

Raytheon Systems Limited
(Registered Number 406809)

Annual Report

For the Year Ended 31 December 2019



Raytheon Systems Limited

Annual Report for the Year Ended 31 December 2019

	Page
Directors and Advisers	1
Strategic Report	2 - 6
Directors' Report	7 - 10
Statement of Directors' Responsibilities	11
Independent Auditors' Report	12 - 14
Statement of Comprehensive Income	15
Statement of Financial Position	16
Statement of Changes in Equity	17
Notes to the Financial Statements	18 - 41

Raytheon Systems Limited

Directors and Advisers

Executive Directors

R Daniel
J Harris
T Lawrence
D Broadbent
R Azevedo
P Wickham
P Ferraro
J Reilly
J Lewis
B Rosselli
J Stevison

Non - Executive Directors

Lord T Strathclyde - Chairman
Sir N Sheinwald
S Lennard

Secretary and Registered Office

J Reilly
Kao One
Kao Park
Harlow
Essex
England
CM17 9NA

Independent Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Bankers

JP Morgan Chase
1 Chaseside
Bournemouth
Dorset
BH7 7DA

Raytheon Systems Limited

Registered number 406809

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for the year ended 31 December 2019 for Raytheon Systems Limited (the Company).

Principal activities and review of business

The profit for the year, after taxation, amounted to £80,198,000 (2018: profit £207,760,000). The net asset position amounted to £360,017,000 (2018: £330,394,000).

The operating subsidiaries of Raytheon Systems Limited are set out in note 10.

The principal activity of the Company is that of a major supplier of electronic systems, products, components and associated support services to the defence and commercial markets, both in the UK and overseas. This activity embraces systems integration as well as the design, development and manufacture of a wide range of advanced electronic products and integrated systems including surveillance systems, airport radars, identification friend or foe systems, anti-jamming global navigation systems and power and control systems.

The Directors anticipate that this activity will continue.

Key performance indicators (KPI)

The Directors are of the opinion that analysis using Key Performance Indicators is not necessary to understand the development, performance or position of the business, given the Directors monitor revenue and profit, as set out in the Statement of Comprehensive Income on page 15.

Business environment

The Company is a subsidiary of its ultimate parent, Raytheon Technologies Corporation. As outlined in note 23, on 3 April 2020 ultimate parent company Raytheon Company merged with United Technologies Corporation (UTC) to form Raytheon Technologies Corporation. The Company operates in a number of core markets as set out in the strategy section below. The principal territories that the Company operates within are set out in note 2.

The Company met the challenges of a dynamic business environment in 2019 and performed well with solid execution driving strong operating results.

Strategy

The Company's strategy is to:

- Build on our areas of strength within our key mission areas
- Focus additional resources on emerging opportunities within our core markets
- Extend Raytheon cyber solutions beyond our core markets
- Engage key countries as individual markets with multiple customers

Raytheon Systems Limited

Registered number 406809

Strategic Report for the Year Ended 31 December 2019 (Continued)

Strategy (Continued)

The core markets are:

- Missile Defence
- Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance (C5I)
- Cyber Security
- Electronic Warfare (EW)
- Precision Weapons
- Training Solutions
- Space

Future outlook

Based on the size of the Company order book, the level of highly liquid assets and credit quality of customers and counterparties, the Company is confident in its future outlook.

Coronavirus (COVID-19)

To ensure that appropriate plans are in place to enable the delivery of our commitments to our customers and partners a Coronavirus Response Team has been set up and is closely monitoring and implementing government guidelines. Processes in place that protect the staff include split teams allowing for increased social distancing, working from home and restricted travel arrangements.

See discussion in the Directors' Report.

Risk Management

The Company's multi-national operations expose it to a variety of risks that include changes in foreign currency exchange rates, credit, people, continuity, geopolitical and reputational risks.

(a) Foreign exchange risk

The Company mainly enters into contracts within the UK, US, Middle East and Continental Europe. The Company is exposed to foreign exchange risk primarily with respect to US dollars. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by using foreign currency forward contracts to eliminate a portion of the foreign exchange risk.

(b) Credit risk

The Company has no significant concentrations of credit risk. The Company has implemented policies that require appropriate credit checks on potential customers before sales commence. The amount of exposure to any individual counterparty is subject to a limit which is reassessed periodically by the Board of Directors.

Raytheon Systems Limited

Registered number 406809

Strategic Report for the Year Ended 31 December 2019 (Continued)

Risk Management (Continued)

(c) People risk

The Company recognises that its employees are key to delivering its strategy and business plan and focuses on developing the existing workforce and hiring talented people to meet current and future requirements.

(d) Continuity risk

The Company performed a cash flow sensitivity analysis in the light of Coronavirus COVID-19. See discussion in the Directors' report.

(e) Geopolitical risk

The Company recognises that due to the nature of our products we must obtain licences and authorisations from various government agencies. Our ability to obtain these licences and authorisations are subject to risks and uncertainties including changing government policies or delays in governmental approvals.

(f) Reputational risk

The Company is subject to various regulations and the business reputation could be negatively affected if the Company fails to comply with these. The Company has implemented procedures to help ensure regulations are met and adhered to.

(g) Cyber risk

As a defence contractor the Company is the target of advanced and persistent cyber attacks from a variety of assailants. We believe the Company has implemented appropriate measures and controls and have invested in resources to appropriately identify and monitor these threats and mitigate potential risks.

