

Harris Systems Limited

Annual Report and Financial Statements

Period Ended

3 January 2020

Company Number 00173103



Harris Systems Limited

Company Information

Director	K N Norton
Registered number	00173103
Registered office	Unit 1 Dingley Way Farnborough Hampshire GU14 6FF
Independent auditor	BDO LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA

Harris Systems Limited

Contents

	Page
Strategic Report	1 - 4
Director's Report	5
Director's Responsibilities Statement	6
Independent Auditor's Report	7 - 9
Statement of Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13 - 39

Harris Systems Limited

Strategic Report For the Period Ended 3 January 2020

The director presents his strategic report together with the audited financial statements for the 6 month period ended 3 January 2020. The accounting period has been shortened in order to be conterminous with the L3Harris Technologies Inc year end who became the ultimate parent of the company after the acquisition in July 2019. Therefore these financial statements represent the six month period to 3 January 2020. The comparatives presented cover the year ended 28 June 2019.

Business review

The principal activity of the company is providing solutions for military and government organisations in the field of encrypted tactical radio communications (CS) and precision approach radar (SAS), through the development, manufacture, supply and field service support of a range of products.

Revenues of £16.9m (year ended 28 June 2019 - £37.1m) has decreased primarily due to this only being a six month period. The annual equivalent is relatively in line with the prior year.

The core business revenue from tactical radio communications post consolidation has remained solid at £11m (year ended 28 June 2019 - £21m) as did the return from the EMEA customer account team. Contract activities have continued to focus in four main areas, product new build, EMEA product repairs, spare parts and engineering services providing technical/ technology studies. In SAS, the radar support contracts continued to provide steady revenue of around £1.3m (year ended 28 June 2019 - £3.3m).

Overall the company recorded an operating profit of £1.8m (year ended 28 June 2019 - £2.7m). During this period, a European order for £14m taken in July 2018 was accelerated by a year at the request of the customer to complete in 2020. As at December 2019 this programme was 59% complete. In the UK, the company continued to provide design maintenance services to the UK MOD in addition to repairing and overhauling the fleet of comms equipment. A one year LSSP contract extension was granted for £1.9m to continue providing these services. In SAS, the radar support contract was renewed for 3 years worth £10.3m.

In September 2019 the company relocated its operations in Reading and Basingstoke to a new facility in Farnborough. The successful transition is due to the commitment and support of all the employees involved in the project enabling the operation to continue to support its customers with limited downtime.

On 28 June 2019, the company's subsidiary, Defence Investments Limited, reduced their share premium amount by £14,802,036, and paid a dividend for this amount to the company in order to extinguish the intercompany loan payable by the company to the subsidiary. However, due to opening profit and loss deficit of the subsidiary, the dividend was not in compliance with the requirements of the Companies Act. The amount is now payable by the company to the subsidiary on demand. Subsequent to the year end a dividend of GBP £14,362,599 was declared by Defence Investments Limited, which was in compliance with the requirements of the Companies Act.

Harris Systems Limited

Strategic Report (continued) For the Period Ended 3 January 2020

Key performance indicators

As part of the budgetary process, Key Performance Indicators around areas such as debtors and creditors are set, in order to effectively manage the working capital of the company. These are reviewed on a monthly basis and appropriate actions taken as required. Rigorous attention is always paid to cash collections. The company has a strict policy to treat its suppliers respectfully, and not to take advantage by delaying payment. As a result, working capital targets set in the company's Annual Operating Plan have been achieved.

The key financial and other indicators during the year were as follows:

	3 January 2020 £000	28 June 2019 £000
Turnover	16,898	37,076
Operating profit	1,822	2,738
Profit after tax	2,369	5,352
Shareholders funds	52,424	52,034
Current assets as a % of current liabilities	(89%)	(64%)
Average number of employees	167	130
Net trade receivable days	100 days	51 days
Net trade payable days	20 days	62 days

Future prospects

Following the group reconstruction at the end of the prior financial year Harris Systems Limited carried on the trade of Harris Defence Limited. Looking forward, tactical radio communications (CS) and precision approach radar (SAS) and other L3Harris Segment support contracts will continue to provide a profitable core business. Strategies to protect this core business and to develop and bring the next generation of products to market are in play through the US parent company. In addition, campaigns are planned to penetrate adjacent markets with new products. Success in these areas remains key to meeting business objectives set by the director in the strategic growth plan.

Principal risks and uncertainties

The company continued to experience challenging market conditions in Europe during the year whilst maintaining high quality products and services to existing customers. These are not new risks but are managed via excellent relationships between the company and its customer base which has evolved through high levels of customer care and a comprehensive after sales support service. The participation in such markets is often subject to uncertain economic conditions, which makes it difficult to estimate growth and as a result, future income and expenditures. Our future success depends upon our ability to develop new products that achieve market acceptance. Third parties have claimed in the past and may claim in the future that we are infringing directly or indirectly upon their intellectual property rights, and third parties may infringe upon our intellectual property rights.

