

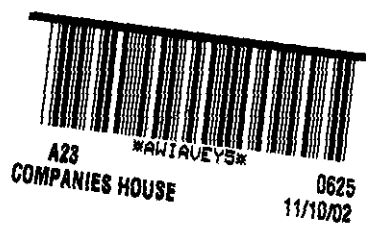
320806

LOCKHEED MARTIN UK LIMITED

Report and Accounts

31 December 2001

ERNST & YOUNG



Lockheed Martin UK Limited

Registered No. 3184898

DIRECTORS

R B Coutts
I R Stopps
A Cleaver
J Patten
R H Trice Jr
J Slater

SECRETARIES

M Webster
L Trippett
S Goldstein
V Snyder

AUDITORS

Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London
SE1 7EU

SOLICITORS

MacRae & Co
59 Lafone Street
Shad Thames
London
SE1 2LX

REGISTERED OFFICE

MacRae & Co
59 Lafone Street
Shad Thames
London
SE1 2LX

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2001.

RESULTS AND DIVIDENDS

The profit and loss account of the group is set out on page 5. During the year the group made various charitable contributions totalling £14,000.

The directors do not recommend the payment of an ordinary dividend for the year.

REVIEW OF THE BUSINESS AND PRINCIPAL ACTIVITIES

The principal continuing activities of the group is serving as total systems integrator and prime contractor on various defence and non-defence related platforms, the design and manufacture of weapon simulators and training equipment, and holding of investments in UK based joint venture entities.

EMPLOYEES

During the year, the policy of providing employees with information about the Lockheed Martin group, has been continued. Employees have also been encouraged to present their suggestions and views, and regular meetings are held between local management and employees to allow a free flow of information and ideas.

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

R B Coutts
I R Stopps
A Cleaver
J Patten
R H Trice Jr
J Slater

There are no directors' interests requiring disclosure under the Companies Act 1985.

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board



Director

Date: 3 Oct '02

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOCKHEED MARTIN UK LIMITED

We have audited the group's financial statements for the year ended 31 December 2001 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP

Registered Auditor

London 4 October 2002

Lockheed Martin UK Limited

GROUP PROFIT AND LOSS ACCOUNT for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
TURNOVER			
Turnover: group and share of joint ventures' turnover		218,921	160,895
Less: share of joint ventures' turnover	10	104,958	88,118
Continuing operations	3	113,963	65,630
Discontinued operations	3	-	7,147
GROUP TURNOVER		113,963	72,777
Cost of Sales		(109,666)	(70,472)
GROSS PROFIT		4,297	2,305
Other operating costs		(201)	(186)
Other operating income		2,820	2,033
GROUP OPERATING PROFIT/(LOSS)		6,916	4,221
Continuing operations		-	(69)
Discontinued operations		-	-
	4	6,916	4,152
Share of operating profit in joint ventures		5,836	3,996
Interest receivable and similar income	7	1,026	1,504
Interest payable and similar charges	8	(181)	(256)
		6,681	5,244
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13,597	9,396
Tax charge on profit on ordinary activities	9	(4,117)	(2,831)
RETAINED PROFIT FOR THE YEAR	19	9,480	6,565

The company has no recognised gains and losses other than the gains and losses above and therefore no separate statement of total recognised gains and losses has been presented.

The profit on ordinary activities before taxation and the retained profit for the year stated above is £8,000 lower than the historical cost equivalent (2000: retained profit for the year £33,000 lower than the historical cost equivalent).

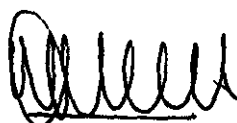
Lockheed Martin UK Limited

GROUP BALANCE SHEET at 31 December 2001

	Notes	2001 £000	2000 £000
FIXED ASSETS			
Investment in joint ventures:			
Share of gross assets	10	17,311	22,066
Share of gross liabilities	10	(14,541)	(19,713)
		<hr/>	<hr/>
Tangible assets	10 11	2,770 689	2,353 811
		<hr/>	<hr/>
		3,459	3,164
		<hr/>	<hr/>
CURRENT ASSETS			
Stocks	12	3,794	3,316
Debtors	13	49,392	15,099
Cash at bank and in hand		8,172	34,740
		<hr/>	<hr/>
		61,358	53,155
		<hr/>	<hr/>
CREDITORS: amounts falling due within one year	14	34,797	35,776
		<hr/>	<hr/>
NET CURRENT ASSETS		26,561	17,379
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		30,020	20,543
		<hr/>	<hr/>
CREDITORS: amounts falling due after more than one year	15	9,648	9,648
		<hr/>	<hr/>
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	17	-	3
		<hr/>	<hr/>
		20,372	10,892
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	18	11,105	11,105
Revaluation reserve	19	-	8
Profit and loss account	19	9,267	(221)
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	19	20,372	10,892
		<hr/>	<hr/>