Directors' Duties – compliance with s.172 of the Companies Act 2006

Section 172 of the Companies Act 2006 ("s.172") requires the Directors to promote the success of the Company for the benefit of the members and in doing so have regard to the interests of stakeholders including customers, employees, suppliers, and the wider community in which it operates. The Board is focused on its responsibilities under s.172, and the impact of the business on key stakeholder groups is considered on a regular basis. We have outlined our considerations of these areas below:

Risk management

We supply electronic systems, products, components and associated support services to the defence and commercial markets, both in the UK and overseas, often in highly regulated environments. As we grow the business for our stakeholders it is vital that we effectively identify, evaluate, manage and mitigate the risks we face. For details of our strategy, see the 'Risk Management' section above.

Raytheon Systems Limited

Registered number 406809

Strategic Report for the Year Ended 31 December 2019 (Continued)

Directors' Duties – compliance with s.172 of the Companies Act 2006 (Continued)

Shareholders

We believe that good governance enhances shareholder value and goes beyond simply complying with legal requirements. It means grounding governance practices in a culture of integrity, accountability, transparency and the highest ethical standards. The strategy outlined above is aligned to the strategy of our ultimate parent company to ensure decisions of the Company meet the needs of the shareholders.

Employees

Our goal is to maintain both a strong workforce and a culture where every employee can thrive and find purpose. We strive to provide employees with industry-leading benefits and exciting professional challenges and opportunities. We invest in our employees' long-term growth, and we maintain a highly engaged workforce that delivers the best business performance possible.

The health, safety and well-being of our employees is one of our primary considerations in the way we conduct our business. To support and develop a safe working environment we recognise the importance of regular inspections, safety training, encouraging near miss non-injury reporting with open two way communications.

To maintain a rich and diverse talent base, we have invested in a number of Employee Resource Groups (ERGs) to foster support and celebrate success. Our ERGs are indispensable to the long-term vitality of our workforce and business. They support us in fostering an inclusive, engaged culture; drive business growth and innovation; help attract, retain and develop employees; and engage meaningfully with their local communities.

An example of an ERG is the Raytheon Alliance for Diverse Abilities (RADA), which provides a voice for disability issues in the workplace. RADA is a supportive network for employees with a temporary or permanent disability, as well as those who support a close family member, friend or colleague with a disability. The Group aims to ensure that all employees, whether impacted directly or indirectly, have the resources, opportunities and support they need to excel in their career.

Customers and suppliers

The Directors are committed to working with our suppliers to meet the challenges of our competitive environment and provide the best and most affordable products. A prime enabler for this is Raytheon Six Sigma. This initiative drives continuous improvement where experienced individuals work with our suppliers drive down costs and identify and mitigate risks. These actions are also utilised to ensure the customers receive value for money and competitively priced products and services.

Raytheon Systems Limited

Strategic Report for the Year Ended 31 December 2019 (Continued)

Directors' Duties – compliance with s.172 of the Companies Act 2006 (Continued)

Community and environment

Through strategic investments in organisations serving veterans, military families and an array of social welfare needs, we are improving the communities where we live and work. In 2017 the UK Ministry of Defence awarded Raytheon Systems Limited the Gold Standard for its support to the Armed Forces community.

We support educational initiatives that inspire and support the next generation of scientists, engineers and business professional. STEM Learning named Raytheon Systems Limited its 2019 Inspirational STEM Employer of the Year (Large Organisation).

On behalf of the Board



R Daniel
Director
15 May 2020

Raytheon Systems Limited

Registered number 406809

Directors' Report for the Year Ended 31 December 2019

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

R Daniel
J Harris (Resigned 3 April 2020)
D Broadbent (Appointed 1 January 2019)
R Azevedo (Appointed 1 January 2019)
P Wickham (Appointed 1 January 2019 and resigned on 3 April 2020)
S Lennard
J Reilly
Sir N Sheinwald
Lord T Strathclyde
R Smith (Resigned 25 February 2020)
P Ferraro (Resigned 30 May 2019)
T Lawrence (Resigned 30 May 2019)
J Lewis (Appointed 10 March 2020)
B Rosselli (Appointed 30 May 2019)
J Stevison (Appointed 30 May 2019)

Directors' interests in shares of the Company

According to the register kept under section 808 of the Companies Act 2006, no Director had any beneficial interest in the shares of the Company either at the beginning or end of the year. There were no changes in Directors' interests during the year.

Directors' Duties – compliance with s.172 of the Companies Act 2006

This has been outlined in the Strategic Report.

Going concern

The financial statements have been prepared on the basis that the Company is a going concern. The Directors believe that the cash flow forecasts support this assumption.

The impact of the Coronavirus (COVID-19) on the Company has been assessed. The Company benefits from a strong financial position and significant liquidity. A cash flow sensitivity analysis, based on decreased cash flow over a period to December 2021, has been performed to ensure that the Company is forecast to maintain liquidity for a period of at least 12 months after the date of approval of the financial statements. The Company is continuing to trade and receive revenue as the defence industry is classified as a critical infrastructure business. To ensure services continue the Company is supporting suppliers by paying promptly as this maintains cash flow in the supply chain and protects jobs. It is not expected that the coronavirus will have a material negative impact on the ability of the company to operate as a going concern.

Raytheon Systems Limited

Registered number 406809

Directors' Report for the Year Ended 31 December 2019 (Continued)

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006.

The indemnity was in force throughout the last financial year and is currently in force.

