Annual Report

For the Year Ended 31 December 2021

Raytheon Systems Limited (Registered Number 406809)

Raytheon UK

Annual Report Contents

Directors and Advisers

Executive Directors

Roy Azevedo
Barbara J Borgonovi
David Broadbent
Mike Guinan
Jeff Lewis
Sinead O'Donnell
John Reilly
Bryan Rosselli

Non - Executive Directors

Lord T Strathclyde - Chairman

Secretary and Registered Office

John 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

Strategic Report for the Year Ended 31 December 2021

The Directors present their Strategic Report for the year ended 31 December 2021 for Raytheon Systems Limited (the Company):

Principal activities and review of business
The profit for the year, after taxation, amounted to £17,030,000 (2020: loss £230,866,000). The net asset position amounted to £160,500,000 (2020: £125,576,000).

As outlined in note 3, exceptional costs of sales for the comparative 2020 year were incurred, amounting to £328.8m, which resulted in the loss for 2020. The Company has a contract for direct commercial sales for precision guided munitions with a certain Middle East customer, for which we have not yet obtained US regulatory approval. Due to the result of the US presidential and congressional election in 2020, and the resulting uncertainty surrounding US foreign policy on direct commercial sales for precision guided munitions with this customer, we determined that it is no longer probable that we will be able to obtain US required regulatory approval for this contract. However, this determination could change as the US government's foreign policy views are clarified. There have been no exceptional cost of sales items recognised in the year ended 31 December 2021.

The operating subsidiaries of Raytheon Systems Limited are set out in note 12. The principal activity of the Company is that of a major supplier of electronic systems, products, components, training 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 bookings, revenue, profit and cash

Business environment
The Company is a subsidiary of its ultimate parent, 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 2021 and performed well with solid execution driving strong operating results.

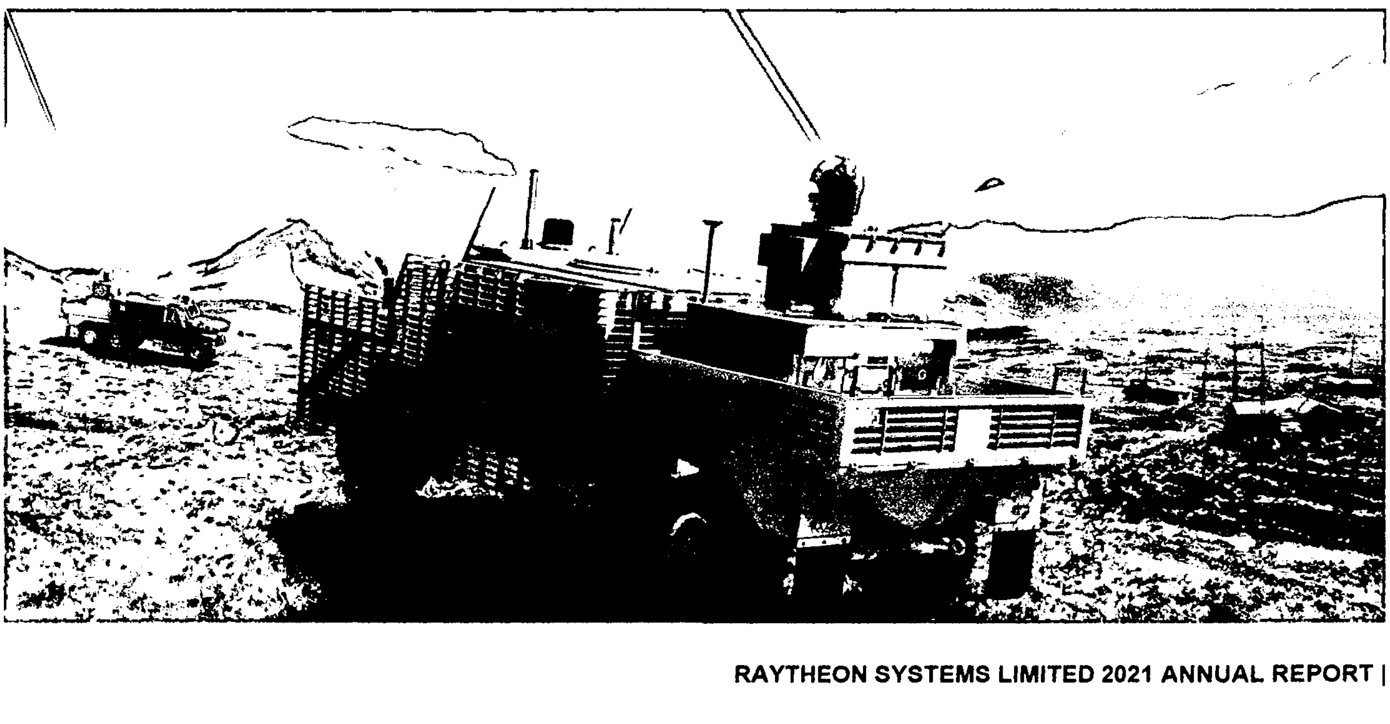
STRATEGY

The Company's strategy is to:

- Strengthen our identity
- Expand the core
- Enter new markets
- Export

The core markets are:

- National security
- Sensors
- Weapons
- Training
- Intelligence Surveillance & Reconnaissance
- Space



Future outlook

Based on the size of the Company's 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. In 2021 there was no change to the working practices as a result of Coronavirus, the company continued to socially distance and follow government guidelines.

See the Going Concern note in the Directors' report on page 7.