Approved by the board of directors and signed on its behalf by:

Director



Date:

3 Oct '02

Lockheed Martin UK Limited

BALANCE SHEET at 31 December 2001

	Notes	2001 £000	2000 £000
FIXED ASSETS			
Investments	10	10,055	10,055
CURRENT ASSETS			
Debtors: amounts falling due within one year	13	48	52
Debtors: amounts falling due after more than one year	13	1,050	1,050
Cash at bank and in hand		5,722	9,674
		6,820	10,776
CREDITORS: amounts falling due within one year	14	96	8,046
NET CURRENT ASSETS		6,724	2,730
TOTAL ASSETS LESS CURRENT LIABILITIES		16,779	12,785
		16,779	12,785
CAPITAL AND RESERVES			
Called up share capital	18	11,105	11,105
Profit and loss account	19	5,674	1,680
EQUITY SHAREHOLDERS' FUNDS	19	16,779	12,785

Approved by the board of directors and signed on its behalf by:

Director



Date:

3 Oct '02

NOTES TO THE ACCOUNTS

at 31 December 2001

1. ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The accounts are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated accounts incorporate the accounts of the company and its subsidiary undertakings up to 31 December each year.

Entities in which the group holds an interest on a long term basis and are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the consolidated accounts, joint ventures are accounted for using the gross equity method.

Cash flow statement

The company has utilised the exemption under Financial Reporting Standard No. 1 (revised) as a subsidiary undertaking whose ultimate parent undertaking prepares consolidated group accounts that are publicly available, and has not presented a cash flow statement.

Fixed Assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Leasehold improvements and cost of relocating fixed assets are depreciated over 5 years, or if shorter, the period of the lease.

Depreciation on other fixed assets is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Technical drawings	-	10%
Motor vehicles	-	33 $\frac{1}{3}$ %
Plant office and computer equipment	-	10-33 $\frac{1}{3}$ %

Certain technical drawings were revalued in 1992, with the revaluation surplus being taken to the revaluation reserve. Following the introduction of Financial Reporting Standard No. 15 Tangible Fixed Assets, the company has taken advantage of the transitional arrangement in the Standard and as a result has retained the book amount of the revalued assets. This revaluation has not been updated.

NOTES TO THE ACCOUNTS

at 31 December 2001

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Pension scheme arrangements

The group operates two main pension schemes, the Lockheed Martin ASIC Pension Plan (a defined benefit scheme) and the Lockheed Martin Tactical Systems UK Limited Final Salary Plan (a part defined benefit part defined contribution scheme). These funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates.

Pension costs for the defined benefit schemes are accounted for on the basis of charging the expected cost of providing pensions over the period during which the group benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. Pension costs for the defined contribution element are charged to the profit and loss account as contributions become payable. The group provides no other post retirement benefits to its employees.

The company has provided the disclosure information required by FRS17 Retirement Benefits in the current year accounts, and will look to fully introduce this accounting standard in future years through to December 2003 when it become mandatory.

Research and development

Research and development expenditure is either attributable directly to, and recoverable from work programmes and is charged specifically to work in progress, or written off as privately funded research and development as appropriate.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Contract work in progress

Turnover on long term contracts is recognised according to the stage reached in the contract by reference to the value of work done. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs on long-term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as work in progress balances.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling of the date of the transaction. Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. All foreign exchange differences are taken to the profit and loss account in the year in which they arise. On certain long term contracts forward foreign currency contracts are taken out to hedge the exchange risk in line with the anticipated foreign exchange cash flows. Profits and losses arising on these are recorded as the foreign currency contracts mature.

NOTES TO THE ACCOUNTS

at 31 December 2001

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that a liability or asset will crystallise. At the current time, all material timing differences are expected to reverse in the near future, and accordingly full provision is made in the accounts. Therefore, the introduction of FRS19 Deferred Tax, which becomes mandatory in the year ended 31 December 2002, is expected to have minimal impact on the accounts.

