

CONSOLIDATED FINANCIAL STATEMENTS

Lockheed Martin Global, Inc.
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



Lockheed Martin Global, Inc.

Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Earnings	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Stockholder's Equity	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8



Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

Report of Independent Auditors

Board of Directors
Lockheed Martin Global, Inc.

We have audited the accompanying consolidated financial statements of Lockheed Martin Global, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of earnings, comprehensive income, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lockheed Martin Global, Inc. at December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

April 13, 2021

Lockheed Martin Global, Inc.

Consolidated Balance Sheets
(In Thousands)

	December 31,	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,008	\$ 57,385
Receivables	253,853	169,777
Contract assets	175,602	122,938
Inventories	54,154	16,777
Accounts receivable from affiliates, net	467,198	494,830
Other current assets	12,710	23,255
Total current assets	<u>1,015,525</u>	<u>884,962</u>
Property, plant, and equipment, net	8,851	7,950
Deferred tax assets	15,800	22,163
Other noncurrent assets	33,242	31,534
Total assets	<u>\$ 1,073,418</u>	<u>\$ 946,609</u>
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable	\$ 6,239	\$ 6,812
Contract liabilities	678,649	580,112
Accrued salaries, benefits, and payroll taxes	30,372	33,080
Accrued taxes	6,971	5,348
Reserve for anticipated contract losses	13,038	34,701
Other current liabilities	20,646	12,721
Total current liabilities	<u>755,915</u>	<u>672,774</u>
Other noncurrent liabilities	14,459	15,373
Total liabilities	<u>770,374</u>	<u>688,147</u>
Stockholder's equity:		
Common stock, \$10 par value per share	1,700	1,700
Additional paid-in capital	10,000	10,000
Retained earnings	292,389	246,025
Accumulated other comprehensive (loss) income	(1,045)	737
Total stockholder's equity	<u>303,044</u>	<u>258,462</u>
Total liabilities and stockholder's equity	<u>\$ 1,073,418</u>	<u>\$ 946,609</u>

See accompanying notes.

Lockheed Martin Global, Inc.

Consolidated Statements of Earnings

(In Thousands)

	Year Ended December 31,	
	2020	2019
Net sales	<u>\$ 1,383,360</u>	<u>\$ 1,101,566</u>
Cost and expenses:		
Cost of goods sold	<u>(1,311,607)</u>	<u>(1,039,308)</u>
Gross profit	71,753	62,258
Other income, net	<u>407</u>	<u>208</u>
Operating profit	72,160	62,466
Other nonoperating expense, net	<u>(2,883)</u>	<u>(1,512)</u>
Earnings before income taxes	69,277	60,954
Income tax expense	<u>(22,913)</u>	<u>(31,001)</u>
Net earnings	<u>\$ 46,364</u>	<u>\$ 29,953</u>

See accompanying notes.

Lockheed Martin Global, Inc.

Consolidated Statements of Comprehensive Income
(In Thousands)

	Year Ended December 31,	
	2020	2019
Net earnings	\$ 46,364	\$ 29,953
Other comprehensive (loss) income, net of tax:		
Unrealized (loss) gain on cash flow hedges	(1,782)	1,198
Other comprehensive (loss) income, net of tax	(1,782)	1,198
Comprehensive income	<u>\$ 44,582</u>	<u>\$ 31,151</u>

See accompanying notes.

Lockheed Martin Global, Inc.

Consolidated Statements of Changes in Stockholder's Equity
(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholder's Equity
Balance at December 31, 2018	\$ 1,700	\$ 10,000	\$ 216,072	\$ (461)	\$ 227,311
Net earnings	—	—	29,953	—	29,953
Other comprehensive income	—	—	—	1,198	1,198
Balance at December 31, 2019	1,700	10,000	246,025	737	258,462
Net earnings	—	—	46,364	—	46,364
Other comprehensive loss	—	—	—	(1,782)	(1,782)
Balance at December 31, 2020	\$ 1,700	\$ 10,000	\$ 292,389	\$ (1,045)	\$ 303,044

See accompanying notes.

Lockheed Martin Global, Inc.