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, reputational and cyber risks. The Company has a process for identifying enterprise level risks. These risks are reviewed on a regular basis with the leadership team and mitigated as deemed appropriate.

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 the majority of the foreign exchange risk.

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.

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.

Continuity risk:
The Company performed a cash flow sensitivity analysis, including considering the impact of Coronavirus, COVID-19. Refer to the going concern note in the Directors report and Note 1 Accounting policies for further detail.

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.

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.

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.

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.

Processes in place that protect the staff during the coronavirus pandemic include split teams allowing for increased social distancing, working from home and restricted travel arrangements.

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 to 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.

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 professionals.

On behalf of the Board

Mike Guinan, Director
23 June 2022

Directors' Report for the Year Ended 31 December 2021

The Directors present their report and the audited financial statements for the year ended 31 December 2021.

Directors

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

Roy Azevedo
Barbara J Borgonovi
David Broadbent
Mike Guinan
Sarah-Jane Lennard (Resigned 31 December 2021)
Jeff Lewis
Sinead O'Donnell (Appointed 1 January 2022)
John Reilly
Bryan Rosselli
Lord T Strathclyde

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.

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 Directors have undertaken reviews of the business financial forecasts, to assess whether the Company has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis of accounting.

For assessing going concern, the Directors considered a period to December 2023 against the base case, Board of Directors-approved, budget. The Directors also considered a series of severe but plausible downside scenarios which are sensitivities run against the base case budget which include a reduction in revenues and attributable cash receipts of 10% to assess the impact on the Company's working capital position. An additional sensitivity was considered for the repayment of advanced payments received of £318.8m, which would be repayable to the certain Middle East customer in the event of contract termination (refer to note 3). In the event that repayment is required the Company would have access to intergroup facilities for the necessary funds. Following this analysis the Directors have concluded that the Company has adequate resources to operate as a going concern and therefore continues to adopt the going concern basis in preparing the Annual Report.

To assess the level of headroom within the board-approved forecast, a reverse stress test was performed to see what level of performance deterioration against the base case budget was required to challenge liquidity. However, given the mitigating actions that are available and within management's control such as access to intergroup facilities, such movements are not considered plausible.

The impact of the Coronavirus (COVID-19) on the Company to date has not resulted in material impacts to liquidity and operations. The Company continued to trade and receive revenue during the COVID-19 lockdown period as the defence industry is classified as a critical infrastructure business. To ensure services continued the Company supported suppliers by paying promptly as this maintains cash flow in the supply chain and protects jobs. Accordingly, COVID-19 has not had a material negative impact on the ability of the company to operate as a going concern. In the event of future lockdowns as a result of the COVID-19 pandemic the Directors do not expect a material negative impact on the ability of the Company to operate as a going concern.

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 2021 Raytheon Systems Limited paid dividends amounting to £nil to Raytheon United Kingdom Limited (2020: £nil). As at the date of signing the Directors do not recommend a final dividend for 2021.

Directors' Report for the Year Ended 31 December 2021 (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 24.

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

In the case of each Director in office at the date the Directors' report is approved:

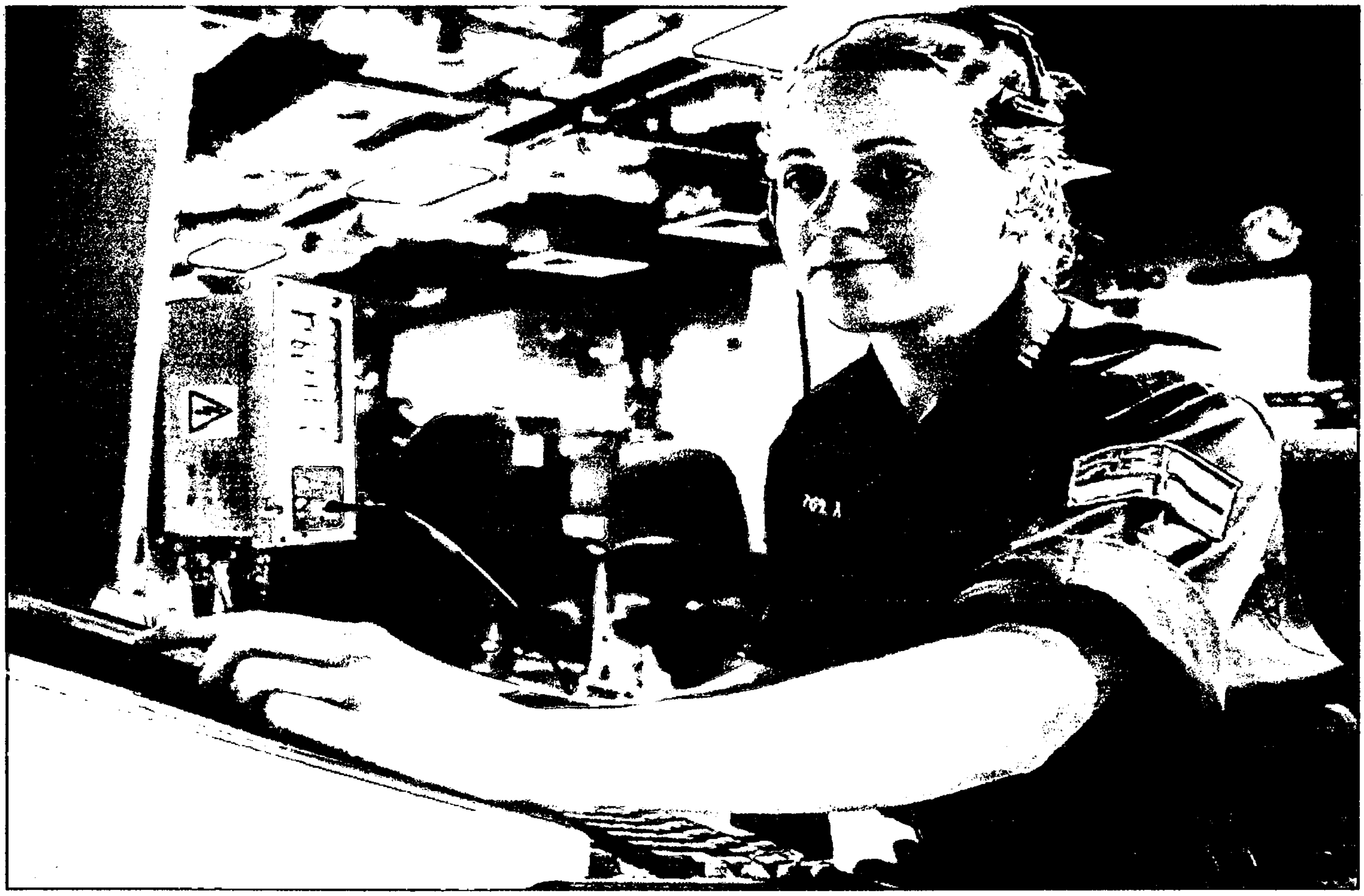
- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director, in order to make themselves aware of any relevant audit information and to establish that the Company's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

