Lockheed Martin

US, Defence

Accounting		Climate Assumptions		Audit		Date of analysis: March 5 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in CAMs	Consistency check	Year end: December 2020 Report date: January 28 2021 AGM: April 2021
Some concerns	Some concerns	Significant concerns	Significant concerns	Significant concerns	Some concerns	CA 100+ company, so seen by investors as key to driving global net zero emissions

Summary view:

- As a major manufacturer, Lockheed has significant climate exposures
- It has set a 70% (relative) reduction target by 2030 for Scope 1 & 2 emissions, but it is not clear how if at all this ambition is reflected in its financial reporting, particularly asset lives. There are no disclosed climate-related assumptions at all.

Background

The Business.

- Lockheed Martin is a defence manufacturer, with a particular focus on aircraft and missile technologies. The F-35 fighter plane programme is a significant portion of sales and profits.

Approach to climate change.

- All discussions in 10-K reporting on environment are about remediation of issues on individual sites. Elsewhere, the company undertakes to reduce scope 1&2 emissions to 70% (relative) below 2015 levels by 2035.
- Lockheed faces exposures both as a major manufacturer, and procurer of heavily carbon-intensive materials, and because its products are largely currently powered by fossil fuels. The latter risk may be mitigated by the absence of alternative fuels from a power-to-weight ratio perspective and the likelihood that governments will seek carbon reductions elsewhere.

Accounting: judgements and consistency with other reporting

Accounting judgements		Some concerns

- A US company so subject to US GAAP standards.
- There are no references to climate issues in the financial reporting. The discussion of environmental issues is solely about the remediation of local pollution issues at individual sites.
- The 10-K includes a limited discussion of the potential physical impacts of climate change (noting its presence in California, Florida and Texas as leading to heightened risk), but this is only in the risk disclosures regarding availability of insurance and is not reflected elsewhere.

Consistency with other reporting		Some concerns

- As with most US companies, the 10-K annual report is issued independently of other reporting, such as the proxy statement, sustainability report and TCFD report.
- Only the versions of these reports published in 2020 were available at the time of this analysis, as these other documents are not produced alongside the 10-K. The sustainability report focuses more on opportunities than threats, discussing potential for work to support climate resilience.
- There is one stated climate change target: to reduce Scope 1 & 2 (not 3) emissions per $ of gross profit by 70% from 2015 levels by 2030. "Setting this target will help to ensure a lean and efficient infrastructure, process and operations that will result in lowering our carbon emissions from our operations," the proxy statement claims, but nowhere is it clear what is

being done to deliver it. There is no clarity on investment, nor on asset lives or retirement to facilitate the meeting of this 2030 target.

Climate assumptions: visibility and Paris alignment

Visibility of climate assumptions		Significant concerns

- There are no disclosed climate-related assumptions. There is thus no sensitivity analysis.

Paris alignment		Significant concerns

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in CAMs and consistency check

Audit firm: Ernst & Young LLP	Responsible partner: Gerald Hahn
Audit standards: PCAOB standards	

Visibility in Critical Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.
- There are 3 CAMs identified: (i) revenue recognition; (ii) goodwill impairment (Sikorsky); and (iii) defined benefit pensions.
- While the first two of these might have included some climate change considerations, this is not apparent from the discussion of them. Revenue recognition appears to be simply standard long-term contract accounting, and the goodwill is narrowly about the limited headroom on the Sikorsky business.
- The references to the use of experts do not mention climate change expertise.

Consistency check		Some concerns

- The auditor expresses its role as extending to the financial statements only.
- The 10-K is internally consistent in ignoring climate change and its implications for the business entirely.
- There is an apparent lack of consistency of the financials – particularly in terms of asset lives – with the goal of 70% (relative) reduction in Scope 1 & 2 emissions by 2030, but without greater disclosure from the company it is not clear how substantial this is.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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