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31,	
	2020	2019
Operating activities		
Net earnings	\$ 46,364	\$ 29,953
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	2,048	1,779
Reserve for anticipated contract losses	(21,663)	(68,329)
Net (gain) loss on disposal of fixed assets	(14)	41
Deferred income taxes	6,363	9,197
Changes in assets and liabilities:		
Receivables	(84,076)	(60,044)
Accounts receivable from affiliates, net	27,632	(216,392)
Contract assets	(52,664)	88,165
Inventories	(37,377)	(3,116)
Accounts payable	(573)	1,134
Contract liabilities	98,537	241,804
Accrued salaries, benefits, and payroll taxes	(2,708)	7,324
Accrued taxes	1,623	(17,419)
Other, net	15,072	(30,076)
Net cash used in operating activities	<u>(1,436)</u>	<u>(15,979)</u>
Investing activities		
Capital expenditures	(2,935)	(4,565)
Purchase of investment	(1,442)	(1,963)
Net cash used in investing activities	<u>(4,377)</u>	<u>(6,528)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>436</u>	<u>121</u>
Net change in cash and cash equivalents	(5,377)	(22,386)
Cash and cash equivalents at beginning of year	57,385	79,771
Cash and cash equivalents at end of year	<u>\$ 52,008</u>	<u>\$ 57,385</u>

See accompanying notes.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements

December 31, 2020

1. Nature of the Organization

Lockheed Martin Global, Inc. (LMGI, We or the Company), a wholly owned subsidiary of Lockheed Martin Corporation (LMC), is a company incorporated in Delaware, United States. We are a global security and aerospace company principally engaged in the research, design, development, manufacture, integration, and sustainment of advanced technology systems, products, and services. We also provide a broad range of management, engineering, technical, scientific, logistics, system integration, and cybersecurity services. We provide liaison services through overseas offices to support in-country operations of LMC.

2. Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements include the accounts of subsidiaries we control and variable interest entities if we are the primary beneficiary. We eliminate intercompany balances and transactions in consolidation. Our receivables, contract assets, inventories, contract liabilities, and certain amounts in other current liabilities primarily are attributable to long-term contracts or programs in progress for which the related operating cycles are longer than one year. In accordance with industry practice, we include these items in current assets and current liabilities. Accounts receivable from affiliates, net is the result of over-time netting of cash transactions with LMC and net cash sweeps to LMC. As the balance is payable to LMGI on demand, we include the balance in current assets.

Use of Estimates

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP). In doing so, we are required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base these estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our actual results may differ materially from these estimates. Significant estimates inherent in the preparation of our consolidated financial statements include, but are not limited to, accounting for sales and cost recognition and accounting for income taxes, including deferred tax assets.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Revenue Recognition

The majority of our net sales are generated from long-term contracts with international customers (including foreign military sales (FMS) contracted through the U.S. Government) for the research; design; development; manufacture; integration; and sustainment of advanced technology systems, products, and services as well as through sales to our parent entity, LMC. We provide our products and services under fixed-price and cost-reimbursable contracts. Under fixed-price contracts we agree to perform the specified work for a predetermined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. Some fixed-price contracts have a performance-based component under which we may earn incentive payments or incur financial penalties based on our performance.

Cost-reimbursable contracts provide for the payment of allowable costs incurred during performance of the contract plus a fee up to a ceiling based on the amount that has been funded. Typically, we enter into three types of cost-reimbursable contracts: cost-plus-award-fee, cost-plus-incentive-fee, and cost-plus-fixed-fee. Cost-plus-award-fee contracts provide for an award fee that varies within specified limits based on the customer's assessment of our performance against a predetermined set of criteria, such as targets based on cost, quality, technical and schedule criteria. Cost-plus-incentive-fee contracts provide for reimbursement of costs plus a fee, which is adjusted by a formula based on the relationship of total allowable costs to total target costs (i.e., incentive based on cost) or reimbursement of costs plus an incentive to exceed stated performance targets (i.e., incentive based on performance). The fixed-fee in a cost-plus-fixed-fee contract is negotiated at the inception of the contract and that fixed-fee does not vary with actual costs. The majority of our contracts with LMC are on a cost-reimbursable basis.

