

Novar ED&S Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021



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Company Information

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Strategic Report for the Year Ended 31 December 2021

The directors present their report for the year ended 31 December 2021.

Principal activity

The principal activities of the company are 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 loss for the financial year, after taxation, is £4,114,000. (2020: £8,305,000).

Turnover for the year was £91,231,000 (2020: £81,098,000) which is an increase of 12.5% when compared to the prior year. This is primarily due to an increase in electrical products and the overall economic market conditions stemming from the impact of COVID-19 and the lifting of the restrictions leading to an overall increase in demand. Gross margins for the year had an adverse impact, even though volumes increased, this is due to the relatively static fixed cost base and inflationary cost pressures, resulting in the company recognising a loss in 2021. The company saw administration expenses reduce significantly in the year, mainly due to restructuring costs £160,000 (2020: £4,533,000) which were completed in 2020 and the annual Head Quarter recharges for the year £3,844,000 (2020: £4,481,000) which saw a reduction across EMEA due to the economic downturn.

The business continues to focus on cost controls and manufacturing efficiencies to offset the inflationary pressures. There was a reduction in the staff resources as a result of the cost saving initiatives.

Moreover, the business is investing heavily into research and development projects to improve the market share in 2022 and continues to invest in a new distribution center at Ellesmere Port.

In spite of the loss for the year net assets increased by £41,096,000, primarily due to the increase in the pension asset which was attributable to the actuarial gains on pension assets exceeding the actuarial losses on the liabilities leading to a net gain of £69,078,000 (2020: £41,496,000) being recognised in other comprehensive income.

The EU-UK Trade and Cooperation Agreement (Brexit deal) was signed on 30 December 2020 and is effective from midnight 31 December 2021. The company's trading activity with the EU is not significant to the overall activity and as a result the Brexit deal is not expected to have a significant impact on the future activities of the company. However, it will affect the principal risks and uncertainties as detailed in the risk management, and principal risks and uncertainties paragraphs included in this report.

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

The company's key financial and other performance indicators during the year were as follows:

| Financial KPIs | Unit | 2021 | 2020 |
|--|------|------|--------|
| Change in turnover compared with previous year | % | 12.5 | (25.5) |
| Gross profit margin | % | 22.4 | 23.4 |
| Operating profit margin | % | 2.2 | (8.1) |

Turnover

Turnover for the year was £91,231,000 (2020: £81,098,000) which is an increase of 12.5% when compared to the prior year.

This is primarily due to an increase in electrical products and the overall economic market conditions stemming from the impact of COVID-19 and the lifting of the restrictions leading to an overall increase in demand.

Gross profit margin

Gross profit was negatively impacted mainly due to the relatively static fixed cost base with decreasing volumes in the year, particularly due to the market conditions in the UK and Middle East. The company continues to focus on maintaining margins through stringent cost controls.

Strategic Report for the Year Ended 31 December 2021 (continued)

Operating profit/(loss) margin

Operating margins in the year were impacted mainly by investments in research and development projects of £3,893,000 (2020: £5,566,000), gain on disposal of fixed assets £4,424,000 (2020: £nil) and other impacts as discussed above under gross profit.

Headcount

There was a headcount reduction of 25 resources partially as a result of various cost saving initiatives taken by the Company.

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; and
- strong brand recognition through brand and channel management.

Financial risk management, objectives and policies

Interest rate risks

The company is exposed to interest rate risk arising out of amounts owed to/from group undertakings respectively. 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.

Foreign currency risks

The impact of COVID-19 has resulted in increased volatility in foreign exchange rates thus exposing the company to increased foreign currency risks. This has been compounded by the effect of the Brexit deal on British Pound Sterling.

The company monitors and manages the foreign currency risk relating to the operations of the company, with the assistance of the treasury department of Honeywell International Inc.

Liquidity risks

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

Credit risks

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.

In respect of intercompany receivables, the company does not have exposure to credit risk considering that we are receiving a guarantee letter from Honeywell International Inc. to support intercompany balances.

Principal risks and uncertainties

As a trading company, the company is dependent on its continued ability to secure contracts with customers and its ability to perform under those contracts.

The following risks will be applicable to the companies dealing in Honeywell building technologies.

Strategic Report for the Year Ended 31 December 2021 (continued)

- **Customer risk:** Existing and potential customers and their end-users may choose to reduce or delay spending, cancel contracts, or cut costs in a manner that reduces demand for our products and services. Customers may also attempt to renegotiate contracts and obtain concessions, face financial constraints on their ability to make payments to us on a timely basis or at all, or discontinue their business operations, and we may be required to discount the pricing of our products, all of which may materially and negatively impact our operating results, financial condition and prospects. In addition, unfavourable customer site conditions, such as closure of or access restrictions to customer facilities, and disruptions to our customers' third-party logistics, warehousing, inventory management and distribution services may limit our ability to sell products and provide services, meet billing milestones or provide services.
- **Operations risk:** The closure of our facilities, restrictions inhibiting our employees' ability to access those facilities, and disruptions to the ability of our suppliers or service providers to deliver goods or services to us (including as a result of supplier facility closures or access restrictions, disruptions to their supply chains, and supplier liquidity or bankruptcy risk) could disrupt our ability to provide our services and solutions and result in, among other things, terminations of customer contracts and losses of revenue. Because the COVID-19 pandemic could adversely affect our near-term and long-term revenues, earnings, liquidity and cash flows, we have taken and may be required to continue taking significant cost actions, including but not limited to reducing discretionary expenses (such as non-essential travel, contractors, and consultants), reducing hiring, cancelling annual merit increases; reducing executive and board of directors pay, reducing work schedules across the enterprise, shortening or staggering work schedules to match production with demand, and reducing staffing levels, as well as increasing supplier-based productivity and enhancing spending-limit controls. Remote work and increased frequency of cybersecurity attacks, including phishing and malware attempts that utilize COVID-19-related strategies, increase the risk of a material cybersecurity incident that could result in the loss of proprietary or personal data, render us more vulnerable to future cybersecurity attacks, disrupt our operations, or otherwise cause us reputational or financial harm.

The company develops and deliver electrical products, lighting controls and integrated solutions to improve energy efficiency, industrial productivity and safety while enhancing convenience and control to entities outside the Honeywell group. The current coronavirus pandemic has a material adverse impact on the demand for company's products mainly due to supply chain headwinds, customer site disruptions and lockdown restrictions. The company is undertaking various cost mitigating measures as described above to reduce its current cost base. The company expects gradual recovery in demand for its products and services once the lockdown measures are lifted. The company is investing heavily into research and development projects to improve its market share in 2021.

The COVID-19 pandemic continues to impact our business operations, and our customers' and suppliers' ability to operate at normal levels. Disruptions in normal operating levels continue to create supply chain disruptions and inflationary cost pressures within our end-markets. We anticipate supply chain constraints, and the inflationary environment will continue during 2022. As such, we implemented short-term and long-term strategies to reduce the impact of current and future effects. During the first quarter of 2022, governments around the world removed many restrictions on businesses and the general public. We continue to operate our manufacturing sites at normal production levels. As of May 31, 2022, we have returned 100% of our non-manufacturing employees to the workplace on a flexible schedule (3 days working from office – 2 days working from home). We continue to actively monitor regional COVID-19 outbreaks, and the related government restrictions and lockdown activities in the areas we operate. To date, the impacts of these actions have not been material.

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 UK left the EU on 31 January 2020 and was in a transition period until 31 December 2020. The EU-UK Trade and Cooperation Agreement (Brexit deal) was signed on 30 December 2020 and is effective from 1 January 2021. The deal imposes additional rules and regulations to govern the transfer of goods and services between the United Kingdom and European Union. This may lead in future years to an increase in costs and administrative requirements and procedures of trading with the European Union. The implementation of the deal is also expected to impact macroeconomic factors such as exchange rates. A working group has been established by Honeywell International Inc. to monitor the trade deal and regulation and implement mitigating actions to respond to any changes.

The company's trading activity with the EU is not significant to the overall activity. As a result, the effect of the Brexit deal is limited to macroeconomic factors, such as exchange rate and interest rate fluctuations, that are influenced by the deal and affect the environment in which the company operates.

Strategic Report for the Year Ended 31 December 2021 (continued)

Statement by the directors in performance of their statutory duties in accordance with s172(1) of Companies Act

Set out below is the company's report as required under the Companies (Miscellaneous Reporting) Regulations 2018 (the "Regulations"). The Regulations require Novar ED&S Limited (the "company") to report how the Directors of the company (the "Board") have considered their duties under section 172 ("Section 172") of the Companies Act 2006 (the "Act"), to promote the success of the Company for the benefit of its shareholder whilst having due regard to the company's stakeholders. 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 is part of the Honeywell group of companies (the "Honeywell Group") and is ultimately owned by Honeywell International Inc. The duty under Section 172 is owed by the Directors to the company. In the context of a group of companies, the company's Directors owe their primary duty to the company and not Honeywell International Inc (though Honeywell International Inc is considered a relevant factor under the Section 172 duty).