2. PROFIT AND LOSS ACCOUNT

The company has taken advantage of the exemption under S.230 of the Companies Act 1985 not to publish its own profit and loss account. The profit dealt with in the accounts of the company was £3,994,000 (2000 : £1,680,000). Certain expenses relating to the company, including directors' remuneration and audit fees, have been met by a fellow subsidiary undertaking.

3. GROUP TURNOVER

	2001	2000
	£000	£000
<i>Analysis of continuing turnover by geographical destination</i>		
United Kingdom	108,646	57,457
North America	2,098	5,704
Europe	1,058	687
Rest of World	2,161	1,782
	<u>113,963</u>	<u>65,630</u>

All continuing turnover originates in the United Kingdom, and is attributable to the company's principal activity as detailed in the Directors' Report.

Discontinued turnover of £nil (2000: £7,147,000) relates to the Tactical Technologies division sold by the company at net book value in November 2000.

4. OPERATING PROFIT

	2001	2000
	£000	£000
<i>This is stated after charging:</i>		
Depreciation charge for the year	241	288
Auditors' remuneration - audit services	55	55
- non audit services	5	8
Operating lease rental for land and buildings	240	272
Operating lease rentals for plant and machinery	86	80
Research and development expenditure written off	58	212
	<u> </u>	<u> </u>

5. DIRECTORS' EMOLUMENTS

	2001	2000
	£000	£000
Total emoluments	30	27
	<u> </u>	<u> </u>

Directors fees noted above were paid by a fellow subsidiary undertaking.

NOTES TO THE ACCOUNTS

at 31 December 2001

6. EMPLOYEE INFORMATION

The average number of persons (including executive directors) employed by the group during the year was:

	2001 No.	2000 No.
Production	130	115
Selling and distribution	31	34
Administration	43	46
Research and development	23	22
Engaged in activities for fellow subsidiary undertakings	241	207
	<u>468</u>	<u>424</u>

Staff costs (for the above persons)

	2001 £000	2000 £000
Wages and salaries	19,758	16,892
Social security costs	1,790	1,574
Other pension costs	2,831	2,208
	<u>24,379</u>	<u>20,674</u>

Included in the staff costs above, are the costs of employees engaged on activities for fellow subsidiary undertakings, comprising wages and salaries of £10,241,000 (2000: £8,457,000), social security costs of £907,000 (2000: £794,000) and pension costs of £1,414,000 (2000: £1,161,000).

7. INTEREST RECEIVABLE

	2001 £000	2000 £000
<i>Group:</i>		
Bank interest receivable	500	1,071
Interest receivable from joint ventures	136	102
Share of joint ventures' interest	390	331
	<u>1,026</u>	<u>1,504</u>

8. INTEREST PAYABLE

	2001 £000	2000 £000
<i>Group:</i>		
Bank loans and overdrafts	-	1
Other interest	33	74
Interest payable to joint ventures	5	14
Share of joint ventures' interest	143	167
	<u>181</u>	<u>256</u>

Lockheed Martin UK Limited

NOTES TO THE ACCOUNTS

at 31 December 2001

9. TAXATION

	2001 £000	2000 £000
Group:		
United Kingdom corporation tax at 30% (2000: 30%)	2,291	1,601
Corporation tax under/(over) provided in previous years	8	(11)
Deferred tax	(3)	(12)
Share of joint ventures' tax	1,821	1,253
	<u>4,117</u>	<u>2,831</u>

Deferred tax has been provided in full.

10. INVESTMENTS

	2001 £000	2000 £000
Group:		
Joint Ventures	<u>2,770</u>	<u>2,353</u>
		£000
At 1 January 2001		2,353
Cost of shares acquired in the year		-
Share of profit retained by joint ventures		417
At 31 December 2001		<u>2,770</u>

At 31 December 2001, the group's total investment in joint ventures of £2,770,000 (2000: £2,353,000) was made up of the cost of shares acquired of £1,050,000 (2000: £1,050,000), and the group's share of profit retained by joint ventures of £1,720,000 (2000: £1,303,000).

