUPPLIER PERFORMANCE ENHANCEMENTS
Implementation Date: January 10, 2020

NEW QUALITY FORMULA

Program Supplier Rating = \[
100 - \text{Critical Impact} - \text{Late SCAR Response}\]
- \[
\frac{\text{Defect QTY}}{\text{t2mo * Receipt QTY}} \times \frac{\text{Impact Factor}}{\text{Volume Factor}} \times 100
\]

* t2mo Receipt QTY accommodates for situations where defects occur in a particular month without receipts

Critical Impact
Deduction Based on Leadership Concern of Major Event/Impact of Deliverable Based on Quality

Late SCAR Response
Deduction When Supplier is Unresponsive to a Supplier Corrective Action Report (SCAR) or had a CAR Rejected Response within the month

Impact Factor
Multiplier to Account for Impacts Felt Later in LM Production Sequence

Volume Factor
Multiplier on Supplier Receipt Quantity to Reduce Impact on Low Volume Receipts

Escalation Concern = 11pts
Severe Impact = 21pts
Each Late SCAR = 20pts
Deduction Present Each Month Until Issue Resolves

QTY Range Factor QTY Range Factor
1 - 9 3.35 10,000 - 99,999 0.008415
10 - 99 0.749972 100,000 - 999,999 0.001884
100 - 999 0.167898 1,000,000 - 999,999,999 0.000422
1,000 - 9,999 0.037588

RATING THRESHOLDS

DIAMOND ADJUSTMENTS
ELITE Changed to TOP PERFORMER
Diamond Composite Score Now Based on 3-Month Ratings of Quality/Delivery for the past year

RATING AVERAGES
Utilization
1-month ☑ ☑ ☑ Trending Analysis (+)
3-month ☑ ☑ ☑ Change from 12-month; Diamond Scoring
6-month ☑ Corporate Consolidation
<table>
<thead>
<tr>
<th>Date</th>
<th>Version</th>
<th>Comments</th>
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<tbody>
<tr>
<td>12-05-2019</td>
<td>1.0</td>
<td>Currently released version</td>
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<tr>
<td>01-21-2020</td>
<td>1.1</td>
<td>Updated Program Supplier Rating to incorporate x100 multiplier in Defect formula</td>
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<td>02-06-2020</td>
<td>1.2</td>
<td>Updated description to LATE SCAR Response to include Rejected Response</td>
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