The Board recognises the need to have appropriate levels of corporate governance as part of its approach to risk mitigation and wider stakeholder engagement strategy, and that the overall framework that Section 172 promotes is to drive the long-term success and sustained economic viability of the company for the benefit of its sole shareholder and other key stakeholders.

The Directors are mindful of corporate governance and seek to demonstrate understanding of their accountability and statutory responsibilities, including application of their Section 172 duties under the Act. Honeywell Group's legal function provides regular corporate governance updates to the Board on new and amended legislation, including the steps taken to ensure compliance. The Directors always consider whether the decisions to be taken are in the best interest of the company, whilst also considering the impact on the company's wider stakeholder base.

For details of the issues, factors and stakeholders the Directors consider relevant in complying with Section 172 of the Act, and the main methods the Directors have used to engage with stakeholders and understand the issues to which they must have regard, refer to the "Engagement with suppliers, customers and other relationships" and "Engagement with employees" statements on pages 8 and 11 respectively.

Purpose

The Board is responsible for developing and promoting the purpose of the Company and ensuring that its values, strategy and culture complement this purpose and are strategically aligned with Honeywell Group's strategy. Our purpose is at the heart of everything that we do, it inspires our employees and guides our day-to-day operations, our culture and decision making by the Board. The Company develops and delivers electrical products, lighting controls and integrated solutions to improve energy efficiency, industrial productivity and safety while enhancing convenience and control.

An annual strategic planning process at Novar ED&S Limited takes place that guides the direction of our business. Our strategic objectives align to the wider Honeywell strategy and taking into account new products planned at the Company.

We align our values with the Honeywell Group's clearly defined core values, which encompass inclusion and diversity, sustainability, integrity and compliance and communities. By incorporating these values, the company creates an environment where individuals and teams grow together whilst recognising a culture that balances accountability and results with a high value on its people. The company's commitment to integrity, ethics, supporting diversity and workplace respect underlie the Directors' duties to promote the success of the company as a whole whilst encouraging such behaviours enabling a "performance culture" that the Honeywell Group seeks to achieve throughout.

Our culture is determined by the values set out above which defines the expectations, attitudes and behaviors expected by the company's Directors and its employees, in its activities and relationships with colleagues, shareholders and wider stakeholders. In doing so, this ensures that the business maintains a reputation for high standards of business conduct and stakeholder engagement.

Our culture and values are further reinforced by training and development of the Board and employees. The company and its Directors are able to apply the core values, which produce a continuously high standard of business ethics, when considering the statutory requirements of Section 172 in pursuit of promoting the long-term success of the company.

Strategic Report for the Year Ended 31 December 2021 (continued)

In making its decisions, including strategic decisions that impact our stakeholders, a key principle applied by the Directors is to always consider whether the decision they are about to take leads to a positive long-term increase in shareholder value whilst balancing the interests of, and long term impacts on, stakeholders of the company. The Directors and senior management are provided with clear guidance and appropriate corporate governance protocols to support the decision making process, at the heart of which is the necessity to promote the sustainable, long-term success of the company, whilst having sufficient regard for stakeholders.

Decision making process

Decision making within the company is undertaken by the Board with supporting information from subject matter experts at executive level in the business, including various Honeywell group functions such as Tax, Treasury and Legal. Decision making is guided by the strategic direction of the global business and the business unit.

The Board has a robust set of reserved matters relevant and appropriate to its purpose and function, with appropriate thresholds, to ensure applicable approvals are obtained before certain actions/business decisions can be taken. Certain matters are delegated to senior management with appropriate levels of authority and escalation. These matters are strictly reserved to ensure the directors of the Board can demonstrate sound and competent execution of their statutory duties (including oversight of the management of relationships and engagement with stakeholders on their behalf) in accordance with the Act and the Regulations and are driven by the need to promote the success of the company. A key principle underlying these delegations in the company is that the flow of delegation originates from the Board to senior management.

As detailed in the "Training" section below, training has been undertaken by the Directors to understand the requirements of the Regulations and the process for approving principal decisions. This training also informed the directors of future regulatory developments which the Board will continue to monitor through the overarching corporate governance across the UK.

Board meetings are scheduled on an adhoc basis and occur at least once a year. The Board processes that support the application of our corporate governance and decision-making more widely, and Section 172 more specifically, require board paper preparers to ensure sufficient and relevant information is provided to the Board, senior management and Honeywell International Inc. Board meetings and minutes demonstrate the relevant aspects of Section 172 are considered and appropriately addressed. The corporate governance process provides the company with a framework to ensure everyone involved in and contributing to the decision-making process understands the duties which the directors are obligated to consider in the decision-making process and applicable regulations, to be able to provide relevant information and therefore lead to effective decision making.

To further support effective decision-making, the Board takes into account various group-wide governance policies and practices, including the Delegations of Authority, Code of Ethics, Anti-Bribery and Corruption Policy, Environmental Policy, Security Policy (the "Honeywell Policies"), when making decisions on behalf of the company, together with established practices.

Board composition

The Company has two Directors, as further described on page 14 of the Directors' Report. The current Directors, in addition to their role as statutory Director of the Company, also occupy key positions within the wider organisation and ensure ongoing oversight of various segments of the business]. For example, M.Orbell-Thompson is the finance leader on key leadership teams for various EMEA Honeywell lines of business. She has extensive experience in designing, preparing and presenting EMEA financial results and analysis to the key leadership teams, highlighting risks and opportunities, to enable profitable growth. She is also responsible for driving business and finance functional objectives and ensuring proper internal controls.

The composition of the Board provides a level of seniority, extensive business and industry experience and in-depth understanding of the company's and the wider organization's affairs to enable the Directors to meet the needs of the business and for the Directors to each carry out their role and statutory duties to a high standard. The Board's collective experience enables them to identify and consider a broad range of stakeholders in their deliberations and decision-making.

Strategic Report for the Year Ended 31 December 2021 (continued)

Training

New Directors are subject to a formal induction process and the current Directors have an opportunity to receive training relevant to their role on the Board and the wider organization. To support the Directors in their roles and enable them to discharge their responsibilities as statutory directors, the induction and ongoing training contains materials and training sessions on Section 172 duties and wider responsibilities of the Directors.

The Directors of the Company are given access to an online training portal where regularly updated training material and modules are made available to enable the Directors to continually refresh and develop their skills and knowledge. Sector specific training is provided to all employees along with the Directors.

In 2021, and annually going forward, Directors of the company will attend bespoke training sessions from an external facilitator to ensure they are continually up to date with relevant legislation in order to actively demonstrate compliance and application of their statutory duties. Director training will consist of presentations, breakout sessions and case study analysis. New Directors will be provided with induction packs detailing the course content to ensure that they are up to date as soon as they take on a Honeywell directorship.

Principal decisions

Being a part of a large multinational group of companies, the company adheres to the compliance policies and procedures which are set out by its parent company alongside those of the wider group. During the year, all key strategic decisions made by the company have been made with due consideration of the business unit and wider Honeywell Group strategy.

The Board has the necessary skills and experience required to identify the impacts of their decisions on the company's stakeholders, and where relevant, the likely consequences of the decisions in the long-term. The Directors are supported by information provided by Honeywell Group functions, such as Tax, Treasury and Legal - who support and consult when necessary. Responsibility for making principal decisions is reserved for the company's Board and can include the following decisions: (i) those linked to matters of strategic importance; (ii) commercially material matters of financial or operational importance; and (iii) those that impact key stakeholders. Examples of principal decisions can include:

- dividends;
- changes to key investments owned by the company;
- substantial reorganisation projects;
- business contracts above certain value;
- changes to the company's strategic objectives, in line with wider business unit priorities;
- substantial changes to the Honeywell brand; and
- matters that will substantially affect the company's employees.

In making its decisions, the Board is required to consider the outcome of any stakeholder impact assessment that has been undertaken to support it making that principal decision.

In line with the Regulations and FRC guidance, and in accordance with the approach taken during the financial year under review, having considered the company's principal risks and uncertainties as detailed in the Strategic Report, the company made the following principal decisions during the year ended 31 December 2021:

- approval of re-appointment of auditors;
- approval of Slavery and Human Trafficking Statement 2020;
- actions taken to mitigate the supply chain disruption experienced in the year.

