

# **Novar ED&S Limited**

## **Annual Report and Financial Statements For the year ended 31 December 2018**

**COMPANIES HOUSE  
EDINBURGH**

**23 DEC 2019**

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## **Company Information**

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### **Officers and professional advisors**

#### **Directors**

Neil Garland  
Madeline Orbell Thompson  
Ian Snadden

#### **Statutory auditor**

Deloitte LLP  
Saltire Court,  
20 Castle Terrace,  
Edinburgh,  
EH1 2DB  
United Kingdom

#### **Bankers**

Barclays Bank  
Level 11,  
One Churchill Place,  
London,  
E14 5HP  
United Kingdom

#### **Registered address**

Honeywell House,  
Skimped Hill Lane,  
Bracknell,  
Berkshire,  
RG12 1EB  
United Kingdom

## Strategic report

for the financial year ended 31 December 2018

The directors present their strategic report for the financial year ended 31 December 2018.

### Principal activities

The principal activity of the company is to develop and deliver electrical products, lighting controls and integrated solutions to improve energy efficiency, industrial productivity and safety while enhancing convenience and control. The company operates throughout the UK, mainland Europe and the Middle East. The company has a branch in Ireland.

### Review of the business and future developments

The profit for the financial year, after taxation, is £22,104,000 (2017: £5,654,000).

During the current year, the company's ultimate parent company Honeywell International Inc. carried out a divestiture exercise to spin off its Homes products portfolio and ADI global distribution business, as well as its Transportation Systems business, into two stand-alone publicly-traded companies, Resideo Technologies, Inc. and Garrett Motion Inc. as a result of its comprehensive portfolio review. As part of the implementation, on 29 July 2018, Novar ED&S sold its Homes business including related assets, liabilities and employees. The business was transferred at a fair value of £10,609,000 to Ackermann Limited, resulting in a gain on disposal of £10,173,000. The consideration was settled by issue of further shares in Ackermann Limited.

On 29 October 2018, as part of the spin transaction, the entire investment in Ackermann Limited was transferred to Novar Limited for a consideration of £10,609,000, as a partial settlement of the accumulated preference dividends payable to Novar Limited. The carrying value of this investment was £14,889,000 resulting in a loss on disposal of investment of £4,280,000.

Turnover for the year from continuing business was £117,287,000 (2017: £123,870,000), which has decreased by 5% when compared to prior year. This was largely due to challenging market in the UK for electrical products and an overall decline in the Middle East market due to economic uncertainty and new projects being undertaken in the region. Turnover from discontinued operations was relatively static when compared to prior year on pro rata basis. Gross margin continued to have adverse impact due to inflationary cost pressures and exchange rate volatility, this was offset by continued focus of management on stringent cost controls and manufacturing efficiencies. The directors believe that after the spin-off of the Homes business, the company is well positioned to focus on and take advantage of growth opportunities in its core business.

The company is in a net asset position and expects to remain so for the foreseeable future.

### Key performance indicators

Management monitors the business using the following key indicators:

	Continuing operations		Discontinued operations	
	2018	2017	2018	2017
Turnover % change compared with previous year	(5.3)	(0.2)	(40.5)	1.8
Gross profit margin%	34.8	36.6	16.6	14.7
Operating profit margin% of turnover	12.6	7.8	(0.8)	1.9

### Turnover

Turnover has decreased in the year primarily on account of Homes line of business being discontinued from 29 October 2018 onwards. This accounted for almost half of the revenue drop. The rest is driven by a challenging market in the UK for electrical products and an overall decline in the Middle East market due to economic uncertainty and new projects being undertaken in the region.

### Gross profit margin

Gross profit was relatively static when compared to the prior year, with a slight reduction in the year due to continued constraint on costs due to inflation and exchange rate volatility. The company continues to focus on maintaining margins through stringent cost controls and manufacturing efficiencies.

## Strategic report

for the financial year ended 31 December 2018

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### Operating profit margin

Operating margins have increased in the year mainly due to non-recurring events in prior year such as an impairment charge booked regarding Friedland brand goodwill and costs associated to a site closure in 2017.

### Financial risk management, objectives and policies

#### *Credit risk*

Credit risk arises from exposures to customers. The creditworthiness of customers granted credit terms in the normal course of business is monitored continually.

The terms and conditions of credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer. Sales are not materially dependent on a single customer or a small group of customers.

#### *Liquidity risk*

The company ensures availability of funding for its operations through an appropriate amount of committed bank facilities on a group wide basis.

#### *Other risks*

The company is exposed to interest rate risk arising out of amounts owed to/by group undertakings. The exposures to interest rate risks have not been hedged as there is no net interest rate risk at group level on account of intra group loan balances.

### Strategy

The company maintains market share and sustainable growth through the following strategies:

- providing the highest standard of product service and delivery to its customer at a competitive cost
- productivity and process improvement
- product development
- continued expansion into current and new markets
- proactive alignment of its business structure to meet changing market demands
- defending and extending the installed base through productivity improvements
- strong brand recognition through brand and channel management.

### Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks affecting the company are:

- changes in spending and capital investment patterns
- fluctuation in customer demand
- adverse economic conditions
- raw material price fluctuations
- obsolescence arising from a shift in technology
- changes in legislation or government regulations or policies
- cost of employee retirement benefits
- health and safety of employees and contractors.

## Strategic report

for the financial year ended 31 December 2018

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In response to the risks the company:

- maintains a UK-wide presence and aims to have a competitive installed cost and integrated product through technology and productivity
- ensures continued recognition of brand and quality to maintain market position
- maintains a high technology offering while widening its product base and expanding into new areas
- implements supply chain and procurement initiatives
- actively investigates new technologies and market trends
- monitors applicable regulations to ensure products and systems provide high quality solutions for current needs
- ensures that pension schemes are adequately funded
- ensures that all reasonable steps are taken to provide a safe working environment.