The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Employees

The Company continued its policy of providing regular information on Company performance, business activities and related matters to all employees. Smaller groups of employees, including senior employee representatives, attend regular business reviews, at which opportunity is given to question the Company on business performance, plans and strategies.

Committees, which include employee representation, continued to operate and provide regular consultation in the particular areas of safety, the extension and development of technological change and the operation of an employee suggestion scheme.

The Company is committed to achieving equal opportunities and complying with anti-discrimination legislation and employees are encouraged to train and develop their careers. Company policy is to offer the opportunity to benefit from fair employment, without regard to gender, sexual orientation, marital status, race, religion or belief, age or disability and full and fair consideration is given to the employment of disabled persons for all suitable jobs.

Financial risk management

This has been outlined in the Strategic Report

Future developments

These have been outlined in the Strategic Report.

Dividends

During 2019 Raytheon Systems Limited paid dividends amounting to £65,234,080 to Raytheon United Kingdom Limited (2018: £442,126,000). See disclosures included in note 17. As at the date of signing the Directors do not recommend a final dividend for 2019.

Raytheon Systems Limited

Registered number 406809

Directors' Report for the Year Ended 31 December 2019 (Continued)

Contingent liabilities

The Directors do not consider that any loss will arise to the Company as a result of indemnities and guarantees relating to the due performance of contracts, see note 22.

Research and development

The Company is heavily committed to research and development activities in all areas of its business which include a number of specialised fields in which it is a market leader.

Payment policies

The Company operates procedures to ensure that suppliers are paid on time. In particular the Company seeks:

- To agree terms of payments with suppliers when agreeing the terms of the transaction;
- To ensure that suppliers are made aware of the agreed terms of payment; and
- To abide by the terms of payment.

The procedures include arrangements for accelerated payments of small suppliers.

Payments are made to suppliers in accordance with specific terms agreed with suppliers. As such, the Company believes that disclosure of creditor days does not provide a meaningful measure of compliance with payment terms.

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Raytheon Systems Limited

Registered number 406809

Directors' Report for the Year Ended 31 December 2019 (Continued)

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'R Daniel', written over a horizontal line.

R Daniel
Director
15 May 2020

Raytheon Systems Limited

Registered number 406809

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.


Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

On behalf of the Board



R Daniel
Director
15 May 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RAYTHEON SYSTEMS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Raytheon Systems Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RAYTHEON SYSTEMS LIMITED (Continued)

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RAYTHEON SYSTEMS LIMITED (Continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Timothy McAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 May 2020

Raytheon Systems Limited

Registered number 406809

Statement of Comprehensive Income for the Year Ended 31 December 2019

	<i>Note</i>	2019 £'000	2018 £'000
Revenue	2	552,714	558,135
Cost of sales		(471,750)	(475,573)
Gross profit		80,964	82,562
Distribution costs		(3,363)	(2,171)
Administrative expenses		(7,799)	(24,101)
Operating profit		69,802	56,290
Income from shares in group undertakings	4	16,036	160,829
Finance income	4	4,691	4,475
Profit before taxation	5	90,529	221,594
Income tax expense	6	(10,331)	(13,834)
Profit for the financial year		80,198	207,760
Other comprehensive income:			
Actuarial gain on pension scheme	16	17,662	9,578
Movement in deferred tax relating to pension asset	7	(3,003)	(1,628)
Total comprehensive income for the year		94,857	215,710

All amounts relate to continuing operations.

The notes on pages 18 to 41 form an integral part of these financial statements.

Raytheon Systems Limited

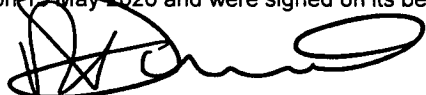
Registered number 406809

Statement of Financial Position as at 31 December 2019

		2019		2018	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	8	3,526		4,936	
Property, plant and equipment	9	28,509		21,221	
Investments	10	180,000		180,209	
			212,035		206,366
Current assets					
Inventories	11	7,141		6,443	
Trade and other receivables	12	295,509		370,713	
Cash and cash equivalents		62,899		131,573	
		365,549		508,729	
Trade and other payables: amounts falling due within one year	13	(305,607)		(445,040)	
Net current assets			59,942		63,689
Total assets less current liabilities			271,977		270,055
Trade and other payables: amounts falling due after more than one year	14	(279)		(269)	
Provisions for liabilities	15	(2,569)		(2,225)	
			(2,848)		(2,494)
Pension asset	16		90,888		62,833
Net assets			360,017		330,394
Equity					
Called up share capital	17		240,042		240,042
Retained earnings			119,975		90,352
Total equity			360,017		330,394

The notes on pages 18 to 41 form an integral part of these financial statements.

The Financial Statements on pages 15 to 41 were approved by the Board of Directors on 15 May 2020 and were signed on its behalf by:



R Daniel
Director

Raytheon Systems Limited

Registered number 406809

Statement of Changes in Equity for the Year Ended 31 December 2019

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance as at 1 January 2018	359,712	197,098	556,810
Profit for the financial year	-	207,760	207,760
Other comprehensive income for the year	-	7,950	7,950
Reduction in share capital	(119,670)	119,670	-
Dividend paid	-	(442,126)	(442,126)
Total comprehensive income for the year	(119,670)	(106,746)	(226,416)
Balance as at 31 December 2018	240,042	90,352	330,394
Profit for the financial year	-	80,198	80,198
Other comprehensive income for the year	-	14,659	14,659
Dividend paid	-	(65,234)	(65,234)
Total comprehensive income for the year	-	29,623	29,623
Balance as at 31 December 2019	240,042	119,975	360,017

The notes on pages 18 to 41 form an integral part of these financial statements.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Principal accounting policies

General information

Raytheon Systems Limited is a major supplier of electronic systems, products, components and associated support services to the defence and commercial markets, both in the United Kingdom and overseas.

