

Registered No. SC353450

Lockheed Martin UK Strategic Systems Limited

Annual Report and Financial Statements

31 December 2022



Lockheed Martin UK Strategic Systems Limited

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Lockheed Martin UK Strategic Systems Limited

Company Information

Directors

N Smith
P Livingston
S Hiza

Company Secretary

D El-Sayed – appointed 13 May 2022
C Stanitski – resigned 13 May 2022

Auditors

Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton, SO15 2BE

Bankers

Citibank
Citibank House
336 Strand
London, WC2R 1HB

Solicitors

Stronachs
28 Albyn Place
Aberdeen, AB10 1YL

Registered Office

28 Albyn Place
Aberdeen, AB10 1YL

Registered No. SC353450

Lockheed Martin UK Strategic Systems Limited

Directors' report

The directors present their report and financial statements for the year ended 31 December 2022.

Results and dividends

The profit for the year after taxation amounted to £6,319,000 (2021 – profit of £31,146,000). During the year the directors approved and paid a dividend of £120,000,000 (2021 - 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 5 to 9.

Going Concern

The directors having assessed the company's financial position through the use of our rolling five-year long-range plan (LRP) forecast with downside scenarios considered, have no reason to believe that a material uncertainty exists that casts significant doubt over the companies' ability to continue as a going concern or jeopardise its ability to continue within the current banking agreements

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. The company participates in the wider Lockheed Martin groups centralised treasury and shares banking arrangements with its parent and fellow subsidiaries. A letter of support has been provided by the company's ultimate parent. The directors therefore consider that the company will be able to settle their liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the company's financial statements

Directors

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

N Smith
P Livingston
S Hiza

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.

Lockheed Martin UK Strategic Systems Limited

Directors' report (continued)

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 Livingston

Director

Date: 10th August 2023

Lockheed Martin UK Strategic Systems Limited

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 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 2022, compared to 2021 are shown in the table below:

	2022	2021
	£000	£000
Revenue	25,720	29,318
EBIT	6,263	31,407
Net cash	55,920	167,202
	2022	2021
Headcount	225	216

The business has delivered a strong financial performance in 2022 supporting Lockheed Martin's Space Systems business area. In year profit and net cash reflects dividend income of £3.8M from its subsidiary investment in Defence Contract Management and Operations 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 ISO 9001:2015 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.

Lockheed Martin UK Strategic Systems Limited

Strategic Report (continued)

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.

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 are 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. 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 circumstances additional costs are incurred. This risk is kept to a minimum using robust and mature contract pricing methodologies before submitting a bid.

Section 172(1) Statement

This is the section 172(1) statement of the Company made pursuant to the Companies Act 2006 requirement. The company is a wholly owned subsidiary company of Lockheed Martin Corporation, which is registered in the USA. The directors and management of the Company understand the need for sound corporate governance practices in fulfilling their respective duties and responsibilities and its policies and procedures, applied throughout the wider Lockheed Martin group, complies with the corporate governance listing standards of the New York Stock Exchange and the rules and regulations of the US Securities and Exchange Commission. Group management has set Corporate Governance Guidelines, which provide the framework for governance within the group and the Corporate Governance Committee regularly reviews

Lockheed Martin UK Strategic Systems Limited

Strategic Report (continued)

Streamlined Energy and Carbon reporting (SECR)

The Company GHG emissions are reported in tonnes of carbon dioxide equivalent (TCO₂e), this submission covers the period 1st January 2022 to 31st December 2022. This reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard. In line with the guidance on SECR, the energy and emissions for the buildings owned and operated by the Company are included.

The latest emission factors from the Department for Business, Energy and Industrial Strategy (updated 17th July 2020) have been used and gross emissions shown in the table below have been applied using the using location-based grid average emissions factors accounting methodology. The intensity measure gross scope 1 and 2 emissions in tonnes of carbon dioxide, methane and nitrous oxide has been applied using the Gross Internal Area in Sqm to ensure a similar metric across the various offices and manufacturing buildings.