On 23 June 2016, the UK held a referendum on the UK's continuing membership of the EU, the outcome of which was a decision for the UK to leave the EU (Brexit). The progress of current negotiations between the UK Government and the EU will likely determine the future terms of the UK's relationship with the EU, as well as to what extent the UK will be able to continue to benefit from the EU's single market and other arrangements. Until the Brexit negotiation process is completed, it is difficult to anticipate the potential impact on the Company and the wider Honeywell Group's operations. The uncertainty during and after the period of negotiation is also expected to increase volatility and may have an economic impact particularly in the UK and Eurozone.

Approved by the board of directors and signed on its behalf by:

DocuSigned by:

*Madeline Orbell-Thompson*

381200930673439  
Madeline Orbell-Thompson

Director

20-Dec-2019

## **Directors' report**

*for the financial year ended 31 December 2018*

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The directors present their annual report and audited financial statements for the company for the financial year ended 31 December 2018.

### **Business review and future developments**

A review of the business of the company and future developments is included in the strategic report on page 1.

### **Results and dividends**

The company's profit for the financial year, after taxation was £22,104,000 (2017: £5,654,000) which will be transferred to reserves. The results for the financial year are shown on page 10.

The directors do not recommend the payment of a dividend (2017: £nil).

### **Financial risk management, objectives and policies**

The details of the financial risk management of the company are included in the strategic report on page 1.

### **Directors of the company**

The directors of the company who held office during the financial year and up to the date of signing these financial statements were:

Ian Snadden  
Neil Garland  
Madeline Orbell Thompson  
Mehmet Erkilic (resigned 31 January 2018)  
John Tus (resigned 24 September 2018)  
Michael Andrew Hill (resigned 26 October 2018)

### **Directors' indemnities**

Pursuant to the company's articles of association, the directors were throughout the financial year ended 31 December 2018 and are at the date of this report entitled to a qualifying indemnity provision as defined in section 234 of the Companies Act 2006.

### **Research and development**

Research and development expenditure for the financial year ended 2018 amounted to £5,050,000 (2017: £5,607,000).

### **Employment of disabled persons**

The company recognises that physically or otherwise disabled individuals are not, of necessity, prevented from making a valuable and significant contribution to the business, and where people have the attitudes and abilities necessary for the job, the company gives sympathetic consideration towards employing them, or retaining them in work should the disability emerge during employment. The company's policy is to ensure that no discrimination either direct or indirect occurs against employees or applicants, whether in selection, promotion, access to training, or appraisal.

### **Employee involvement**

The company keeps employees fully informed of the company's strategies and their impact on the performance of the company and the group and encourages employee participation. Briefing meetings are held for each division to give information on company matters and provide an opportunity for discussion. E-mail bulletins are circulated regularly to all employees to ensure a common awareness of financial and economic factors that affect the performance of the company. Furthermore, employees can acquire shares in the ultimate parent company through the UK Share Builder Plan.

## Directors' report

for the financial year ended 31 December 2018

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### Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report.

The ultimate parent company, Honeywell International Inc. has indicated that it will provide financial support to the company for at least one year from the date of signing these financial statements. The directors, having taken into account both the future trading of the company and the ability of the ultimate parent company to provide financial support, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

### Disclosure of information to auditor

In the case of each of the persons who is a director at the time this report is approved:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

### Events since the balance sheet date

Following the announcement of the closure of St Asaph site by January 2020, the land and building will be sold and staff will be made redundant. Any costs associated to site closure will be shown in the financial statements for the year ended 31 December 2019 & 31 December 2020.

### Independent auditor

Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the board of directors and signed on its behalf by:

DocuSigned by:

*Madeline Orbell-Thompson*

38120093067343R

Madeline Orbell Thompson

Director

20-Dec-2019

## **Directors' responsibilities statement**

*for the financial year ended 31 December 2018*

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### **Directors' responsibilities statement**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework.'

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards has been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To assist them in discharging these responsibilities, the directors have engaged a number of third party providers including accounting firms who are engaged to prepare the company's financial statements, as well as Honeywell International Inc.'s own finance shared service centre located in Bengaluru, Prague and Bucharest. Honeywell operates a country controllership model under which an identified senior finance representative is responsible for all of the UK and Ireland entities, supported by a wider finance team and under the supervision of the Regional Finance Leader for North & South Europe. The directors have ensured that adequate processes are in place to maintain oversight and supervision over these various providers and processes and to ensure there is clear linkage with the company's activities.



## **Independent auditor's report**

*to the members of Novar ED&S Limited*

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### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Novar ED&S Limited (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### **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 are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual 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 respect of these matters.

## **Independent auditor's report**

*to the members of Novar ED&S Limited*

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### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are 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 directors 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.

### **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 on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements**

#### **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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters 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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

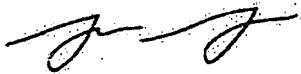
## **Independent auditor's report**

*to the members of Novar ED&S Limited*

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### **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.



James Boyle CA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Edinburgh, United Kingdom  
23 December 2019

## Profit and loss account

for the financial year ended 31 December 2018

		2018	2017
	Notes	£000s	£000s
<b>Continuing operations</b>			
Turnover	5	117,287	123,870
Cost of sales		(76,445)	(78,561)
<b>Gross profit</b>		<b>40,842</b>	<b>45,309</b>
Distribution expenses		(9,208)	(11,364)
Administrative expenses		(17,694)	(24,297)
<b>Operating profit</b>	6	<b>13,940</b>	<b>9,648</b>
Dividend Income	9	4,280	-
Loss on disposal of investments	16	(4,280)	-
Interest receivable and similar income	10	3,957	2,002
Interest payable and similar charges	11	(3,175)	(3,033)
<b>Profit before taxation from continuing operations</b>		<b>14,722</b>	<b>8,617</b>
Tax on profit	13	(2,612)	(3,150)
<b>Profit for the financial year from continuing operations</b>		<b>12,110</b>	<b>5,467</b>
<b>Discontinued operations</b>			
Profit after tax from discontinued operations	12	9,994	187
<b>Profit for the financial year</b>		<b>22,104</b>	<b>5,654</b>

There is no material difference between the profit from continuing and discontinued operations before taxation and the profit for the financial year stated above and their historical cost equivalents.

