Registered No. 2372738

Lockheed Martin UK Limited

Annual Report and Financial Statements

31 December 2014

Directors
S Ball
J Diamond
S Hill

Secretary
G Cole
D Heywood

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

Bankers
Citibank
Citibank House
336 Strand
London WC2R 1HB

Solicitors
MacRae & Co.
100 Cannon Street
London EC4N 6EU

Registered Office
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2014.

Results and dividends

The profit for the year after taxation amounted to £33,766,000 (2013 – restated loss of £7,547,000). The directors do not recommend a final dividend (2013 – £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 to continue as a going concern or jeopardise its ability to continue with 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 were as follows:

S Ball	
J Diamond	(appointed 20 August 2015)
S Hill	(appointed 20 August 2015)
M Hunt	(resigned 20 August 2015)
D Schultz	(resigned 24 July 2015

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.

Political and charitable contributions

During the year the company made various charitable contributions totalling £66,000 (2013 – £209,000).

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

S. Ball Stephen Ball
Director
Date: 25 September 2015

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, and the design and manufacture of weapon simulators and training equipment.

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 three 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 average headcount. The results for 2014, compared to 2013 are shown in the table below:

	2014	*Restated 2013*
Revenue	£321.4m	£162.4m
EBIT	£40.8m	£(10.6m)
Net cash	£95.9m	£79.9m
Headcount	964	729

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 attained reaccreditation in April 2013.

The business units within the company hold ISO 9001+, TickIT, ISO27001, and ISO/IEC20000 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 very robust and mature contract pricing methodologies before submitting a bid.

On behalf of the Board

S. Ball Stephen Ball
Director
Date: 25 September 2015

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 UK 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 Limited

We have audited the financial statements of Lockheed Martin UK Limited for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Lockheed Martin UK Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Ernst & Young LLP

Geraint Davies (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Southampton
[Date] 28 September 2015

Profit and loss account

for the year ended 31 December 2014

	Notes	2014 £000	Restated 2013 £000
Turnover	2	321,449	162,380
Cost of sales		(283,754)	(166,748)
Gross Profit / (Loss)		37,695	(4,368)
Other operating income		3,144	-
Other operating expense		-	(6,279)
Operating Profit / (Loss)	3	40,839	(10,647)
Interest receivable and similar income	6	2,179	1,018
Interest payable and similar charges	7	(120)	(176)
Profit / (Loss) on ordinary activities before taxation		42,898	(9,805)
Taxation	8	(9,132)	2,258
Profit / (Loss) for the financial year	16	33,766	(7,547)

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the year ended 31 December 2014

	2014 £000	Restated 2013 £000
Profit / (Loss) for the year	33,766	(7,547)
FRS 17 actuarial gain / (loss)	(26,158)	4,400
Movement on deferred tax relating to pension	3,379	(1,023)
Current tax credit relating to pension	1,987	-
Total recognised gains and losses relating to the year	12,974	(4,170)

Registered No. 2372738

Balance sheet

at 31 December 2014

	Notes	2014 £000	Restated 2013 £000
Fixed assets			
Investments	9	159,504	145,789
Tangible assets	10	11,842	11,592
		171,346	157,381
Current assets			
Stocks	11	12,132	17,477
Debtors	12	72,949	93,691
Cash at bank and in hand		95,911	88,066
		180,992	199,234
Creditors: amounts falling due within one year	13	(139,268)	(185,247)
Net current assets		41,724	13,987
Total assets less current liabilities		213,070	171,368
Creditors: amounts falling due after more than one year	14	(9,648)	(9,648)
Net assets excluding pension liability		203,422	161,720
Provision for liabilities – deferred tax	8(c)	–	–
Pension (liability) / asset	18	(9,755)	3,621
Net assets		193,667	165,341
Capital and reserves			
Called up share capital	15	65,000	50,000
Share premium	16	20,016	20,016
Profit and loss account	16	108,651	95,325
Shareholders' funds	16	193,667	165,341

Director Stephen Ball

Date 25 September 2015

Notes to the financial statements

at 31 December 2014

1. Accounting policies

Basis of preparation

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

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

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.