The defence industry is highly regulated, and the company has demonstrated compliance with UK and US legislation in this area. Of note is the ongoing extensive training programme on the US ITAR and FCPA legislative requirements. Increased pressure in terms of compliance with ever increasing environmental and health and safety regulations is a risk managed principally by the presence of specialized in-house advisers who work to ensure best practice.

In order to be successful, we must attract and retain key employees, and failure to do so could seriously harm the brand.

Harris Systems Limited

Strategic Report (continued) For the Period Ended 3 January 2020

Principal risks and uncertainties (continued)

The company could be negatively impacted by a security breach, through cyberattack, cyber intrusion or otherwise, or other significant disruption of our IT network and related systems. As a communications provider, and particularly as a government contractor, we face heightened risk of security breaches or disruption from threats to gain unauthorised access. Although significant effort is made to maintain the security and integrity of our IT systems, it is virtually impossible to entirely mitigate this risk.

On 31 January 2020 Brexit and Article 50 triggered the exiting of the UK from the European Union. Steps are being taken by management to understand the risks and the impact of this change to international trade agreements on its customers, supply chain and employee freedom of movement. The company's operations expose it to a variety of financial risks that include liquidity risk, interest rate risk, currency risk and credit risk. Given the size of the company, the director has not delegated the responsibility of monitoring financial risk management to a subcommittee of the board. The policies set by the director in conjunction with the corporate management team of the parent company are implemented by the company's finance department's stringent internal reporting that ensures that finance managers are able to maintain a vigilant watch over such financial risks.

Cash flow and liquidity risks

The generation of cash is one of the company's key measurements and is closely monitored. The risk to the going concern of the company is, however, low as the company holds significant cash balances.

Credit risk

While the company has an intercompany loan that is payable it also has loans that are receivable, both of which are managed by the treasury team at parent company level. The company does not have a requirement for further loans or overdraft facilities to support the business. The company monitors its external debtors closely, and each new customer is analysed individually for creditworthiness.

Price risk

The company does experience exposure to price risk including inflation and the impact of foreign exchange which can impact the cost of performing fixed price contracts. The company manages this on a case by case basis.

Interest rate risk

The company has intercompany loans both receivable and payable and these are managed by the treasury team at parent company level. The interest rates are determined at an arms length. Therefore, the risk to the company is considered to be low.

Coronavirus

The company's leadership team continually assess the impact of the COVID-19 viral pandemic on the business, its employees, its customers, the supply chain and the cashflow. "What if" scenario modelling such as considering the effects of possible delayed projects and required shut down for a period of time as a result of the pandemic was undertaken. With the information available at the time of review has confirmed the company has significant financial resources and is in a strong position to deal with the economic impact. The possible effects of management scenario modelling has been reviewed and aside from an immaterial movement in revenue and profit to subsequent periods, management do not see any sustained material impact.

Our UK major customers remain open at present and have requested a continuity in services making the company a key supplier in public safety and national security. Factory volumes in the first three quarters of calendar year 2020 have been strong and the company has not experienced significant adverse communications or issues with current supply of products. The procurement team are routinely checking the supply chain for adversities and are taking the necessary mitigating action to de-risk product sourcing.

Harris Systems Limited

Strategic Report (continued) For the Period Ended 3 January 2020

Coronavirus (continued)

Whilst at this point it is not possible to anticipate or cover all scenarios to determine the full impact on the company, its customers, employees and suppliers, the plans in place are considered robust enough at this time with the business continuing to meet customer and government expectations. Risk mitigation meetings are held frequently to tackle the day to day COVID-19 challenges, and the company is set to adapt the measures required to meet the evolving circumstances as they unfold. This will continue for the foreseeable future to maintain the strategic direction and the medium-term stability of the business.

Post statement of financial position events

Subsequent events are disclosed in note 28 of the financial statements.

This report was approved by the board on 29th December 2020 and signed on its behalf.



K N Norton
Director

Harris Systems Limited

Director's Report For the Period Ended 3 January 2020

The director presents his report together with the audited financial statements for the 6 month period ended 3 January 2020.

The accounting period has been shortened, therefore these financial statements represent the 6 month period from 29 June 2019 to 3 January 2020. The prior period comparatives represent the year ended 28 June 2019.

Business review

A review of the business and its principal risks and uncertainties are set out in the strategic report on pages 1 - 4 of these financial statements.

Results and dividends

The profit for the period, after taxation, amounted to £2,369 thousand (year ended 28 June 2019 - £5,352 thousand).