The Company is a private Company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Kao One, Kao Park, Harlow, Essex, England, CM17 9NA.

Statement of compliance

The individual financial statements of Raytheon Systems Limited have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of derivatives measured at fair value through profit or loss.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 2006. A summary of the more important accounting policies, which have been applied consistently, is set out below.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Going concern

The financial statements have been prepared on the basis that the Company is a going concern. The Directors believe that the cash flow forecasts support this assumption.

The impact of the Coronavirus (COVID-19) on the Company has been assessed. The Company benefits from a strong financial position and significant liquidity. A cash flow sensitivity analysis, based on decreased cash flow over a period to December 2021, has been performed to ensure that the Company is forecast to maintain liquidity for a period of at least 12 months after the date of approval of the financial statements. The Company is continuing to trade and receive revenue as the defence industry is classified as a critical infrastructure business. To ensure services continue the Company is supporting suppliers by paying promptly as this maintains cash flow in the supply chain and protects jobs. It is not expected that the coronavirus will have a material negative impact on the ability of the company to operate as a going concern.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Principal accounting policies (Continued)

Exemptions for qualifying entities under FRS 102

The Company is a qualifying entity as per FRS 102, as it is a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated.

The Company has taken advantage of the following disclosure exemptions of FRS 102, section 1 paragraph(s):

- 1.12 (a) reconciliation of the number of shares outstanding at the beginning and end of the prior year
- 1.12 (b) statement of cash flows
- 1.12 (c) financial instruments as the information is included in the consolidated financial statements
- 1.12 (e) key management compensation in total

Critical accounting judgements and estimation uncertainty

In applying its accounting policies, the Company has made estimates and assumptions concerning the future, which may differ from the related actual outcomes, in particular around revenue recognition, defined benefit pension plans, provisions and taxation.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Consolidated financial statements

The Company is a wholly owned subsidiary of Raytheon United Kingdom Limited and of its ultimate parent Raytheon Technologies Corporation. It is included in the consolidated financial statements of Raytheon Technologies Corporation which are publicly available. Therefore, the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the Company's separate financial statements.

Foreign currency

The Company's functional and presentation currency is the pound sterling. Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

It excludes value added taxes and agents' commissions, represents the invoiced value of goods and services supplied and the value of long term contract work.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Principal accounting policies (Continued)

Revenue recognition (continued)

Revenue on long-term contracts is recognised according to the stage reached in the contract by reference to the value of work done. An 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 the revenue exceeds payments on account is shown under trade and other receivables as amounts recoverable on contracts. Foreseeable expected losses are disclosed separately under provisions for liabilities and charges. The balance of payments in excess of amounts matched with revenue are disclosed under trade and other payables as payments received on account.

The Company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the Company's sales channels have been met.

Defined benefit pension plan

The Company participates in one contracted-out defined benefit pension and life assurance scheme which is open to employees in accordance with eligibility conditions set out in the scheme rules. These schemes are externally funded, administered by trustees and subject to actuarial valuation every three years by a professionally qualified independent actuary using the projected unit method.

A defined benefit plan defines the pension benefit that the employee will receive on retirement, dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The asset recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds and that have terms approximating the estimated period of the future payments ('discount rate').

Employee benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Taxation

Taxation expense for the year comprises current and deferred taxes recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Principal accounting policies (Continued)

Taxation (continued)

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Intangible assets

Computer software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between three and ten years, on a straight line basis.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Goodwill

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values of the Company's interest in identified net assets, liabilities and contingent liabilities acquired.

Goodwill is amortised on a straight line basis over its expected useful life. Goodwill acquired prior to transition to FRS 102 will continue to be amortised over 10 years. Where it is not possible to make a reliable estimate of useful life, goodwill will be amortised over a period not exceeding 5 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the statement of comprehensive income.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Principal accounting policies (Continued)

Tangible assets

Expenditure on tangible fixed assets is capitalised at cost plus any incidental costs of acquisition.

Depreciation and residual values

Land is not depreciated. Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis or a reducing balance basis over the expected useful economic lives of the assets concerned which are as follows:

		Years
Leasehold land and buildings	Lesser of period of lease or useful life of the improvement	
Test equipment		7-10
Plant and equipment		7-10
Data processing equipment		3-7
Office equipment		8

Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until available for use.

Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Lease incentives

Incentives received to enter into an operating lease are credited to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the statement of comprehensive income over the lease term or, if shorter, over the period to the first review date on which the rent is adjusted to market rates.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Principal accounting policies (Continued)

Impairment of non-financial assets

At each statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

Investments

Investments in subsidiary companies are held at cost less accumulated impairment losses. Impairment reviews are performed by management where there is an indication that the asset may be impaired.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined on the weighted average method. The cost includes the purchase price and transport and handling costs directly attributable to bringing the inventory to its present location and condition. The cost of manufactured finished goods and work in progress includes design costs, raw materials, direct labour and other direct costs and related production overheads (based on normal operating capacity). Where necessary, provision is made for obsolete, slow moving and defective stocks.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the statement of comprehensive income. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash at bank and other short-term highly liquid investments with original maturities of three months or less which are readily accessible at an earlier date if deemed necessary.