NOTES TO THE ACCOUNTS

at 31 December 2001

10. INVESTMENTS (continued)

Additional disclosures in respect of the following joint ventures showing the Group's share of joint ventures' net assets and results:

	<i>SIKA International Management Limited</i>	<i>AWE Limited</i>	<i>Sky Solutions Limited</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Year ended 31 December 2001:				
Fixed assets	-	-	-	-
Current assets	3,084	14,227	-	17,311
Share of gross assets	3,084	14,227	-	17,311
Liabilities due within one year	(2,484)	(11,007)	-	(13,491)
Liabilities due after one year	-	(1,050)	-	(1,050)
Share of gross liabilities	(2,484)	(12,057)	-	(14,541)
Share of net assets	600	2,170	-	2,770
Turnover	11,272	93,686	-	104,958
Profit before tax	-	6,082	-	6,082
Taxation	-	(1,821)	-	(1,821)
Profit after tax	-	4,261	-	4,261
Year ended 31 December 2000:				
Fixed assets	-	-	-	-
Current assets	5,447	16,618	1	22,066
Share of gross assets	5,447	16,618	1	22,066
Liabilities due within one year	(4,847)	(13,816)	-	(18,663)
Liabilities due after one year	-	(1,050)	-	(1,050)
Share of gross liabilities	(4,847)	(14,866)	-	(19,713)
Share of net assets	600	1,752	1	2,353
Turnover	18,884	68,834	400	88,118
Profit before tax	1	4,160	(1)	4,160
Tax	(1)	(1,252)	-	(1,253)
Profit after tax	-	2,908	(1)	2,907

Lockheed Martin UK Limited

NOTES TO THE ACCOUNTS

at 31 December 2001

10. INVESTMENTS (continued)

<i>Company:</i>	<i>Subsidiary Undertakings £000</i>	<i>Joint Ventures £000</i>	<i>Total £000</i>
Cost :			
At 1 January 2001	9,005	1,050	10,055
Additions	-	-	-
At 31 December 2001	9,005	1,050	10,055

The subsidiary undertaking of Lockheed Martin UK Integrated Systems Limited was acquired by the company on 24 October 2000 from the parent undertaking Lockheed Martin Corporation as part of a group reorganisation. The consideration was paid of £9,005,129 being 9,005,129 new ordinary shares of £1 each issued at par value.

The company owns issued ordinary share capital in the following unlisted companies' at 31 December 2001, all of which are incorporated in the United Kingdom:

<i>Investment</i>	<i>Investment Cost</i>	<i>Percentage of shares held</i>
<i>Joint Ventures:</i>		
Sky Solutions Limited	£1	50%
SIKA International Limited	£600,000	50%
AWE Management Limited	£450,000	33%
<i>Subsidiary undertakings:</i>		
Lockheed Martin UK Integrated Systems Limited	£9,005,129	100%

Sky Solutions Limited was engaged on design and development work relating to the new Scottish Air Traffic control centre at Prestwick, Scotland, but has now ceased operating.

SIKA International Limited is engaged as the prime contractor and systems integrator for the product definition phase of the Tracer/FSCS military vehicle programme.

AWE Management Limited was awarded effected 1 April 2000 a ten year contract for the management and operation of the Atomic Weapons Establishment in the UK.

In the directors' opinion the current value of investments is not lower than the book value at the balance sheet date.

NOTES TO THE ACCOUNTS
at 31 December 2001

11. TANGIBLE FIXED ASSETS

<i>Group:</i>	<i>Leasehold improvement £000</i>	<i>Plant, office & computer equipment £000</i>	<i>Technical drawings £000</i>	<i>Motor vehicles £000</i>	<i>Total £000</i>
Cost or valuation:					
At 1 January 2001	466	2,638	432	17	3,553
Additions	-	114	-	7	121
Disposals	-	(305)	-	(12)	(317)
At 31 December 2001	466	2,447	432	12	3,357
Depreciation:					
At 1 January 2001	112	2,192	421	17	2,742
Charge for year	46	183	11	1	241
Disposals	-	(303)	-	(12)	(315)
At 31 December 2001	158	2,072	432	6	2,668
Net book value:					
At 31 December 2001	308	375	-	6	689
At 1 January 2001	354	446	11	-	811

Certain technical drawings originally at nil value, were revalued in 1992 to £335,000. Following the introduction of Financial Reporting Standard No. 15 Tangible Fixed Assets, the company has taken advantage of the transitional arrangements in the Standard and as a result has retained the book value at which the assets were revalued. The valuation has not been updated.