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

M Guinan
Director
23 June 2022



Streamlined Energy and Carbon Reporting

Methodology

As a large, unquoted organisation, Raytheon Systems Limited is required to report its energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The data detailed in this table represents emissions and energy use for which Raytheon Systems Limited is responsible, including electricity use on our sites and fuel used in vehicles on company business. We have used the main requirements of the Greenhouse Gas Protocol Corporate Standard to calculate our emissions, along with the UK Government GHG Conversion Factors for Company Reporting 2021. Any estimates included in our totals are derived from actual data extrapolated to cover missing periods or from benchmarks. There are no overseas operations.

Emissions for the comparison year 2020 have been restated to account for a methodology change, where estimations of electricity and gas consumption based on floor area are using baseline year 2019 as a benchmark. This results in more accurate data that is reflective of Raytheon activities.

Streamlined Energy & Carbon reporting disclosure for the period 1 January 2021 to 31 December 2021 - UK and offshore

	Current Reporting Year 2021	Comparison Reporting Year 2020 (restated)
UK and offshore UK and offshore Emissions from combustion of gas (Scope 1) / tCO2e	2,953.9	2,887.6
Emissions from combustion of fuel for transport purposes (Scope 1) / tCO2e	71.2	75.8
Emissions from business travel in rental cars or employee - owned vehicles where company is responsible for purchasing the fuel (Scope 3) / tCO2e	51.6	48.8
Emissions from purchased electricity (Scope 2, location-based) / tCO2e	3,434.7	3,042.9
Total gross emissions based on above / tCO2e	6,511.4	6,055.2
Energy consumption used to calculate emissions / kWh	32,801,494	29,259,543
Intensity ratio: tCO2e gross figure based from mandatory fields above, per ft2	0.01162	0.01001
Emissions from other activities which the company own or control including operation of facilities (Scope 1) / tCO2e	355.1	56.8
Emissions from electricity related to extraction, production, and transportation of fuels *consumed in the generation of electricity for which the company does not own or* control (Scope 3) / tCO2e	973.5	456.0
Emissions from generation of electricity that is consumed in a transmission and distribution system for which the company does not own or control (Scope 3) / tCO2e	304.0	261.7
Emissions from extraction and production of purchased fuels for which the company *does not own or control* (Scope 3) / tCO2e	524.4	396.7
Total gross Scope 1, Scope 2 location & Scope 3 emissions / tCO2e	**8,668.2**	**7,226.4**

For the year 2021, the company completed the following energy efficiency projects:

Raytheon Systems Limited is supplied with REGO-backed 100% renewable electricity for all utility contracts that are directly procured by the Company.

The energy efficiency initiatives are expected to achieve substantial energy savings.

- Repairs to existing boiler systems to improve their efficiency.
- Technological upgrades of BMS systems to improve efficiency
- Decommissioning of redundant diesel generators
- Installation of dual energy efficient sustainable generators
- Implementation and integration of a one-stop waste shop management vendor, to support reducing and recycling of waste, including recycling of face coverings.
- Installation of LED lighting, photocell control upgrades and presence infrared (PIR) controls to improve efficiency and reduce electrical consumption.
- Upgrades to street lighting within Raytheon's control to replace sodium fittings with LED fittings.
- Installation of additional electric car charging units, to complement existing infrastructure to support in the transition to electric vehicles

On behalf of the Board

M Guinan, Director.
23 June 2022

Statement of Directors' Responsibilities in respect of the financial statements

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, 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 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 also 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

M Guinan
Director
23 June 2022

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 2021 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 2021; 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of Raytheon Systems Limited (continued)

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.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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 in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Independent auditors' report to the members of Raytheon Systems Limited (continued)

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation and employment law, and compliance with laws and regulations related to defence procurement services, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent financial reporting. Audit procedures performed by the engagement team included:

- Enquiries of the Directors, management and the legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Inspection of supporting documentation, where appropriate;
- Review of minutes of meetings of the Board of Directors;
- Challenging assumptions and judgements made by management in relation to their significant accounting judgements and estimates; and
- Identifying and testing journal entries, in particular and journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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
23 June 2022

Statement of Comprehensive Income for the Year Ended 31 December 2021

		2021	2021	2021	2020	2020	2020
		Total	**Continuing**	**Discontinued**	*Total*	*Continuing*	*Discontinued*
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	2	**371,932**	**367,867**	**4,065**	382,200	378,340	3,860
Cost of sales		**(301,917)**	**(297,139)**	**(4,778)**	(317,999)	(314,485)	(3,514)
Exceptional cost of sales	3	**-**	**-**	**-**	(328,815)	(328,815)	-
Gross profit / (loss)		**70,015**	**70,728**	**(713)**	(264,614)	(264,960)	346
Distribution costs		**(5,913)**	**(5,913)**	**-**	(3,390)	(3,390)	-
Administrative (expenses)/ income		**(36,590)**	**(37,048)**	**458**	(18,881)	(17,337)	(1,544)
Other income	4	**21,287**	**21,203**	**84**	288	-	288
Operating profit / (loss)		**48,799**	**48,970**	**(171)**	(286,597)	(285,687)	(910)
Income from shares in group undertakings	6	**3,655**	**3,655**	**-**	-	-	-
Finance income	6	**1,278**	**1,278**	**-**	3,048	3,048	-
Profit/(loss) before taxation	7	**53,732**	**53,903**	**(171)**	(283,549)	(282,639)	(910)
Income tax (expense) /credit	8	**(36,702)**	**(36,702)**	**-**	52,683	52,683	-
Profit / (loss) for the financial year		**17,030**	**17,201**	**(171)**	(230,866)	(229,956)	(910)
Other comprehensive income / (expense)	18						
Actuarial gain/ (loss) on pension scheme		**28,349**	**28,349**	-	(4,414)	(4,414)	-
Movement in deferred tax relating to pension asset	9	**(10,455)**	**(10,455)**	-	839	839	-
Total comprehensive income / (expense) for the year		**34,924**	**35,095**	**(171)**	(234,441)	(233,531)	(910)

All amounts relate to continuing operations.

The notes on pages 18 to 33 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2021

		2021		2020	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	*10*	**960**		2,240	
Property, plant and equipment	*11*	**45,112**		42,750	
Investments	*12*	**167,704**		180,000	
			213,776		224,990
Current assets					
Inventories	*13*	**70,981**		61,974	
Trade and other receivables	*14*	**173,630**		243,564	
Cash and cash equivalents		**68,509**		53,604	
		313,120		359,142	
Trade and other payables: amounts falling due within one year	*15*	**(471,062)**		(541,897)	
Provisions for liabilities	*17*	**(7,170)**		--	
Net current liabilities			**(165,112)**		(182,755)
Total assets less current liabilities			**48,664**		42,235
Trade and other payables: amounts falling due after more than one year	*16*	**(184)**		(203)	
Provisions for liabilities	*17*	**(2,277)**		(2,825)	
			(2,461)		(3,028)
Pension asset	*18*		**114,297**		86,369
Net assets			**160,500**		125,576
Equity					
Called up share capital	*19*		**240,042**		240,042
Retained earnings			**(79,542)**		(114,466)
Total equity			**160,500**		125,576

The notes on pages 18 to 33 form an integral part of these financial statements. The Financial Statements on pages 15 to 33 were authorised for issue by the Board of Directors and signed on its behalf by:

M Guinan
Director
23 June 2022
Registered number 406809

Statement of Changes in Equity for the Year Ended 31 December 2021

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance as at 1 January 2020	**240,042**	**119,975**	**360,017**
Loss for the financial year	-	(230,866)	(230,866)
Other comprehensive expense for the year	-	(3,575)	(3,575)
Total comprehensive expense for the year	**-**	**(234,441)**	**(234,441)**
Balance as at 31 December 2020	**240,042**	**(114,466)**	**125,576**
Profit for the financial year	-	17,030	17,030
Other comprehensive income for the year	-	17,894	17,894
Total comprehensive income for the year	**-**	**34,924**	**34,924**
Balance as at 31 December 2021	**240,042**	**(79,542)**	**160,500**

The notes on pages 18 to 33 form an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 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, except for where required, certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 2006.

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 Directors have undertaken reviews of the business financial forecasts, in order to assess whether the Company has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the going concern basis of accounting.

For assessing going concern, the Directors considered a period to December 2023 against the base case, Board of Directors-approved, budget.

The Directors also considered a series of severe but plausible downside scenarios which are sensitivities run against the base case budget which included a reduction in revenues and attributable cash receipts of 10% to assess the impact on the Company's working capital position. An additional sensitivity was considered for the repayment of advanced payments received of £318.8m, which would be repayable to the certain Middle East customer in the event of contract termination (refer to note 3). In the event that repayment is required the Company would have access to intergroup facilities for the necessary funds. Following this analysis, the Directors have concluded that the Company has adequate resources to operate as a going concern and therefore continues to adopt the going concern basis in preparing the Annual Report.

To assess the level of headroom within the board-approved forecast, a reverse stress test was performed to see what level of performance deterioration against the base case budget was required to challenge liquidity. However, given the mitigating actions that are available and within management's control such as access to intergroup facilities, such movements are not considered plausible.