The notes on pages 14 to 40 form an integral part of the financial statements.

## Statement of comprehensive income

for the financial year ended 31 December 2018

		2018	2017
	Notes	£000s	£000s
Profit for the financial year		22,104	5,654
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss</i>			
Actuarial gains on pension plan	22	18,776	53,635
Movement on deferred tax relating to pension scheme	13	(3,192)	(9,118)
<b>Other comprehensive income for the year, net of tax</b>		<b>15,584</b>	<b>44,517</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>37,688</b>	<b>50,171</b>

## Balance sheet

as at 31 December 2018

	Notes	2018 £000s	2017 £000s
<b>Fixed assets</b>			
Intangible Assets	14	13	20
Tangible Assets	15	12,690	13,210
Investments	16	693	4,973
		<b>13,396</b>	<b>18,203</b>
<b>Current assets</b>			
Stocks	17	11,401	14,478
Debtors: amounts falling due within one year	18	102,423	49,562
Cash at bank and in hand		-	39,579
		<b>113,824</b>	<b>103,619</b>
<b>Creditors: amounts falling due within one year</b>	19	<b>(68,181)</b>	<b>(73,271)</b>
<b>Net current assets</b>		<b>45,643</b>	<b>30,348</b>
<b>Total assets less current liabilities</b>		<b>59,039</b>	<b>48,551</b>
Creditors: amounts falling due after more than one year	20	(40,441)	(40,441)
Provisions for liabilities	21	(25,489)	(19,759)
Pension asset	22	158,030	125,100
<b>Net assets</b>		<b>151,139</b>	<b>113,451</b>
<b>Capital and reserves</b>			
Called-up share capital	23	1,101	1,101
Share premium account	24	19,800	19,800
Other reserves	25	714	714
Profit and loss account		129,524	91,836
<b>Total shareholders' funds</b>		<b>151,139</b>	<b>113,451</b>

The financial statements on pages 9 to 40 were approved by the board of directors on 20-Dec-2019 and signed on its behalf by:

DocuSigned by:

*Madeline Orbell-Thompson*

38120093D67343B  
Madeline Orbell-Thompson  
Director

**Statement of changes in equity**  
*for the financial year ended 31 December 2018*

	<i>Called-up share capital</i>	<i>Share premium account</i>	<i>Other reserves</i>	<i>Profit and loss account</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
At 1 January 2017	1,101	19,800	714	41,665	63,280
Profit for the financial year	-	-	-	5,654	5,654
Other comprehensive income	-	-	-	44,517	44,517
<b>At 31 December 2017</b>	<b>1,101</b>	<b>19,800</b>	<b>714</b>	<b>91,836</b>	<b>113,451</b>
Profit for the financial year	-	-	-	22,104	22,104
Other comprehensive income	-	-	-	15,584	15,584
<b>At 31 December 2018</b>	<b>1,101</b>	<b>19,800</b>	<b>714</b>	<b>129,524</b>	<b>151,139</b>

## Notes to the financial statements

for the financial year ended 31 December 2018

### 1. General information

Novar ED&S Limited is a private company limited by shares which is incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The nature of the company's operations and its principal activities are set out in the strategic report on page 1.

The immediate parent undertaking is Novar Electrical Holdings Ltd., a company incorporated in United Kingdom. The registered address of the parent is Honeywell House, Skimped Hill Lane, Bracknell, Berkshire, RG12 1EB, England, United Kingdom.

The financial statements contain information about the company as an individual company and do not contain consolidated financial information as parent of a group.

The company is exempt under section 401 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 financial statements of Honeywell International Inc., a company registered in the USA. Honeywell International Inc. is the company's ultimate parent company and controlling party, heading up the smallest and largest group to consolidate these financial statements. The registered office of the ultimate parent company is located at 251, Little Falls Drive, Wilmington, DE 19808, USA. The financial statements of Honeywell International Inc. are publicly available and can be obtained from Corporate Publications, PO Box 2245, Morristown, New Jersey 07962-2245, USA or from the Internet at [www.honeywell.com](http://www.honeywell.com).

### 2. Significant accounting policies

The accounting policies that have been applied consistently throughout the financial year and in the preceding year are set out below:

#### *Basis of preparation*

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and FRS 101. The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment, paragraph 118(e) of IAS 38 Intangible Assets and paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.



## Notes to the financial statements

for the financial year ended 31 December 2018

### Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report.

The ultimate parent company, Honeywell International Inc. has indicated that it will provide financial support to the company for at least one year from the date of signing these financial statements. The directors, having taken into account both the future trading of the company and the ability of the ultimate parent company to provide financial support, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

### Turnover and revenue recognition

The company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18.

Turnover comprises revenue from sales to customers and service revenues net of value added tax.

The company recognises revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer excluding amounts collected on behalf of third parties. The company measures revenue at the transaction price, excluding estimates of variable considerations and recognises revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer excluding amounts collected on behalf of third parties. A good is considered to be transferred when the customer obtains control. IFRS 15 states that "control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset". Control also means the ability to prevent others from directing the use of, and receiving the benefit from, a good or service.

As per IFRS 15, the performance obligations are deemed to be satisfied in respect of the following when:

<u>Type of sale</u>	<u>Recognition</u>
Product sales	On delivery and when acceptance by the customer has occurred
Royalty income	Royalty revenue in the period relates to the sale of the licence for use of internally generated intellectual property. The licence has been valued by an external third party. As the licence is perpetual, the full amount of the sale has been recognised as royalty income in the current period

### Volume rebates

The company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the company applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The company then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

### Warranty obligations

The company typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

### Contract balances

#### Trade receivables

A receivable represents the company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in financial instruments – initial recognition and subsequent measurement.

## Notes to the financial statements

for the financial year ended 31 December 2018

### Revenue – Accounting policies applied until 31 December 2017

- *Turnover and revenue recognition*

In the comparative period, revenue was recognised to the extent that it was probable that the economic benefits would flow to the company and the revenue could be reliably measured. Revenue was measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria was assessed before revenue was recognised:

<u>Type of sale</u>	<u>Recognition</u>
Product and service sales	On delivery and when acceptance by the customer has occurred
Royalty income	Royalty revenue in the period relates to the sale of the licence for use of internally generated intellectual property. The licence has been valued by an external third party. As the licence is perpetual, the full amount of the sale has been recognised as royalty income in the Current period.