The director does not recommend payment of a final dividend (year ended 28 June 2019 - £Nil).

Director

The director who served during the year was:

K N Norton

Disclosure of information to auditor

The director at the time when this director's report is approved has confirmed that:

- so far as he is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board on 29th December 2020 and signed on its behalf.



K N Norton
Director

Harris Systems Limited

Director's Responsibilities Statement For the Period Ended 3 January 2020

The director is responsible for preparing the strategic report, the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is 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 these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is 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 the director to ensure that the financial statements comply with the Companies Act 2006. The director is 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.

Harris Systems Limited

Independent Auditor's Report to the Members of Harris Systems Limited

Opinion

We have audited the financial statements of Harris Systems Limited ("the company") for the period ended 3 January 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 3 January 2020 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has 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.

Harris Systems Limited

Independent Auditor's Report to the Members of Harris Systems Limited (continued)

Other information

The director is responsible for the other information. The other information comprises the information included in the director's report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and director's report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and director's report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

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

Harris Systems Limited

Independent Auditor's Report to the Members of Harris Systems Limited (continued)

Responsibilities of the director

As explained more fully in the director's responsibilities statement, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the director determines 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 director is 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 director either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

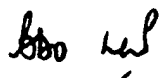
Auditor's responsibilities for the audit of the financial statements

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 auditor's 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 at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



John Everingham (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Gatwick
United Kingdom
Date: 29 December 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Harris Systems Limited

Statement of Comprehensive Income For the Period Ended 3 January 2020

		Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
	Note		
Turnover	4	16,898	37,076
Cost of sales		(10,302)	(20,185)
Gross profit		6,596	16,891
Administrative expenses		(5,013)	(14,468)
Other operating income	5	239	315
Operating profit	6	1,822	2,738
Income from fixed assets investments	9	68,899	5,283
Amounts written off investments		(66,437)	-
Interest receivable and similar income	10	1,542	3,027
Interest payable and similar charges	11	(2,393)	(5,620)
Other finance income	12	108	285
Profit before tax		3,541	5,713
Tax on profit	13	(1,172)	(361)
Profit for the financial period/year		2,369	5,352
Other comprehensive income for the period/year			
Movement of deferred tax	22	399	(264)
Actuarial (loss)/gains on defined benefit pension scheme	22	(2,378)	1,556
Other comprehensive income for the period/year		(1,979)	1,292
Total comprehensive income for the period/year		390	6,644

The notes on pages 13 to 39 form part of these financial statements.

Harris Systems Limited
Registered number: 00173103

Statement of Financial Position
As at 3 January 2020

	Note	3 January 2020 £000	3 January 2020 £000	28 June 2019 £000	28 June 2019 £000
Fixed assets					
Tangible assets	14		6,776		5,832
Investments	15		57,429		123,865
			<u>64,205</u>		<u>129,697</u>
Current assets					
Stocks	16	3,729		3,370	
Debtors: amounts falling due within one year	17	137,492		137,626	
Cash at bank and in hand		3,761		10,320	
		<u>144,982</u>		<u>151,316</u>	
Creditors: amounts falling due within one year	18	(162,541)		(236,466)	
Net current liabilities			<u>(17,559)</u>		<u>(85,150)</u>
Total assets less current liabilities			<u>46,646</u>		<u>44,547</u>
Provisions for liabilities					
Deferred tax			(742)		(1,078)
Other provisions	21		(781)		(1,083)
Net pension asset	22		7,301		9,648
Net assets			<u>52,424</u>		<u>52,034</u>
Capital and reserves					
Called up share capital	24		9,680		9,680
Share premium account	25		224,544		224,544
Profit and loss account	25		(181,800)		(182,190)
Total equity			<u>52,424</u>		<u>52,034</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on


K N Norton
Director

29th December 2020

The notes on pages 13 to 39 form part of these financial statements.

Harris Systems Limited

Statement of Changes in Equity For the Period Ended 3 January 2020

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 29 June 2019	9,680	224,544	(182,190)	52,034
Comprehensive income for the period				
Profit for the period	-	-	2,369	2,369
Actuarial losses on pension scheme	-	-	(2,378)	(2,378)
Movement on deferred tax charge	-	-	399	399
Total comprehensive income for the period	-	-	390	390
At 3 January 2020	9,680	224,544	(181,800)	52,424

Statement of Changes in Equity For the Year Ended 28 June 2019

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 30 June 2018	9,680	224,544	(188,834)	45,390
Comprehensive income for the year				
Profit for the year	-	-	5,352	5,352
Actuarial gains on pension scheme	-	-	1,556	1,556
Movement on deferred tax charge	-	-	(264)	(264)
Total comprehensive income for the year	-	-	6,644	6,644
At 28 June 2019	9,680	224,544	(182,190)	52,034

The notes on pages 13 to 39 form part of these financial statements.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

1. General information

Harris Systems Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activity are set out in the strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 Consolidated financial statements

The company is exempt from under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of a parent undertaking. These financial statements therefore present information about the company as an individual undertaking and not a group.