We account for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

We assess each contract at its inception to determine whether it should be combined with other contracts. When making this determination, we consider factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, we treat the combined contracts as a single contract for revenue recognition purposes.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

We evaluate the products or services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The products and services in our contracts are typically not distinct from one another due to their complex relationships and the significant contract management functions required to perform under the contract. Accordingly, our contracts are typically accounted for as one performance obligation. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not highly complex or interrelated or involve different product life cycles. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period.

We determine the transaction price for each contract based on the consideration we expect to receive for the products or services being provided under the contract. We exclude from the transaction price the taxes assessed by governmental authorities that are both imposed on and concurrent with its specific revenue-producing transactions, where such taxes are collected from our customers. For contracts where a portion of the price may vary, we estimate variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. We analyze the risk of a significant revenue reversal and if necessary, constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract we estimate the transaction price based on our current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to our contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract. Therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue.

Our contracts with the U.S. Government, including FMS contracts, are subject to the Federal Acquisition Regulations and the price is typically based on estimated or actual costs plus a reasonable profit margin. As a result of these regulations, the stand-alone selling price of products or services in our contracts with the U.S. Government and FMS contracts are typically equal to the selling price stated in the contract. Therefore, we typically do not need to allocate (or reallocate) the transaction price to multiple performance obligations.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

We recognize revenue as performance obligations are satisfied and the customer obtains control of the products and services. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms and whether there is an alternative future use of the product or service. Substantially all our revenue is recognized over a period of time as we perform under the contract because control of the work-in-process transfers continuously to the customer. For contracts with the U.S. Government and FMS contracts, this continuous transfer of control of the work-in-process to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit, and take control of any work-in-process. Our contracts, primarily international direct commercial contracts, typically do not include termination for convenience provisions. However, continuous transfer of control to our customer is supported as, if our customer were to terminate the contract for reasons other than our nonperformance, we have the right to recover damages which would include, among other potential damages, the right to payment for our work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to us.

For performance obligations to deliver products with continuous transfer of control to the customer, revenue is recognized based on the extent of progress toward completion of the performance obligation, generally using the percentage-of-completion cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer as we incur costs on our contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation(s). For performance obligations to provide services to the customer, revenue is recognized over a period of time based on costs incurred or the right to invoice method (in situations where the value transferred matches our billing rights) as our customer receives and consumes the benefits. Net sales from goods or services transferred to customers over time were \$1.4 billion and \$1.1 billion in 2020 and 2019, respectively.

For the majority of our international direct commercial contracts to deliver complex systems, we typically receive advance payments prior to commencement of work, as well as milestone payments that are paid in accordance with the terms of our contract as we perform. We recognize a liability for payments in excess of revenue recognized, which is presented as a contract liability on the consolidated balance sheet. The portion of payments retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer from our failure to adequately complete some or all of the obligations under

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

the contract. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract.

For FMS and U.S. Government contracts, we generally do not begin work on contracts until funding is appropriated by the customer. Billing timetables and payment terms on our contracts vary based on a number of factors, including the contract type. Typical payment terms under fixed-price contracts with the U.S. Government provide that the customer pays either performance-based payments based on the achievement of contract milestones or progress payments based on a percentage of costs we incur.

For fixed-price and cost-reimbursable contracts, we present revenues recognized in excess of billings as contract assets on the consolidated balance sheets. Amounts billed and due from our customers under both contract types are classified as receivables on the consolidated balance sheets.