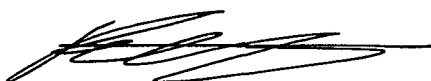
Energy Consumption and associated CO₂ emissions

	Consumption 2022
Total Energy Consumption (Electricity)(KWh)	53,647
Total Energy Consumption (Gas) (KWh)	56,677
Total Vehicle Fuel Consumption (Diesel) (Litres)	766
	Emission (Tonnes) 2022
Scope 1 – Combustion of fuel (gas) – CO ₂ e, CO ₂ , CH ₄ & N ₂ O	15
Scope 2 – Electricity purchased for own use	10
Total Annual Gross Emissions	25
	Annual GHG Intensity Measure (Tonnes/SQM)
GHG Emissions (CO₂e, CO₂, CH₄ & N₂O)	0.13

Energy efficiency improvements

The company is making steps to net zero including appointing a net zero champion. To improve energy efficiency, they have taken on projects such as replacing light fittings with more energy efficient options and looking to replace the diesel fleet of cars with alternative plug-in hybrids.

On behalf of the Board



P Livingston
Director

Date: 10th August 2023

Lockheed Martin UK Strategic Systems Limited

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 AUDITOR'S 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 2022 which comprise Income statement, Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity 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 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 2022 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. 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern over the period to 30 September 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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...], 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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant to be those related to United Kingdom General Accepted Accounting Practice, the Companies Act 2006, and the United Kingdom direct and indirect tax regulations. In addition, owing to the sector the company operates in, we considered laws and regulations that had a significant impact on the operations of the company, including defence contracting and anti – bribery and corruption legislation. The company must also comply with the operational and employment laws and regulations including health and safety regulations, environmental regulations and GDPR.
- We understood how Lockheed Martin UK Strategic Systems Limited is complying with those frameworks by making inquiries of senior finance personnel and those charged with governance on a regular basis regarding any non-compliance of laws and regulations. We have corroborated these discussions by inspecting all the board minutes to date and have identified no issues. We have also reviewed the Lockheed Martin code of conduct handbook which all employees need to adhere to.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override relating to revenue recognition, margin forecasts and booking rates on long term contracts. The fraud risk identified relating to revenue and gross margin on long term contracts is due to the judgemental nature of determining the percentage of completion and overall profitability of the contract given the long-term nature. To address the risk in revenue and gross margin, we selected a representative sample of contracts and performed substantive procedures to gain assurance over the balance. This included vouching milestone payments, reviewing changes in contracts and testing uplifts recognised in contract values to signed amendments, plus meetings with project managers to understand

the contract progress, risks and accounting. We have also performed cut off testing procedures.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved testing manual journals based on specific risk criteria, reviewing the financial statement amounts and disclosures and reviewing of public records to ascertain any risks relevant to Lockheed Martin UK, including adverse media searches. We held discussions with senior management and internal legal counsel on compliance with laws and regulations.

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.

DocuSigned by:

Ernst & Young LLP

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Nikki Forster (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Southampton

Date: 10th August 2023

Lockheed Martin UK Strategic Systems Limited

Income statement

for the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Turnover	3	25,720	29,318
Cost of sales		(19,216)	(22,419)
Gross Profit		6,504	6,899
Other operating income – dividends received		3,752	28,175
Other operating income		257	-
Other operating expenses		(4,250)	(3,667)
Operating Profit	4	6,263	31,407
Interest receivable and similar income	7	378	2
Profit on ordinary activities before taxation		6,641	31,409
Taxation	8	(322)	(263)
Profit for the financial year		6,319	31,146

All amounts relate to continuing activities.