2.3 Going concern

The directors have undertaken an assessment of the company's ability to continue as a going concern including a review of detailed cashflow models and forward-looking projections. The company is considered to provide an essential service and has significant cash balances and no external debt. The company's major customers remain open at present and have requested a continuity in services making the company a key supplier in public safety and national security. Factory volumes in the first three quarters of calendar year 2020 have been strong and the company has not experienced significant adverse communications or issues with current supply of products. The procurement team are routinely checking the supply chain for adversities and are taking the necessary mitigating action to de-risk product sourcing. The directors give further details of their consideration on the effects of COVID-19 and the ongoing operation of the business in the strategic report on page 3. Although it is difficult to determine the full impacts on the company's trading environment due to the rapidly evolving situation, the directors have reviewed the detailed cashflow forecasts and believe the company will have sufficient financing to ensure cash flows for the next twelve months. As such, the directors continue to adopt the going concern basis of accounting.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

2. Accounting policies (continued)

2.4 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of L3Harris Technologies Inc as at 3 January 2020 and these financial statements may be obtained from 1025 West NASA Blvd, Melbourne, FL 32919, USA.

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the year in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting year can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

2. Accounting policies (continued)

2.5 Revenue (continued)

Long term contracts

In respect of long-term contracts, revenue is recognised using the percentage-of-completion method when reliable estimates are available. The company measures the value of the effort to satisfy performance obligations in accordance with the cost to cost input method calculation. Estimated costs to complete are evaluated at regular intervals and any adjustments calculated using the cumulative catch-up method.

Where the outcome of the long term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is recognised in the statement of comprehensive income as the difference between the reported turnover and related costs for that contract, less provision for any known or anticipated losses.

2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Short-term leasehold property	- over the remaining life of the lease
Plant and machinery	- 3 - 7 years

Assets in progress are stated at cost and are not depreciated.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.7 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

2. Accounting policies (continued)

2.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted company shares, whose market value can be reliably determined, are remeasured to market value at each statement of financial position date. Gains and losses on remeasurement are recognised in the statement of comprehensive income for the year. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

2.9 Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.12 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

2. Accounting policies (continued)

2.12 Financial instruments (continued)

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.13 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.14 Foreign currency translation

Transactions and balances

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 and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

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 except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

2.15 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

2. Accounting policies (continued)

2.16 Operating leases: the company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard 1 July 2015 to continue to be charged over the period to the first market rent review rather than the term of the lease.

2.17 Leased assets: the company as lessor

Where assets leased to a third party give rights approximating to ownership (finance lease), the lessor recognises as a receivable an amount equal to the net investment in the lease i.e. the minimum lease payments receivable under the lease discounted at the interest rate implicit in the lease. This receivable is reduced as the lessee makes capital payments over the term of the lease.

A finance lease gives rise to two types of income: profit or loss equivalent to the profit or loss resulting from outright sale of the asset being leased, at normal selling prices, reflecting any applicable discounts, and finance income over the lease term.

All other leases are treated as operating leases. Their annual rentals are credited to profit or loss on a straight-line basis over the term of the lease.

2.18 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.19 Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the year in which they are incurred.

2.20 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the company becomes aware of the obligation, and are measured at the best estimate at the statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the statement of financial position.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

2. Accounting policies (continued)

2.21 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

Defined benefit pension plan

The company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability 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 plan assets at the reporting date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

2. Accounting policies (continued)

2.22 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- Accounting for contracts requires judgement relative to assessing risks, including unfavourable resolutions of claims and contractual matters, judgements associated with estimating contract revenue and costs, and assumptions for schedule and technical issues due to the size and nature of many of the contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. For example, we must make assumptions regarding: (i) the length of time to complete the contract because costs also include expected increases in wages and prices for materials; (ii) incentives or penalties related to performance on contracts in estimating revenue and profit rates and record them when there is sufficient information for us to assess anticipated performance; and (iii) estimates of award fees in estimating revenue and profit rates based on actual anticipated awards.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

3. Judgements in applying accounting policies (continued)

Other key sources of estimation uncertainty

- Tangible fixed assets (see note 14)

Tangible fixed assets, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- Investments (see note 15)

The most critical estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments at fair value through profit and loss. In determining this amount, the company applies the overriding concept that fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction. The nature, facts and circumstance of the investment drives the valuation methodology.