These decisions benefitted the long-term development of the Company. In making its decisions, the Board is required to consider the outcome of any stakeholder impact assessment that has been undertaken to support it making that a principal decision.

Covid-19 related decisions

The Honeywell Group undertook a formal analysis, "Going Concern and Impact of Covid 19", of the impact of Covid 19 on global and local economies and the effect on Honeywell's UK holding and financial companies, as well as Honeywell International Inc. The report contained an analysis of the impacts of the global pandemic on areas such as employee health, safety, economic wellness, Honeywell's commitment to public health, plant productivity and safety, customers and suppliers, liquidity resources and prudent cost control measures.

Strategic Report for the Year Ended 31 December 2021 (continued)

The Company experienced reduced customer demand due to the difficulties of product installation resulting from social distancing rules. There was also disruption in the supply chain partly attributed to the pandemic. Despite this no immediate longer term negative implications were highlighted.

Engagement with suppliers, customers and other relationships

The Board recognises the importance of considering and having regard to key stakeholders and their interests when making decisions. By thoroughly understanding the company's key stakeholder groups, the Board can successfully factor in and address the needs of these stakeholders and foster good business relationships with them. The company considers its employees, suppliers, customers, the community and environment, our shareholder and regulators to be our key stakeholders. We aim to build and maintain lasting relationships with its key stakeholders in the countries where it operates.

The company engages with its key stakeholders and considers their differing needs and priorities as an everyday part of its business and uses the input and feedback to inform its decision-making.

The Board delegates stakeholder engagement to the senior management and considers the stakeholders that are impacted by the company and its business activities, including its employees, suppliers, customers, the local community and the shareholder.

The company's Board operates within the Honeywell Group's vision which recognises the importance of clear and effective communication as well as proactive engagement with stakeholders. By enabling a range of engagement channels, informed decision-making is achieved and supports the long-term success of the company.

Regularly engaging with the key stakeholders is a priority for the company and the following information describes how the Directors had regard to the need to foster relationships with the company's key stakeholders, how outcomes were considered and how concerns were identified and addressed during the reporting period. Further detail of these decisions, and in particular the Principal Decisions in relation to the stakeholders, are discussed in the s172 Statement on page 12:

| Stakeholder group / interests | How we engage | Impact of engagement |
|-------------------------------|---------------|----------------------|
| Employees | | |

For details on how we have engaged with the company's UK-based employees, how the Directors had regard to those employees' interests, and the effect of that regard, including on the decisions taken during the reporting period, refer to the "Engagement with employees" statement in the Directors' report (details of which are set out on page 14).

Strategic Report for the Year Ended 31 December 2021 (continued)

Customers

- To provide the company's customers with top quality services.
- To demonstrate excellence in service delivery on a global scale and build trust between customers and the Company.
- Ensuring safety of the products and services provided to customers.
- Ensuring that any claims in relation to quality of safety of products or services are addressed and resolved.
- Ensuring that customer data is kept in a secure environment and only for the duration and purposes the data was collected for.
- The company maintains a number of group-wide policies aimed at ensuring ongoing security of customer data, high standards of safety and quality of the products and services and continued confidence and trust of our customers.
- In the event of an escalated issue, if appropriate, members of the Board will seek to resolve directly with customers.
- The Board is provided with regular reports on renewals of, and negotiations for new, supplier agreements by a dedicated supply chain team. The information received supports effective decision making by the Board and considering long-term consequences on customers well-being and satisfaction. The sales group team's active daily engagement with customers is fed back to the Board to be used when decision making, providing insight into demand and improve customer retention.
- By understanding our customers, it has allowed us to clarify the company's vision for future growth and ways to continually add brand value.

Suppliers

- To receive a clearly stated set of requirements to understand the company's needs and expectations.
- To receive regular support from the company to improve suppliers' business management system and effectively avoid any defects and operational issues.
- To be part of a fair and respectful tender and supplier selection process.
- To be part of an ongoing supplier relationship based on mutual respect and treating each other as valued business partners.
- The company maintains a number of group-wide policies to ensure fair and respectful treatment of its actual and potential suppliers across the organisation. The policies clearly set out the company's expectations in relation to the quality of supplier products and services delivered and requirements that need to be met to ensure smooth and mutually beneficial business relationship.
- As part of the wider Honeywell Group, the company's supplier engagement is measured as part of Honeywell's global procurement organisation.
- Further information can be found on Honeywell International's supplier code of business; www.honeywell.com/en-us/company/integrity-and-compliance.com.
- On an exceptional basis, the Directors will engage with suppliers through means of the procurement teams in the case of any escalation.

Strategic Report for the Year Ended 31 December 2021 (continued)

Community and environment

- To manufacture and deliver high quality products and services in an energy efficient and environmentally responsible manner.
- To conduct business in a manner to minimise negative impact on the surrounding area and be respectful and conscientious of the environment.
- To take into account the interest of the local community when considering future investments and business decisions.
- As aforementioned, the company as part of the wider Honeywell Group takes into consideration the sustainability policy of Honeywell International Inc.
- The company maintains a number of group-wide policies to promote sustainable and environmentally friendly business and operational practices.
- Engagement with employees has resulted in the Board understanding that there is an increasing desire for a more environmentally friendly workplace.
- By following and implementing the group wide sustainability policy, the company has been able to foster the interests of the community and environment in which it operates in Board decisions.
- From listening to the views of employees, the Board is moving towards implementing electric car charging points and parking bays during refurbishments of the company's places of work.

Shareholder

- The company is jointly owned by Novar Limited and Novar Electrical Holdings Limited. The ultimate parent is Honeywell International Inc.
- Group Treasury, Tax and Finance functions, in conjunction with the senior management, make recommendations to declare dividends, coordinate and evaluate the amount of dividend and impact at local level.
- The company reports to its shareholder on a regular basis in the form of its financial statements, monthly and quarterly Board reports and business reviews, presentations to the Board of the Group, business plans and strategic plans as well as risk reporting.
- The company's strategy is to pursue strategic growth to create long-term value for its shareholder.
- The receipt of this information, and the coordination with Group functions, aids the Board when considering whether to declare dividends, the amount of dividend and impact at local level.
- Dividends, which are categorised as a principal decision, were considered and however were not subject for approval this financial period.

Regulator(s)

- To receive regular feedback on any consultations.
- To have an open and honest relationship with the company where Regulation and Guidance can be discussed.
- The company's Directors have delegated much responsibility for engagement with the Regulators to the ultimate parent Honeywell International Inc.
- The company keeps the Regulators informed of any significant changes to the company.

Strategic Report for the Year Ended 31 December 2021 (continued)

Engagement with employees

The company identifies its employees as its key stakeholders and recognizes their importance to the long-term success of the company. Throughout the year, the Directors, through their delegated authority to senior management, HR functions and wider Honeywell Group functions, engaged with the company's employees in various ways to provide information on matters of concern to them as employees, to take into account their views in making decisions likely to affect their interests, to encourage involvement in the company's performance and to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

The company engages with its employees to create an environment where its people can continue to learn and establish their careers alongside adding value to the attainment of the company's initiatives. The company promotes the use of specific lines of communication such as employee surveys, business performance updates and presentations, among other things.

This ongoing engagement with the company's stakeholders aims to minimise levels of staff attrition, actively invite employee engagement within the context of the current market, capitalise on knowledge share schemes and promote and continue to develop a healthy work-life balance.

The table below sets out the details of how the company engaged with its employees and how the Directors have regard to the employees' interests and the impact of these considerations on the decisions taken by the Board during the reporting period. Further detail of these decisions, and in particular the Principal Decisions in relation to the employees, are discussed in the s172 Statement on page 5:

Strategic Report for the Year Ended 31 December 2021 (continued)

| Employees' interests | How we engage | Impact of engagement |
|--|---|--|
| <ul style="list-style-type: none"> • Providing information on matters of concern to them as employees and to achieve an awareness of factors affecting the performance of the company, such as quarterly results, strategy, sustainability, training, bi-annual performance related bonus scheme, career development and diversity and inclusion. • Being consulted on a regular basis so that the views of employees can be taken into account in the decisions made by the Directors which are likely to affect their interests. | <ul style="list-style-type: none"> • The Directors have delegated much of the engagement to Group's employee engagement mechanisms, including the Group intranet, Group social media channel, regular team and one-to-one updates provided by divisional leaders and line managers. • The Group HR function, to whom the Directors have delegated training responsibility, ensure that training and career development sessions to employees are provided. The company also publishes annually the company's Gender Pay Gap Report, as well as communications around how and what improvements the company is trying to progress. • Employees are kept informed by ad hoc updates on key developments, changes to strategic objectives and priorities, updates on progress of ongoing projects, updates on Brexit developments and its impact on the business and workforce, updates and announcements in respect of the Covid-19 pandemic. • The company's employees are actively encouraged to participate in company "townhalls", where open and honest discussions take place and questions are permitted from all those in attendance. The townhalls take place on either a monthly and quarterly basis held by leadership where the employees are able to voice their opinions and raise any outstanding issues. The results of the townhalls are reported back to the Board for consideration and analysis. • An employee forum is in place allowing our Board to consult with employee representatives on a regular basis. | <ul style="list-style-type: none"> • The Directors strive to promote inclusivity and do not discriminate between employees or potential employees on grounds of race or ethnic origin, disability, gender, sexual orientation, age, religion or belief. • The Directors are committed to valuing the diversity of its people and it monitors and reports internally on aspects such as gender and age equality. The company and the group are strongly dedicated to ensuring equal pay for all workforce across the organization regardless of gender, race or ethnic origin, disability, gender, sexual orientation, age, religion or belief and regularly report on both group and legal entity level. • The results of the townhall are submitted to the Board and considered. The outcomes and any workforce-related issues and requests are considered, addressed and the employees updated on the actions to be taken. • The presence of the employee forum allows the Board to receive input from employees at all levels of the company to be considered when decision making. |

Strategic Report for the Year Ended 31 December 2021 (continued)

Principal decisions

Principal decisions, within the context of Section 172, are made within the context of the ultimate parent company Honeywell International Inc.'s group strategy and in accordance with policies and procedures set by Honeywell International Inc.

During the year there were no principal decisions, within the context of Section 172 reporting, for the company to disclose.

Approved by the Board on 21-Mar-2023 and signed on its behalf by:

DocuSigned by:

Nicola Dix

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Nicola Dix
Director

Directors' Report for the Year Ended 31 December 2021

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

Business review and future developments

A review of the business of the company and future developments is included in the strategic report on page 2.

Results and dividends

The company's loss for the financial year, after taxation was £4,114,000 (2020: £8,305,000) which will be deducted from reserves. The results for the financial year are shown on page 22.

The directors do not recommend the payment of a dividend (2020: £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 2.

Directors' of the company

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

Madeleine Orbell-Thompson

Nicola Dix

Directors' indemnities

Pursuant to the company's articles of association, the directors were throughout the financial year ended 31 December 2021 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 related mostly to the development of a new software and a hardware platform which will be used for all future product developments and amounted to £3,893,000 (2020: £5,566,000). The Company does not capitalise R&D projects since the Intellectual property (IP) is not held within the Company. However, it does receive recharges from the R&D centre based in India where the IP is held.

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.

Engagement with employees

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. Further detail on the engagement with employees undertaken during the year appears as part of our Section 172 statement on page 5.

Stakeholder engagement

We recognise the importance of clear communication and proactive engagement with our stakeholders. Details of engagement with stakeholders undertaken during the year appears as part of our Section 172 statement on page 5.

Directors' Report for the Year Ended 31 December 2021 (continued)

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. While considering the ability of the ultimate parent company to provide financial support, the directors, have reviewed the 2021 and Q4 2022 operating results and financial performance of Honeywell International Inc. as well as representations and initiatives of Honeywell Executive Leadership. The directors have further relied on forward looking assessments provided by Honeywell International Inc. under various possible COVID-19 scenarios, including rollout of the vaccine, and are satisfied that the ultimate parent company is in a position to provide the necessary financial support. As part of their consideration, the directors have acknowledged the cost control measures already taken across Honeywell International Inc., the group's cash, cash equivalents and short term investments balance at 31 December 2022 of \$10.1 billion.

The directors have a reasonable expectation that the company has adequate resources, including support from Honeywell International Inc. to continue in operational existence for the foreseeable future being a period of at least 12 months from the date of signing these financial statements.

The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation may have an impact on the European and global economy. The entity does not have any significant direct exposure to Ukraine, Russia or Belarus. At the date of these financial statements, the Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Based on the circumstances described above, the financial statements are prepared on the assumption that the entity is a going concern.

Disclosure of information to the auditors

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

- so far as the directors are 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 in order 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.

Environmental report

Global GHG emissions and energy use for the period

Summary of greenhouse gas emissions and energy consumption for the year ended 31 December 2021:

| Categories | 2021 Tonnes | 2021 kWh | 2020 Tonnes | 2020 kWh |
|---|----------------|-------------------|----------------|-------------------|
| CO2 emissions from combustion of gas | 811 | 4,426,695 | 987 | 5,345,742 |
| CO2 emissions from combustion of fuel for transport purposes | 71 | 281,219 | 69 | 14,391 |
| CO2 emissions from electricity purchased for own use | 1,423 | 6,703,733 | 1,798 | 7,711,712 |
| Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3) | 17 | 64,841 | 9 | 33,731 |
| Gross emissions & energy | <u>2,322</u> | <u>11,476,488</u> | <u>2,862</u> | <u>13,105,576</u> |

Turnover (£000)

2021: 91,231
2020: 81,098

Tons CO2e/ Turnover (£000)

0.0255
0.0353

Directors' Report for the Year Ended 31 December 2021 (continued)

Methodologies used to calculate emissions

GHG Protocol: The corporate standard used in conjunction with DEFRA conversion factors was used. Actual consumption of electricity and fuels where available used for the calculations.

Intensity ratios calculated using revenue.

- Tons CO₂e/ Turnover (£000)

Data estimation:

- Estimation of sites energy consumption was done by CBECS factors for labs and offices using the square footage information;
- Business travel calculations are based on spend data converted to liters and assumed diesel as the fuel used;
- Personal mileage calculations are based on spend data converted to km and assumed diesel as the fuel used.

Energy actions taken

Honeywell has a commitment to making our business operations more environmentally friendly and sustainable. Our internal efforts have improved our Scope 1 and Scope 2 greenhouse gas intensity by more than 90% since 2004. And we are committed to achieving more. In 2019, Honeywell set a new five-year "10-10-10" target to reduce global Scope 1 and Scope 2 greenhouse gas emissions by an additional 10% per dollar of sales from 2018 levels, to deploy at least 10 renewable energy opportunities, and to achieve certification to ISO's 50001 Energy Management Standard at 10 facilities, all by 2024. Environmental responsibility is important to our long-term growth. Being a steward of the environment ensures economic sustainability for our shareholders and employees, and it enables continued development of products to meet the demands of an expanding global economy.

We have implemented the following actions to reduce/offset our emissions and energy consumption:

- Global energy program allowing any site to avail funding for energy reduction projects;
- Implementing lighting and control systems upgrade projects, compressed air and cooling plant upgrade projects in the UK;
- Newsletter communications on Honeywell Sustainability that includes best practice sharing. These communications provide awareness and knowledge sharing of energy savings across UK; and
- Purchasing electricity with REC's in many UK sites.

Events since the balance sheet date

There have been no material adjusting or disclosable events since the financial year end.

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 on 21-Mar-2023. and signed on its behalf by:

DocuSigned by:



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Nicola Dix

Director

Statement of Directors' Responsibilities

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 Accounting 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 of the company for that period.

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have 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 themselves 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 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 Western 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

Report on the audit of the financial statements

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements of Novar ED&S Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss 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 which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 28.

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 qualified opinion

At the time of the physical counting of inventories, attendance was impracticable due to safety threats imposed by the Covid-19 pandemic. We were unable to satisfy ourselves by using other audit procedures concerning the inventory quantities held at 31 December 2021, which were included in the balance sheet at £10,231k. Consequently we were unable to determine whether any adjustment to this amount was necessary.

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 Financial Reporting Council's (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 qualified opinion.

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 Financial Reporting Council's (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 qualified opinion.

Independent Auditor's Report to the Members of Novar ED&S Limited (continued)

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

Independent Auditor's Report to the Members of Novar ED&S Limited (continued)

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act 2006 and relevant tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, in the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

Independent Auditor's Report to the Members of Novar ED&S Limited (continued)

Matters on which we are required to report by exception

Arising solely from the limitation on the scope of our work relating to inventory, referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records had been kept.

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

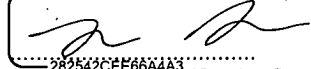
- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

We have nothing to report in respect of these matters.

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.

