

# Lockheed Martin UK Strategic Systems Limited

## Annual Report and Financial Statements

31 December 2017



**Directors**

P Burton  
P Ruddock  
E Scherff

**Auditors**

Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton SO14 3QB

**Bankers**

Citibank  
Citibank House  
336 Strand  
London WC2R 1HB

**Solicitors**

Brodies WS  
15 Atholl Crescent  
Edinburgh EH3 8HA

**Registered Office**

15 Atholl Crescent  
Edinburgh EH3 8HA

Registered No. SC353450

## **Directors' report**

The directors present their report and financial statements for the year ended 31 December 2017.

### **Results and dividends**

The profit for the year after taxation amounted to £38,536,000 (2016 – profit of £5,074,000). The directors do not recommend a final dividend (2016 – £nil).

The company's business activities, along with relevant factors likely to affect its future development and position, are described in the Business Review section of the Strategic Report on pages 4 to 5. The company participates in the group's centralised treasury arrangements and shares banking arrangements with its parent and fellow divisions.

### **Going Concern**

The directors, having assessed the company's financial position, have no reason to believe that a material uncertainty exists that casts significant doubt over the company's ability to continue as a going concern or jeopardise its ability to continue within the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made the directors expect that the company will be able to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Directors**

The directors who served the company during the year and subsequently were as follows:

P Burton  
P Ruddock  
E Scherff

### **Directors' liabilities**

The company has indemnified the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third-party indemnity provision was in force during the year and is in force as at the date of approving the directors' report.

### **Employees**

During the year, the policy of providing employees with information about the company 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 company 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 company'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' report

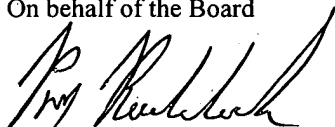
### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



P Ruddock

Director

Date: 6 September 2018

## Strategic Report

### Principal activities and review of the business

The principal continuing activities of the company are serving as a total systems integrator and prime contractor on various defence and non-defence related platforms. The company also holds strategic investments on behalf of its ultimate parent company.

The company uses a number of key performance indicators to monitor performance within the business. These include the following:

#### Financial

The company annually updates a rolling long-range plan (LRP) covering five years, which is supplemented by short-term forecasts (STFs), updated at least quarterly. The key components of these performance indicators include Revenue, Earnings before Interest and Tax (EBIT), Net cash and the associated headcount. The results for 2017, compared to 2016 are shown in the table below:

	2017	2016
	£000	£000
Revenue	18,659	17,210
EBIT	38,530	4,298
Net cash	68,019	30,489

	2017	2016
Headcount	191	199

The business has delivered a strong financial performance in 2017 benefitting from further growth in inter-group revenue generated supporting Lockheed Martin's Space Systems Company. In year profit and net cash growth also reflects significant dividend income of £35.4m from its subsidiary investment in AWE Management Limited.

#### Non-financial

The Corporation has a policy called 'Target Zero' for work-related accidents.

All employees undertook annual compliance and ethics training which was achieved to Schedule.

The company holds an Investors In People award which is subject to a three yearly review by external assessors.

The company holds ISO 9001:2008 and OHSAS 18001:2007 quality registrations which are also subject to regular surveillance visits and re-accreditation from external assessors.

### Future developments

The business expects to maintain good relationships with Commercial and MoD Customers and sales from continuing operations are expected to remain consistent. The company continues to actively pursue new business opportunities.

### Principal risks and uncertainties

The company's Operations Council periodically reviews a business-level and cross-programme risk register. The Corporate risk register addresses risks at Business Unit level. The types of risk are mainly competitive, legislative and financial, but also process, critical resources, health and safety, business continuity and IT recovery planning are covered.

#### Competitive risks

Competitive risks address both the market evolution and Lockheed Martin's position in that market. Typical parameters are pricing, capability (enhancement), critical skills/resources and effects of current programme performance.

## Strategic Report

### Legislative risks

Legislative and commercial risks are also addressed in the risk registers of the individual programmes. They are mostly owned by the commercial department. Cross-programme trends are flowed up to the Corporate risk register.

### Financial risks

The group has established a risk and financial management framework whose primary objectives are to protect the group from events that hinder the achievement of the group's performance objectives. The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level.


Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. The directors consider the credit risk to be low given that the principal customer is the UK Government. The liquidity and cash flow risk is also considered low as this is managed by the funding facilities available from its parent undertaking.