Government grants

Grants that relate to specific capital expenditure are treated as deferred income which is then credited to the statement of comprehensive income over the related asset's useful life.

Revenue-based grants are credited to the statement of comprehensive income in the same period as the corresponding revenue expenditure is charged.

Research and development expenditure

Research and development expenditure is expensed in the year in which it is incurred.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Principal accounting policies (Continued)

Financial instruments

As a qualifying entity under FRS 102, Raytheon Systems Limited is able to take an exemption from presenting the financial instrument disclosure requirements of FRS 102 sections 11 and 12, as a result of equivalent disclosures being included in the group financial statements which consolidate the entity.

Financial assets

Basic financial assets, including trade and other receivables, amounts owed by group undertakings, cash and cash equivalents and amounts recoverable on contracts are recognised at transaction price.

Derivatives

The Company enters into forward foreign exchange contracts, which are derivatives and are not basic financial instruments.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the statement of comprehensive income.

The Company does not currently apply hedge accounting for foreign exchange derivatives.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Preference shares are classified as equity when the entity has an unconditional right to avoid settling a contractual obligation.

Distributions to equity holders

Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the statement of changes in equity.

Related party transactions

The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned. The Company has taken advantage of the disclosure exemption of FRS 102 and therefore has not disclosed key management personnel compensation in total.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Revenue and geographical analysis

Principal activities	Revenue	
	2019 £'000	2018 £'000
Electronics	545,625	551,054
Training Services	7,089	7,081
	<hr/>	<hr/>
	552,714	558,135

Geographical analysis of revenue by destination	Revenue	
	2019 £'000	2018 £'000
United Kingdom	242,345	306,594
North America	111,566	152,820
Asia/Pacific	1,274	970
Middle East and North Africa	190,424	85,641
Rest of Europe	7,105	12,110
	<hr/>	<hr/>
	552,714	558,135

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3 Directors' emoluments and employee information

	2019 £'000	2018 £'000
Highest paid Director		
Defined benefit pension scheme: accrued pension at year end	71	68
<u>Aggregate emoluments</u>	<u>326</u>	<u>383</u>

The defined benefit pension costs attributable to Directors during the year were £17,000 (2018: £17,000). The monthly average number of persons, including Executive Directors, employed by the Company during the year was as follows:

Employee Numbers

	2019 No.	2018 No.
By activity		
Manufacturing and engineering	1,110	916
Marketing	38	32
<u>Administration</u>	<u>653</u>	<u>739</u>
Total	1,801	1,687

	2019 £'000	2018 £'000
The aggregate payroll costs of the above were as follows:		
Wages and salaries	85,126	73,735
Social security costs	9,707	8,141
<u>Other pension costs (note 16 and below)</u>	<u>9,906</u>	<u>14,531</u>
Total	104,739	96,407

The Company provides a defined contribution scheme for some employees. The amounts recognised as an expense for the scheme were £6,051,000 (2018: £4,682,000). The Company encourages employees to be involved in the overall profitability of the Company through a performance related bonus.

4 Finance and other income

	2019 £'000	2018 £'000
Interest receivable and similar income		
On bank deposits and other interest income	642	1,588
Net interest income on pension scheme (note 16)	2,055	1,442
<u>On loans to group undertakings</u>	<u>1,994</u>	<u>1,445</u>
Total	4,691	4,475
Income from shares in group undertakings		
Dividends received	16,036	160,829

The Company received dividend income from Raytheon Canada Ltd of £16,036,000 (2018: £160,829,000).

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

5 Profit before taxation

Profit before tax is stated after charging/ (crediting) the following:	2019 £'000	2018 £'000
Depreciation of property, plant and equipment	4,644	4,860
Amortisation of intangible assets	1,410	1,410
Auditors' remuneration		
Audit fees	294	287
Audit related services	20	-
Taxation Compliance services	135	18
Operating lease and short-term rentals for plant and machinery and motor vehicles	990	971
Operating lease rentals for land and buildings	2,274	2,426
Inventory recognised as an expense (net of hedging credits/ charges) ¹	471,750	475,575
Research and development costs	10,173	8,913
(Profit) / Loss in derivative fair value changes	(9,831)	4,730
Loss on disposal of fixed assets	512	186

¹Inventory is presented net of the foreign exchange charge/ (credit) arising on foreign currency translation. The amount recognised was a charge of £8,336,000 (2018: credit of £120,355,000).

6 Income tax expense

The tax charge is based on the taxable profit for the year and comprises:

	2019 £'000	2018 £'000
Current tax charge		
UK corporation tax for the year	4,681	7,518
Adjustments in respect of prior years	(923)	(255)
Total current tax	3,758	7,263
Deferred taxation		
Origination and reversal of timing differences		
Prior year	272	517
Current year	4,535	5,385
Deferred tax: pensions	1,766	669
Total deferred tax	6,573	6,571
Tax on profit	10,331	13,834
Representing:		
United Kingdom	9,529	11,478
Foreign Taxes	802	2,356
Total tax	10,331	13,834

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

6 Income tax expense (Continued)

The tax assessed for the year is lower (2018: lower) than the standard rate of the corporation tax in the UK.