DocuSigned by:



282542CEE66A4A3
James Boyle CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh
United Kingdom

Date: 21-Mar-2023

Profit and Loss Account for the Year Ended 31 December 2021

| | Note | 2021 £000 | 2020 £000 |
|--|------|-----------------------|-----------------------|
| Turnover | 4 | 91,231 | 81,098 |
| Cost of sales | | <u>(70,785)</u> | <u>(62,147)</u> |
| Gross profit | | 20,446 | 18,951 |
| Distribution expenses | | (9,377) | (9,881) |
| Administrative expenses | | (9,054) | (15,977) |
| Other operating income | 5 | <u>18</u> | <u>330</u> |
| Operating profit/(loss) | 6 | 2,033 | (6,577) |
| Interest receivable and similar income | 10 | 3,613 | 4,224 |
| Interest payable and similar expenses | 11 | <u>(4,910)</u> | <u>(2,446)</u> |
| Profit/(loss) before taxation | | 736 | (4,799) |
| Tax on profit/(loss) | 12 | <u>(4,850)</u> | <u>(3,506)</u> |
| Loss for the financial year | | <u><u>(4,114)</u></u> | <u><u>(8,305)</u></u> |

The above results were derived from continuing operations.

The notes on pages 26 to 50 form an integral part of these financial statements.

Statement of Comprehensive Income for the Year Ended 31 December 2021


| | Note | 2021 £000 | 2020 £000 |
|---|------|----------------------|----------------------|
| Loss for the year | | <u>(4,114)</u> | <u>(8,305)</u> |
| Items that cannot be reclassified subsequently to profit or loss | | | |
| Actuarial gain or loss on defined benefit pension schemes | 23 | 69,078 | 41,496 |
| Movement on deferred tax in relating to pension scheme | | <u>(23,868)</u> | <u>(9,254)</u> |
| | | <u>45,210</u> | <u>32,242</u> |
| Total comprehensive income for the year | | <u><u>41,096</u></u> | <u><u>23,937</u></u> |

The notes on pages 26 to 50 form an integral part of these financial statements.

Balance Sheet as at 31 December 2021

| | Note | 31 December 2021 £000 | 31 December 2020 £000 |
|--|------|-----------------------------|-----------------------------|
| Fixed assets | | | |
| Intangible assets | 13 | - | - |
| Tangible assets | 14 | 12,071 | 15,379 |
| Right-of-use assets | 15 | 16,304 | 17,493 |
| Investments | 16 | 693 | 693 |
| | | <u>29,068</u> | <u>33,565</u> |
| Current assets | | | |
| Stocks | 17 | 10,230 | 7,180 |
| Debtors: amounts falling due within one year | 18 | 97,230 | 94,997 |
| Cash at bank and in hand | | 2,561 | 2,752 |
| | | <u>110,021</u> | <u>104,929</u> |
| Creditors: Amounts falling due within one year | | <u>(71,166)</u> | <u>(69,341)</u> |
| Net current assets | | <u>38,855</u> | <u>35,588</u> |
| Total assets less current liabilities | | 67,923 | 69,153 |
| Creditors: Amounts falling due after more than one year | 20 | (56,484) | (57,494) |
| Provisions for liabilities | 22 | (67,603) | (38,230) |
| Net liabilities excluding pension asset | | (56,164) | (26,571) |
| Net pension asset | 23 | 276,658 | 205,969 |
| Net assets | | <u>220,494</u> | <u>179,398</u> |
| Capital and reserves | | | |
| Called up share capital | 24 | 1,101 | 1,101 |
| Share premium | 25 | 19,800 | 19,800 |
| Other reserves | 26 | 714 | 714 |
| Retained earnings | | <u>198,879</u> | <u>157,783</u> |
| Shareholders' funds | | <u>220,494</u> | <u>179,398</u> |

The financial statements on pages 22 to 50 were approved by the Board of directors on 21-Mar-2023 and signed on its behalf by:

DocuSigned by:

 EC17D3D0B40B4E0...
 Nicola Dix
 Director

The notes on pages 26 to 50 form an integral part of these financial statements.

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

| | Called up share capital £000 | Share premium reserve £000 | Other reserves £000 | Retained earnings £000 | Total £000 |
|----------------------------|---------------------------------------|-------------------------------------|---------------------------|------------------------------|---------------|
| At 1 January 2021 | 1,101 | 19,800 | 714 | 157,783 | 179,398 |
| Loss for the year | - | - | - | (4,114) | (4,114) |
| Other comprehensive income | - | - | - | 45,210 | 45,210 |
| Total comprehensive income | - | - | - | 41,096 | 41,096 |
| At 31 December 2021 | 1,101 | 19,800 | 714 | 198,879 | 220,494 |

| | Called up share capital £000 | Share premium reserve £000 | Other reserves £000 | Retained earnings £000 | Total £000 |
|----------------------------|---------------------------------------|-------------------------------------|---------------------------|------------------------------|---------------|
| At 1 January 2020 | 1,101 | 19,800 | 714 | 133,846 | 155,461 |
| Loss for the year | - | - | - | (8,305) | (8,305) |
| Other comprehensive income | - | - | - | 32,242 | 32,242 |
| Total comprehensive income | - | - | - | 23,937 | 23,937 |
| At 31 December 2020 | 1,101 | 19,800 | 714 | 157,783 | 179,398 |

The notes on pages 26 to 50 form an integral part of these financial statements.

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

1 General information

Novar ED&S Limited is a private company limited by share capital, incorporated and domiciled in 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 2.

The address of its registered office is:

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

The immediate parent undertaking is Novar Electrical Holdings Limited., a company incorporated in United Kingdom. The registered address of the parent is Honeywell House, Skimped Hill Lane, Bracknell Berks, 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 300 South Tryon Street, Charlotte, NC 28202, USA. The financial statements of Honeywell International Inc. are publicly available and can be obtained from the internet at www.honeywell.com.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

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' and the Companies Act 2006.

These financial statements are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006.

The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

In these financial statements, as a qualifying entity, the company has taken advantage of the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 7 - 'Financial instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13 - 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1 - 'Presentation of financial statements' (comparative information requirements in respect of):
 - paragraph 79(a)(iv) of IAS 1 (reconciliation of number of shares at the beginning and end of the period),
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment' (reconciliations between the carrying amount at the beginning and end of the period),
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period), and
 - paragraph 17 of IAS 24 Related Party Disclosures (key management compensation);
- The following paragraphs of IAS 1 - 'Presentation of financial statements' (removing the requirement to present):
 - 10(d) (statement of cash flows),
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements and 16 (statement of compliance with all IFRS),
 - 38A to 38D (requirement for minimum of two primary statements, including cash flow statements and additional comparative information), and
 - 40A to 40D, 111 (statement of cash flows information) and 134-136 (capital management disclosures) of IAS 1;
- IAS 7 - 'Statement of cash flows';
- Paragraphs 30 and 31 of IAS 8 - 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24 - 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' (to disclose related party transactions entered into between two or more members of a group);
- 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' (disaggregation of revenue, significant changes in contract assets and liabilities, details on transaction price allocation, timing of the satisfaction of performance obligations and significant judgements made in the application of IFRS 15);
- The requirements of paragraph 52 of IFRS 16 Leases; and
- The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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 financial statements have been prepared on a going concern basis.

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. While considering the ability of the ultimate parent company to provide financial support, the directors have reviewed the 2021 and Q4 2022 operating results and financial performance of Honeywell International Inc. as well as representations and initiatives of Honeywell Executive Leadership. The directors have further relied on forward looking assessments provided by Honeywell International Inc under various possible COVID 19 scenarios, including rollout of the vaccine and are satisfied that the ultimate parent company is in a position to provide the necessary financial support. As part of their consideration, the directors have acknowledged the cost control measures already taken across Honeywell International Inc, the group's cash, cash equivalents and short term investments balance at 31 December 2021 of \$11.5 billion and 31 December 2022 of \$10.1 billion.

The directors have a reasonable expectation that the company has adequate resources, including support from Honeywell International Inc. to continue in operational existence for the foreseeable future being a period of at least 12 months from the date of signing these financial statements.

The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation may have an impact on the European and global economy. The entity does not have any significant direct exposure to Ukraine, Russia or Belarus. At the date of these financial statements, the Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Turnover and revenue recognition

Recognition

Turnover comprises revenue from sales to customers 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. A good or service 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 as follows:

| Type of sale | Recognition |
|----------------------------|---|
| Product and services sales | On delivery and when acceptance by the customer has occurred. |

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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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.

The service-type warranties are sold either separately or bundled together with the sale of goods. Contracts for bundled sales of goods and a service-type warranty comprise two performance obligations because the promises to transfer the good and to provide the service-type warranty are capable of being distinct. Using the relative stand-alone selling price method, a portion of the transaction price is allocated to the service-type warranty and recognised as a contract liability. Revenue is recognised over the period in which the service-type warranty is provided based on the time elapsed.

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.

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.

Interest payable

Interest payable is recognised using the effective interest rate method. In calculating interest payable, the effective interest rate is applied to the amortised cost of the liability.