Listed investments are valued at the quoted bid price at the reporting date. Unquoted investments are valued using a price/earnings multiple methodology. The relevant price/earnings multiple is determined by reference to those applying to quoted companies in similar industries after adjustment for the reduced liquidity of unquoted companies. This multiple is then applied to the earnings of the investee company in the period, after adjustments for one-off unusual income or expenditure in the year.

- Operating lease commitments (see note 23)

The company has entered into commercial property leases as lessee/lessor and also to obtain use of office equipment. The classification of such leases as operating or financial lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

4. Turnover

An analysis of turnover by class of business is as follows:

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Communications systems	11,138	20,672
SAS	1,308	3,321
Interco	4,452	13,083
	<u>16,898</u>	<u>37,076</u>

Analysis of turnover by country of destination:

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
United Kingdom	7,352	17,778
Rest of Europe	5,139	6,348
Rest of the world	4,407	12,950
	<u>16,898</u>	<u>37,076</u>

5. Other operating income

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Sundry income	239	315
	<u>239</u>	<u>315</u>

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

6. Operating profit

The operating profit is stated after charging:

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Depreciation of tangible fixed assets	225	240
Impairment of fixed asset investments	66,436	-
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	71	66
- all other services	-	2
Exchange differences	(339)	98
Other operating lease rentals (property)	702	1,729
Other operating lease rentals (other)	21	15
	<u> </u>	<u> </u>

7. Employees

Staff costs, including director's remuneration, were as follows:

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Wages and salaries	3,936	8,022
Social security costs	608	925
Cost of defined benefit scheme	295	3,917
Cost of defined contribution scheme	92	170
	<u> </u>	<u> </u>
	<u>4,931</u>	<u>13,034</u>

The average monthly number of employees, including the director, during the year was as follows:

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Administration	39	33
Selling and distribution	19	20
Manufacturing and support	109	77
	<u> </u>	<u> </u>
	<u>167</u>	<u>130</u>

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

8. Director's remuneration

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Director's emoluments	657	467
Company contributions to defined contribution pension schemes	-	17
	<u>657</u>	<u>484</u>

The highest paid director received remuneration of £656,641 (year ended 28 June 2019 - £466,667).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £Nil (year ended 28 June 2019 - £16,665).

During the current period the director exercised his rights on certain share options relating to Harris Systems Limited upon the merger with L3 Group and Harris Corporation, which amounted to £456,556 (year ended 28 June 2019 - £203,525).

The director of the company is also a director or officer of other companies within the L3Harris Technologies, Inc (formerly known as Harris Corporation). These director's services to the company do not occupy a significant amount of his time.

9. Income from fixed assets investments

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Dividends received	68,899	5,283

10. Interest receivable and similar income

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Loans to group undertakings	1,542	3,027

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

11. Interest payable and similar charges

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Bank interest payable	-	1
Loans from group undertakings	2,393	5,619
	<u>2,393</u>	<u>5,620</u>

12. Other finance costs

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Interest income on plan assets	798	1,771
Interest costs	(690)	(1,486)
	<u>108</u>	<u>285</u>

13. Taxation

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Corporation tax		
Current tax on profits for the period/year	180	595
Adjustments in respect of previous periods	929	212
Total current tax	<u>1,109</u>	<u>807</u>
Deferred tax		
Deferred tax on timing difference	63	(446)
Total deferred tax	<u>63</u>	<u>(446)</u>
Taxation on profit on ordinary activities	<u>1,172</u>	<u>361</u>

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

13. Taxation (continued)

Factors affecting tax charge for the period/year

The tax assessed for the period is higher than (year ended 28 June 2019 - lower than) the standard rate of corporation tax in the UK of 19% (year ended 28 June 2019 - 19%). The differences are explained below:

	Period ended 3 January 2020 £000	Year ended 28 June 2019 £000
Profit on ordinary activities before tax	3,541	5,713
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (year ended 28 June 2019 - 19%)	673	1,085
Effects of:		
Expenses not deductible for tax purposes	12,649	15
Non-taxable income	(13,091)	(1,004)
Under/(over) provision in respect of prior periods	929	212
Rate difference	12	53
Total tax charge for the period	1,172	361

Factors that may affect future tax charges

There are no factors that may affect future tax charges.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

14. Tangible fixed assets

	Short-term leasehold property £000	Plant and machinery £000	WIP - Leasehold improvement £000	WIP - Plant and machinery £000	Total £000
Cost or valuation					
At 29 June 2019	8,174	4,024	5,598	50	17,846
Additions	-	-	842	327	1,169
Transfers intra group	6,308	377	(6,308)	(377)	-
Disposals	(1,171)	(223)	-	-	(1,394)
At 3 January 2020	13,311	4,178	132	-	17,621
Depreciation					
At 29 June 2019	8,155	3,859	-	-	12,014
Charge for the period	130	95	-	-	225
Disposals	(1,171)	(223)	-	-	(1,394)
At 3 January 2020	7,114	3,731	-	-	10,845
Net book value					
At 3 January 2020	6,197	447	132	-	6,776
At 28 June 2019	19	165	5,598	50	5,832