	2019 £'000	2018 £'000
Profit before taxation	90,529	221,954
Profit before taxation multiplied by the standard rate of corporation tax in the UK in 2019: 19.00% (2018: 19%)	17,201	42,171
Effects of:		
Research and development not taxed	(1,135)	(420)
Expenses not deductible for tax purposes	15	68
Capital allowances in excess of depreciation	(483)	(140)
Pension contributions in excess of net pension cost	(1,975)	(747)
Tax losses utilised	(4,829)	(6,112)
Derivative fair value not taxed	(1,868)	899
Adjustments in respect of prior years	(923)	(255)
Dividend income not taxed	(3,047)	(30,558)
Foreign taxes	802	2,356
Deferred tax: pensions	1,766	669
Deferred tax: origination and reversal of timing differences prior year	272	518
Deferred tax: origination and reversal of timing differences current year	4,535	5,385
Total	10,331	13,834

Legislation was substantively enacted in September 2016 to reduce the UK corporation tax rate from 20% to 19% with effect from 1 April 2017. A further reduction to 17% with effect from 1 April 2020 was substantively enacted in September 2016 and the relevant deferred tax balances have been re-measured accordingly. Legislation was substantively enacted in March 2020 to stop the reduction in the UK corporation tax rate from 19% to 17% from 1 April 2020 and so the rate effectively remains at 19%. Its effects are not included in these financial statements.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

7 Deferred taxation

Deferred taxation accounted for in the statement of financial position and the potential amounts of deferred taxation are:

	Amounts Provided (liabilities)/assets		Full potential (liabilities)/assets	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Deferred Tax Components				
Accelerated capital allowances	(955)	(1,050)	(955)	(1,050)
Tax losses	1,064	5,966	1,064	5,966
Total	109	4,916	109	4,916

Deferred tax is calculated at the rates that will be in force in the respective years to the extent those rates have been substantively enacted.

	2019 £'000	2018 £'000
Movement in deferred tax asset		
Opening balance	4,916	10,819
Profit		
Prior year	(272)	(518)
Current year	(4,535)	(5,385)
Closing balance	109	4,916
Movement in deferred tax asset: pension		
Opening balance	(10,682)	(8,385)
Total Comprehensive Income	(1,766)	(669)
Other Comprehensive Income	(3,003)	(1,628)
Closing balance	(15,451)	(10,682)
Total deferred tax	(15,342)	(5,766)

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

8 Intangible assets

	Goodwill	Computer Software	Total
	£'000	£'000	£'000
Cost			
At 1 January 2019	1,300	12,798	14,098
Additions	-	-	-
At 31 December 2019	1,300	12,798	14,098
Accumulated amortisation			
At 1 January 2019	1,163	7,999	9,162
Charge for the year	130	1,280	1,410
At 31 December 2019	1,293	9,279	10,572
Net book value			
At 31 December 2019	7	3,519	3,526
At 31 December 2018	137	4,799	4,936

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

9 Property, plant and equipment

	Land and buildings £'000	Plant, Machinery, Fixtures, Fittings, Tools and Equipment £'000	Assets in course of construction £'000	Total £'000
Cost				
At 1 January 2019	20,540	58,739	4,574	83,853
Additions	-	-	12,445	12,445
Disposals	(247)	(1,375)	-	(1,622)
Transfers	590	1,859	(2,449)	-
At 31 December 2019	20,883	59,223	14,570	94,676
Accumulated depreciation				
At 1 January 2019	11,805	50,827	-	62,632
Charge for the year	2,100	2,544	-	4,644
Disposals	(113)	(996)	-	(1,109)
At 31 December 2019	13,792	52,375	-	66,167
Net book value				
At 31 December 2019	7,091	6,848	14,570	28,509
At 31 December 2018	8,735	7,912	4,574	21,221

Included in the net book value of land and buildings above at 31 December 2019 are £3,039,000 of leasehold improvements (2018: £4,684,000). The remainder of this balance comprises freehold land and buildings.

Leasehold improvements for the Company are all in respect of short leaseholds.

10 Investments

	£'000
Shares in group undertakings	
At 1 January 2019	180,209
Amounts written off	(209)
At 31 December 2019	180,000

During 2019 the Company impaired a joint venture by £209,000.

The Company owns the entire issued share capital of each subsidiary listed on page 32.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

10 Investments (Continued)

The following table lists the direct operating subsidiaries of the Company as at 31 December 2019.

Name of Company	Nature of business	Country of incorporation	Descriptions of shares held
Raytheon Australia Pty Ltd	Electronics	Australia	10,477,047 fully paid ordinary shares
Raytheon Canada Ltd	Electronics	Canada	24,300 class "A" preference shares and 2,500 common shares
Raytheon Deutschland Gmbh	Electronics	Germany	One share in the nominal amount of DM 28,000,000 and one share in the nominal amount of DM 100,000
MARCOS Vermögensverwaltung Gmbh	Electronics	Germany	One share in the nominal amount of DM 49,500 and one share in the nominal amount of DM 500.

Registered address

Raytheon Australia Pty Ltd:	Brindabella Business Park, 4 Brindabella Circuit, Pialligo ACT 2609, Australia
Raytheon Canada Ltd:	360 Albert Street, Suite 1640, Ottawa, Ontario, K1R 7X7, Canada
Raytheon Deutschland Gmbh:	Kulturstrasse 105, Freising 85356, Germany
MARCOS Vermögensverwaltung Gmbh:	Ferdinand-Stuttman-Str. 15, D-65428, Russelheim, Germany

The Directors believe that the carrying value of the investments is supported by future cash flows.

In addition to the companies listed above, Raytheon Systems Limited owns the entire issued share capital of five dormant companies and less than 1% of Raytheon Systems France S.A.R.L.

