Sandia National Laboratories

Operated for the U.S. Department of Energy's
National Nuclear Security Administration
by **Sandia Corporation**

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Dear Sandia Pension Security Plan participant:

The Pension Protection Act of 2006 established a new requirement that plan sponsors such as Sandia provide participants with an annual funding notice for their defined benefit pension plan. Beginning this year, participants will receive financial information about their Sandia pension plan in this new notice instead of the Summary Annual Report. The enclosed notice provides information regarding the plan's funding percentage, a statement of the value of the plan's assets and liabilities, a description of how the plan's assets are invested as of a specific date, and other details about the plan.

As you review this information, please bear in mind that although the pension investments in the Sandia Corporation Pension Trust have been affected by the stock market swings, our pension assets are well diversified. Sandia's Investment Committee takes a long-term view in selecting investments, a strategy consistent with long-term commitments. If additional funding is required, Sandia has always made the needed contributions and we plan to continue this practice.

The notice is also required to disclose rules governing the termination of pension plans and the role of the Pension Benefit Guaranty Corporation (PBGC) in the event of a plan termination. It is important to understand that the amount of the pension benefit you have already earned based on your service to date cannot be reduced by Sandia changing the plan. While no one can make a guarantee about the future of any benefit plan, Sandia fully expects to continue the pension plan for current participants. In addition, these actions reflect Sandia's commitment to maintaining a pension program that continues to meet federal funding requirements.

For questions about this notice, please contact Nancy Muller at (505) 845-6380 or nmuller@sandia.gov.

Sincerely,

Jo. Slipke

Annual Funding Notice
for
Sandia Corporation Pension Security Plan

Introduction

This notice includes important funding information about your pension plan ("the Plan"). This notice also provides a summary of federal rules governing the termination of single-employer defined benefit pension plans and of benefit payments guaranteed by the Pension Benefit Guaranty Corporation (PBGC), a federal agency. This notice is for the plan year beginning January 1, 2008, and ending December 31, 2008 ("Plan Year").

Funding Target Attainment Percentage

The funding target attainment percentage of a plan is a measure of how well the plan is funded on a particular date. This percentage for a plan year is obtained by dividing the Plan's Net Plan Assets by Plan Liabilities on the Valuation Date. In general, the higher the percentage, the better funded the plan. The Plan's funding target attainment percentage for the Plan Year and 2 preceding plan years is shown in the chart below, along with a statement of the value of the Plan's assets and liabilities for the same period.

	Plan Year Beginning in 2008	Plan Year Beginning in 2007	Plan Year Beginning in 2006
1. Valuation Date	January 1, 2008	January 1, 2007	January 1, 2006
2. Plan Assets			
a. Total Plan Assets	Not applicable	Not applicable	Not applicable
b. Funding Standard Carryover Balance	Not applicable	Not applicable	Not applicable
c. Prefunding Balance	Not applicable	Not applicable	Not applicable
d. Net Plan Assets (a) – (b) – (c) = (d)	Not applicable	Not applicable	Not applicable
3. Plan Liabilities	Not applicable	Not applicable	Not applicable
4. At-Risk Liabilities	Not applicable	Not applicable	Not applicable
5. Funding Target Attainment Percentage (2d)/(3)	Not applicable	Not applicable	Not applicable

Transition Data

For a brief transition period, the Plan is not required by law to report certain funding related information because such information does not exist for the plan years shown. The plan has entered "not applicable" in the chart above to identify the information it does not have. In lieu of that information, however, the Plan is providing you with comparable information that reflects the funding status of the Plan under the law then in effect. For 2008, the Plan's "funded current liability percentage" was 193.38%, the Plan's assets were $318,154,468, and Plan liabilities were $164,525,646. For 2007, the Plan's "funded current liability percentage" was 172.65%, the Plan's assets were $300,108,544, and Plan liabilities were $173,828,740. For 2006, the Plan's "funded current liability percentage" was 169.40%, the Plan's assets were $281,587,583, and Plan liabilities were $166,223,826.