Statement of cash flows

The company has utilised the exemption under FRS 1 (revised) as a subsidiary undertaking whose ultimate parent undertaking prepares consolidated group financial statements that are publicly available, and has not presented a statement of cash flows.

Investments

Investments are valued at cost. The carrying values of investments in subsidiary undertakings and joint venture entities 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:

Plant office and computer equipment	–	3-10 years
Software	–	3-5 years
Leasehold improvements	-	over the life of the lease

Stocks

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

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

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

Contract turnover and work in progress

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

Notes to the financial statements

at 31 December 2014

1. Accounting policies (continued)

Research and development

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

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

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Pensions

The Company's pension scheme is the LM UK Pension Plan. 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 profit and loss account. 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.

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.

Notes to the financial statements

at 31 December 2014

1. Accounting policies (continued)

Share-based payments (continued)

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 profit and loss account, with a corresponding entry in equity.

Restatement of comparatives

The comparatives from the audited financial statements for the year end 31 December 2013 have been restated to account for internal group reconstructions not previously recognised. This adjustment has the net impact of increasing investments by £14,742,000, share premium by £20,016,000 and increasing the loss for the year by £5,274,000.

2. Turnover

Analysis of continuing turnover by geographical destination is as follows:

	2014	*2013*
	£000	*£000*
United Kingdom	289,984	148,887
North America	18,753	6,337
Europe	9,179	4,071
Rest of world	3,533	3,085
	321,449	162,380

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

3. Operating Profit / (Loss)

This is stated after charging:

		2014	*2013*
		£000	*£000*
Auditors' remuneration	– audit services	123	91
	– non-audit services	27	25
Depreciation charge for the year		2,960	1,802
Operating lease rentals	– plant and machinery	198	412
	– land and buildings	2,236	1,965

4. Directors' remuneration

	2014	*2013*
	£000	*£000*
Remuneration	110	46

One director was eligible and is a member of the company pension scheme (2013 – one director).

Notes to the financial statements

at 31 December 2014

5. Staff costs

	2014 £000	2013 £000
Wages and salaries	54,019	39,552
Social security costs	6,077	4,361
Other pension costs	6,116	4,228
	66,212	48,141

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

	No.	No.
Production (including research and development)	535	287
Selling and distribution	62	25
Administration	216	114
Engaged in activities for fellow subsidiary undertakings	151	303
	964	729

Included in the staff costs above, are the costs of employees engaged on activities for fellow subsidiary undertakings, comprising wages and salaries of £8,462,000 (2013 – £16,454,000), social security costs of £952,000 (2013 – £1,814,000) and pension costs of £958,000 (2013 – £1,759,000). Other pension costs noted above relate to normal pension contributions paid in the year by the company.

Also included in wages and salaries is an expense of £352,000 (2013 – £249,000) arising from transactions accounted for as equity-settled share-based payment transactions.

6. Interest receivable and similar income

	2014 £000	2013 £000
Bank interest receivable	188	304
FRS 17 pension financing income (note 17)	1,991	714
	2,179	1,018

7. Interest payable and similar charges

	2014 £000	2013 £000
Bank loans and overdrafts	120	176

Notes to the financial statements

at 31 December 2014

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2014	*2013*
	£000	*£000*
Current tax:		
UK corporation tax on the profit for the year	8,091	–
UK corporation tax overprovided in previous years	(37)	(617)
Foreign tax on the profit for the year	54	–
Double tax relief	(54)	–
Total current tax (note 8(b))	8,054	(617)
Deferred tax:		
Origination and reversal of timing differences	1,135	(1,983)
Adjustments in respect of previous years	(92)	(125)
Deferred tax on FRS 17 pension asset / liability	35	467
Tax charge / (credit) on profit / (loss) on ordinary activities	9,132	(2,258)

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 21.49% (2013 – 23.25%). The standard rate of corporation tax for the year represents a tax rate of 23% for the period from 1 January 2014 to 31 March 2014 and 21% for the period from 1 April 2014 to 31 December 2014. The differences between the actual tax rate and the standard rate of corporation tax are explained below:

	2014	*2013*
	£000	*£000*
Profit / (Loss) on ordinary activities before tax	42,898	(9,805)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.49% (2013 – 23.25%)	9,219	(2,280)
Effects of:		
Expenses not deductible for tax purposes	113	115
Research and development expenditure adjustment	-	(306)
Depreciation in excess of capital allowances	(134)	(95)
Movement in short term timing differences	848	(622)
Adjustments in respect of prior years	(37)	610
Unrelieved tax losses carried forward	(1,924)	2,085
Part 12 CTA 2009 deduction	(31)	(124)
Current tax for the year (note 8(a))	8,054	(617)

Notes to the financial statements

at 31 December 2014

8. Tax (continued)

(c) Deferred tax

	2014 £000	2013 £000
At 1 January	924	(1,380)
Transferred from fellow group undertaking	-	196
(Credit) / Charge for the year	(1,043)	2,108
At 31 December (note 13)	(119)	924

Deferred taxation balances provided in the financial statements are as follows:

	Provided		Not provided	
	2014	2013	2014	2013
	£000	£000	£000	£000
Capital allowances	(1,002)	(983)	–	–
Unrelieved losses carried forward	-	1,793	–	–
Other timing differences	883	114	–	–
Deferred tax liability	(119)	924	–	–

In addition to the above there is a deferred tax asset set off against the pension deficit, as shown in note 18. The movement in this balance during the current year is as follows:

	2014 £000	2013 £000
FRS 17 deferred tax (liability) / asset at 1 January	(905)	585
Charge to profit and loss account	(35)	(467)
Credit to the STRGL	3,379	(1,023)
FRS 17 deferred tax asset / (liability) at 31 December	2,439	(905)

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

The change in the corporation tax rate from 23% to 21% by 1 April 2014, and to 20% by 1 April 2015, has been substantively enacted. The unrecognized deferred tax asset detailed above has been calculated using the latest enacted rate of 20% (2013 21%).

Notes to the financial statements

at 31 December 2014

9. Investments

	Subsidiary undertakings £000
Cost:	
At 1 January 2013	–
Acquisitions in the year	151,063
At 1 January 2014	151,063
Additional capital contribution in the year	13,715
At 31 December 2014	164,778
Provision against investment:	
At 1 January 2013	–
Provisions during the year	5,274
At 1 January 2014 and 31 December 2014	5,274
Net book value:	
At 31 December 2014	159,504
At 1 January 2014	145,789

At 31 December 2014 the company owned directly or indirectly the issued ordinary share capital in the following unlisted companies. These are also the main operating entities of the group.

Subsidiary undertakings	*Country of incorporation*	*Percentage of ordinary shares*	*Nature of business*
Amor Group Limited	United Kingdom	100%	Intermediate holding company
Lockheed Martin Business Technology Solutions Limited	United Kingdom	100%*	Business technology solutions to the Energy, Transport and Public Services sectors
Beontra AG	Germany	100%**	Business technology solutions to the Energy, Transport and Public Services sectors
Lockheed Martin UK Integrated Systems & Solutions Limited	United Kingdom	100%	Dormant

* Held indirectly via Amor Group Limited
** Held indirectly via Lockheed Martin Business Technology Solutions Limited

The directors consider that the values of the subsidiary undertakings are not less than their book values

Notes to the financial statements

at 31 December 2014

10. Tangible fixed assets

	Leasehold improvement *£000*	*Plant, office and computer equipment* *£000*	*Software* *£000*	*Construction in progress* *£000*	*Total* *£000*
Cost or valuation:					
At 1 January 2014	2,727	9,500	2,395	2,074	16,696
Additions	1,020	543	–	1,647	3,210
Disposals	–	(3)	–	–	(3)
Reclassifications	–	1,619	–	(1,619)	–
At 31 December 2014	3,747	11,659	2,395	2,102	19,903
Depreciation:					
At 1 January 2014	430	3,547	1,127	–	5,104
Charge for year	348	2,133	479	–	2,960
Depreciation eliminated on disposals	–	(3)	–	–	(3)
At 31 December 2014	778	5,677	1,606	–	8,061
Net book value:					
At 31 December 2014	2,969	5,982	789	2,102	11,842
At 1 January 2014	2,297	5,953	1,268	2,074	11,592