11 Inventories

	2019 £'000	2018 £'000
Raw materials and consumables	681	597
Work in progress	6,460	5,846
Total	7,141	6,443

Inventory consists of both strategic purchases made to obtain favourable pricing arrangements and advance purchases made to mitigate product availability risk.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

12 Trade and other receivables

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade receivables	331	81
Amounts owed by group undertakings	167,201	213,131
Other receivables	15,864	18
Corporation tax	3,930	-
Amounts recoverable on contracts	92,187	63,708
Prepayments and accrued income	15,996	93,775
Total	295,509	370,713

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Other receivables are predominately in relation to VAT receivables from HMRC.

Prepayments and accrued income are predominately driven by payments in advance for customer contract related supplies. The balance is driven in line with the production schedule of customer contracts.

We have contracts for precision guided munitions whereby U.S. government approvals from the State Department and Congress through the Congressional Notification process have been delayed. These contracts contain clauses that permit the customer to terminate the contract, and require refund of any advances received, if those approvals are not received by a stated contractual date or that date is not otherwise changed. While uncertainty exists over the timing of these pending approvals, and from time to time members of Congress have expressed concerns over these sales, we have taken contractual actions, such as contractually changing or removing the government approval deadlines or invoking the force majeure clauses for government delays. As a result, we believe further delays of these pending approvals will not have a material impact on our financial results. However, if we ultimately do not receive the approvals, it would have a material adverse effect on our financial results. For these precision guided munitions contracts, we had approximately £721.9 million of total contract value, recognised approximately £175.9 million of sales for work performed to date and received approximately £340.2 million in advances from customers as of 31 December 2019.

Included within other debtors are the foreign exchange contract derivatives measured at fair value at £1,803,000 (2018 trade payables: £8,028,000). The increase in fair values of £9,831,000 (2018 decrease: £4,730,000) is recognised in Administrative costs. Fair value was determined using valuation techniques that utilise an observable input in valuing the derivatives of forward exchange rates for GBP:USD, GBP:CAD, GBP:EUR and GBP:SAR.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

13 Trade and other payables: amounts falling due within one year

	2019 £'000	2018 £'000
Payments received on account	236,721	363,000
Trade payables	32,925	46,158
Amounts owed to group undertakings	2,633	1,969
Other taxation and social security	2,843	3,225
Corporation tax payable	-	78
Deferred tax	15,342	5,766
Other payables	-	7,780
Accruals and deferred income	15,143	17,064
	305,607	445,040

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

14 Trade and other payables: amounts falling due after more than one year

	2019 £'000	2018 £'000
Government grants	279	269
Total	279	269

15 Provisions for liabilities

	Balance at 1 January 2019 £'000	Charge for year in profit and loss £'000	Utilised during the year £'000	Balance at 31 December 2019 £'000
Contract loss provisions	2,225	3,505	(3,161)	2,569
Total	2,225	3,505	(3,161)	2,569

The contract loss provisions represent the Company's best estimate of foreseeable expected losses under various contractual agreements. These are expected to be utilised over a number of years.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

16 Pension and similar obligations

The Raytheon Systems Limited Pension Scheme (RSLPS) is a final salary defined benefit scheme operated by the Company in the UK for staff. A full actuarial valuation for the scheme was carried out at 5 April 2018 and updated to 31 December 2019 by a qualified independent actuary.

The benefit obligations at the year-end have been based on a projection of the corresponding valuation for accounting purposes as at 31 December 2018, which themselves were projected from the results of the statutory funding valuation of the Scheme as at 5 April 2018. This projection involves rolling forward the results at the earlier date allowing for interest on the liabilities, the accrual of further benefits by active members, the actual benefits paid out and an estimate of the effect of any changes in the actuarial assumptions. We have assumed that all other experience during the projection, apart from investment returns, contributions, benefit payments, administration expenses and insurance premiums, has been in line with the assumptions made at the start of the year.

The pension expense charged to the statement of comprehensive income makes no allowance for the actuarial gains and losses during the year. Actuarial gains and losses are recognised in other comprehensive income in the year that they occur.

	2019 £'000	2018 £'000
Change in defined benefit obligation		
Benefit obligation at beginning of year	510,341	548,249
Current service cost	2,523	2,802
Loss on curtailment	-	5,738
Interest cost	14,233	13,387
Benefit payments from plan assets	(21,910)	(27,530)
Plan participants' contributions	38	42
Insurance premiums for risk benefits	(663)	(663)
Effects of changes in assumptions	48,125	(31,684)
Effects of experience adjustments	(3,438)	-
Benefit obligation at end of year	549,249	510,341

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

16 Pension and similar obligations (Continued)

	2019 £'000	2018 £'000
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	573,174	597,570
Interest income on plan assets	16,288	14,829
Actuarial gain / (loss) on plan assets	62,349	(22,106)
Employer contribution	12,193	12,341
Plan participants' contributions	38	42
Benefits paid	(21,910)	(27,530)
Administrative expenses	(1,332)	(1,309)
Insurance premiums for risk benefits	(663)	(663)
Fair value of plan assets at end of year	640,137	573,174

	2019 £'000	2018 £'000
Amounts recognised in the statement of financial position		
Defined benefit obligation	(549,249)	(510,341)
Fair value of plan assets	640,137	573,174
Funded status	90,888	62,833
Deferred tax	15,342	10,682
Net funded status	75,546	52,151