Significant estimates and assumptions are made in estimating contract sales and costs, including the profit booking rate. At the outset of a long-term contract, we identify and monitor risks to the achievement of the technical, schedule, and cost aspects of the contract, as well as variable consideration, and assess the effects of those risks on our estimates of sales and total costs to complete the contract. The estimates consider the technical requirements (e.g., a newly developed product versus a mature product), the schedule and associated tasks (e.g., the number and type of milestone events) and costs (e.g., material, labor, subcontractor, overhead, general and administrative, and the estimated costs to fulfill our industrial cooperation agreements, sometimes referred to as offset or localization agreements, required under certain contracts with international customers). The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements, schedule and costs in the initial estimated total costs to complete the contract. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule and cost aspects of the contract, which decreases the estimated total costs to complete the contract or may increase the variable consideration we expect to receive on the contract. Conversely, our profit booking rates may decrease if the estimated total costs to complete the contract increase or our estimates of variable consideration we expect to receive decrease. All of the estimates are subject to change during the performance of the contract and may affect the profit booking rate. When estimates of total costs to be incurred on a contract exceed total estimates of the transaction price, a provision for the entire loss is determined at the contract level and is recorded in the period in which the loss is determined.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income Taxes

The provision for income taxes is calculated as if LMGI completed a separate tax return apart from LMC, although LMGI was included in the LMC U.S. federal and state income tax returns. Deferred tax assets and liabilities are recognized principally for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts, using currently enacted tax rates. Tax attributes utilized by LMC are treated as transactions between LMGI and LMC.

We calculate our provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying amount of assets and liabilities and their respective tax bases, as well as from operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid. A valuation allowance is provided against a deferred tax asset when it is more likely than not that some or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is considered to determine whether a valuation allowance for deferred tax assets is needed.

We periodically assess our tax exposures related to periods that are open to examination. Based on the latest available information, we evaluate our tax positions to determine whether the position will more likely than not be sustained upon examination by the Internal Revenue Service or other taxing authorities. If we cannot reach a more-likely-than-not determination, no benefit is recorded. If we determine that the tax position is more likely than not to be sustained, we record the largest amount of benefit that is more likely than not to be realized when the tax position is settled. We record interest and penalties related to income taxes as a component of income tax expense on our consolidated statements of earnings. Interest and penalties were not material.

Foreign Currencies

Our consolidated financial statements are presented in United States dollars, which is also LMC's functional currency. Transactions in foreign currencies are initially recorded by the entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Cash and Cash Equivalents

Cash equivalents include highly liquid instruments with original maturities of 90 days or less.

Receivables

Receivables represent our unconditional right to consideration under the contract and include amounts billed and currently due from customers. The amounts are stated at their net estimated realizable value which approximate fair value. There were no significant impairment losses related to our receivables in 2020.

Inventories

We record inventories at the lower of cost or estimated net realizable value. If events or changes in circumstances indicate that the utility of our inventories have diminished through damage, deterioration, obsolescence, changes in price, or other causes, a loss is recognized in the period in which it occurs. We capitalize labor, material, subcontractor, and overhead costs as work-in-process for contracts where control has not yet passed to the customer. In addition, we capitalize costs incurred to fulfill a contract in advance of contract award in inventories as work-in-process if we determine that contract award is probable. We determine the costs of other product and supply inventories by using the first-in first-out or average cost methods.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property, Plant, and Equipment

We record property, plant, and equipment at cost. We provide for depreciation and amortization on plant and equipment generally using accelerated methods during the first half of the estimated useful lives of the assets and the straight-line method thereafter. The estimated useful lives of our plant and equipment generally range from 10 to 40 years for buildings and 5 to 15 years for machinery and equipment. No depreciation expense is recorded on construction-in-progress until such assets are placed into operation. Depreciation expense related to plant and equipment was \$2.0 million and \$1.8 million in 2020 and 2019, respectively.

We review the carrying amounts of long-lived assets for impairment if events or changes in the facts and circumstances indicate that their carrying amounts may not be recoverable. We assess impairment by comparing the estimated undiscounted future cash flows of the related asset grouping to its carrying amount. If an asset is determined to be impaired, we recognize an impairment charge in the current period for the difference between the fair value of the asset and its carrying amount. There were no significant impairment charges in 2020 or 2019.

Derivative Financial Instruments

We use derivative instruments principally to reduce our exposure to market risks from changes in foreign currency exchange rates. We do not enter into or hold derivative instruments for speculative trading purposes. We transact business globally and are subject to risks associated with changing foreign currency exchange rates. We enter into foreign currency hedges such as forward and option contracts that change in value as foreign currency exchange rates change. Our most significant foreign currency exposures relate to the British pound sterling, the euro, and the Australian dollar. These contracts hedge forecasted foreign currency transactions in order to mitigate fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. We designate foreign currency hedges as cash flow hedges. We also may enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting, which are intended to mitigate certain economic exposures.