Statement of comprehensive income

for the year ended 31 December 2022

	2022 £000	2021 £000
Profit for the year	6,319	31,146
Cash flow hedge gain	317	405
Remeasurement gain /(loss) recognised on defined benefit pension schemes	(242)	671
Movement in deferred tax relating to pension liability	(48)	(186)
Audit adjustments gain	196	454
Total other comprehensive gain	223	1,344
Total comprehensive income for year	6,542	32,490

Lockheed Martin UK Strategic Systems Limited

Statement of changes in equity

at 31 December 2022

	Share capital £000	Share premium £000	Capital contribution £000	Cashflow Hedge £000	Retained earnings £000	Total equity £000
At 1 January 2021	40	74	20,020	(302)	137,162	156,994
Profit for the year	-	-	-	-	31,146	31,146
Deferred Taxation Correction	-	-	-	-	(186)	(186)
Share Based Payment	-	-	-	-	271	271
Cash Flow Hedge	-	-	-	405	-	405
Investment Impairment	-	-	(20,020)	-	-	(20,020)
Audit Entry	-	-	-	-	183	183
Net actuarial loss recorded	-	-	-	-	671	671
At 31 December 2021	40	74	0	103	169,247	169,464
Profit for the year	-	-	-	-	6,319	6,319
Deferred Taxation Correction	-	-	-	-	(48)	(48)
Dividend Payment	-	-	-	-	(120,000)	(120,000)
Share Based Payments	-	-	-	-	228	228
Cash Flow Hedge	-	-	-	317	-	317
Investment Impairment	-	-	-	-	-	-
Audit Entry	-	-	-	-	(32)	(32)
Net actuarial gain recorded	-	-	-	-	(242)	(242)
At 31 December 2022	40	74	0	420	55,472	56,006

Lockheed Martin UK Strategic Systems Limited

Statement of financial position

at 31 December 2022

	Notes	2022 £000	2021 £000
Fixed assets			
Tangible assets	9	519	757
Investments	10	-	-
		<u>519</u>	<u>757</u>
Current assets			
Debtors	11	6,263	8,224
Cash at bank and in hand		55,920	167,202
		<u>62,183</u>	<u>175,426</u>
Creditors: amounts falling due within one year	12	(7,292)	(7,349)
Net current assets		<u>54,891</u>	<u>168,077</u>
Total assets less current liabilities		55,410	168,834
Net assets excluding pension liability		<u>55,410</u>	<u>168,834</u>
Pension	15	596	630
Net assets		<u>56,006</u>	<u>169,464</u>
Capital and reserves			
Called up share capital	13	40	40
Share premium		74	74
Capital contribution		-	-
Cash Flow Hedge		420	103
Retained earnings		55,472	169,247
Total equity		<u>56,006</u>	<u>169,464</u>

P Livingston
Director



Date: 10th August 2023

Lockheed Martin UK Strategic Systems Limited

Notes to the Financial Statements Statement of financial position

at 31 December 2022

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 28 Albyn Place, Aberdeen, AB10 1YL

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 2022.

The accounts are prepared in Great British Pounds.

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.

Going Concern

The directors, having assessed the company's financial position through the use of our rolling five year long-range plan (LRP) forecasts with downside scenarios considered, 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.

Based on 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. The company participates in the wider Lockheed Martin groups centralised treasury and shares banking arrangements with its parent and fellow subsidiaries. A letter of support has been provided by the company's ultimate parent. The directors therefore consider that the company and its subsidiary undertakings will be able to settle their liabilities as they fall

Lockheed Martin UK Strategic Systems Limited

Notes to the Financial Statements Statement of financial position

at 31 December 2022

due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the company's financial statements

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. In 2021 there was an impairment recorded on the investment value, as AWE Management Limited (Defence Contract Management and Operations Limited) had no future cash flow forecast available for review due to the change in ownership of AWE PLC.

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	-	7-20 years
Furniture, Fixture and Fittings	-	2-4 years
Computer Equipment	-	2-8 years
Machinery	-	13 years

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.

Lockheed Martin UK Strategic Systems Limited

Notes to the Financial Statements Statement of financial position

at 31 December 2022

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.