#### *Interest receivable*

Interest receivable is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

#### *Operating leases – as lessee*

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the profit and loss account on a straight line basis over the lease term.

#### *Research and development*

All costs associated with research and development are written off to the profit and loss account in the year of expenditure, less any R&D expenditure credit reclaimable from HM Revenue and Customs in respect of those costs.

#### *Foreign currency translation*

The company's financial statements are presented in Sterling, which is also the company's functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

#### *Taxation*

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

## Notes to the financial statements

for the financial year ended 31 December 2018

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the profit and loss account.

### *Intangible assets*

Goodwill is initially recognised at purchase costs less accumulated impairment loss, if any.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

The useful life of the major assets are:

Capitalised software	5 years
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Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

### *Tangible assets and depreciation*

Tangible assets are stated at historical purchase cost less accumulated depreciation. Depreciation is calculated using the straight line method at rates calculated to write down the cost to the estimated residual value over the estimate useful life. Cost comprises purchase costs together with any incidental expenses of acquisition. The annual depreciation rates used for the major assets are:

Buildings - freehold	2-3%
Plant & equipment	5-8%
Fixtures & fittings	8%

Depreciation is not provided on construction in progress until the asset is completed.

Land is not depreciated.

The assets' estimated useful lives, depreciation rates and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

### *Investments*

Investments in subsidiaries are accounted for at cost less any provision for impairment. The value of investments is reviewed annually by the directors or more frequently if there is a triggering event and provision made where the investment's carrying amount exceeds its recoverable amount.

## Notes to the financial statements

for the financial year ended 31 December 2018

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### *Impairment of non-financial assets*

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the profit and loss account.

Goodwill is tested for impairment annually as at year end and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### *Financial instruments*

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

#### *Financial asset – recognition and measurement*

##### *Initial recognition and measurement*

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

All recognised financial assets are subsequently measured in their entirety at amortised cost.

##### *Classification of financial assets*

Currently, all financial assets meet the following conditions and hence are classified at amortised costs:

- The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
- Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

This category is the most relevant to the company. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable in the profit and loss account. The losses arising from impairment are recognised in the profit and loss account.

## Notes to the financial statements

for the financial year ended 31 December 2018

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### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the company's balance sheet) when:

- The rights to receive cash flows from the asset have expired, or
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In accordance with IFRS 9, the company applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the following financial assets and credit risk exposure:

a) Financial assets that are debt instruments, and are measured at amortised cost e.g., loans, debt securities, deposits, trade receivables and bank balance.

b) Trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of IFRS 15.

The company estimates the expected credit loss in relation to its trade debtor considering the nature of business and its past history. The company reviews this policy annually, if required. In respect of other financial assets which primarily comprises of amounts owed from group undertakings, a letter of guarantee has been provided by the ultimate parent company, Honeywell International Inc. indicating that support will be given in order to settle these amounts should it be necessary. Accordingly, the company has not recognised a provision for expected credit loss.

ECL is the weighted average of difference between all contractual cash flows that are due to the company in accordance with the contract and all the cash flows that the company expects to receive, discounted at the original effective interest rate, with the respective risks of default occurring as the weights. When estimating the cash flows, the company is required to consider:

- All contractual terms of the financial assets (including prepayment and extension) over the expected life the assets.
- Cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

### *Financial liabilities - recognition and measurement*

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities comprises of trade creditors and borrowings.

## Notes to the financial statements

for the financial year ended 31 December 2018

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### *Subsequent measurement*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit and loss account when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as interest payable in the profit and loss account.

### *De-recognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit and loss account.

### **Financial Instruments – Accounting policies applied until 31 December 2017**

- *Financial assets - recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The company determines the classification of its financial assets at initial recognition. Trade debtors, amounts owed by group undertakings and other debtors have been classified as loans and receivables. The company has no other financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost less impairment.

- *Impairment of financial assets*

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An allowance for doubtful debts is made against trade debtors that exceed 180 days past due date. Losses arising from impairment are recognised in the profit and loss account in administrative expenses.

Provisioning made against debts subsequently settled after 180 days past due is treated as a change in accounting estimate and released to profit or loss.

### *Stocks*

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value. Provisions for obsolete and slow moving stocks are made where appropriate.

The cost of raw materials, consumables and goods for resale is the purchase cost on a first-in, first-out basis. The cost of work in progress and finished goods is the cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

## Notes to the financial statements

for the financial year ended 31 December 2018

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### Pensions

As described in note 22, the company participates in a defined benefit pension scheme for the benefit of certain of its employees, the assets of which are held separately from those of the company in independently administered funds. The rates of contribution are determined by independent professionally qualified actuaries.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the profit and loss account during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as interest receivable or payable.

Remeasurements, comprising actuarial gains and losses and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the company expects to recover by way of refunds from the plan or reductions in the future contributions.

Defined contribution plans are externally funded, with the assets of the plan held separately from those of the company in separate trustee administered funds. Contributions to such plans are charged to the profit and loss account as they become payable.

### Provisions

The company recognises a provision when it has present obligation, either legal or constructive, that can be reliably measured and it is probable that the transfer of economic benefits will be required to settle that obligation.

Provisions are based on the best estimate of expenditure required to settle the obligation.

### Discontinued operations

A discontinued operation is a component of the company's business, the operations and cash flows of which can be clearly distinguished from the rest of the company and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in note 12. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

## Notes to the financial statements

for the financial year ended 31 December 2018

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### 3. Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the financial year.

#### Judgements

There are no judgements that have a significant effect on amounts recognised in the financial statements.

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the company. Such changes are reflected in the assumptions when they occur.