We record derivatives at their fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on our intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives attributable to highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments to the hedged items or reflected net of income taxes in accumulated other

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

comprehensive loss until the hedged transaction is recognized in earnings. Changes in the fair value of the derivatives that are not highly effective, if any, are immediately recognized in earnings. The aggregate notional amount of our outstanding foreign currency hedges at December 31, 2020 and 2019, was \$417 million and \$485 million and the fair value was \$(832) thousand and \$1.1 million respectively. We recognized \$145 thousand of gains in 2020 and \$76 thousand of gains in 2019 on derivative instruments in other nonoperating expense. We recognized a comprehensive loss of \$1.8 million in 2020 and \$1.2 million of comprehensive income in 2019. Substantially all of our derivatives are designated for hedge accounting.

Recent Accounting Pronouncements

Financial Instruments—Credit Losses

Effective January 1, 2020, we adopted Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, using the modified retrospective approach. The new standard changes how we account for credit losses for financial assets and certain other instruments, including trade receivables and contract assets, that are not measured at fair value through net income. Under legacy standards, we recognized an impairment of receivables when it was probable that a loss had been incurred. Under the new standard, we are required to recognize estimated credit losses expected to occur over the estimated life or remaining contractual life of an asset (which includes losses that may be incurred in future periods) using a broader range of information including reasonable and supportable forecasts about future economic conditions. The adoption of the standard did not have a significant impact on our results of operations, financial position or cash flows.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

3. Income Taxes

Our provision for federal and foreign income tax expense consisted of the following:

	Year Ended December 31	
	2020	2019
	<i>(In Thousands)</i>	
Federal income tax expense:		
Current	\$ 3,855	\$ —
Deferred	6,363	9,197
Total federal income tax expense	<u>10,218</u>	<u>9,197</u>
Foreign income tax expense:		
Current	12,695	21,804
Deferred	—	—
Total foreign income tax expense	<u>12,695</u>	<u>21,804</u>
Total income tax expense	<u>\$ 22,913</u>	<u>\$ 31,001</u>

Our reconciliation of the U.S. federal statutory income tax rate of 21% to actual income tax expense for continuing operations is as follows:

	2020		2019	
	Amount	Rate	Amount	Rate
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Income tax expense at the U.S. federal statutory tax rate	\$ 14,553	21.0%	\$ 12,800	21.0%
Increases (decreases) to the statutory tax rate:				
Foreign tax provision	12,695	18.3	21,804	35.8
Foreign tax credit generated	(12,695)	(18.3)	(21,804)	(35.8)
Other – net	25	0.0	84	0.1
Valuation allowance	8,335	12.7	18,117	29.7
Total federal and foreign tax expense	<u>\$ 22,913</u>	<u>33.0%</u>	<u>\$ 31,001</u>	<u>50.8%</u>

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

3. Income Taxes (continued)

The primary components of our federal and foreign deferred income tax assets and liabilities were as follows:

	2020	2019
	<i>(In Thousands)</i>	
Deferred tax assets related to:		
Accrued compensation and benefits	\$ 4,536	\$ 2,827
Property, plant, and equipment	1,201	782
Contract accounting methods	9,945	18,537
Lease liability	3,335	3,570
Foreign tax credits	58,419	48,889
Deferred tax assets	77,436	74,605
Valuation allowance	(58,419)	(48,889)
Deferred tax assets, net	<u>19,017</u>	<u>25,716</u>
Deferred tax liabilities related to:		
Lease ROU asset	3,026	3,407
Other	191	146
Deferred tax liabilities	<u>3,217</u>	<u>3,553</u>
Net deferred tax assets	<u>\$ 15,800</u>	<u>\$ 22,163</u>

LMGI's operating results are included in LMC's consolidated U.S. federal and state income tax returns. The provisions for income taxes in the accompanying consolidated financial statements have been determined on a separate return basis as if LMGI filed its own tax returns. Management considered and weighed the available evidence, both positive and negative, to determine whether it is more likely than not that some portion, or all, of LMGI's deferred tax assets will not be realized and concluded that future earnings would not indicate it would be able to utilize the excess foreign tax credits. A valuation allowance in the amount of \$58.4 million and \$48.9 million in 2020 and 2019, respectively, was recorded for the foreign tax credit.