The company uses certain financial instruments to help manage its main operating risks. In particular it utilises inter-group funding balances, and cash and overdraft borrowing facilities provided by Lockheed Martin Corporation Group to manage the liquidity and cash flow risks faced. In addition the company also uses forward foreign currency contracts provided by Lockheed Martin Corporation Group to manage the foreign exchange risks faced on contracts undertaken.

The company faces the risk that long term forecast contract profit margins are not met, however this risk is minimised by regular 'Estimate at Complete' updates and detailed monthly internal programme reviews.

The company also may suffer a loss making programme, where due to unforeseen circumstance additional costs are incurred. This risk is kept to a minimum by the use of robust and mature contract pricing methodologies before submitting a bid.

On behalf of the Board



P Ruddock

Director

Date: 6 September 2018

## Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with FRS 102 "the Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 Strategic Systems Limited**

### **Opinion**

We have audited the financial statements of Lockheed Martin UK Strategic Systems Limited for the year ended 31 December 2017 which comprise of the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



## **Independent auditors' report**

**to the members of Lockheed Martin UK Strategic Systems Limited**

### **Other information**

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Independent auditors' report

to the members of Lockheed Martin UK Strategic Systems Limited

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst & Young LLP*

David Marshall (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Southampton

Date: 10/9/2018

## Income statement

for the year ended 31 December 2017

		2017	2016
	Notes	£000	£000
<b>Turnover</b>	3	18,659	17,210
Cost of sales		(12,746)	(10,346)
<b>Gross Profit</b>		5,913	6,864
Other operating income – dividends received		35,367	8,928
Investment impairment	10	–	(8,928)
Other operating expenses		(2,750)	(2,566)
<b>Operating Profit</b>	4	38,530	4,298
Interest receivable and similar income	7	2	9
<b>Profit on ordinary activities before taxation</b>		38,532	4,307
Taxation	8	4	767
<b>Profit for the financial year</b>		38,536	5,074

All amounts relate to continuing activities.

## Statement of comprehensive income

for the year ended 31 December 2017

	2017	2016
	£000	£000
<b>Profit for the year</b>	38,536	5,074
Remeasurement loss recognised on defined benefit pension schemes	(48)	(98)
Movement on deferred tax relating to pension liability	8	17
Total other comprehensive loss	(40)	(81)
<b>Total comprehensive income for year</b>	38,496	4,993

## Statement of changes in equity

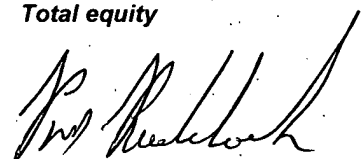
at 31 December 2017

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Capital contribution £000</i>	<i>Retained earnings £000</i>	<i>Total equity £000</i>
At 1 January 2016	40	74	—	11,507	11,621
Profit for the year	—	—	—	5,075	5,075
Capital contribution	—	—	89,424	—	89,424
Reserve transfer	—	—	(8,928)	8,928	—
Net actuarial loss recorded	—	—	—	(81)	(81)
At 1 January 2017	40	74	80,496	25,429	106,039
Profit for the year	—	—	—	38,536	38,536
Net actuarial gain recorded	—	—	—	(40)	(40)
At 31 December 2017	40	74	80,496	63,925	144,535

## Statement of financial position

at 31 December 2017

	Notes	2017 £000	2016 £000
<b>Fixed assets</b>			
Tangible assets	9	305	209
Investments	10	80,497	80,497
		<u>80,802</u>	<u>80,787</u>
<b>Current assets</b>			
Debtors	11	2,711	1,372
Cash at bank and in hand		<u>68,019</u>	<u>30,489</u>
		70,730	31,861
<b>Creditors: amounts falling due within one year</b>	12	<u>(6,745)</u>	<u>(6,515)</u>
<b>Net current assets</b>		<u>63,985</u>	<u>25,346</u>
<b>Total assets less current liabilities</b>		<u>144,787</u>	<u>106,133</u>
<b>Net assets excluding pension liability</b>		144,787	106,133
Pension liability	15	<u>(252)</u>	<u>(94)</u>
<b>Net assets</b>		<u>144,535</u>	<u>106,039</u>
<b>Capital and reserves</b>			
Called up share capital	13	40	40
Share premium		74	74
Capital contribution		80,496	80,497
Retained earnings		<u>63,925</u>	<u>25,428</u>
<b>Total equity</b>		<u>144,535</u>	<u>106,039</u>



Peter Ruddock

Director

Date 6 September 2018

## Notes to the Financial Statements

at 31 December 2017

### 1. Accounting policies

The financial statements of Lockheed Martin UK Strategic Systems Limited were approved for issue by the Board of Directors on the date shown on the balance sheet.