12. STOCKS AND WORK IN PROGRESS

	<i>2001 £000</i>	<i>2000 £000</i>
<i>Group:</i>		
Raw materials and consumables	61	81
Work in progress	3,733	3,235
Total stocks	3,794	3,316

NOTES TO THE ACCOUNTS

at 31 December 2001

13. DEBTORS

	2001 £000	2000 £000
Group:		
Amounts falling due within one year:		
Trade debtors	16,419	4,721
Amounts recoverable on contracts	29,803	4,183
Amounts due from parent and fellow subsidiary undertakings	922	3,865
Amount due from joint venture	34	34
Prepayments and accrued income	597	708
Other debtors	567	538
Amount falling due after one year:		
Loan note due from joint venture	1,050	1,050
	<u>49,392</u>	<u>15,099</u>
Company:		
Amount falling due within one year:		
Amount due from joint venture	34	34
Other debtors	14	18
	<u>48</u>	<u>52</u>
Amount falling due after one year:		
Loan note due from joint venture	1,050	1,050
	<u>1,098</u>	<u>1,102</u>

The loan note due from joint venture of £1,050,000 matures in 2010 and earns interest at 13% per annum.

14. CREDITORS: amounts falling due within one year

	2001 £000	2000 £000
Group:		
Bank overdraft	72	-
Payment received on account	2,170	8,731
Trade creditors	977	7,075
Amounts due to parent and fellow subsidiary undertakings	27,410	9,019
Amount due to joint venture	-	8,014
Corporation tax	1,661	1,182
Other taxes and social security costs	1,601	1,127
Accruals and deferred income	906	628
	<u>34,797</u>	<u>35,776</u>
Company:		
Amounts due to parent and fellow subsidiary undertakings	59	-
Amounts due to joint venture	-	8,014
Corporation tax	37	32
	<u>96</u>	<u>8,046</u>

NOTES TO THE ACCOUNTS
at 31 December 2001

15. CREDITORS: amounts falling due after more than one year

	2001	2000
	£000	£000
Group:		
Amounts owed to parent company	9,648	9,648

Included in amounts owed to the parent undertaking is a loan of £5,939,000 (2000: £5,939,000) which at the balance sheet date was unsecured, interest free and repayable not before one year after the balance sheet date. In July 1994, the parent undertaking entered into an agreement with the group to subordinate their rights to all other creditors of the group in respect of £3,500,000 of this loan.

16. PENSION OBLIGATIONS

Lockheed Martin ASIC Pension Plan

The group participates in a pension scheme providing benefits based on years service and final salaries. The assets of the scheme are held separately from those of the group.

The total pension cost for the group was £2,388,000 (2000: £1,820,000). The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the scheme was at 5 April 2000. The assumptions that have the most significant effect on the valuation are those relating to price inflation, discount rates used to value past and future service benefits and general increases in earnings. In the latest valuation it has been assumed that price inflation would be 2.75% per annum, pre-retirement discount rate for past service benefits would be 6.75% per annum, pre-retirement discount rate for future service benefits and contributions would be 7.25% per annum, and general increases in pensionable earnings would be 3.75% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £15,933,000 and the actuarial value of the assets was sufficient to cover 98% of the benefits which had accrued to members on an ongoing basis. The contributions of the group up to April 2001 were 16.1% of pensionable earnings and contributions from employees were 4.5% of contribution salaries. From May 2001, contribution rates for the group and employees increased to 18.6% and 5.0% respectively.

Lockheed Martin UK Limited Final Salary Plan

The group participates in a mixed benefits pension scheme providing benefits based on contributions made during employees service life. The assets of the scheme are held separately from those of the group.

The total pension cost for the group was £264,000 (2000: £252,000). The defined benefit pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the scheme was at 6 April 2000. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8% per annum, dividend increase would be 5.25% per annum, that salary increase would average 6% per annum and that present and future pensions would increase at the rate of 3.5% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £3,596,000 and the actuarial value of the assets was sufficient to cover 104% of the benefits which had accrued to members on an ongoing basis. The contributions of the group are 7.9% of pensionable earnings, and will increase to 9.3% from April 2002. Employees are not required to pay contributions.

The defined contribution pension cost is paid into an Assurance Policy held with an independent company. The contributions are paid on the basis of 5% of members total PAYE earnings.

NOTES TO THE ACCOUNTS

at 31 December 2001

16. PENSION OBLIGATIONS (Continued)

FRS 17 Transitional arrangements

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. A new pension cost accounting standard, FRS 17, must be fully complied with in the accounts for the period ended 31 December 2003 and subsequent periods. Under transitional arrangements the company is required to disclose the following information about the schemes and the figures that would have been shown under FRS 17 in the current balance sheet.