##### *(i) Impairment of Investments*

The investment in subsidiary undertakings is carried at cost less impairment. The assessment of impairment involves estimation in relation to the value of the unquoted investment based on the net assets of the underlying investment and projected cash flows, wherever applicable. At the period end the value of the investment was £693,000 (2017: £4,973,000). There was no impairment charge during the year.

##### *(ii) Estimates used for provisions*

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows.

Judgements are also required to where high degree of uncertainty exists and which is associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise.

Provisions for warranty costs are recognised when the product is sold to the customer. Initial recognition is based on historical experiences. To calculate the provision for warranty cost, management take all returns/credit in relation to the products for the last 12 months and considers the cost of sales for those credits for the warranty period. The estimate of warranty costs is revised annually. The carrying amount of the warranty provision as at 31 December 2018 was £304,000 (2017: £505,000).

##### *(iii) Estimates used for DB pension scheme*

The cost of defined benefit pensions plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the actuary considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Management works closely with the actuary to agree to these assumptions. Further details are given in note 22.

### 4. New and amended standards and interpretations

The company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard or amendment is described below:



## Notes to the financial statements

for the financial year ended 31 December 2018

### IFRS 15 Revenue from contracts with customers

IFRS 15 superseded IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The company adopted IFRS 15 using the cumulative effects method. There was no impact of the transition to IFRS 15 on the profit and loss account of the company.

### IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in the changes in accounting policies and adjustments to the amounts recognised in the financial statements. The company estimated its due contractual cash flows discounted at the original effective interest rate, with the respective risks of default on external debts. On application of such model (ECL), the company estimated that the amount of expected credit losses for the year as £325,000 (2017: £372,000) (refer note 18). In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

In respect of the amounts owed from group undertakings, a letter of guarantee has been provided by the ultimate parent company, Honeywell International Inc. indicating that support will be given in order to settle these amounts should it be necessary. We are satisfied that Honeywell International Inc. has the ability to provide this guarantee. Accordingly, the company has not recognised a provision for expected credit loss.

## 5. Turnover

	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Analysis of turnover by geographical market</i>						
United Kingdom	94,443	102,771	1,913	3,644	96,356	106,415
Rest of Europe	5,304	3,450	4,815	6,252	10,119	9,702
Middle east	14,390	16,717	4	1	14,394	16,718
North America	414	404	4	-	418	404
Malaysia	596	489	4	4	600	493
Other	2,140	39	8	1,441	2,148	1,480
<i>Total turnover by geographical market</i>	117,287	123,870	6,748	11,342	124,035	135,212

## Notes to the financial statements

for the financial year ended 31 December 2018

	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Analysis of turnover by category</i>						
Sale of goods	117,272	123,835	6,748	11,342	124,020	135,177
Royalty income	15	35	-	-	15	35
<i>Total turnover by category</i>	117,287	123,870	6,748	11,342	124,035	135,212

## 6. Operating profit

	2018	2017
	£000s	£000s
This is stated after charging/(crediting):		
<i>Depreciation and amortisation (notes 14 and 15)</i>		
Tangible assets – owned	1,959	2,130
Intangible assets	7	18
Goodwill Impairment	-	6,318
<i>Rental charges under operating leases</i>		
Land and buildings	494	465
Plant and machinery	254	254
Gain on disposal of fixed assets	1	93
Reorganisation and redundancy	253	1,045
Research and development	5,050	5,607
Lease termination charges	-	630
Loss on foreign exchange	48	802

## 7. Auditor's remuneration

Fees payable to the auditor, Deloitte LLP, amounted to £29,895 (2017: £20,560) for the audit of the financial statements. This cost was incurred by Honeywell Control Systems Limited, a fellow UK subsidiary of Honeywell International Inc., and it is not recharged to the company.

There are no non audit services fees payable to the auditor.

## Notes to the financial statements

for the financial year ended 31 December 2018

### 8. Employees and directors

#### (a). Staff costs

	2018	2017
	£000s	£000s
Wages and salaries	19,917	22,152
Social security costs	1,887	2,382
Contributions to defined contribution pension plans	2,237	1,551
Pension costs for defined benefit plans (note 22)	3,176	2,275
<b>Total staff costs</b>	<b>27,217</b>	<b>28,360</b>

The average monthly number of employees during the financial year was made up as follows:

(including executive directors)

	2018	2017
	No.	No.
Direct	206	212
Indirect	391	408
<b>Total monthly average number of employees</b>	<b>597</b>	<b>620</b>

#### (b). Directors' remuneration

	2018	2017
	£000s	£000s
Aggregate emoluments	349	284
Pension costs- defined contribution	60	16
<b>Total payments to directors</b>	<b>409</b>	<b>300</b>
Highest paid director		
Aggregate emoluments	250	240
Pension costs- defined contribution	45	88
<b>Total payments to highest paid director</b>	<b>295</b>	<b>328</b>

## Notes to the financial statements

for the financial year ended 31 December 2018

During the financial year the highest paid director did not (2017: did not) exercise options over shares of Honeywell International Inc., the ultimate parent company.

	2018	2017
	No.	No.
Number of directors who:		
Were members of defined benefit plans	2	1

In 2018, four directors (2017: three directors) did not undertake any relevant services to the entity and were remunerated by other group companies for their services to the group as a whole.

### 9. Dividend income

	2018	2017
	£000s	£000s
Dividend from Ackermann Ltd	4,280	-
<i>Total dividend income</i>	<u>4,280</u>	<u>-</u>

### 10. Interest receivable and similar income

	2018	2017
	£000s	£000s
Interest receivable from group undertakings	698	224
Pension interest (note 22)	3,259	1,778
<i>Total interest receivable and similar income</i>	<u>3,957</u>	<u>2,002</u>

### 11. Interest expense and similar charges

	2018	2017
	£000s	£000s
Interest payable on bank overdraft	142	-
Preference share dividend	3,033	3,033
<i>Total interest expense and similar expenses</i>	<u>3,175</u>	<u>3,033</u>

### 12. Discontinued operations

In 2018 the ultimate parent company Honeywell International Inc. spun off its Homes product portfolio and ADI global distribution business into a stand-alone, publicly-traded company as a result of its comprehensive portfolio review. As part of the implementation, on 29 July 2018, the company sold the assets and liabilities relating to its Homes division to Ackermann Limited in consideration for shares valued at £10,609,000, resulting in a gain on disposal of £10,174,000. This represented the entirety of the company's Homes operating segment as at 29 July 2018.