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

16 Pension and similar obligations (Continued)

	2019 £'000	2018 £'000
Cost relating to defined benefit plans		
Cost (excluding interest)		
Change arising from employee service in the year	2,523	2,802
Loss on curtailment	-	5,738
Total cost	2,523	8,540
Net interest cost		
Interest expense on DBO	14,233	13,387
Interest income on plan assets	(16,288)	(14,829)
Total net interest cost	(2,055)	(1,442)
Administrative expenses and/or taxes (not reserved within DBO)	1,332	1,309
Total pension cost recognised in the profit and loss	1,800	8,407
Effect of changes in assumptions	48,125	(31,684)
Effect of experience adjustments	(3,438)	-
<i>(Return) / Loss on plan assets (excluding interest income)</i>	<i>(62,349)</i>	<i>22,106</i>
Total remeasurements included in other comprehensive income	(17,662)	(9,578)
Total pension income recognised in the profit and loss and other comprehensive income	(15,862)	(1,171)

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

16 Pension and similar obligations (Continued)

	2019 £'000	2018 £'000
Plan assets		
Fair value of plan assets:		
Cash and cash equivalents	2,691	3,129
Equity Instruments	103,145	117,776
Debt instruments	402,384	340,419
Real estate	14,752	11,317
Other	117,165	100,533
Total	640,137	573,174
	2019 £'000	2018 £'000
Actual return / (loss) on plan assets	78,637	(7,277)

Significant actuarial assumptions

Weighted average assumptions used to determine benefit obligations at 31 December:	2019	2018
Discount rate	2.05%	2.85%
Rate of pensionable salary increase	1.00%	1.00%
RPI inflation rate	2.90%	3.10%
CPI inflation rate	1.90%	2.10%
Assumed male life expectancy on retirement at age 65	Years	Years
Retiring today (member aged 65)	21.8	22.1
Retiring in 20 years (member aged 45 today)	23.2	23.5

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

16 Pension and similar obligations (Continued)

Weighted average assumptions used to determine cost relating to defined benefit plans within the Statement of Comprehensive Income:

	2019	2018
Discount rate	2.85%	2.50%
Rate of salary increase	1.00%	1.00%
RPI inflation rate	3.10%	3.10%
CPI inflation rate	2.10%	2.10%
Assumed male life expectancy on retirement at age 65:	Years	Years
Retiring today (member aged 65)	22.0	22.1
Retiring in 20 years (member aged 45 today)	23.4	23.5

Contributions

The Company expects to contribute £3,261,000 to the plan during the annual period beginning after the reporting period.

17 Called up share capital

	2019 £'000	2018 £'000
Authorised, allotted, called up and fully paid		
720,000,000 (2018: 720,000,000) A Preferred shares of £0.25 each	180,000	180,000
179,712,000 (2018: 179,712,000) Ordinary shares of £0.3341 each	60,042	60,042
	240,042	240,042

"A preferred shares" have a preference on return of capital equal to the nominal value of the number of the "A preferred shares" held. Ordinary shares rank behind "A preferred shares" on return of capital. All other rights attached to the shares are equal.

During 2019 dividends of £65,234,080 were paid to Raytheon United Kingdom Limited (2018: £442,126,000).

On 15 July 2019 Raytheon Systems Limited paid a dividend amounting to £50,000,000 to Raytheon United Kingdom Limited (£0.28 per ordinary share) a dividend from retained earnings.

On 13 November 2019 Raytheon Systems Limited paid a dividend amounting to £15,234,080 to Raytheon United Kingdom Limited (£0.08 per ordinary share). This was a pass through dividend from Raytheon Canada Ltd.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

18 Capital commitments

	2019 £'000	2018 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>15,979</u>	<u>6,318</u>

19 Financial commitments

At 31 December 2019 annual amounts payable under non-cancellable operating leases which fall due as follows:

	2019 £'000	2018 £'000
Within one year	2,588	3,034
Between two and five years	5,163	6,096
After five years	5,013	5,934
Total	<u>12,764</u>	<u>15,064</u>

20 Ultimate parent Company and other parent undertakings

As at 31 December 2019 the Directors regarded Raytheon Company which is incorporated in the United States of America, as the ultimate controlling party and ultimate parent company.

As outlined in note 23, on 3 April 2020 Raytheon Company and United Technologies Corporation (UTC) merged to form Raytheon Technologies Corporation which the Directors now regard as the ultimate controlling party and ultimate parent company. Raytheon Technologies Corporation is incorporated in the United States of America.

Copies of the latest annual report may be obtained from Corporate Communications, Raytheon Technologies, 870 Winter Street, Waltham, Massachusetts 02451, USA.

The immediate parent is Raytheon United Kingdom Limited.

Raytheon Systems Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

21 Related party transactions

The Company is exempted under the terms of FRS 102 (Related Party Disclosures) from disclosure of related party transactions with fellow subsidiaries or its ultimate parent company as it is a wholly owned subsidiary of Raytheon Technologies Corporation. Consolidated financial statements of the Company's ultimate controlling company, Raytheon Technologies Corporation, which is incorporated in the United States of America, are publicly available for inspection.

22 Contingent liabilities

Contingent liabilities in respect of indemnities and guarantees relating to the due performance of contracts amount to £1,503,000 (2018: £1,545,000). The Directors do not consider that a loss will arise to the Company as a result of the above arrangements.

23 Post balance sheet events

On 3 April 2020 the ultimate controlling party and ultimate parent company Raytheon Company merged with United Technologies Corporation (UTC) to form Raytheon Technologies Corporation. The Directors now regard Raytheon Technologies Corporation as the ultimate controlling party and ultimate parent company.