The impact of the Coronavirus (COVID-19) on the Company to date has not resulted in material impacts to liquidity and operations. The Company continued to trade and receive revenue during the COVID-19 lockdown period as the defence industry is classified as a critical infrastructure business. To ensure services continued the Company supported suppliers by paying promptly as this maintains cash flow in the supply chain and protects jobs. Accordingly, COVID-19 has not had a material negative impact on the ability of the company to operate as a going concern. In the event of future lockdowns as a result of the COVID-19 pandemic the Directors do not expect a material negative impact on the ability of the Company to operate as a going concern.

Having considered the above factors, the Directors have a reasonable expectation that the Company has adequate financial resources to meet its operation needs for the foreseeable future and therefore the going concern basis has been adopted in preparing the financial statements.

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, 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
33.1 (a) and 33.7 related party transactions disclosures

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 1. Principal accounting policies (continued)

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. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Estimates and assumptions

Revenue recognition

The company values its contract assets based on the time and materials charged to each contract and anticipated future costs and revenue. The determination of revenues and contract assets involves estimates of the volume of work required to complete the contracts. On a quarterly basis, management reviews the status of the contracts and whether the amounts recognised as contract assets are a true reflection of the amount that will be earned. Where the review determines that the value of contract asset exceeds the amount that can be earned, adjustments are made to the contract asset. Material changes in these estimates could affect the profitability of the contracts.

Defined benefit obligations

The Defined benefit pension scheme accounting valuation is prepared by an independent actuary. The liabilities of the pension scheme are valued based on a number of actuarial assumptions relating to the future. These key assumptions are assessed regularly according to market conditions and data available to management. Further information is provided in note 18.

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 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

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

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. Provisions are established 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.

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 1. Principal accounting policies (continued)

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 annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are charged to the statement of comprehensive income.

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:

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

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.

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). Impairment losses are charged to the statement of comprehensive income if required.

Investments

Investments in subsidiary companies are held at cost less accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in the statement of comprehensive income.

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 expenditure is charged.

Research and development expenditure

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

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 1. Principal accounting policies (continued)

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.

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 shareholder 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 shareholder. 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 within 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.

Note 2. Revenue and geographical analysis

Geographical analysis of revenue by destination	2021	2020
	£'000	£'000
United Kingdom	218,304	244,735
North America	112,784	103,159
Asia/Pacific	2,307	1,005
South America	2,208	2,164
Middle East and North Africa	26,725	24,139
Rest of Europe	9,604	6,998
	371,932	382,200

Principal activities	2021	2020
	£'000	£'000
Intelligence Surveillance and Reconnaissance	109,862	129,615
National Security	64,780	63,179
Sensors	57,155	56,268
Training *	17,638	6,626
Weapons	122,497	126,512
	371,932	382,200

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 2. Revenue and geographical analysis (continued)

* Training revenue includes £4,065,000 (2020: £3,860,000) of discontinued operations following the disposal of the global training and services business of the Raytheon Intelligence & Space segment by the ultimate parent Raytheon Technologies Corporation. Refer to note 25 for further details.

Note 3. Exceptional cost of sales item

The Company has a contract for direct commercial sales for precision guided munitions with a certain Middle East customer, for which we have not yet obtained US regulatory approval. Due to the result of the US presidential and congressional election in 2020, and the resulting uncertainty surrounding US foreign policy on direct commercial sales for precision guided munitions with this customer, we determined that it is no longer probable that we will be able to obtain US required regulatory approval for this contract; however, this determination could change as the US government's foreign policy views are clarified.

In 2020 we reversed £124.4m of sales for work performed on this contract as at 31 December 2020 and the related operating profit. In addition, in 2020, we recognised an unfavourable profit impact of £328.8m, primarily related to inventory reserves, contract asset impairments and recognition of supplier related obligations related to termination liability, which we do not expect to be utilised or otherwise directed to other customers. Our contract liabilities include £318.8m of advance payments received from the customer on this contract which may become refundable to the customer if the contract is ultimately terminated. There has been no exceptional cost of sales items recognised in the year ended 31 December 2021.

	2020
	£'000
Inventory provision for impairment (note 13)	**131,316**
Accrual of additional contractual supplier liability	**104,659**
Additional inventory rework costs	**8,311**
Write off contract related assets	**84,529**
Total	**328,815**

Note 4. Other income

Other income consists of £84k (2020: £288k) relating to the Coronavirus Job Retention Scheme and a pre-tax gain of £21,203k relating to the sale of the Training Business to Vertex Aerospace Services LLC on 6th December 2021. Refer to note 25 for further details.

Note 5. Directors' emoluments and employee information

	2021	2020
	£'000	£'000
Directors' remuneration		
Aggregate remuneration	**1,212**	2,350
Pension costs	**53**	62

The aggregate remuneration of the highest paid director was £471,000 (2020: £1,081k). Pension contributions made on behalf of the highest paid director in the UK were £15,000 (2020: £18,000). The pension costs attributable to other Directors during the year were £38,000 (2020: £44,000). The monthly average number of persons, including Executive Directors, employed by the Company during the year was as follows:

Employee Numbers	2021	2020* Restated
By activity	No.	No.
Manufacturing and engineering	**1,250**	1,108
Marketing	**57**	44
Administration	**690**	754
Total	**1,997**	1,906

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 5. Directors' emoluments and employee information (continued)

* The 2020 comparative categorisation by activity has been restated to align with how the Directors review the business activity in 2021. There has been no change to the overall 2020 total of 1,906 monthly average employees.