The historical cumulative earnings of our foreign subsidiaries are reinvested indefinitely and we do not provide U.S. deferred tax liabilities on these amounts. Determination of the amount of this unrecognized deferred tax liability is not practicable. We believe LMGI's current cash position will allow it to meet its U.S. cash obligations without repatriating historical cumulative foreign earnings. Further, non-U.S. cash is used for working capital needs of our non-U.S. operations and may be used for foreign capital expenditures, operating needs, or potential expansion requirements.

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

3. Income Taxes (continued)

Due to the Tax Cuts and Jobs Act, LMGI may be able to repatriate earnings of foreign subsidiaries with certain tax efficiencies. If future events, including material changes in estimates of cash, working capital, and long-term investment requirements, necessitate that these earnings be distributed, an additional provision for U.S. income and foreign withholding taxes, net of foreign tax credits, may be necessary.

LMGI does not have unrecognized tax benefits as of December 31, 2020 or 2019.

LMC files income tax returns, including LMGI, in the U.S. federal jurisdiction and LMGI files income tax returns in various foreign jurisdictions. With few exceptions, the statute of limitations is no longer open for U.S. federal or non-U.S. income tax examinations for the years before 2016, other than with respect to refunds. LMGI's foreign income tax payments, net of refunds received of \$3.5 million and \$2.2 million, were \$5 million and \$47 million in 2020 and 2019, respectively.

4. Related Parties

LMGI is a wholly owned subsidiary of LMC, which is also the Company's ultimate holding company. Related companies in these consolidated financial statements refer to members of LMC's group of companies. In the ordinary course of business, we are involved in transactions with other wholly owned or otherwise consolidated entities of LMC, including Lockheed Martin Overseas Corporation; AWE Management Limited; Lockheed Martin Canada, Inc.; and Lockheed Martin Australia, Ltd. The balances are unsecured, interest free, and repayable on demand unless otherwise stated.

LMGI entered into the following trading transactions with related parties:

	2020	2019
	<i>(In Thousands)</i>	
Sales of goods and services for the years ended		
December 31	\$ 447,321	\$ 511,366
Accounts receivable from affiliates, net as of December 31	467,198	494,830
Shared costs of employee benefit plans for the year		
ended December 31	15,375	13,932
Administrative costs for the year ended December 31	3,932	5,247

Lockheed Martin Global, Inc.

Notes to Consolidated Financial Statements (continued)

4. Related Parties (continued)

Terms and Conditions of Transactions with Related Parties

The sales to and purchases from related parties are made on terms such as cost plus a percentage markup or in fixed price subcontracts detailing the scope of work and financial risk discretely by contract. Outstanding balances at year-end are unsecured and interest free, and settlement occurs in cash multiple times per year. No expense has been recognized in the period for bad debts in respect of the amounts owed by related parties.

5. Commitments and Contingencies

The Company can be involved in various claims and other legal proceedings incidental to the normal course of business. These matters relate to such issues as litigation, government investigations, claims and contractual disputes. The Company is not always aware of such investigations or its status in them. The Company accrues its best estimates of required provisions for any such known matters when the loss is probable, and the amount of loss can be reasonably estimated. Litigation and the outcomes of investigations are inherently unpredictable. However, management believes that the Company has valid defenses with respect to legal matters pending against it, and no material adverse legal outcomes are considered probable or reasonably possible at December 31, 2020. Legal costs are expensed as incurred.

6. Subsequent Events

The Company has evaluated subsequent events through April 13, 2021, which was the date the accompanying consolidated financial statements were issued. No events have occurred that would require disclosure in the consolidated financial statements.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2021 Ernst & Young LLP.
All Rights Reserved.

ey.com