11. Stocks

	2014 *£000*	*2013* *£000*
Contract work in progress	12,132	17,477

12. Debtors

	2014 *£000*	*2013* *£000*
Trade debtors	22,052	16,020
Amounts recoverable on contracts	11,906	21,814
Amounts owed by parent and fellow subsidiary undertakings	36,208	49,379
Prepayments and accrued income	1,042	1,219
Corporation tax recoverable	–	408
Deferred tax asset (note 8(c))	–	924
Other tax receivables	–	1,319
Other debtors	1,741	2,608
	72,949	93,691

Notes to the financial statements

at 31 December 2014

13. Creditors: amounts falling due within one year

	2014	2013
	£000	£000
Bank overdraft	–	8,206
Payment received on account	18,163	16,410
Trade creditors	27,282	44,778
Amounts owed to parent and fellow subsidiary undertakings	46,228	41,571
Corporation Tax payable	850	–
Other taxes and social security costs	2,589	4,175
Deferred tax liability (note 8(c))	119	–
Accruals and deferred income	44,037	70,107
	139,268	185,247

14. Creditors: amounts falling due after more than one year

	2014	2013
	£000	£000
Amounts owed to parent undertaking	9,648	9,648
	9,648	9,648

The amounts owed to parent undertaking above are unsecured, interest free and repayable not before one year after the balance sheet date.

15. Issued share capital

		2014		Restated 2013
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £1 each	65,000,003	65,000,003	50,000,003	50,000,003

Notes to the financial statements

at 31 December 2014

16. Reconciliation of shareholders' funds and movements on reserves

	Share capital	*Restated Share premium*	*Restated Profit and loss account*	*Restated Total share-holders' funds*
	£000	*£000*	*£000*	*£000*
At 1 January 2013	–	–	99,246	99,246
(Loss) for the year	–	–	(7,547)	(7,547)
Share capital increase	50,000	–	–	50,000
Share premium increase	–	20,016	–	20,016
Share-based payment	–	–	249	249
Net actuarial gain recorded	–	–	3,377	3,377
At 1 January 2014	50,000	20,016	95,325	165,341
Profit / (Loss) for the year	–	–	33,766	33,766
Share capital increase	15,000	–	–	15,000
Share-based payment	–	–	352	352
Net actuarial gain recorded	–	–	(20,792)	(20,792)
At 31 December 2013	65,000	20,016	108,651	193,667

17. Capital commitments

There were no contracted or non-contracted capital commitments at 31 December 2014 (2013 – £nil).

18. Pensions

FRS 17 Disclosures

On 1 April 2011 the assets and liabilities of the plan were merged with the Lockheed Martin (UK) INSYS Limited pension plan. For the purposes of UK GAAP and FRS 17 accounting principles, the pension obligations have been reported separately for these companies' respective financial statements.

The defined benefit section of the plan was closed to new entrants from January 2008 and at the same time a new defined contribution section was set up for new employees.

The valuations used for FRS 17 disclosures have been based on the most recent formal actuarial valuation at 5 April 2011 for the LMUK Pension Plan. 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 Aon Hewitt, qualified independent actuaries, using the projected unit credit method to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2014 and 31 December 2013.

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18. Pension (continued)

The major assumptions used in the valuations were:

	2014	*2013*	*2012*
Rate of increase in salaries	3.0%	3.2%	3.1%
Rate of increase for pensions in payment and deferred	2.1%-2.9%	2.2%-3.3%	2.1%-2.9%
Discount rate	3.35%	4.6%	4.5%
Inflation assumption	2.0%-3.1%	2.4%-3.4%	2.3%-3.0%
Post-retirement mortality	104%/94% S2PA light CMI_2013	90% S1NA CMI_2012	90% S1NA CMI_2011