A qualified independent actuary has updated the results of the valuations of the two pension schemes based on the projected unit basis to 31 December 2001. The major assumptions used were:

At 31 December 2001

Rate of increase in salaries	3.5%
Rate of increase for pensions in payment and deferred pensions	2.5%
Discount rate	6.0%
Inflation assumption	2.5%

The assets of the scheme and the expected rates of return were:

	Long term rate of return expected at 31 December 2001	Value at 31 December 2001 £'000
Equities	8.0%	17,027
Bonds	5.8%	2,800
Gilts	5.0%	1,674
Property	6.5%	-
Other	5.0%	1,401
Total market value of assets		22,902
Present value of total pension scheme liabilities		(28,590)
Overall deficit		(5,688)
Related deferred tax asset		1,706
Net pension liability		(3,982)

NOTES TO THE ACCOUNTS
at 31 December 2001

16. PENSION OBLIGATIONS (Continued)

If the above net pension liability was recognised in the financial statements, the group's net liabilities and profit and loss reserve would be as follows:

	<i>At 31 December</i>
	<i>2001</i>
	<i>£'000</i>
Net assets excluding pension liability	20,372
Pension liability	(3,982)
Net assets including pension liability	<u>16,390</u>

	<i>At 31 December</i>
	<i>2001</i>
	<i>£'000</i>
Profit and loss reserve excluding pension liability	9,267
Pension liability	(3,982)
Profit and loss reserve including pension liability	<u>5,285</u>

17. DEFERRED TAXATION

Group:

The movements in deferred taxation during the current year are as follows:

	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>
At 1 January	3	15
Credit for the year (note 9)	(3)	(12)
At 31 December	<u>-</u>	<u>3</u>

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	<i>Provided</i>		<i>Not provided</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Capital allowances in advance of depreciation	-	3	-	-

NOTES TO THE ACCOUNTS

at 31 December 2001

18. CALLED UP SHARE CAPITAL

	2001	2000
	£	£
Group and Company:		
<i>Authorised:</i>		
Ordinary shares of £1 each	15,000,000	15,000,000
	<u> </u>	<u> </u>
Group and Company:		£
<i>Allotted, called up and fully paid :</i>		
Ordinary shares of £1 each:	11,105,130	11,105,130
	<u> </u>	<u> </u>

19. RECONCILIATION OF SHAREHOLDERS FUNDS AND MOVEMENTS ON RESERVES

	Share Capital	Revaluation Reserve	Profit & Loss Account	Total
	£000	£000	£000	£000
Group:				
At 1 January 2001	11,105	8	(221)	10,892
Profit for the year	-	-	9,480	9,480
Revaluation reserve transfer	-	(8)	8	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2001	11,105	-	9,267	20,372
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Company:				
At 1 January 2001	11,105	-	1,680	12,785
Profit for the year	-	-	3,994	3,994
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2001	11,105	-	5,674	16,779
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

20. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There were no contracted or non-contracted capital commitments at 31 December 2001 (2000: Nil).

At 31 December 2000 the group's share of contingent liabilities of joint ventures was £667,000 (2000: £667,000).

NOTES TO THE ACCOUNTS

at 31 December 2001

21. FINANCIAL COMMITMENTS

At 31 December 2001 the group had annual commitments in respect of non-cancellable operating leases as follows:

	2001		2000	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Date of lease termination				
Within one year	48	20	-	2
In second to fifth years inclusive	-	49	213	65
After five years	215	-	-	-
	<u>263</u>	<u>69</u>	<u>213</u>	<u>67</u>

22. RELATED PARTIES AND CONTROLLING ENTITY

The directors regard Lockheed Martin Corporation, a company registered in the USA, as the ultimate parent company and controlling entity. Copies of the ultimate parent's consolidated financial statements may be obtained from Lockheed Martin Investor Department, 6801 Rockledge Drive, Bethesda, Maryland, 28017, USA. Lockheed Martin Corporation is the parent undertaking of the largest and smallest group of undertakings for which group accounts are drawn up and of which the company is a member.

The company has utilised the exemption under Financial Reporting Standard No.8 as a subsidiary undertaking not to disclose transactions with other entities that are part of, or investors of, the Lockheed Martin Corporation group. There were no other related party transactions.