Leases - as lessee

Definition

The company assesses whether a contract is or contains a lease, at inception of a contract. The company recognises a right-of-use asset and a corresponding lease liability for all leasing arrangements, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (less than £5,000). For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liability - Initial recognition and measurement

The lease liability is initially measured at the present value of the lease payments, excluding payments made at or before the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments); and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease liability - Subsequent measurement

The lease liability is subsequently measured at amortised cost.

The lease liability is remeasured, with a corresponding adjustment to the related right-of-use asset, whenever:

- the lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; and

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for:

- lease payments made at or before the commencement day, less any lease incentives received;
- any initial direct costs; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The company also assesses the right-of-use asset for impairment when such indicators exist.

Research and development

All costs associated with research and development are written off to the profit and loss account in the year of expenditure, unless the costs meet the recognition criteria under IAS 38 to be capitalised. R&D expenditure credit reclaimable from HM Revenue and Customs in respect of those costs is recognised when the actual claim is submitted to revenue authorities. The amount claimed reduces the research and development costs in the profit and loss account in the year of claim.

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 temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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.

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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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.

Amortisation

The useful life of the major assets is:

| Asset class | Amortisation method and rate |
|----------------------|------------------------------|
| Capitalised software | Over 5 years |

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

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.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as per the table below. The assets' estimated useful lives, depreciation rates and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

| Asset class | Depreciation method and rate |
|-----------------------|------------------------------|
| Land and buildings | 2% - 3% |
| Plant and equipment | 5% - 8% |
| Fixtures and fittings | 8% |

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

Land is not depreciated.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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. Impairment losses are recognised in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment losses been recognised for the investment in prior years. A reversal of impairment loss is recognised immediately in the profit and loss account.

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. The company also assesses the right-of-use asset for impairment when such indicators exist.

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.

Initial recognition

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 marketplace (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 at their entirety at amortised cost.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or financial liabilities at amortised cost as appropriate.

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

Currently, the company holds financial liabilities measured at amortised cost which comprises of loans and borrowings.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

Classification and measurement

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 marketplace (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

Classification of financial assets

All financial assets held by the company during the current and prior year meet the following conditions and have been classified as those measured at amortised cost:

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.

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

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, or financial liabilities at amortised cost as appropriate.

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

Currently, the company holds financial liabilities measured at amortised cost which comprises of loans and borrowings and trade payables.

Subsequent measurement

After initial recognition, financial liabilities at amortised cost are 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.

Derecognition

Financial assets

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

- 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.

Financial liabilities

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 statement of profit or loss.

Impairment of financial assets

Measurement of Expected Credit Losses

In accordance with IFRS 9, the company applies expected credit loss (ECL) model for the measurement and recognition of impairment loss on financial assets measured at amortised cost e.g., investments, loans and bank balance.

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 of the assets.
- Cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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.

Defined benefit pension obligation

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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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 pension obligation

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.

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Grants for specific expenses such as furlough costs are credited to income in profit and loss account in the same period as the relevant expense.

3 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

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

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

3 Judgements and key sources of estimation uncertainty (continued)

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.

Impairment of investments

The investment in subsidiary undertakings is carried at cost and tested for impairment when indicators of potential impairment exist. 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 year end, the value of the investment was £693,000 (2020: £693,000). There was no impairment charge during the year (2020: £nil). The effect of COVID-19 on the profitability of the company's subsidiary has been factored into the projections used when performing the impairment assessment.

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. Professional expert advice is taken where required through internal or external subject matter experts.

Judgements are also required where there is a high degree of uncertainty 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 2021 was £166,000 (2020: £162,000).

Estimates used for DB pension scheme

The cost of defined benefit pensions plans and other post-employment medical benefits is 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. 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. Further details are given in note 23.

Impairment of financial assets

The company estimates the expected credit loss in relation to its financial assets considering the nature of business, past history and other mitigating factors. The company reviews this policy annually, if required. Accordingly, the company has recognised a provision for expected credit loss of £2,000 (2020: £59,000).

In respect of other financial assets which primarily comprise 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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

4 Turnover

The analysis of the company's turnover for the year by geographical market is as follows:

| | 2021 £000 | 2020 £000 |
|----------------------|---------------|---------------|
| United Kingdom | 71,359 | 58,365 |
| Rest of Europe | 4,152 | 4,181 |
| North America | 246 | 131 |
| Middle East and Asia | 14,100 | 16,780 |
| Rest of the world | 1,374 | 1,641 |
| | <u>91,231</u> | <u>81,098</u> |

The analysis of the company's turnover for the year from continuing operations is as follows:

| | 31 December 2021 £000 | 31 December 2020 £000 |
|---------------|-----------------------------|-----------------------------|
| Sale of goods | <u>91,231</u> | <u>81,098</u> |
| | <u>91,231</u> | <u>81,098</u> |

The timing of the company's revenue recognition for the year is as follows:

| | 2021 £000 | 2020 £000 |
|---------------|---------------|---------------|
| Over time | - | - |
| Point of time | <u>91,231</u> | <u>81,098</u> |
| | <u>91,231</u> | <u>81,098</u> |

Disclosures in respect of contracts with customers

The following table provides information about amounts recognised in the profit and loss arising from contracts with customers:

Revenue recognised in the period from:

| | 31 December 2021 £000 | 31 December 2020 £000 |
|--|-----------------------------|-----------------------------|
| Revenue from contracts with customers | 91,231 | 81,098 |
| Impairment (losses)/reversal on receivables or contract assets arising from contracts with customers | <u>28</u> | <u>(47)</u> |

The following table provides information about trade receivables, contracts assets and contract liabilities:

| | Note | 31 December 2021 £000 | 31 December 2020 £000 |
|------------------------------------|------|-----------------------------|-----------------------------|
| Gross trade receivables | | 9,756 | 9,099 |
| Provision for expected credit loss | | <u>(2)</u> | <u>(59)</u> |
| Trade receivables | 18 | <u>9,754</u> | <u>9,040</u> |

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

5 Government grant income

During the year, the company recognised a government grant of £18,000 (2020: £330,000) under the Coronavirus Job Retention Scheme (JRS). The grant is given to UK employers to cover all or part of the wages and salary costs of employees on temporary leave (furlough) due to the COVID-19 pandemic.

6 Operating profit/(loss)

Arrived at after charging/(crediting)

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Depreciation expense | 1,963 | 1,620 |
| Depreciation on right-of-use assets - Property | 1,189 | 1,199 |
| Amortisation expense | - | 7 |
| Research and development cost | 3,893 | 5,566 |
| Other administrative expenses | 3,912 | 4,298 |
| Foreign exchange (gains)/ losses | (14) | 560 |
| Reorganisation and redundancy costs | 145 | 2,961 |

7 Auditors' remuneration

Fees payable to the auditor, Deloitte LLP, amounted to £22,325 (2020: £22,300) 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 (2020: £nil).

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Wages and salaries | 16,543 | 15,294 |
| Social security costs | 1,858 | 2,226 |
| Pension costs, defined contribution scheme | 1,957 | 1,992 |
| Pension costs, defined benefit scheme (note 23) | 1,103 | 1,020 |
| | 21,461 | 20,532 |

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

8 Staff costs (continued)

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

| | 2021 No. | 2020 No. |
|----------|-------------|-------------|
| Direct | 107 | 117 |
| Indirect | 260 | 275 |
| | <u>367</u> | <u>392</u> |

9 Directors' remuneration

The directors' remuneration for the year was as follows:

| | 2021 £000 | 2020 £000 |
|------------------------------------|--------------|--------------|
| Aggregate emoluments | 129 | 795 |
| Pension costs-defined contribution | 10 | 66 |
| | <u>139</u> | <u>861</u> |

In respect of the highest paid director:

| | 2021 £000 | 2020 £000 |
|----------------------|--------------|--------------|
| Aggregate emoluments | 129 | 678 |

During the financial year the highest paid director did not (2020: did) exercise options over shares of Honeywell International Inc., the ultimate parent company.

In 2021, one director (2020: one director) was remunerated by other group companies for his services to the group as a whole.