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met. Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Lockheed Martin UK Strategic Systems Limited

Notes to the Financial Statements Statement of financial position

at 31 December 2022

Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is designated and documented at its inception. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on a regular basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, hedges are classified as cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs.

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.

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Notes to the Financial Statements Statement of financial position

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Capital Contribution and Impairment

The Capital Contribution is the record of the investment value of AWE Management Limited (Defence Contract Management and Operations Limited). In 2021 there was an impairment recorded on the investment value, as AWE Management Limited (Defence Contract Management and Operations Limited) had no future cash flow forecast available for review due to the change in ownership of AWE PLC from AWE Management Limited (Defence Contract Management and Operations Limited) to Government ownership.

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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 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.

4. Operating Profit

This is stated after charging:

	2022 £000	2021 £000
Auditors' remuneration – audit services	48	40
– non-audit services (tax compliance)	4	15
	<hr/>	<hr/>
Depreciation charge for the year	142	114
	<hr/>	<hr/>
Operating lease rentals – plant and machinery	10	10
– land and buildings	56	56
	<hr/>	<hr/>

Lockheed Martin UK Strategic Systems Limited

Notes to the Financial Statements Statement of financial position

at 31 December 2022

5. Directors' remuneration

	2022 £000	2021 £000
Remuneration	-	-

Directors' remuneration is not payable through the Company, and the directors are not considered to provide any qualifying services of note to the Company.

6. Staff costs

	2022 £000	2021 £000
Wages and salaries	11,392	10,906
Social security costs	1,222	1,184
Other pension costs	1,158	1,115
	<u>13,772</u>	<u>13,205</u>

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

	No.	No.
Production (including research and development)	218	209
Administration	<u>7</u>	<u>7</u>
	<u>225</u>	<u>216</u>

7. Interest receivable and similar income

	2022 £000	2021 £000
Bank interest receivable	362	-
Other finance income (note 15)	<u>16</u>	<u>2</u>
	<u>378</u>	<u>2</u>

Lockheed Martin UK Strategic Systems Limited

Notes to the Financial Statements Statement of financial position

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8. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2022 £000	2021 £000
Current tax:		
UK corporation tax on the profit for the year	262	297
Adjustment from previous period	14	-
Total current tax	<u>276</u>	<u>297</u>
Deferred tax:		
Origination and reversal of timing differences	35	6
Adjustments in respect of previous years	0	0
Effect of changes in tax rates	11	(40)
Total deferred tax	<u>46</u>	<u>(34)</u>
Total tax credit on profit on ordinary activities (note 8(b))	<u>322</u>	<u>263</u>

(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% (2021 – 19%). The differences between the actual tax rate and the standard rate of corporation tax are explained below:

	2022 £000	2021 £000
Profit on ordinary activities before tax	<u>6,640</u>	<u>31,409</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 – 19%)	1,262	5,968
Effects of:		
Expenses not deductible for tax purposes	1	1
Dividend income not taxable	(713)	(5,370)
Effects of group relief/ other relief	(262)	(297)
Adjustments in respect of prior years	14	-
Tax rate changes	11	(40)
Non qualifying depreciation	9	1
Income tax credit for the year (note 8(a))	<u>322</u>	<u>263</u>

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Notes to the Financial Statements Statement of financial position

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8. Taxation (continued)

(c) Movements on deferred tax asset

	2022 £000	2021 £000
Deferred tax asset at 1 January	(74)	77
Deferred tax credit to the income statement in the period	(46)	34
Deferred tax (charge)/credit in OCI for the period	(45)	(185)
Deferred tax asset at 31 December	<u>(165)</u>	<u>(74)</u>

