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

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

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

**Audit: visibility in CAMs and consistency check**

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<th>Audit firm: Ernst &amp; Young LLP</th>
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### Visibility in Critical Audit Matters
- 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
- 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.

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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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