#### **Statement of compliance**

Lockheed Martin UK Strategic Systems Limited is a limited liability company incorporated in Scotland. The Registered Office is 15 Atholl Crescent, Edinburgh, EH3 8HA.

The financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102).

The preparation of the financial statements in compliance with FRS102 requires the use of certain accounting estimates. Key estimations and judgments are given in note 2.

#### **Group Financial Statements**

The company has utilised the exemption available under section 401 of the Companies Act 2006, as a wholly owned subsidiary undertaking whose ultimate parent undertaking has prepared applicable group financial statements which include the company and its subsidiary and joint venture undertakings. Accordingly, these financial statements present information about the company as an individual undertaking and not about its group.

#### **Basis of preparation**

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

The company has utilised the exemption under FRS 102 section 1.12 as a subsidiary undertaking whose ultimate parent undertaking prepares consolidated group financial statements that are publicly available, and has adopted the following disclosure exemptions:

- The requirement to present a statement of cash flows and related notes;
- Financial instrument disclosures and hedge accounting disclosures;
- Share-based payment arrangements;
- Key management personnel compensation; and
- Disclosure of related party transactions with other wholly owned group companies.

#### **Investments**

Investments are recorded at cost less impairment. The carrying values of investments are reviewed for impairment if events indicate that the carrying value may not be recoverable.

#### **Tangible 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 and reducing balance basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Leasehold improvements	-	over the life of the lease
Furniture, Fixture and Fittings	-	2-4 years
Computer Equipment	-	2-8 years

## Notes to the Financial Statements

at 31 December 2017

### 1. Accounting policies (continued)

#### ***Contract turnover and work in progress***

Turnover represents revenue earned on contracts to provide maintenance services. Turnover is recognised as earned when, and to the extent that, the company obtains the right to consideration in exchange for its performance under these contracts. It is measured at the fair value of the right to consideration, which represents amounts chargeable to clients, including expenses and disbursements but excluding value added tax.

Turnover is generally recognised as contract activity progresses so that for incomplete contracts it reflects the partial performance of the contractual obligations. For such contracts the amount of turnover reflects the accrual of the right to consideration by reference to the value of work performed. Revenue not billed to clients is included in debtors as amounts recoverable on contracts and payments on account in excess of the relevant amount of revenue are included in creditors.

Fee income that is contingent on events outside the control of the company is recognised when the contingent event occurs.

#### ***Deferred taxation***

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate ruling of the date of the transaction. 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 income statement in the year they arise.

#### ***Debtors***

Short term debtors are measured at transaction price, less any impairment.

#### ***Creditors***

Short term trade creditors are measured at the transaction price.

#### ***Operating leases***

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

#### ***Pensions***

The Company's pension scheme is the Citrus Pension Scheme as detailed in note 15. The pension fund is 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.

The service cost of pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the income statement. The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet.

## Notes to the Financial Statements

at 31 December 2017

### 1. Accounting policies (continued)

#### *Share-based payments*

The cost of equity-settled transactions with employees is measured by reference to the fair value of the parent undertaking's equity instruments at the date at which they are granted and is recognised as an expense to the company over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

### 2. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However the nature of estimation means that actual outcomes could differ from those estimates. The following judgments have had the most significant effect on amounts recognised in the financial statements:

- Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The business estimates its profit margins based on robust Estimate at Completion (EAC) forecasts for all projects. The profit included is calculated to reflect the proportion of work carried out at the year end, by recording turnover and related costs as contract activity progresses. Full provision is made for losses on all contracts in the year in which they are first foreseen. Turnover in respect of long-term contracts is calculated to fairly reflect the level of completion of the contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer.
- The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 15.

### 3. Turnover

All continuing turnover originates in the United Kingdom and is attributable to the company's principal activity as detailed in the Strategic Report. Turnover is stated net of VAT and trade discounts.



## Notes to the Financial Statements

at 31 December 2017

### 4. Operating Profit

This is stated after charging:

	2017 £000	2016 £000
Auditors' remuneration – audit services	20	13
– non-audit services (tax compliance)	27	10
Depreciation charge for the year	78	83
Operating lease rentals – plant and machinery	22	25
– land and buildings	29	27

### 5. Directors' remuneration

	2017 £000	2016 £000
Remuneration	-	-

Directors' remuneration is not payable through the Company. One director is accruing retirement benefits under money purchase pension schemes.