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

	2014		*2013*		*2012*	
	Expected return	*£000*	*Expected return*	*£000*	*Expected return*	*£000*
Equities	3.35%	88,963	7.2%	80,748	6.5%	68,302
Government bonds	3.35%	37,783	3.6%	35,994	3%	36,314
Other bonds	3.35%	15,624	4.6%	5,556	4.2%	5,588
Other assets	3.35%	5,731	7.4%	1,441	6.1%	1,611
Total market value of assets		148,101		123,739		111,815
Present value of liabilities		(160,295)		(119,213)		(114,358)
Gross pension (liability) / asset		(12,194)		4,526		(2,543)
Related deferred tax asset / (liability)		2,439		(905)		585
Net pension (liability)/ asset		(9,755)		3,621		(1,958)

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18. Pension (continued)

Profit and loss account disclosures under FRS17

	2014	*2013*
	£000	*£000*
Analysis of amounts charged to operating profit		
Employers' part of the current service cost	1,814	1,840
Past service cost/(gain)	–	–
Total operating charge	1,814	1,840
Analysis of amounts credited/(charged) to other finance income:		
Expected return on pension scheme assets	7,448	5,834
Interest on pension scheme liabilities	(5,457)	(5,120)
Total finance income	1,991	714
Analysis of amount recognised in the STRGL:		
Actual return less expected return on pension scheme assets	10,845	5,329
Experience (losses) arising on scheme liabilities	(5,182)	–
Changes in assumptions underlying the present value of scheme liabilities	(31,821)	(929)
Actuarial (loss) recognised in STRGL	(26,158)	4,400
Movement in scheme surplus / (deficit) during the year:		
Surplus / (deficit) at 1 January	4,526	(2,544)
Current service cost in year	(1,814)	(1,840)
Past service gain	–	–
Employer contributions to the schemes in year	9,261	3,796
Finance income	1,991	714
Actuarial (loss) recognised in STRGL	(26,158)	4,400
(Deficit) at 31 December	(12,194)	4,526

History of experience gains and losses

Difference between expected and actual return on scheme assets:

	2014	*2013*	*2012*	*2011*
	£000	*£000*	*£000*	*£000*
– Gain/(loss)	10,845	5,329	1,367	(581)
– Percentage of scheme assets	7%	4%	1%	1%
Experience gains and losses on scheme liabilities:				
– Loss	(5,182)	–	–	(3,112)
– Percentage of the present value of scheme liabilities	3%	0%	0%	3%
Total amount recognised in STRGL:				
– Gain/(loss)	(26,158)	4,400	(4,298)	(7,473)
– Percentage of the present value of scheme liabilities	16%	4%	4%	7%

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19. Share-based payments

Equity-settled share-based payments

Employees of the company may receive options to purchase common stock or restricted stock units in the ultimate parent undertaking Lockheed Martin Corporation. These are given under the terms of the Lockheed Martin Amended and Restated 2003 Incentive Performance Award Plan, full details of which are given in the 31 December 2014 financial statements of Lockheed Martin Corporation.

Options are issued and exercisable at a price equal to the market price of the ultimate parent undertaking's shares on the date of grant. The vesting period is typically over three years with one third being exercisable at the end of each year. The options are settled in equity of the parent once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are also normally forfeited if the employee leaves the company before the options vest.

Restricted stock units (RSUs) generally vest over a three year period. During the vesting period holders of restricted stock units receive dividend-equivalent cash payments from the parent, but the shares are not issued until the end of the vesting period.

A number of performance stock units (PSUs) were granted in January 2013 and January 2014, which vest three years from the date of grant based on continuous service with the number of shares earned depending on the extent to which we achieve certain financial and market performance targets measured over the vesting period. The number of shares earned can range from 0% to 200% of the target award.

Details of the number of share options, restricted stock units and performance stock units to which FRS 20 applies which were outstanding during the year are as follows:

	Restricted stock units		*Share options*		*Performance stock units*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*
	No.	*No.*	*No.*	*No.*	*No.*	*No.*
Outstanding at 1 January	13,228	10,078	8,342	20,882	364	–
Granted during the year	4,623	3,150	–	–	272	364
Transferred in during year	627	–	–	–	–	–
Exercised or forfeited during the year	(3,460)	–	(3,662)	(12,540)	–	–
Outstanding at 31 December	15,018	13,228	4,680	8,342	636	364
Exercisable at 31 December	–	–	4,680	6,511	–	–

The closing weighted average exercise price of Share Options as at 31 December 2014 is US$91.32 per share (2013 – US$87.23per share). The share options outstanding at the end of the year have a weighted average remaining contractual life of 7 years (2013 – 8 years).