10 Interest receivable and similar income

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Interest receivable from group undertakings | 899 | 994 |
| Pension interest | 2,714 | 3,230 |
| | <u>3,613</u> | <u>4,224</u> |

11 Interest payable and similar expenses

| | 2021 £000 | 2020 £000 |
|-------------------------------------|--------------|--------------|
| Interest on bank overdrafts | 412 | 128 |
| Interest payable on lease liability | 369 | 382 |
| Preference share dividend | 4,129 | 1,936 |
| | <u>4,910</u> | <u>2,446</u> |

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

12 Tax on profit/(loss)

Tax (credited)/charged in the profit and loss account:

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Current taxation | | |
| UK corporation tax | (651) | 136 |
| Deferred taxation | | |
| Arising from origination and reversal of temporary differences | 527 | 1,604 |
| Arising from changes in tax rates and laws | 5,442 | 1,624 |
| Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods | (468) | 142 |
| Total deferred taxation | 5,501 | 3,370 |
| Tax expense in the profit and loss account | 4,850 | 3,506 |

Tax relating to items credited or charged to statement of comprehensive income:

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Deferred taxation | | |
| Effect of change in tax laws and rates | 10,743 | 1,370 |
| Remeasurements on defined benefit pension plans | 13,125 | 7,884 |
| Total deferred taxation | 23,868 | 9,254 |

The tax on (loss)/profit before tax for the year is higher than the standard rate of corporation tax in the UK of 19% (2020: 19%).

The differences are reconciled below:

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Profit/(loss) before tax | 736 | (4,799) |
| Corporation tax at standard rate | 140 | (912) |
| Current tax from adjustment for prior periods | (1,120) | 278 |
| Effect of income exempt from taxation | (13) | (428) |
| Effect of expenses not deductible in determining taxable profit | 430 | 467 |
| Group relief surrendered | 200 | 2,477 |
| Overseas tax | (229) | - |
| Deferred tax changes in tax rates or laws | 5,442 | 1,624 |
| Total tax charge | 4,850 | 3,506 |

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

12 Tax on profit/(loss) (continued)

Factors affecting tax charge for the financial year

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 25% (2020:19%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%. The Finance Act 2021, reading on 24 May 2021 substantively enacted the increase, and, therefore, is considered effective at the balance sheet date for deferred tax re-measurement purposes.

Deferred tax

Deferred tax assets and liabilities

| | 2021 £000 | 2020 £000 |
|---|-----------------|-----------------|
| Deferred tax asset | | |
| Differences between capital allowances and depreciation | 1,676 | 925 |
| Other short-term timing differences | 52 | 141 |
| Total deferred tax asset | 1,728 | 1,066 |
| Deferred tax liability | | |
| Deferred tax provision on pension asset | (69,165) | (39,134) |
| Total deferred tax liability | (69,165) | (39,134) |
| Net deferred tax liability | (67,437) | (38,068) |

| | Excluding pension £000 | Pension £000 | Total £000 |
|---|------------------------------|-----------------|-----------------|
| Movements in deferred tax | | | |
| At 1 January 2021 | 1,066 | (39,134) | (38,068) |
| Charge to the profit and loss account | 662 | (6,163) | (5,501) |
| Charge to statement of comprehensive income | - | (23,868) | (23,868) |
| At 31 December 2021 | 1,728 | (69,165) | (67,437) |

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

13 Intangible assets

| | Goodwill £000 | Software £000 | Total £000 |
|--------------------------------------|------------------|------------------|---------------|
| Cost or valuation | | | |
| At 1 January 2021 | 6,318 | 886 | 7,204 |
| Disposals | - | (67) | (67) |
| At 31 December 2021 | 6,318 | 818 | 7,136 |
| Amortisation | | | |
| At 1 January 2021 | 6,318 | 886 | 7,204 |
| Amortisation charge | - | - | - |
| Amortisation eliminated on disposals | - | (67) | (67) |
| At 31 December 2021 | 6,318 | 818 | 7,136 |
| Carrying amount | | | |
| At 31 December 2021 | - | - | - |
| At 31 December 2020 | - | - | - |

14 Tangible assets

| | Land and buildings £000 | Plant and equipment £000 | Fixtures and fittings £000 | Construction in progress £000 | Total £000 |
|--------------------------|-------------------------------|--------------------------------|----------------------------------|-------------------------------------|---------------|
| Cost or valuation | | | | | |
| At 1 January 2021 | 15,038 | 21,800 | 2,100 | 900 | 39,838 |
| Additions | 57 | 318 | - | 945 | 1,320 |
| Disposals | (6,173) | (2,315) | (534) | - | (9,022) |
| Transfers | 222 | 399 | - | (621) | - |
| At 31 December 2021 | 9,144 | 20,202 | 1,566 | 1,224 | 32,136 |
| Depreciation | | | | | |
| At 1 January 2021 | 5,977 | 16,524 | 1,958 | - | 24,459 |
| Charge for the year | 698 | 1,254 | 11 | - | 1,963 |
| Eliminated on disposal | (3,575) | (2,306) | (476) | - | (6,357) |
| At 31 December 2021 | 3,100 | 15,472 | 1,493 | - | 20,065 |
| Carrying amount | | | | | |
| At 31 December 2021 | 6,044 | 4,730 | 73 | 1,224 | 12,071 |
| At 31 December 2020 | 9,061 | 5,276 | 142 | 900 | 15,379 |

Included within the net book value of land and buildings above is £6,044,000 (2020 : £9,061,000) in respect of freehold land and buildings.

During the year the company disposed of its assets of net book value £2,664,000 for £2,664,000, resulting in no gain or loss on disposal.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

15 Right-of-use assets

| | Land and buildings £000 | Total £000 |
|--------------------------|-------------------------------|---------------|
| Cost or valuation | | |
| At 1 January 2021 | 19,101 | 19,101 |
| At 31 December 2021 | 19,101 | 19,101 |
| Depreciation | | |
| At 1 January 2021 | 1,608 | 1,608 |
| Charge for the year | 1,189 | 1,189 |
| At 31 December 2021 | 2,797 | 2,797 |
| Carrying amount | | |
| At 31 December 2021 | 16,304 | 16,304 |
| At 31 December 2020 | 17,493 | 17,493 |

16 Investments

| | £000 |
|---------------------------------|------|
| Subsidiaries | |
| Cost | |
| At 1 January 2021 | 693 |
| At 31 December 2021 | 693 |
| Provision for impairment | |
| Carrying amount | |
| At 31 December 2021 | 693 |
| At 31 December 2020 | 693 |

Details of the subsidiaries as at 31 December 2021 are as follows:

| Name of subsidiary | Principal activity | Registered office | Country | %holding |
|--|--------------------------------|--|---------|----------|
| Honeywell Electrical Devices & Systems India Ltd | Electrical devices and systems | Dowlath Tower 3 & 4 Floor, Taylors Road, Kilpauk, Chennai Tamil Nadu-TN 600010 India | India | 91 |

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 above.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

17 Stocks

| | 31 December 2021 £000 | 31 December 2020 £000 |
|-------------------------------|-----------------------------|-----------------------------|
| Raw materials and consumables | 3,042 | 1,990 |
| Work in progress | 1,077 | 840 |
| Finished goods | 6,111 | 4,350 |
| | <u>10,230</u> | <u>7,180</u> |

The cost of stocks recognised as an expense in the year amounted to £38,700,000 (2020: £37,400,000). This is included within cost of sales.

The cost of stocks written down recognised as an expense in the year amounted to £530,000 (2020: £533,000).

18 Debtors

| | 31 December 2021 £000 | 31 December 2020 £000 |
|--|-----------------------------|-----------------------------|
| Amounts falling due within one year | | |
| Trade debtors | 9,754 | 9,040 |
| Amounts owed by group undertakings | 85,494 | 83,815 |
| Prepayments | 1,064 | 644 |
| Other debtors | 918 | 1,498 |
| | <u>97,230</u> | <u>94,997</u> |

Total amounts falling due within one year

Amounts owed by group undertakings include the following interest-bearing loans and other borrowings, all other amounts are interest free:

| Receivable | Currency | Interest terms | 31 December 2021 £000 | 31 December 2020 £000 |
|------------|----------|----------------------|-----------------------------|-----------------------------|
| On Demand | GBP | UK Base rate plus 1% | <u>82,261</u> | <u>81,363</u> |

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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

18 Debtors (continued)

| | 31 December 2021 | | |
|---------------------|--|-----------------------------------|---------------------------------|
| | Gross carrying amount at risk of default £000 | Expected credit loss rate % | Expected credit loss £000 |
| Amounts due: | | | |
| Not due | 9,035 | - | - |
| Within 30 days | 526 | .24 | 1 |
| 30 - 60 days | 171 | .54 | 1 |
| 61 - 90 days | 24 | 1.08 | - |
| | <u>9,756</u> | <u>1.86</u> | <u>2</u> |
| | | | |
| | 31 December 2020 | | |
| | Gross carrying amount at risk of default £000 | Expected credit loss rate % | Expected credit loss £000 |
| Amounts due: | | | |
| Not due | 7,984 | .41 | 33 |
| Within 30 days | 663 | .65 | 4 |
| 30 - 60 days | 197 | 1.45 | 3 |
| 61 - 90 days | 77 | 2.88 | 2 |
| 91 - 180 days | 34 | 4.13 | 2 |
| After 180 days | 144 | 10.70 | 15 |
| | <u>9,099</u> | <u>20.22</u> | <u>59</u> |