The aggregate payroll costs of the above were as follows:

	2021	2020
	£'000	£'000
Wages and salaries	**100,035**	93,644
Social security costs	**10,995**	10,359
Other pension costs (note 18 and below)	**12,310**	12,209
Total	**123,340**	116,212

The Company provides a defined contribution scheme for some employees. The amounts recognised as an expense for the scheme were £7,660,000 (2020: £7,010,000). The Company encourages employees to be involved in the overall profitability of the Company through a performance related bonus.

Note 6. Finance and other income

	2021	2020
	£'000	£'000
Interest receivable and similar income		
On bank deposits and other interest income	**52**	157
Net interest income on pension scheme assets (note 18)	**1,210**	1,886
On loans to group undertakings	**16**	1,005
Total	**1,278**	3,048
Income from shares in group undertakings		
Dividends received	**3,655**	--

The Company received dividend income from Marcos Vermogensverwaltung Gmbh of £3,648,000 (2020: £nil) and Raytheon Systems France S.A.R.L. £7,000 (2020: £nil).

Note 7. Profit/(loss) before taxation

(Loss)/profit before tax is stated after charging/ (crediting) the following:	2021	2020
	£'000	£'000
Depreciation of property, plant and equipment	**4,550**	4,155
Amortisation of intangible assets	**1,280**	1,286
Auditors' remuneration: audit fees	**331**	311
Taxation compliance services	**27**	109
Operating lease and short-term rentals for plant and machinery and motor vehicles	**822**	879
Operating lease rentals for land and buildings	**2,794**	2,534
Inventory recognised as an expense (net of hedging credits/ charges)[1]	**298,072**	646,814
Research and development costs	**6,745**	6,744
Loss / (profit) in derivative fair value changes	**8,978**	(11,442)

[1]Inventory is presented net of the foreign exchange charge arising on foreign currency translation. The amount recognised was a charge of £3,845,000 (2020: charge of £3,862,000).

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 8. Income tax expense/(credit)

The tax charge/(credit) is based on the taxable profit/(loss) for the year and comprises:

	2021	2020
	£'000	£'000
Current tax charge		
UK corporation tax for the year	**4,810**	-
Adjustments in respect of prior years	**(4,606)**	1,604
Total current tax	**204**	1,604
Deferred taxation		
Origination and reversal of timing differences		
Prior year	**24,041**	1,522
Current year	**10,749**	(57,607)
Deferred tax: pensions	**1,708**	1,798
Total deferred tax	**36,498**	(54,287)
Tax on profit	**36,702**	(52,683)
Representing:		
United Kingdom	**36,519**	(52,683)
Foreign Taxes	**183**	-
Total tax charge/ (credit)	**36,702**	(52,683)

The tax assessed for the year is higher (2020: lower) than the standard rate of the corporation tax in the UK.

	2021	2020
	£'000	£'000
Profit / (loss) before taxation	**53,732**	(283,549)
Profit / (loss) before taxation multiplied by the standard rate of corporation tax in the UK in 2021: 19.00% (2020: 19%)	**10,209**	(53,874)
Effects of:		
Research and development not taxed	**(570)**	(1,220)
Expenses not deductible for tax purposes	**148**	22
Capital allowances in excess of depreciation	**(674)**	(847)
Pension contributions in excess of net pension cost	**80**	20
Tax losses (utilised) / created	**(5,577)**	58,156
Derivative fair value not taxed	**1,706**	(2,174)
Adjustments in respect of prior years	**(4,606)**	1,604
Income not taxed	**(694)**	(83)
Foreign taxes	**183**	-
Deferred tax: pensions	**1,708**	1,798
Deferred tax: origination and reversal of timing differences prior year	**24,041**	1,522
Deferred tax: origination and reversal of timing differences current year	**20,902**	(57,773)
Deferred tax: origination and reversal of timing differences change of tax rate	**(10,154)**	166
Total tax charge/ (credit)	**36,702**	(52,683)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25% its effects are included in these financial statements. The 2020 rate change relates to the Spring Budget 2020 announcement that the UK tax rate would remain at 19% rather than reducing to 17%.

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 9. 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	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Deferred Tax Components				
Accelerated capital allowances	**(3,447)**	(2,602)	**(3,447)**	(2,602)
Tax losses	**24,852**	58,796	**24,852**	58,796
Total	**21,405**	56,194	**21,405**	56,194

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.

	2021	2020
	£'000	£'000
Movement in deferred tax asset		
Opening balance	**56,194**	109
Profit		
Prior year	**(13,888)**	(1,522)
Current year	**(20,901)**	57,607
Closing balance	**21,405**	56,194
Movement in deferred tax asset: pension		
Opening balance	**(16,410)**	(15,451)
Total Comprehensive Income	**(1,709)**	(1,798)
Other Comprehensive Income	**(10,456)**	839
Closing balance	**(28,575)**	(16,410)
Total deferred tax (liability) / asset	**(7,170)**	39,784

Note 10. Intangible assets

	Goodwill	Computer Software	Total
	£'000	£'000	£'000
Cost			
At 1 January 2021	1,300	12,798	14,098
Additions	-	-	-
At 31 December 2021	**1,300**	**12,798**	**14,098**
Accumulated amortisation			
At 1 January 2021	1,300	10,558	11,858
Charge for the year	-	1,280	1,280
At 31 December 2021	**1,300**	**11,838**	**13,138**
Net book value			
At 31 December 2021	**-**	**960**	**960**
At 31 December 2020	-	2,240	2,240