## Notes to the financial statements

for the financial year ended 31 December 2018

The results of Homes division for the year are presented below:

	Note	2018 £000s	2017 £000s
<i>Results of discontinued operations</i>			
Turnover		6,748	11,342
Expenses		(6,801)	(11,132)
Results from operating activities		(53)	210
(Loss)/profit before tax from discontinued operations		(53)	210
Tax charged (note 13)		(127)	(23)
(Loss)/profit for the year from discontinued operations after tax		(180)	187
Gain on sale of operation after tax		10,174	-
Profit for the year from discontinued operations after tax		<b>9,994</b>	<b>187</b>

The details of net assets transferred are as follows:

	29 July 2018 £000s
Tangible assets	285
Inventories	1,809
Debtors: amount falling due within one year	176
<b>Total assets</b>	<b>2,270</b>
Creditors: amount falling due within one year	(1,748)
Provisions for liabilities	(87)
<b>Total liabilities</b>	<b>(1,835)</b>
<b>Net assets transferred</b>	<b>435</b>
Sale consideration	10,609
Gain on disposal of business	10,174

## Notes to the financial statements

for the financial year ended 31 December 2018

### 13. Taxation

(a). Tax charged in the profit and loss account

	2018	2017
	£000s	£000s
<i>Current tax:</i>		
UK corporation tax on profit for financial year	-	-
<i>Total current tax</i>	-	-
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	2,743	2,832
Adjustment in respect of prior years	(4)	1,200
Effect of change in tax laws and rates	-	(859)
<i>Total deferred tax</i>	2,739	3,173
<i>Total tax expense incurred during the year</i>	2,739	3,173
Tax expenses reported in the statement of profit or loss	2,612	3,150
Tax expenses attributable to discontinued operations	127	23

(b). Tax relating to items credited or charged to statement of comprehensive income

	2018	2017
	£000s	£000s
<i>Deferred tax:</i>		
Remeasurements on defined benefit pension plans	3,192	9,118
<i>Total deferred tax</i>	3,192	9,118
<i>Total tax expense in the statement of comprehensive income</i>	3,192	9,118

## Notes to the financial statements

for the financial year ended 31 December 2018

### (c). Reconciliation of the total tax charge

The tax expense in the profit and loss account for the financial year is lower than the standard rate of corporation tax in the UK of 19% (2017: 19%). The differences are reconciled below:

	2018	2017
	£000s	£000s
Profit before tax from continuing operations	14,722	8,617
Profit before tax from a discontinued operations	10,121	210
<b>Profit before tax</b>	<b>24,843</b>	<b>8,827</b>
Profit multiplied by the effective rate of corporation tax in the UK of 19% (2017:19.25%)	4,720	1,699
<i>Effects of:</i>		
Expenses not deductible for tax purposes and other permanent differences	1,443	1,969
Income not taxable for tax purposes	(3,204)	(241)
Effect of change in tax laws and rates	-	(859)
Difference in current tax rate to deferred rate	(323)	(375)
Adjustment for tax for prior years	(4)	1,200
Group relief not paid for	106	(220)
<b>Total tax expense reported in the profit and loss account</b>	<b>2,739</b>	<b>3,173</b>
Tax expenses reported in the statement of profit or loss	2,612	3,150
Tax expenses attributable to discontinued operations	127	23

## Notes to the financial statements

for the financial year ended 31 December 2018

### (d). Factors affecting tax charge for the financial year

The standard rate of UK corporation tax reduced from 20% to 19% on 1 April 2017. The Finance (No.2) Act 2017 received Royal Assent on 16 November 2017 which will reduce the rate further to 17% from 1 April 2020. These reductions may reduce the company's future tax charge accordingly.

### e). Deferred tax

	2018	2017
	£000s	£000s
<i>The deferred tax included in the balance sheet is as follows:</i>		
<i>Deferred tax asset:</i>		
Differences between capital allowances and depreciation	1,626	1,925
Other short term timing differences	54	88
<i>Total deferred tax asset</i>	<u>1,680</u>	<u>2,013</u>
<i>Deferred tax liability</i>		
Deferred tax provision on pension asset (note 22)	(26,865)	(21,267)
<i>Total deferred tax liability</i>	<u>(26,865)</u>	<u>(21,267)</u>
<i>Net deferred tax liability</i>	<u>(25,185)</u>	<u>(19,254)</u>

<i>Movements in deferred tax</i>	<i>Excluding pension £000s</i>	<i>Pension £000s</i>	<i>Total £000s</i>
At 1 January 2018	2,013	(21,267)	(19,254)
<i>Charge to the profit and loss account:</i>			
Continuing operations	(206)	(2,406)	(2,612)
Discontinued operations	(127)	-	(127)
<i>Charge to statement of comprehensive income:</i>			
Continuing operations	-	(3,192)	(3,192)
At 31 December 2018	<u>1,680</u>	<u>(26,865)</u>	<u>(25,185)</u>

There are no unprovided amounts relating to deferred tax.