### 6. Staff costs

	2017 £000	2016 £000
Wages and salaries	9,144	7,498
Social security costs	950	788
Other pension costs	958	907
	11,052	9,193

The average monthly number of employees during the year was made up as follows:

	No.	No.
Production (including research and development)	188	178
Administration	10	11
	198	189

## Notes to the Financial Statements

at 31 December 2017

### 7. Interest receivable and similar income

	2017 £000	2016 £000
Bank interest receivable	-	2
Other interest income (note 15)	2	7
	<u>2</u>	<u>9</u>

### 8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2017 £000	2016 £000
<b>Current tax:</b>		
UK corporation tax on the profit for the year	-	-
UK corporation tax overprovided in previous years	-	(764)
Total current tax	<u>-</u>	<u>(764)</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(4)	(6)
Adjustments in respect of previous years	-	(1)
Effect of changes in tax rates	-	4
Total deferred tax	<u>(4)</u>	<u>(3)</u>
Total tax credit on profit on ordinary activities (note 8(b))	<u>(4)</u>	<u>(767)</u>

## Notes to the Financial Statements

at 31 December 2017

### 8. Tax (continued)

(b) Factors affecting the current tax charge for the year

The tax assessed for the year is based on the standard rate of corporation tax in the UK of 19.25% (2016 – 20%). The differences between the actual tax rate and the standard rate of corporation tax are explained below:

	2017 £000	2016 £000
Profit / (Loss) on ordinary activities before tax	38,532	4,307
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 – 20%)	7,417	861
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3	1,793
Income not taxable	(6,808)	(1,786)
Effects of group relief/ other relief	(616)	(874)
Adjustments in respect of prior years	-	(764)
Tax rate changes	-	3
Income tax expense for the year (note 8(a))	(4)	(767)

(c) Proposed tax legislation that may affect future tax charges

The change in the corporation tax rate from 19% to 17% by 1 April 2020 has been substantively enacted. The deferred tax balances above have been calculated at the tax rate at which the related timing differences will reverse.

(d) Movements on deferred tax asset

	2017 £000	2016 £000
Deferred tax asset at 1 January	52	31
Amounts in respect of prior periods	-	1
Deferred tax credit/(charged) to the income statement in the period	4	3
Deferred tax credit in OCI for the period	8	17
Other debtors		
Deferred tax asset at 31 December	64	52

## Notes to the Financial Statements

at 31 December 2017

### 9. Tangible fixed assets

	<i>Leasehold improvement £000</i>	<i>Plant, office and computer equipment £000</i>	<i>Construction in progress £000</i>	<i>Total £000</i>
Cost or valuation:				
At 1 January 2017	409	653	55	1,117
Additions	—	—	93	93
Reclassifications	14	41	(55)	—
At 31 December 2017	423	694	93	1,210
Depreciation:				
At 1 January 2017	370	457	—	827
Charge for year	17	61	—	78
At 31 December 2017	387	518	—	905
Net book value:				
At 31 December 2017	36	176	93	305
At 1 January 2017	38	196	56	290

## Notes to the Financial Statements

at 31 December 2017

### 10. Investments

	<i>Subsidiary undertakings £000</i>
Cost:	
At 1 January 2017	<u>89,425</u>
Additions in the year	<u>—</u>
At 31 December 2017	<u>89,425</u>
Provision against investment:	
At 1 January 2017	8,928
Impairment charge in the year	<u>—</u>
At 31 December 2017	<u>8,928</u>
Net book value:	
At 31 December 2017	<u>80,497</u>
At 1 January 2017	<u>80,497</u>

At 31 December 2016 the company owned directly and indirectly the issued ordinary share capital in the following unlisted companies. All shares are owned directly unless otherwise noted.

<i>Subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Percentage of ordinary shares</i>	<i>Nature of business</i>
AWE Management Limited	United Kingdom	51%	design, manufacture and support of the United Kingdom's nuclear deterrent
AWE Plc	United Kingdom	100%*	design, manufacture and support of warheads for the United Kingdom's nuclear deterrent
AWE Pension Trustees Limited	United Kingdom	100%*	Pension trustees company

\* Indirectly held via AWE Management Limited

The registered address of the above companies is Building F161.2, Atomic Weapons Establishment, Aldermaston, Reading, RG7 4PR

## Notes to the Financial Statements

at 31 December 2017

### 11. Debtors

	2017 £000	2016 £000
Trade debtors	661	590
Amounts owed by parent and fellow subsidiary undertakings	1,154	405
Corporation tax receivable	280	-
Deferred tax asset (note 8(d))	64	52
Other debtors	552	325
	<u>2,711</u>	<u>1,372</u>

### 12. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	711	450
Payment received on account	1,345	1,524
Amounts owed to parent and fellow subsidiary undertakings	-	282
Other taxes and social security costs	1,085	965
Corporation tax payable	-	-
Other creditors and accruals	3,604	3,294
	<u>6,745</u>	<u>6,515</u>

### 13. Issued share capital

<i>Allotted, called up and fully paid</i>	No.	2017 £000	No.	2016 £000
Ordinary shares of £1 each	40,000	<u>40</u>	40,000	<u>40</u>

### 14. Capital commitments

There were no contracted or non-contracted capital commitments at 31 December 2017 (2016 – £nil).

