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

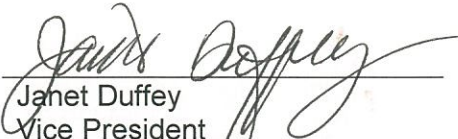SUBJECT: 2020 Aeronautics Supplier Performance Enhancements

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

$$\text{Program Supplier Rating} = \left[100 - \text{Critical Impact} - \text{Late SCAR Response} \right] - \left[\frac{\text{Defect QTY} \times \text{Impact Factor}}{\text{12mo* Receipt QTY} \times \text{Volume Factor}} \times 100 \right]$$

*12mo 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

Escalation Concern = 11pts
Severe Impact = 21pts

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

Each Late SCAR = 20pts

Deduction Present Each Month Until Issue Resolves

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

x2	Supplier Impact (SQARs/Variances)
x4	Source Rejections, Destination Acceptance & Swift Labs
x6	Manufacturing Floor Impact & Material Surveys
x8	Final Assembly/Shake & Flight Line Impact
x10	End User/Fleet/Sustainment Impact

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

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

←	80 →	90 →	98 →	QUALITY
←	90 →	95 →	98 →	DELIVERY
←	80 →	90 →	98 →	SMI

RATING AVERAGES

	QUALITY	DELIVERY	SMI	Utilization
1-month	✓	✓	✓	Trending Analysis (±)
3-month	✓	✓	✓	Change from 12-month; Diamond Scoring
6-month	✓			Corporate Consolidation

DIAMOND ADJUSTMENTS

ELITE Changed to TOP PERFORMER →

Diamond Composite Score Now Based on **3-Month** Ratings of Quality/Delivery for the past year

TOP PERFORMER

PERFORMING

UNDERPERFORMING

UNSAT

RECOGNITION

FIX REDUCE MAKE DELETE
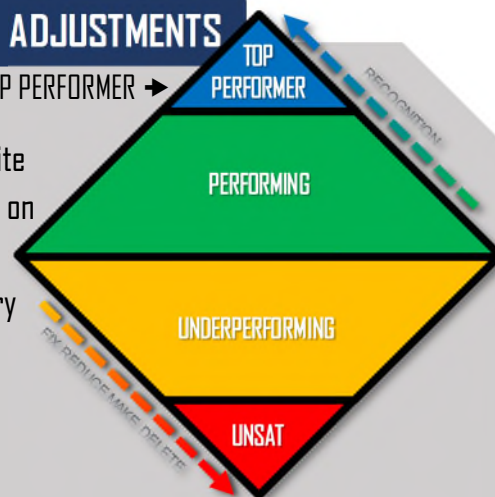
Version History

Date	Version	Comments
12-05-2019	1.0	Currently released version
01-21-2020	1.1	Updated Program Supplier Rating to incorporate x100 multiplier in Defect formula
02-06-2020	1.2	Updated description to LATE SCAR Response to include Rejected Response