## Notes to the financial statements

for the financial year ended 31 December 2018

### 14. Intangible assets

	Software £000s	Goodwill £000s	Total £000s
<b>Cost</b>			
At 1 January and December 2018	886	6,318	7,204
<b>Accumulated amortisation/impairment</b>			
At 1 January 2018	866	6,318	7,184
Provided during the financial year	7	-	7
At 31 December 2018	873	6,318	7,191
<b>Net book value:</b>			
At 31 December 2018	13	-	13
At 31 December 2017	20	-	20

### 15. Tangible assets

	Land and buildings £000s	Plant and equipment £000s	Fixtures and fittings £000s	Construction in progress £000s	Total £000s
<b>Cost</b>					
At 1 January 2018	10,729	23,457	2,547	1,989	38,722
Additions	267	234	-	1,223	1,724
Reclassification	136	570	-	(706)	-
Disposals pertaining to discontinued operations (note 12)	(40)	(1,196)	(3)	-	(1,239)
At 31 December 2018	11,092	23,065	2,544	2,506	39,207
<b>Accumulated depreciation</b>					
At 1 January 2018	6,056	17,318	2,138	-	25,512
Provided during the financial year	394	1,483	82	-	1,959
Disposals pertaining to discontinued operations (note 12)	(40)	(910)	(4)	-	(954)
At 31 December 2018	6,410	17,891	2,216	-	26,517
<b>Net book value:</b>					
At 31 December 2018	4,682	5,174	328	2,506	12,690
At 31 December 2017	4,673	6,139	409	1,989	13,210

## Notes to the financial statements

for the financial year ended 31 December 2018

The above figures include:

	2018	2017
	£000s	£000s
Freehold land and buildings, at net book value	4,682	4,673
Short leasehold land and buildings, at net book value	-	3

## 16. Investments

	2018	2017
	£000s	£000s
<b>Cost</b>		
At 1 January	4,973	4,973
Additions during the year	10,609	-
Disposals during the year	(14,889)	-
At 31 December	693	4,973
<b>Provision for impairment</b>		
At 1 January and at 31 December	-	-
<b>Net book value</b>	693	4,973

The directors believe that the book value of the investments is not more than the value of the underlying net assets.

Shares in the company's subsidiary undertakings are ordinary shares. The subsidiary undertakings are listed in note 28.

During the current year, Novar ED&S Limited acquired additional shares of £10,609,000 in Ackermann Limited, as consideration for the transfer of Homes business. Subsequently, the entire investment in Ackermann Limited with a carrying value of £14,889,000 was transferred to Novar Limited for a consideration of £10,609,000, resulting in a loss on disposal of investment of £4,280,000.

## 17. Stocks

	2018	2017
	£000s	£000s
Raw materials	3,456	3,066
Work in progress	1,369	827
Finished goods	6,576	10,585
<b>Total stocks</b>	11,401	14,478
The amount of inventories recognised as an expense during the period	50,058	57,030
The amount inventories written down recognised as an expense in the period	1,009	890

## Notes to the financial statements

for the financial year ended 31 December 2018

### 18. Debtors

	2018	2017
	£000s	£000s
<i>Amounts falling due within one year</i>		
Trade debtors	18,443	17,497
Amounts owed by group undertakings	83,901	30,856
Other debtors	9	96
Prepayments and accrued income	70	1,113
<i>Total amounts falling due within one year</i>	<b>102,423</b>	<b>49,562</b>

Amounts owed by group undertakings include the following interest bearing loans and other borrowings:

Receivable	Currency	Interest terms	2018	2017
			£000s	£000s
On demand	GBP	UK Base Rate Plus 1%	78,978	24,280
On demand	EUR	3 Month Euro Libor Plus 0.25%		40

All amounts owed by group undertakings are payable on demand and unsecured.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses.

#### 31 December 2018

	Trade receivables						
	Days past due						
	Not due	<30 days	30-60 days	61-90 days	91 to 180 days	>180 days	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Expected credit loss rate	0.22%	0.03%	3.00%	4.48%	12.96%	43.56%	-
Estimated total gross carrying amount at default	28,462	(10,722)	434	(67)	108	553	18,768
Expected credit loss	63	(3)	13	(3)	14	241	325

#### 31 December 2017

	Days past due						
	Not due	<30 days	30-60 days	61-90 days	91 to 180 days	>180 days	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Expected credit loss rate	0.29%	0.90%	3.83%	5.85%	16.89%	96.77%	-
Estimated total gross carrying amount at default	16,541	221	463	167	210	267	17,869
Expected credit loss	49	2	18	10	35	258	372

## Notes to the financial statements

for the financial year ended 31 December 2018

### 19. Creditors: amounts falling due within one year

	2018	2017
	£000s	£000s
Trade creditors	18,080	16,722
Bank Overdraft	12,225	-
Amounts owed to group undertakings	6,570	11,065
Taxation and social security	2,166	2,236
Accruals and deferred income	1,567	3,657
Accrued preference dividends	27,573	39,429
Other creditors	-	162
<b>Total amount owed to creditors</b>	<b>68,181</b>	<b>73,271</b>

Accrued preference dividends represent an annual dividend of £3,033,000 since 2005 on 7.5% cumulative preference shares of £1 each.

All amounts owed to group undertakings are payable on demand, unsecured and non-interest bearing.

### 20. Creditors: amounts falling due after more than one year

	2018	2017
	£000s	£000s
7.5% cumulative preference shares of £1 each	40,441	40,441

The holders of the redeemable cumulative preference shares have the right to be paid a fixed cumulative preference dividend at the rate of 7.5% per annum payable annually in arrears.

The company can redeem all or part of the preference shares at any time together with arrears of dividends. In the case of winding up the company, the holders of the preference shares are entitled to receive the face value of the shares together with arrears of dividends up to the date of winding up.

## Notes to the financial statements

for the financial year ended 31 December 2018

### 21. Provisions for liabilities

	Warranty £000s	Deferred tax liability (note 13) £000s	Total
At 1 January 2018	505	19,254	19,759
Utilised	(184)	-	(184)
(Credit)/charge to the profit and loss account: – continuing operations	(17)	2,612	2,595
Charge to the profit and loss account: –discontinued operations	-	127	127
Charge to statement of comprehensive income:		3,192	3,192
At 31 December 2018	304	25,185	25,489

The warranty provision represents the best estimate of the costs associated with the sale of products under warranty before the balance sheet date.

### 22. Pension commitments

#### Honeywell UK Pension Scheme (HUKPS)

The company is a participating employer in the Honeywell UK Pension Scheme (HUKPS) which is a funded defined benefit plan based on salary. It is closed to new entrants. Regular employer contributions to the plan by the company in 2019 are estimated to be £Nil. Defined benefit obligations are based on a full valuation of the schemes liabilities as at 31 March 2018, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2018.