## Notes to the Financial Statements

at 31 December 2017

### 15. Pensions

The defined benefit section of the Company's pension arrangements is for 'TUPE'd' staff on the ABL contract only and closed to new employees. The existing defined contribution section is available to all new employees.

The valuations used for FRS 102 disclosures have been based on the most recent formal actuarial valuation at 31 December 2017 for the Citrus Pension Scheme. The scheme is funded by the payment of contributions to separately administered trust funds.

The valuations have been updated by the company's independent actuarial advisors, Hymans Robertson, qualified independent actuaries, using the projected unit credit method to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 31 December 2017 and 31 December 2016.

The major assumptions used in the valuations were:

	31 December 2017	31 December 2016	31 December 2015
Rate of increase in salaries	4.4%	4.5%	4.3%
Rate of increase for pensions in payment and deferred	2.4%	2.5%	2.3%
Discount rate	2.5%	2.7%	3.85%
Inflation assumption	2.4%-3.4%	2.5%-3.5%	2.3%-3.3%

The market value of plan assets and fair value of scheme liabilities as at the balance sheet date are as follows:

	2017 £000	2016 £000
Total market value of plan assets	2,373	2,049
Present value of liabilities	(2,625)	(2,145)
Gross pension liability	<u>(252)</u>	<u>(94)</u>

## Notes to the Financial Statements

at 31 December 2017

### 15. Pension (continued)

Profit and loss account disclosures under FRS 102

	2017 £000	2016 £000
<i>Analysis of amounts charged to operating profit</i>		
Employers' part of the current service cost	459	347
Administrative costs	26	25
Total operating charge	485	372
<i>Analysis of amounts credited/(charged) to other finance income</i>		
Expected return on pension scheme assets	59	70
Interest on pension scheme liabilities	(57)	(63)
Total finance income	2	7
<i>Analysis of amount recognised in other comprehensive income</i>		
Actual return less expected return on pension scheme assets	(3)	135
Experience (losses) arising on scheme liabilities	-	-
Changes in assumptions underlying the present value of scheme liabilities	(45)	(233)
Actuarial loss recognised in Other Comprehensive Income	(48)	(98)
<i>Movement in scheme deficit during the year</i>		
Deficit at 1 January	(94)	(27)
Current service cost in year	(485)	(372)
Employer contributions to the schemes in year	373	396
Finance income	2	7
Actuarial loss recognised in Other Comprehensive Income	(48)	(98)
Deficit at 31 December	(252)	(94)

### 16. Other financial commitments

#### (a) Operating lease commitments

At 31 December 2017 the company had commitments under non-cancellable operating leases as set out below:

	2017 £000	2016 £000
Operating lease commitments:		
Within one year	51	51
In two to five years	51	66
Over five years	-	-
	102	117



## Notes to the Financial Statements

at 31 December 2017

### 17. Related party transactions

The company has utilised the exemption under FRS 102 as a subsidiary undertaking not to disclose transactions with other wholly owned subsidiaries of Lockheed Martin Corporation group.

On 16 August 2017 the company acquired 51% of AWE Management Limited from Lockheed Martin UK Holdings Limited. During the year ended 31 December 2017 the company entered into, in the ordinary course of business, transactions with AWE Management Limited, and had trading balances outstanding at 31 December, as follows:

	<i>Sales to subsidiary undertaking</i>	<i>Purchases from subsidiary undertaking</i>	<i>Amounts owed from subsidiary undertaking</i>	<i>Amounts owed to subsidiary undertaking</i>
<i>AWE Management Limited</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
2017	3,950	—	356	—
2016	3,434	—	307	—

### 18. Ultimate parent undertaking and controlling party

The directors regard Lockheed Martin Corporation, a company registered in the USA, as the ultimate parent undertaking and controlling entity. Copies of the ultimate parent's group 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 financial statements are drawn up and of which the company is a member.

The company's immediate parent undertaking is Lockheed Martin UK Holdings Limited. Copies of the financial statements of this company may be obtained from its registered office, 100 Cannon Street, London EC4N 6EU.