Leasehold improvements are not ready for use at the year end and thus no depreciation charge is recognised during the year.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

15. Fixed asset investments

	Investments in subsidiary companies £000
Cost	
At 29 June 2019	222,539
At 3 January 2020	222,539
Impairment	
At 29 June 2019	98,674
Impairment charge for the period	66,436
At 3 January 2020	165,110
Net book value	
At 3 January 2020	57,429
At 28 June 2019	123,865

On 24 September 2019, Applied Kilovolts Group Holdings Limited, a dormant wholly owned subsidiary of the company was dissolved.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

15. Fixed asset investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Principal activity	Class of shares	Holding
Defence Investments Limited	Investment holding company	Ordinary	100%
Harris Defence Limited	Development of defence communications and sensors	Ordinary	100%
Applied Kilovolts Group Holdings Limited	Holding company	Ordinary	100%
Harris Communications GmbH	Sales of communication products to the defence industry	Ordinary	100%
Harris Communications (Australia) Pty Ltd	Sales and marketing of communication products to the defence and public safety industry	Ordinary	100%
Applied Kilovolts Limited	Precision Engineering	Ordinary	100%
Harris Pension Management Limited	Pension fund management	Ordinary	33.3%
Harris Communications (Spain) SL	Marketing services	Ordinary	100%
Harris Salam LLC	Satellite communications	Ordinary	49%
Harris Communications Limited (Hong Kong)	Administrative services	Ordinary	100%

The registered office address of Defence Investments Limited is Unit 1, Dingley Way, Farnborough, Hampshire, GU14 6FF.

The registered office address of Harris Defence Limited is Unit 1, Dingley Way, Farnborough, Hampshire, GU14 6FF.

The registered office address of Applied Kilovolts Group Holdings Limited is Woods Way, Goring by Sea, Worthing, BN12 4QY, United Kingdom.

The registered office address of Harris Communications GmbH is Donnersbergerstr. 22a, Munich, 80634, Germany.

The registered office address of Harris Communications (Australia) Pty Ltd is King & Wood Mallesons, Governor Phillip Tower, Level 61, 1 Farrer Place, Sydney, NSW, Australia.

The registered office address of Applied Kilovolts Limited is Woods Way, Goring by Sea, Worthing, BN12 4QY, United Kingdom.

The registered office address of Harris Pension Management Limited is Unit 1, Dingley Way, Farnborough, Hampshire, GU14 6FF.

The registered office address of Harris Communications (Spain) SL is Calle de Ayala, 66, 28001 Madrid, Community of Madrid, Spain.

The registered office address of Harris Salam LLC is PO Box 22658, Doha, Qatar.

The registered office address of Harris Communications Limited (Hong Kong) is 14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

16. Stocks

	3 January 2020 £000	28 June 2019 £000
Raw materials	1,127	1,534
Work in progress	2,602	1,836
	<u>3,729</u>	<u>3,370</u>

The impairment loss recognised within cost of sales in the statement of comprehensive income for the period in respect of stock obsolescence was £8,523 (28 June 2019 - £Nil).

17. Debtors

	3 January 2020 £000	28 June 2019 £000
Trade debtors	4,657	5,155
Amounts owed by group undertakings	132,408	131,478
Other debtors	427	993
	<u>137,492</u>	<u>137,626</u>

Included in amounts owed by group undertakings is £126,396,656 (28 June 2019 - £123,369,330) which is interest bearing. The interest rate at the period end was 2.356% (28 June 2019 - 2.461%).

All amounts shown under debtors fall due for payment within one year except deferred tax.

18. Creditors: amounts falling due within one year

	3 January 2020 £000	28 June 2019 £000
Trade creditors	1,053	3,414
Amounts owed to group undertakings	150,372	220,122
Corporation tax	2,353	1,228
Other taxation and social security	-	146
Accruals and deferred income	8,763	11,556
	<u>162,541</u>	<u>236,466</u>

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

18. Creditors: amounts falling due within one year (continued)

Included in amounts owed to group undertakings is £131,500,287 (28 June 2019 - £195,149,294) which is interest bearing. The interest rate at the period end was 2.356% and 1.127% (28 June 2019 - 2.461%, 3.068% and 1.059%).

