Raytheon Technologies

US, Defence

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<tr><td>Significant concerns</td><td>Some concerns</td><td>Significant concerns</td><td>Significant concerns</td><td>Significant concerns</td><td>Some concerns</td><td>CA 100+ company, so seen by investors as key to driving global net zero emissions</td></tr>
<tr><td colspan="7">Summary view:
• With a significant commercial aerospace business, including an aero engine business with long-term spares and servicing contracts, Raytheon faces material risk exposures in many climate change scenarios.
• The new company does not seem to have given any climate undertakings and makes no relevant disclosures in its 10-K.</td></tr>
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Background

The Business

- Following the 2020 merger between United Technologies and Raytheon, and the spin-offs of the Otis elevator and Carrier air conditioner and refrigeration businesses, Raytheon Technologies is a pure aerospace and defence company.

Approach to climate change

- The new company does not seem to have made any public climate change commitment.
- Predecessor firms United Technologies and Raytheon both had absolute greenhouse gas emissions reduction targets (though progress towards delivering United Technologies' had reversed ahead of the merger).
- Raytheon Technologies faces exposures both as a major manufacturer, and procurer of heavily carbon-intensive materials, and because its products are largely currently powered by fossil fuels. The latter risk may be mitigated by the absence of alternative fuels from a power-to-weight ratio perspective and on the defence side the likelihood that governments will seek carbon reductions elsewhere, but the commercial aerospace business will face exposure.

Accounting: judgements and consistency with other reporting

Accounting judgements	Significant concerns

- A US company so subject to US GAAP standards.
- Much of the value of the Pratt & Whitney aero engine business consists of long-term service contracts. The estimated lives of associated intangibles run out for 25-30 years, suggesting significant assumptions about the lives and level of use of these engines. Yet the engines rely on carbon-intensive fuel and may be unsustainable in some climate scenarios.
- The estimated useful lives of property plant and equipment currently extend long into the future: buildings up to 45 years and plant up to 20. This creates a potential exposure should climate transition require operational changes within those time-horizons.
- The discussion of environmental matters in the notes to the financials is exclusively related to remediation of pollution at individual sites and the recoverability of such costs.

Consistency with other reporting	Some concerns

- As with most US companies, the 10-K annual report is issued independently of other reporting, such as the proxy statement and sustainability report. No other reporting is available for the combined business: prior year reporting is for the pre-merger entities.
- The only reference to climate change in the 10-K is within the narrative discussion of environmental issues, and indicates that there is a risk of impact should there be regulatory

change. There is also a brief reference to the risk of costs arising from the physical effects of climate change. There is no attempt to quantify any of these potential impacts.

- Reporting by the predecessor businesses regarding climate change seems limited to absolute greenhouse gas emissions reduction targets.
- There is thus little regarding climate change for the financial statements to be inconsistent with.

Climate assumptions: visibility and Paris alignment

Visibility of climate assumptions		Significant concerns

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

Paris alignment		Significant concerns

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

Audit: visibility in CAMs and consistency check

Audit firm: PricewaterhouseCoopers LLP	Responsible partner: Laurie Roberts Schupmann
Audit standards: PCAOB standards	

Visibility in Critical Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.
- There are 4 CAMs identified: (i) valuation of acquired intangibles; (ii) tax-free natures of spin-offs; (iii) revenue recognition; and (iv) goodwill impairment.
- Only the last of these 4 CAMs might be expected to include climate-related elements, but in practice the consideration of goodwill (and other intangible) impairment focuses on the Covid-19 pandemic impacts on airline customers of the aerospace business lines. There is no apparent consideration given to the risks to the commercial aerospace business from realistic climate change scenarios.
- The references to the use of advice from specialists do not refer to specialists in climate change or CO2 markets.

Consistency check		Some concerns

- The auditor expresses its role as extending to the financial statements only.
- The 10-K is largely internally consistent given the minimal discussion on climate change in the narrative reporting and the fact it is wholly ignored in the financial statements.

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