	2018 £000s	2017 £000s
<i>Amounts recognised in the balance sheet</i>		
Fair value of plan assets	686,947	700,509
Present value of defined benefit obligations	(528,917)	(575,409)
Net assets	158,030	125,100

## Notes to the financial statements

for the financial year ended 31 December 2018

	2018	2017
	£000s	£000s
<i>Amounts recognised in profit or loss</i>		
Interest cost	13,704	14,939
Expected return on pension plan assets	(16,963)	(16,717)
<i>Finance credit recognised</i>	(3,259)	(1,778)
Current service cost	-	1,639
Past service cost (including curtailments)	2,575	-
Total administrative expenses recognised in P&L	601	636
Cost recognised in profit and loss	(83)	497
Actual return on assets	(6,820)	71,518
<i>Remeasurements</i>		
	£000s	£000s
Liability (gains)/losses due to changes in assumptions	(47,923)	9,774
Liability losses/(gains) due to experience during the year	5,363	(8,608)
Asset losses/(gains) arising during the financial year	23,784	(54,801)
Total actuarial gain recognised in OCI	(18,776)	(53,635)
Changes in present value of defined benefit obligation		
At 1 January	575,409	579,414
Current service cost	-	1,639
Interest cost	13,704	14,939
Curtailments	2,574	-
Actuarial (gains)/losses on liabilities-financial assumption	(39,306)	18,373
Actuarial gains on liabilities - demographic assumptions	(8,617)	(8,599)
Actuarial losses on liabilities-experience	5,363	(8,608)
Contributions by participants	-	37
Net benefits paid out	(20,210)	(21,786)
At 31 December	528,917	575,409

## Notes to the financial statements

for the financial year ended 31 December 2018

	2018	2017
<i>Changes in fair value of scheme assets</i>	<i>£000s</i>	<i>£000s</i>
At 1 January	700,509	637,177
Expected return on assets	16,963	16,717
Actuarial (losses)/gains on assets	(23,784)	54,801
Contributions by employer	14,071	14,199
Actual administration expenses paid	(602)	(636)
Contributions by participants	-	37
Net benefits paid out	(20,210)	(21,786)
At 31 December	686,947	700,509

	2018	2017
<i>Major categories of plan assets as a percentage of total plan assets</i>	<i>%</i>	<i>%</i>
Equities (including venture cap and alternative investments)	32	60
Bonds	63	35
Property	4	1
Cash	1	4
Total	100	100

	2018	2017
<i>Main actuarial assumptions</i>	<i>%</i>	<i>%</i>
Inflation (RPI)	3.2	3.2
Inflation (CPI)	2.1	2.1
Rate of general long term increases in salaries	n/a	n/a
<i>Rate of increase for pensions</i>		
Pensions subject to limited price indexation to 5%	3.1	3.1
Pensions subject to limited price indexation to 2.5%	2.2	2.2
Other pensions and deferred pensions	2.1	2.1
Discount rate for scheme liabilities	2.9	2.5

## Notes to the financial statements

for the financial year ended 31 December 2018

### Mortality

Mortality assumptions are based on standard mortality tables that allow for future mortality improvements. These tables assume that a member who retired in 2018 at age 65 will live on average for a further 21.6 years (2017: 22.7 years) after retirement if male or a further 23.5 years (2017: 24.6 years) if female.

### Overall long-term rate of return

The company employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with a higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected rate of return for each asset class over the actual asset allocation for the plan at the year end.

## 23. Called-up share capital

	2018	2017
	£000s	£000s
<i>Authorised and allotted, called up and fully paid</i>		
1,100,605 ordinary shares of £1 each	1,101	1,101

## 24. Share premium account

	2018	2017
	£000s	£000s
<i>Balance at 1 January and 31 December</i>		
Premium arising on issue of equity shares	19,800	19,800

## 25. Other reserves

	2018	2017
	£000s	£000s
<i>Balance at 1 January and 31 December</i>		
Other reserves	714	714



## Notes to the financial statements

for the financial year ended 31 December 2018

### 26. Operating lease commitments

	2018	2017
	£000s	£000s
At 31 December the future minimum rentals payable under non-cancellable operating leases are as follows:		
<i>Land and buildings</i>		
Not later than one year	405	405
After one year but not more than five years	1,620	1,620
After five years	12,428	12,833
<i>Total land and building operating lease commitments</i>	<u>14,453</u>	<u>14,858</u>
<i>Other leases</i>		
Not later than one year	254	254
After one year but not more than five years	762	1,016
<i>Total other leases commitments</i>	<u>1,016</u>	<u>1,270</u>

The company has entered into commercial leases on certain properties and items of machinery. The leases pertaining to machinery have an average duration of 3 years. There are two property leases, one has been surrendered in 2017 and another which relates to the Arnold centre has another 38 years to run, this agreement contains an option for review in 2024. There are no restrictions placed upon the lessee by entering into these leases.

### 27. Contingent liabilities

The company, with other Honeywell group companies in the UK, has provided a bank guarantee under a composite accounting agreement. Under this agreement, bank interest is calculated on the net group position after setting off positive and overdrawn cash balances. The maximum contingent liability under this agreement is the total of overdrawn balances held by group companies, amounting to £423,389,000 (2017: £527,287,000). Positive cash balances held by the group exceeded overdrawn balances in 2017 and 2018.

### 28. Subsidiary undertakings

The company's subsidiary undertakings, all of which are 100% owned unless otherwise indicated, are as follows:

Name of company	Principal activity	% holding	Country of incorporation	Registered address
Directly held subsidiaries:				
Honeywell Electrical Devices & Systems India Ltd	Electrical devices and systems	91%	India	Dowlath Tower 3 & 4 Floor, Taylors Road, Kilpauk, Chennai Tamil Nadu-TN 600010 India

## **Notes to the financial statements**

*for the financial year ended 31 December 2018*

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### **29. Events since the balance sheet date**

Following the announcement of the closure of St Asaph site by January 2020, the land and building will be sold and staff will be made redundant. Any costs associated to site closure will be shown in the financial statements for the year ended 31 December 2019 & 31 December 2020.