No employee stock options were granted during 2013 or 2014. The fair value of each restricted stock unit granted in the year has been calculated at US$146.85 per share (2013 – US$89.24 per share).

About half of the PSUs awarded are linked to financial targets and are therefore valued in a similar manner to the RSUs. The fair value of this component of PSU awards has been calculated at US$146.85 (2013: US$89.24). The remaining component of PSU awards is linked to total shareholder return (TSR) of the parent company relative to its peer group. These have been measured using a Monte Carlo model and the grant date fair value has been calculated at US$134.15 per share (2013: US$61.13).

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19. Share-based payments (continued)

Equity-settled share-based payments (continued)

Restricted stock units are valued based on the fair value of the common stock of Lockheed Martin Corporation on the date of grant. Employees who are granted RSUs receive the right to receive shares of stock of the parent after completion of the vesting period, however, the shares are not issued, and the employees cannot sell or transfer shares prior to vesting and have no voting rights until the RSUs vest, generally 3 years from the date of award. Employees who are granted RSUs receive dividend-equivalent cash payments from the parent only upon vesting. For these RSU awards, the grant-date fair value is equal to the closing market price of the stock on the date of grant less a discount to reflect the delay in payment of dividend-equivalent cash payments.

The fair values of the share options were calculated using the Black–Scholes option pricing model. The inputs into the model were as follows:

	2014	*2013*	*2012*
Dividend yield – %	n/a	n/a	5.4%
Expected volatility – %	n/a	n/a	28.3%
Expected life – years	n/a	n/a	5 years
Risk free interest rate – %	n/a	n/a	0.78%

Expected volatility was determined using the historical volatility of the ultimate parent undertakings share price. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The company recognised total expense of £352,000 (2013 – £249,000) related to equity-settled share-based payment transactions during the year.

20. Other financial commitments

(a) Operating lease commitments

At 31 December 2014 the company had annual commitments under non-cancellable operating leases as set out below:

		2014		*2013*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	1,703	109	333	192
In two to five years	300	12	1,632	81
Over five years	233	-	-	-
	2,236	121	1,965	273

(b) Derivative financial instruments

The company had forward foreign currency contracts outstanding at the year-end which are not included in the financial statements at fair value. The fair value of these forward foreign currency contracts at 31 December 2014 was a loss of £958,000 (2013 – loss of £379,000).

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21. Related party transactions

The company has utilised the exemption under FRS 8 as a subsidiary undertaking not to disclose transactions with other wholly owned subsidiaries of Lockheed Martin Corporation group.

During the year the company entered into transactions, in the ordinary course of business, with Advanced Jet Training Limited a 50% owned associate undertaking of Lockheed Martin Corporation group. Transactions entered into, and trading balances outstanding at 31 December, are as follows:

Advanced Jet Training Limited	*Sales to associate undertaking* *£000*	*Purchases from associate undertaking* *£000*	*Amounts owed from associate undertaking* *£000*	*Amounts owed to associate undertaking* *£000*
2014	3,081	–	30	–
2013	4,536	–	15	–

22. Post balance sheet events

On 20 August 2015, the Company announced the closure of its defined benefit pension scheme to all future accruals effective from April 2016. The defined benefit pension scheme will be replaced by a defined contribution scheme.

On 20 July 2015, Lockheed Martin Corporation (the Corporation) announced that it is conducting a strategic review of the government IT infrastructure services business within its Information Systems & Global Solutions (IS&GS) business segment and the technical services business within its Missiles and Fire Control business segment. The Corporation expects to complete the strategic review in 2015 and that it will result in a spin-off to its shareholders or sale of these businesses. At this time the Company cannot estimate the effect this reorganisation will have on the future operating results of Lockheed Martin UK Limited.

23. 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.