19 Creditors: amounts falling due within one year

| | 31 December 2021 £000 | 31 December 2020 £000 |
|--|-----------------------------|-----------------------------|
| Trade creditors | 16,805 | 16,274 |
| Accrued expenses | 3,369 | 2,931 |
| Amounts due to group undertakings | 2,855 | 4,560 |
| Social security and other taxes | 4,393 | - |
| Other creditors | 14 | 41 |
| Loans and borrowings | 5,873 | 11,816 |
| Current portion of long term lease liabilities | 1,185 | 1,177 |
| Dividends payable | <u>36,672</u> | <u>32,542</u> |
| Total amount owed to creditors | <u>71,166</u> | <u>69,341</u> |

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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

20 Creditors: amounts falling due after more than one year

| | 31 December 2021 £000 | 31 December 2020 £000 |
|---|-----------------------------|-----------------------------|
| Other non-current financial liabilities | 40,441 | 40,441 |
| Long term lease liabilities | 16,043 | 17,053 |
| Total amount owed to creditors | <u>56,484</u> | <u>57,494</u> |

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.

21 Lease liabilities

Leases included in creditors

| | 31 December 2021 £000 | 31 December 2020 £000 |
|--|-----------------------------|-----------------------------|
| Current portion of long term lease liabilities | 1,185 | 1,177 |
| Long term lease liabilities | 16,043 | 17,053 |
| | <u>17,228</u> | <u>18,230</u> |

Lease liabilities maturity analysis

The non-cancellable lease payments are due:

| | 31 December 2021 £000 | 31 December 2020 £000 |
|----------------------|-----------------------------|-----------------------------|
| Within one year | 1,185 | 1,177 |
| In two to five years | 6,216 | 4,860 |
| In over five years | 9,827 | 12,193 |
| | <u>17,228</u> | <u>18,230</u> |

The company has entered into commercial leases on certain properties. There are three property leases: the first one relates to the Progress Road, Eastwood, Southend-on-Sea which expired in September 2021; the second one relates to the Arnold Centre, Basildon with a remaining term at year end of 33 years, and the last one relates to Pioneer 210 North Road, Ellesmere Port with a remaining term at year end of 7 years. There are no restrictions placed upon the lessee by entering into these leases.

The company did not make any adjustments to the lease liabilities during the periods presented.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

22 Provisions for liabilities

| | Warranties £000 | Deferred tax £000 | Total £000 |
|--|--------------------|----------------------|---------------|
| At 1 January 2021 | 162 | 38,068 | 38,230 |
| Increase (decrease) in existing provisions | 4 | 29,369 | 29,373 |
| At 31 December 2021 | 166 | 67,437 | 67,603 |

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

23 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. The scheme was closed for future accruals of benefits with effect from 30 June 2017 and all active members at this date became deferred members. Regular employer contributions to the plan by the company in 2021 are estimated to be £nil. Defined benefit obligations are based on a full valuation of the schemes liabilities as at 31 March 2021, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2021.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

| | 31 December 2021 £000 | 31 December 2020 £000 |
|--|-----------------------------|-----------------------------|
| Fair value of scheme assets | 856,164 | 833,040 |
| Present value of scheme liabilities | (579,506) | (627,071) |
| Defined benefit pension scheme surplus | 276,658 | 205,969 |

Amounts recognised in the income statement

| | 31 December 2021 £000 | 31 December 2020 £000 |
|--|-----------------------------|-----------------------------|
| Amounts recognised in operating profit | | |
| Past service cost | - | 48 |
| Administrative expenses paid | 1,103 | 972 |
| Recognised in arriving at operating profit | 1,103 | 1,020 |
| Amounts recognised in finance income or costs | | |
| Net interest | (2,714) | (3,230) |
| Total recognised in the income statement | (1,611) | (2,210) |

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

23 Pension commitments (continued)

Amounts taken to the Statement of Comprehensive Income

| | 31 December 2021 £000 | 31 December 2020 £000 |
|--|-----------------------------|-----------------------------|
| Actuarial gains and losses arising from changes in financial assumptions | (35,536) | 47,971 |
| Actuarial gains and losses arising from experience adjustments | (193) | (13,027) |
| Return on plan assets, excluding amounts included in interest income/(expense) | (33,349) | (73,200) |
| Gains on transfer between companies | - | (3,240) |
| Amounts recognised in the Statement of Comprehensive Income | <u>(69,078)</u> | <u>(41,496)</u> |

Scheme assets

Changes in the fair value of scheme assets are as follows:

| | 31 December 2021 £000 | 31 December 2020 £000 |
|------------------------------|-----------------------------|-----------------------------|
| Fair value at start of year | 833,040 | 747,722 |
| Transfer between companies* | - | 13,790 |
| Expected return on assets | 11,178 | 14,524 |
| Actuarial gains and losses | 33,349 | 73,200 |
| Contributions by employer | - | 4,624 |
| Net benefits paid out | (20,300) | (19,848) |
| Administrative expenses paid | (1,103) | (972) |
| Fair value at end of year | <u>856,164</u> | <u>833,040</u> |

Analysis of assets

The major categories of scheme assets are as follows:

| | 31 December 2021 % | 31 December 2020 % |
|---------------------------|--------------------------|--------------------------|
| Cash and cash equivalents | 4 | 1 |
| Equity instruments | 16 | 28 |
| Bonds | 68 | 59 |
| Real estate | <u>12</u> | <u>12</u> |
| | <u>100</u> | <u>100</u> |

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

23 Pension commitments (continued)

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

| | 31 December 2021 £000 | 31 December 2020 £000 |
|--|-----------------------------|-----------------------------|
| Present value at start of year | 627,071 | 590,082 |
| Transfer between companies* | - | 10,551 |
| Actuarial gains and losses arising from changes in demographic assumptions | (7,135) | 2,969 |
| Actuarial gains and losses arising from changes in financial assumptions | (28,401) | 45,002 |
| Actuarial gains and losses arising from experience adjustments | (193) | (13,027) |
| Interest cost | 8,464 | 11,294 |
| Net benefits paid out | (20,300) | (19,848) |
| Effect of curtailments | - | 48 |
| Present value at end of year | <u>579,506</u> | <u>627,071</u> |

* In 2020, Honeywell Normalair Garrett (Holdings) Limited settled a section 75 debt as per the Pensions Act 195 and as a result is no longer a participating employer in the HUKPS. The membership in the pension scheme has been reallocated to other participating companies.

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

| | 31 December 2021 % | 31 December 2020 % |
|--|--------------------------|--------------------------|
| Discount rate | 1.98 | 1.40 |
| Inflation (RPI) | 3.09 | 2.70 |
| Inflation (CPI) | 2.59 | 2.20 |
| Pensions subject to limited price indexation to 5% | 3.00 | 2.60 |
| Pensions subject to limited price indexation to 2.5% | 2.15 | 2.00 |
| Other pensions and deferred pensions | <u>2.59</u> | <u>2.20</u> |

Post retirement mortality assumptions

Mortality

Mortality assumptions are based on standard mortality tables that allow for future mortality improvements. These tables assume that a member who retired in 2021 at age 65 will live on average for a further 22.2 years (2020: 22.2 years) after retirement if male or a further 24.6 years (2020: 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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

24 Called-up share capital

Authorized, allotted, called-up and fully paid shares

| | 31 December 2021 | | 31 December 2020 | |
|---|---------------------|--------------|---------------------|--------------|
| | No. 000 | £000 | No. 000 | £000 |
| 1,100,605 (2020: 1,100,605) ordinary shares of £1 each | <u>1,101</u> | <u>1,101</u> | <u>1,101</u> | <u>1,101</u> |

25 Share premium

| | 2021 £000 | 2020 £000 |
|---|---------------|---------------|
| Balance at 1 January and 31 December | | |
| Premium arising on issue of equity shares | <u>19,800</u> | <u>19,800</u> |
| | <u>19,800</u> | <u>19,800</u> |

26 Other reserves

| | 2021 £000 | 2020 £000 |
|--------------------------------------|--------------|--------------|
| Balance at 1 January and 31 December | | |
| Other reserves | <u>714</u> | <u>714</u> |
| | <u>714</u> | <u>714</u> |

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 £792,016,000 (2020: £494,085,000).

Positive cash balances held by the group exceeded overdrawn balances in 2021 and 2020.

28 Events after the balance sheet date

There have been no material adjusting or disclosable events since the financial year end.