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 11. Property, plant and equipment

	Land and buildings	Plant, Machinery, Fixtures, Fittings, Tools and Equipment	Assets in course of construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2021	28,394	61,235	23,432	113,061
Additions	-	-	6,911	6,911
Disposals	-	(236)	-	(236)
Transfers	133	12,624	(12,757)	-
At 31 December 2021	**28,527**	**73,623**	**17,586**	**119,736**
Accumulated depreciation				
At 1 January 2021	16,026	54,285	-	70,311
Charge for the year	2,453	2,096	-	4,549
Disposals	-	(236)	-	(236)
At 31 December 2021	**18,479**	**56,145**	**-**	**74,624**
Net book value				
At 31 December 2021	**10,048**	**17,478**	**17,586**	**45,112**
At 31 December 2020	12,368	6,950	23,432	42,750

Included in the net book value of land and buildings above at 31 December 2021 are £168,000 of leasehold improvements (2020: £1,571,000). The remainder of this balance comprises freehold land and buildings. Leasehold improvements for the Company are all in respect of short leaseholds.

Note 12. Investments

	£'000
Shares in group undertakings	
At 1 January 2021	180,000
Sale of investment	(12,296)
At 31 December 2021	**167,704**

On 6 December 2021 the company sold its entire holding in MARCOS Vermogensverwaltung Gmbh to Vertex Aerospace LLC. Refer to note 25 for further detail.

The Company owns the entire issued share capital of each subsidiary listed below. The following table lists the direct operating subsidiaries of the Company as at 31 December 2021.

Note 12. Investments (continued)

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

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, Freisin 85356, 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 one dormant company and less than 1% of Raytheon Systems France S.A.R.L.

Note 13. Inventories

	2021	2020
	£'000	£'000
Raw materials and consumables	**3,209**	2,960
Work in progress	**242,658**	192,749
Provision for impairment	**(174,886)**	(133,735)
Total	**70,981**	61,974

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

The 2021 work in progress increase and related provision for impairment is driven by the background and circumstances detailed in note 3. The Company has contractual supplier liabilities for inventory in relation to this contract, which have continued to be settled during 2021. We do not expect this inventory to be utilised or otherwise directed to other customers and therefore a provision for impairment against this inventory has been recorded.

Note 14. Trade and other receivables

	2021	2020
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	**-**	196
Amounts owed by group undertakings	**133,502**	135,600
Other receivables	**4,266**	16,302
Corporation tax	**7,521**	14,176
Deferred tax	**-**	39,784
Amounts recoverable on contracts	**24,881**	34,015
Prepayments and accrued income	**3,460**	3,491
Total	**173,630**	243,564

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 14. Trade and other receivables (continued)

Amounts owed by group undertakings are unsecured and repayable on demand. 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 £75.7 million of total contract value, recognised approximately £48.4 million of sales for work performed to date and received approximately £65.4 million in advances from customers as of 31 December 2021.

Included within other debtors are the foreign exchange contract derivatives measured at fair value at £4,267,000 (2020 other debtors: £13,245,000). The decrease in fair values of £8,978,000 (2020 increase: £11,442,000) 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.

Note 15. Trade and other payables: amounts falling due within one year

	2021	2020
	£'000	£'000
Payments received on account	338,053	350,509
Trade payables	18,851	19,950
Amounts owed to group undertakings	24,457	34,968
Other taxation and social security	2,784	3,071
Accruals and deferred income	86,917	133,399
Total	471,062	541,897

Amounts owed to group undertakings are unsecured; interest free; have no fixed date of repayment and are repayable on demand. Accruals and deferred income are predominately costs incurred yet to be invoiced. 2020 includes £104m of supplier related termination obligations which arose from the exceptional item relating to the direct commercial sale for precision guided munitions with a certain Middle East customer for which we have not yet obtained US regulatory approval. Refer to note 3 for further information.

Payments received on account are advance payments from customers. 2021 includes £318.8m (2020: £318.8m) of advance payments received from the certain Middle East customer on this contract which may become refundable to the customer if the contract is ultimately terminated relating to the direct commercial sale for precision guided munitions with a certain Middle East customer for which we have not yet obtained US regulatory approval. Refer to note 3 for further information.

Note 16. Trade and other payables: amounts falling due after more than one year

	2021	2020
	£'000	£'000
Government grants	184	203
Total	184	203

Note 17. Provisions for liabilities

	Balance at 1 January 2021	Charge/(Credit) for year in profit and loss	Utilised during the year	Balance at 31 December 2021
	£'000	£'000	£'000	£'000
Deferred Tax	-	7,170		7,170
Contract loss provisions	2,825	(1,510)	962	2,277
Total	2,825	5,660	962	9,447

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 and are therefore recognised as non-current.

Note 18. 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 and Directors. A full actuarial valuation for the scheme was carried out at 5 April 2021 and updated to 31 December 2021 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 2021, which themselves were projected from the results of the statutory funding valuation of the Scheme as at 5 April 2021. 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.