Fair Market Value of Assets

Asset values in the chart above are actuarial values, not market values. Market values tend to show a clearer picture of a plan's funded status as of a given point in time. However, because market values can fluctuate daily based on factors in the marketplace, such as changes in the stock market, pension law allows plans to use actuarial values for funding purposes. While actuarial values fluctuate less than market values, they are estimates. As of December 31, 2008, the fair market value of the Plan's assets was $230,817,304. On this same date, the Plan's liabilities were $165,547,114.

Participant Information

The total number of participants in the plan as of the Plan's valuation date was 2,548. Of this number, 1,054 were active participants, 1,211 were retired or separated from service and receiving benefits, and 283 were retired or separated from service and entitled to future benefits.

Funding & Investment Policies

The law requires that every pension plan have a procedure for establishing a funding policy to carry out the plan objectives. A funding policy relates to the level of contributions needed to pay for promised benefits. The funding policy of the Plan is to contribute at least the minimum amount required by applicable federal law.

Once money is contributed to the Plan, the money is invested by plan officials called fiduciaries. Specific investments are made in accordance with the Plan's investment policy. Generally speaking, an investment policy is a written statement that provides the fiduciaries who are responsible for plan investments with guidelines or general instructions concerning various types or categories of investment management decisions.

The Sandia Corporation Investment Committee ("Committee"), a committee appointed by Sandia's Board of Directors, has the fiduciary responsibility for making investment decisions related to the assets of Sandia's defined benefit pension plans. The Committee's investment objective for the assets of the defined benefit pension plans is to ensure the availability of funds to meet the pension plans' liabilities under a broad range of future economic scenarios.

The nature and duration of expected benefit obligations, along with assumptions concerning expected asset returns and correlations of those returns, are considered by the Committee when determining an appropriate asset allocation to achieve the investment objective. In addition, the Committee considers prudent risk parameters when establishing its investment policy. Risk management practices include the use of external investment managers and the investment of a portfolio that is diversified by asset class, investment approach, and security holdings, and the maintenance of sufficient liquidity to meet benefit payments as they become due.

The Committee's investment policy requires that the asset allocations of the defined benefit plans be maintained within the following ranges:

Investment class	Asset allocation range
Total equities	60% - 75%
Domestic equities	45% - 65%
International equities	10% - 30%
Fixed income	15% - 40%
Real estate	0% - 15%
Alternative investments	0% - 15%

As of December 31, 2008, the policy for the plans target allocation was a mix of 70% in equities and 30% in fixed income.

In accordance with the Plan's investment policy, the Plan's assets were allocated among the following categories of investments, as of the end of the Plan Year. These allocations are percentages of total assets:

Asset Allocations	Percentage
1. Interest-bearing cash	1.8%
2. U.S. Government securities	14.4%
3. Corporate debt instruments (other than employer securities):	0.0%
Preferred	6.4%
All other	4.0%
4. Corporate stocks (other than employer securities):	0.0%
Preferred	0.1%
All other	24.6%
5. Partnership/joint venture interests	0.0%
6. Real estate (other than employer real property)	0.0%
7. Loans (other than to participants)	0.0%
8. Participant loans	0.0%
9. Value of interest in common/collective trusts	30.5%
10. Value of interest in pooled separate accounts	1.7%
11. Value of interest in master trust investment accounts	0.0%
12. Value of interest in 103-12 investment entities	8.1%
13. Value of interest in registered investment companies (e.g., mutual funds)	0.0%
14. Value of funds held in insurance co. general account (unallocated contracts)	7.9%
15. Employer-related investments:	0.0%
Employer Securities	0.0%
Employer real property	0.0%
16. Buildings and other property used in plan operation	0.0%
17. Other	0.5%

Right to Request a Copy of the Annual Report

A pension plan is required to file with the US Department of Labor an annual report (i.e., Form 5500) containing financial and other information about the plan. Copies of the annual report are available from the US Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202.693.8673. Or you may obtain a copy of the Plan's annual report by making a written request to the plan administrator.