On 28 June 2019, the company's subsidiary, Defence Investments Limited, reduced their share premium amount by £14,802,036, and paid a dividend for this amount to the company in order to extinguish the intercompany loan payable by the company to the subsidiary. However, due to opening profit and loss deficit of the subsidiary, the dividend was not in compliance with the requirements of the Companies Act. The amount is now payable by the company to the subsidiary on demand.

Subsequent to the year end a dividend of GBP £14,362,599 was declared by Defence Investments Limited, which was in compliance with the requirements of the Companies Act.

19. Financial instruments

	3 January 2020 £000	28 June 2019 £000
Financial assets		
Financial assets that are debt instruments measured at amortised cost	<u>141,253</u>	<u>147,946</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(160,188)</u>	<u>(235,092)</u>

The composition of the assets included is as follows;

Financial assets

Financial assets that are debt instruments measured at amortised costs

The value is represented by the cash, trade debtors, other debtors and amounts owed by group undertakings.

Financial liabilities

Financial liabilities measured at amortised cost

The value is represented by trade creditors, amounts owed to group undertakings, other creditors, accruals and provisions.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

20. Deferred taxation

	3 January 2020 £000	28 June 2019 £000
At beginning of period/year	1,078	1,260
Included in other comprehensive income	(399)	264
Included in the tax on profit for the period/year (see note 13)	63	(446)
At end of period/year	742	1,078

The provision for deferred taxation is made up as follows:

	3 January 2020 £000	28 June 2019 £000
Defined benefit pension scheme	1,241	1,640
Accelerated capital allowances	(499)	(562)
	742	1,078

Comprising:

	3 January 2020 £000	28 June 2019 £000
Asset - due within one year	499	562
Liability	(1,241)	(1,640)
	(742)	(1,078)

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

21. Provisions

	Dilapidations & onerous lease £000	Warranty provision £000	Total £000
At 29 June 2019	818	265	1,083
Utilised in period	(259)	(43)	(302)
At 3 January 2020	559	222	781

Dilapidations

A provision is recognised for the expected future cost of repairing dilapidations on properties leased by the company. The provision is the directors' best estimate of the future costs likely to be incurred on the expiry of the property leases held.

Onerous Lease

A provision is recognised for the expected future rental costs net of expected subletting associated with the company's vacation of its former premises at 1010 Eskdale Road, Wokingham, Berkshire. On the 19 June 2015 the company entered into a sub-lease at a full rent with 'Sopra Steria' Limited for part of its former premises at 1010 Eskdale Road, Wokingham, Berkshire. The sublease is for a term that will expire at the same time as the company's head lease. Future rental income expected to arise in connection with this letting has been netted against the future expected costs in calculating the onerous lease provision above.

During the period, the lease has been surrendered and amounts paid to the landlord, which resulted in the provision utilised in the year. At the year end no onerous leases were applicable.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

22. Pension commitments

The company operates a Defined Benefit Pension Scheme.

Harris Systems Limited Pension Fund

The plan is a final salary defined benefit scheme set up to provide defined benefits for eligible UK employees. The plan closed to new members from 1 July 2008, but is open to future accrual. For each year of service the plan grants 1/60th of pensionable salary.

The valuation used has been based on the most recent actuarial valuation at 30 April 2019 and was updated by Willis Towers Watson to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 3 January 2020 and 28 June 2019. Scheme assets are stated at their market values at the respective statement of financial position dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

The pension plans have not invested in any of the group's own financial instruments nor in properties or other assets used by the group.

Reconciliation of present value of plan liabilities:

	3 January 2020 £000	28 June 2019 £000
Reconciliation of present value of plan liabilities:		
At the beginning of the period/year	64,513	60,090
Effect of employee service in period	295	624
Interest cost	690	1,486
Remeasurement	3,185	2,944
Plan participants' contributions	28	58
Benefits paid	(1,282)	(3,404)
Plan introductions, changes, curtailments and settlements	-	2,715
At the end of the period/year	67,429	64,513

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

22. Pension commitments (continued)

Reconciliation of present value of plan assets:

	3 January 2020 £000	28 June 2019 £000
Reconciliation of present value of plan assets:		
At the beginning of the period/year	74,161	71,375
Interest income	798	1,768
Return on plan assets greater/(less) than discount rate	807	4,500
Employer contributions	218	442
Plan participants' contributions	28	58
Benefits paid	(1,282)	(3,404)
Administrative costs paid	-	(578)
At the end of the year	74,730	74,161

Composition of plan assets:

	3 January 2020 %	28 June 2019 %
LGIM diversified growth fund	36	36
LGIM LDI	33	33
Partners fund	30	20
Cash/other	1	11
Total plan assets	100	100

	3 January 2020 £000	28 June 2019 £000
Fair value of plan assets	74,730	74,161
Present value of plan liabilities	(67,429)	(64,513)
Net pension scheme asset	7,301	9,648