	2021	2020
	£'000	£'000
Change in defined benefit obligation		
Benefit obligation at beginning of year	**605,480**	549,249
Current service cost	**2,993**	2,452
Loss on curtailment	**-**	1,300
Interest cost	**8,316**	11,017
Benefit payments from plan assets	**(22,943)**	(23,622)
Plan participants' contributions	**27**	32
Insurance premiums for risk benefits	**(1,321)**	(783)
Effects of changes in assumptions	**(12,617)**	65,835
Effects of experience adjustments	**(9,672)**	-
Benefit obligation at end of year	**570,263**	605,480

Note 18. Pension and similar obligations (continued)

	2021	2020
	£'000	£'000
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	691,849	640,137
Interest income on plan assets	9,526	12,903
Actuarial gain / (loss) on plan assets	6,060	61,421
Employer contribution	3,019	3,208
Plan participants' contributions	27	32
Benefits paid	(22,943)	(23,622)
Administrative expenses	(1,657)	(1,447)
Insurance premiums for risk benefits	(1,321)	(783)
Fair value of plan assets at end of year	684,560	691,849

	2021	2020
	£'000	£'000
Amounts recognised in the statement of financial position		
Defined benefit obligation	(570,263)	(605,480)
Fair value of plan assets	684,560	691,849
Funded status	114,297	86,369
Deferred tax	28,575	16,410
Net funded status	85,722	69,959

	2021	2020
	£'000	£'000
Cost relating to defined benefit plans		
Cost (excluding interest)		
Change arising from employee service in the year	2,993	2,452
Loss on curtailment	-	1,300
Total cost	2,993	3,752
Net interest cost		
Interest expense on DBO	8,316	11,017
Interest income on plan assets	(9,526)	(12,903)
Total net income cost	(1,210)	(1,886)
Administrative expenses and/or taxes (not reserved within DBO)	1,657	1,447
Total pension cost recognised in the profit and loss	3,440	3,313
Effect of changes in assumptions	(12,617)	65,835
Effect of experience adjustments	(9,672)	-
Return on plan assets (excluding interest income)	(6,060)	(61,421)
Total remeasurements included in other comprehensive income	(28,349)	4,414
Total pension income/ (expense) recognised in the profit and loss and other comprehensive income	(24,909)	7,727

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 18. Pension and similar obligations (continued)

	2021	2020
	£'000	£'000
Plan assets		
Fair value of plan assets:		
Cash and cash equivalents	**3,292**	7,466
Equity Instruments	**47,127**	59,009
Debt instruments	**539,944**	491,923
Real estate	**13,186**	10,978
Other	**81,011**	122,473
Total	**684,560**	691,849

	2021	2020
	£'000	£'000
Actual return on plan assets	**15,586**	74,324

	2021	2020
Weighted average assumptions used to determine benefit obligations at 31 December:		
Discount rate	**1.80%**	1.40%
Rate of pensionable salary increase	**1.00%**	1.00%
RPI inflation rate	**3.60%**	2.90%
CPI inflation rate	**2.90%**	2.20%
	Years	Years
Assumed male life expectancy on retirement at age 65		
Retiring today (member aged 65)	22.0	21.8
Retiring in 20 years (member aged 45 today)	23.3	23.1

	2021	2020
Weighted average assumptions used to determine cost relating to defined benefit plans within the Statement of Comprehensive Income:		
Discount rate	1.40%	2.05%
Rate of salary increase	1.00%	1.00%
RPI inflation rate	2.90%	2.90%
CPI inflation rate	2.20%	1.90%
	Years	Years
Assumed male life expectancy on retirement at age 65:		
Retiring today (member aged 65)	21.8	21.8
Retiring in 20 years (member aged 45 today)	23.1	23.2

Contributions

The Company expects to contribute £1,539,000 (2020: £2,840,000) to the plan during the annual year beginning after the reporting year.

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 19. Called up share capital

	2021	2020
	£'000	£'000
Authorised, allotted, called up and fully paid		
720,000,000 (2020: 720,000,000) A Preferred shares of £0.25 each	**180,000**	180,000
179,712,000 (2020: 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. No dividends were paid in 2021 (2020: nil).

Note 20. Capital commitments

	2021	2020
	£'000	**£'000**
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**2,596**	4,328

Note 21. Financial commitments

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

	2021	2020
	£'000	£'000
Within one year	**2,609**	2,015
Between two and five years	**6,474**	4,564
After five years	**4,267**	4,142
Total	**13,350**	10,721

Note 22. Ultimate Parent Company and other parent undertakings

As at 31 December 2021, the Directors regarded Raytheon Technologies Corporation, which is incorporated in the United States of America, as the ultimate controlling party and ultimate parent company.

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.

Note 23. 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.

Notes to the Financial Statements for the Year Ended 31 December 2021

Note 24. Contingent liabilities

Contingent liabilities in respect of indemnities and guarantees relating to the due performance of contracts amount to £1,018,000 (2020: £1,027,000). The Directors do not consider that a loss will arise to the Company as a result of the above arrangements.

Note 25. Discontinued operations

In September 2021, ultimate controlling party and ultimate parent company Raytheon Technologies Corporation entered into a contract with Vertex Aerospace LLC to dispose of the global training and services business of the Raytheon Intelligence & Space segment of the global business. This disposal was completed on 6 December 2021

Raytheon Systems Limited held operations and an investment in MARCOS Vermogensverwaltung Gmbh which were disposed of as part of this transaction.

The Raytheon Systems Limited operations contributed a loss of £171,000 (2020: loss of £910,000). Raytheon Systems Limited received a consideration of £34,625,423 of the global selling price. As at the date of disposal, the net assets of the Raytheon Systems Limited operations held and the carrying value of the investment held in MARCOS Vermogensverwaltung Gmbh were £13,448,798 and a profit on disposal of £21,203,625 was recognised in the Statement of Comprehensive Income.