Summary of Rules Governing Termination of Single-Employer Plans

Employers can end a pension plan through a process called "plan termination." There are two ways an employer can terminate its pension plan. The employer can end the plan in a "standard termination" but only after showing the PBGC that the plan has enough money to pay all benefits owed to participants. The plan must either purchase an annuity from an insurance company (which will provide you with lifetime benefits when you retire) or, if your plan allows, issue one lump-sum payment that covers your entire benefit. Before purchasing your annuity, your plan administrator must give you advance notice that identifies the insurance company (or companies) that your employer may select to provide the annuity. The PBGC's guarantee ends when your employer purchases your annuity or gives you the lump-sum payment.

If the plan is not fully-funded, the employer may apply for a distress termination if the employer is in financial distress. To do so, however, the employer must prove to a bankruptcy court or to the PBGC that the employer cannot remain in business unless the plan is terminated. If the application is granted, the PBGC will take over the plan as trustee and pay plan benefits, up to the legal limits, using plan assets and PBGC guarantee funds.

Under certain circumstances, the PBGC may take action on its own to end a pension plan. Most terminations initiated by the PBGC occur when the PBGC determines that plan termination is needed to protect the interests of plan participants or of the PBGC insurance program. The PBGC can do so if, for example, a plan does not have enough money to pay benefits currently due.

Benefit Payments Guaranteed by the PBGC

If a single-employer pension plan terminates without enough money to pay all benefits, the PBGC will take over the plan and pay pension benefits through its insurance program. Most participants and beneficiaries receive all of the pension benefits they would have received under their plan, but some people may lose certain benefits that are not guaranteed.

The PBGC pays pension benefits up to certain maximum limits. The maximum guaranteed benefit is $4,500 per month, or $54,000 per year, payable in the form of a straight life annuity, for a 65-year-old person in a plan that terminates in 2009. The maximum benefit may be reduced for an individual who is younger than age 65. The maximum benefit will also be reduced when a benefit is provided to a survivor of a plan participant.

The PBGC guarantees “basic benefits” earned before a plan is terminated, which includes:

- pension benefits at normal retirement age;
- most early retirement benefits;
- annuity benefits for survivors of plan participants; and
- disability benefits for a disability that occurred before the date the plan terminated.

The PBGC does not guarantee certain types of benefits:

- The PBGC does not guarantee benefits for which you do not have a vested right when a plan terminates, usually because you have not worked enough years for the company.
- The PBGC does not guarantee benefits for which you have not met all age, service, or other requirements at the time the plan terminates.
- Benefit increases and new benefits that have been in place for less than one year are not guaranteed. Those that have been in place for less than five years are only partly guaranteed.
- Early retirement payments that are greater than payments at normal retirement age may not be guaranteed. For example, a supplemental benefit that stops when you become eligible for Social Security may not be guaranteed.
- Benefits other than pension benefits, such as health insurance, life insurance, death benefits, vacation pay, or severance pay, are not guaranteed.
- The PBGC generally does not pay lump sums exceeding $5,000.

Even if certain benefits are not guaranteed, participants and beneficiaries still may receive some of those benefits from the PBGC depending on how much money the terminated plan has and how much the PBGC collects from the employer.

Corporate Information on File with PBGC

The law requires a plan sponsor to provide the PBGC with financial information about the sponsor and the plan under certain circumstances, such as when the funding target attainment percentage of the plan (or any other pension plan sponsored by a member of the sponsor’s controlled group) falls below 80 percent (other triggers may also apply). The sponsor of the Plan, Sandia Corporation, and each member of its controlled group, if any, was subject to this requirement to provide corporate financial information and plan actuarial information to the PBGC. The PBGC uses this information for oversight and monitoring purposes.

Where to Get More Information

For more information about this notice, you may contact:

Nancy Muller
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Albuquerque, NM 87185
(505) 845-6380
NMuller@Sandia.gov

For identification purposes, the official plan number is 005 and the plan sponsor's employer identification number or "EIN" is 85-0097942. For more information about the PBGC and benefit guarantees, go to PBGC's Web site, www.pbgc.gov, or call PBGC toll-free at 1.800.400.7242 (TTY/TDD users may call the Federal relay service toll free at 1.800.877.8339 and ask to be connected to 1.800.400.7242).