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

9. Tangible fixed assets

	Leasehold improvement £000	Plant, office and computer equipment £000	Construction in progress £000	Total £000
Cost or valuation:				
At 1 January 2022	575	1,213	240	2,028
Additions	160	50	-	210
Transfers	136	-	(136)	-
Disposals	-	(458)	-	(458)
At 31 December 2022	<u>871</u>	<u>805</u>	<u>104</u>	<u>1,780</u>
Depreciation:				
At 1 January 2022	463	808	-	1,271
Charge for year	74	68	-	142
Charge associated with disposals	-	(152)	-	(152)
At 31 December 2022	<u>537</u>	<u>724</u>	<u>-</u>	<u>1,261</u>
Net book value:				
At 31 December 2022	<u>334</u>	<u>81</u>	<u>104</u>	<u>519</u>
At 1 January 2022	<u>112</u>	<u>405</u>	<u>240</u>	<u>757</u>

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10. Investments

	<i>Subsidiary undertaking s £000</i>
Cost:	
At 1 January 2022	-
Additions in the year	-
At 31 December 2022	-
Provision against investment:	
At 1 January 2022	-
Impairment charge in the year	-
At 31 December 2022	-
Net book value:	
At 31 December 2022	-
At 1 January 2022	-

At 31 December 2022 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>
Defence Contract Management and Operations Limited	United Kingdom	51%	design, manufacture and support of the United Kingdom's nuclear deterrent
AWE Plc	United Kingdom	0%*	design, manufacture and support of warheads for the United Kingdom's nuclear deterrent
AWE Pension Trustees Limited	United Kingdom	0%*	Pension trustees company

*AWE Plc transferred to Government ownership in 2021.

The registered address of the above companies is Erco House, 16 Bartley Way, Hook, England, RG27 9UY

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Notes to the Financial Statements Statement of financial position

at 31 December 2022

11. Debtors

	2022 £000	2021 £000
Trade debtors	824	1,765
Corporation tax receivable	-	31
Other debtors	5,439	6,428
	<u>6,263</u>	<u>8,224</u>

12. Creditors: amounts falling due within one year

	2022 £000	2021 £000
Trade creditors	1,334	955
Corporation tax payable	83	-
Payment received on account	3,052	3,052
Other taxes and social security costs	571	426
Deferred tax liability	165	74
Other creditors and accruals	2,087	2,842
	<u>7,292</u>	<u>7,349</u>

13. Issued share capital

	No.	2022 £000	No.	2021 £000
<i>Allotted, called up and fully paid</i>				
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 as at 31 December 2022 (2021 – £nil).

Lockheed Martin UK Strategic Systems Limited

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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, with an employer contribution of 8%.

The valuations used for FRS 102 disclosures have been based on the most recent formal actuarial valuation at 31 December 2022 for the Citrus Pension Scheme. The scheme is funded by the payment of contributions to separately administered trust funds. A pension surplus can be utilised to reduce future contributions.

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 2022 and 31 December 2021.

The major assumptions used in the valuations were:

	31 December 2022	31 December 2021	31 December 2020
Rate of increase in salaries	3%	3.0%	3.0%
Rate of increase for pensions in payment and deferred	2.8%	2.9%	2.5%
Discount rate	4.75%	1.9%	1.3%
Inflation assumption	2.8%-3.2%	2.9%-3.4%	2.4%-3.4%

The total asset split is:

	2022 £000	2021 £000
Equities	199	322
Liability-driven Investment (LDI)	751	997
Infrastructure	363	244
Securities	568	1206
Synthetic Credit	189	225
Cash and cash equivalents	535	683
Private lending / debt	253	170
Absolute return bonds	279	258
Total Value of Assets	3,137	4,105

Lockheed Martin UK Strategic Systems Limited

Notes to the Financial Statements Statement of financial position

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16. Other financial commitments

Operating lease commitments

At 31 December 2022 the company had commitments under non-cancellable operating leases as set out below:

	2022 £000	2021 £000
Operating lease commitments:		
Within one year	338	279
In two to five years	43	57
Over five years	-	-
Total commitments	<u>381</u>	<u>336</u>

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.

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, Building 7000 Langstone Technology Park, Langstone, Havant, Hampshire, England, PO9 1SW