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

22. Pension commitments (continued)

The amounts recognised in profit or loss are as follows:

	3 January 2020 £000	28 June 2019 £000
Interest on obligation	(690)	(1,486)
Interest income on plan assets	798	1,771
Total	108	285

Principal actuarial assumptions at the statement of financial position date (expressed as weighted averages):

	3 January 2020 %	28 June 2019 %
Discount rate	1.80	2.20
Future salary increases	3.40	3.55
Future pension increases	2.65	2.53
Inflation assumption	3.40	3.55
Mortality rates		
- for a male aged 65 now	22.5	22.5
- at 65 for a male aged 45 now	23.2	23.2
- for a female aged 65 now	23.5	23.5
- at 65 for a female member aged 45 now	24.4	24.4

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

22. Pension commitments (continued)

Amounts recognised in the statement of comprehensive income are as follows:

	3 January 2020 £000	28 June 2019 £000
Effect of employee service in the current period/year	295	624
Effect of actual expenses in the current period/year	-	578
Interest receivable on pension assets	(796)	(1,768)
Interest on defined benefit liability	690	1,486
Plan introduction, changes, curtailments and settlements	-	2,715
	<u>189</u>	<u>3,635</u>

Analysis of actuarial gains recognised in other comprehensive income:

	3 January 2020 £000	28 June 2019 £000
Actuarial loss/(gain) arising during the period/year	3,185	2,944
Return on plan assets (greater)/less than discount rate	(807)	(4,500)
Deferred tax thereon	(399)	264
	<u>1,979</u>	<u>(1,292)</u>

23. Commitments under operating leases

At 3 January 2020 the company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	3 January 2020 £000	28 June 2019 £000
Not later than 1 year	1,248	1,141
Later than 1 year and not later than 5 years	5,033	5,013
Later than 5 years	11,815	12,459
	<u>18,096</u>	<u>18,613</u>

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

24. Share capital

	3 January 2020 £000	28 June 2019 £000
Allotted, called up and fully paid		
9,680,472 ordinary shares of £1 each	9,680	9,680

25. Reserves

The company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

26. Related party transactions

The company has taken advantage of the exemption available in Section 33.1A of FRS 102 whereby it has not disclosed transactions with the ultimate parent company or any wholly owned subsidiary undertaking of the group.

27. Controlling party

The company's immediate parent undertaking is Harris Luxembourg s.a.r.l. registered in Luxembourg, the accounts of Harris Luxembourg s.a.r.l. can be obtained from its registered address; 2a Rue Nicolas Bore, L-L-1253, Luxembourg.

The company's ultimate parent undertaking and controlling party, and the parent undertaking of the smallest and largest group for which group financial statements are drawn up and of which the company is a member, is L3Harris Technologies, Inc (formerly known as Harris Corporation), incorporated in Delaware, USA. Copies of the financial statements of L3Harris Technologies, Inc can be obtained from 1025 West NASA Boulevard, Melbourne, Florida 32919, USA or viewed on Harris Corporations' website at www.harris.com.

Harris Systems Limited

Notes to the Financial Statements For the Period Ended 3 January 2020

28. Subsequent events

Following the end of the financial period ended on 3 January 2020, the world has been impacted by the COVID-19 virus pandemic and this has adversely affected the United Kingdom and the global economy in general. Although the full effect of the pandemic on the financial results of the company for the 2020 year is unknown at this stage due to the nature thereof, the directors have been monitoring it closely. Post the outbreak of the pandemic the company has been trading as normal and is recognising a strong performance, thus the directors are expecting it to have an immaterial impact on the 2020 financial results of the company. The directors give further details of their consideration on the effects of COVID-19 and the ongoing operation of the business in the strategic report on page 3.

The company's shareholding in Applied Kilovolts Limited, a wholly owned subsidiary of the company (note 15) was sold to Adaptas Solutions on 15 May 2020. Prior to the sale of the shareholding in the subsidiary, a dividend of GBP 1,400,000 and USD 650,000 was declared and paid by Applied Kilovolts Limited to the company. The funds were used to repay amounts owed to group undertakings.

A dividend of GBP £14.4m was declared in June 2020 by Defence Investments Limited, a dividend of USD \$15.2m (GBP £11.5m) was declared by Harris Communications (Australia) Pty Limited in August 2020 and a dividend of HKD 3.9m (GBP £371.8k) was declared by Harris Communications Limited (Hong Kong) in December 2020, all wholly owned subsidiaries of the company (note 15) in favour of Harris Systems Limited. The funds were used to repay amounts owned to group undertakings.

The company's shareholding in Defence Investment Limited, a wholly owned subsidiary of the company (note 15) was sold to L3 Harris Technologies UK Holding Limited, a fellow group company in December 2020.