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Honeywell Control Systems **Limited**

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



Company Information

Officers and professional advisors

Directors

James McKenna
Sarah Martin
David Kay
David Juggins
Sharon Treanor
Diane Bacquet-Herbaux
Antonio Carlos Ireneu Dos Santos Rodrigues Das Neves

Statutory Auditor

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

Bankers

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

Registered address

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

Strategic report

for the financial year ended 31 December 2018

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

Principal activities

The company contains several divisions which operate in three of the four of Honeywell's strategic business groups. These are BT (Building Technologies) which provides building automation systems, service and products; PMT (Performance Materials & Technologies) which provides industrial process solutions, service and controls; and S&PS (Safety and Productivity Solutions) which supplies electrical switches and sensors. All three strategic business groups develop and deliver products and integrated solutions that improve energy efficiency, industrial productivity and safety while enhancing convenience and control. The company operates mainly in the UK, with some product sales to mainland Europe, North and South America and Asia Pacific. The company also has a branch in Ireland.

Review of the business and future developments

During the current year, the company's ultimate parent company Honeywell International Inc. carried out a divestiture exercise to spin off its Homes products portfolio and ADI global distribution business, as well as its Transportation Systems business, into two stand-alone publicly-traded companies, Resideo Technologies, Inc. and Garrett Motion Inc. as a result of its comprehensive portfolio review. As part of the implementation, on 29 July 2018, Honeywell Control Systems Limited sold the assets and liabilities relating to its Homes division and its shareholding in South Africa Ademco (Pty) Ltd to its subsidiary Ademco 1 Limited in consideration for shares valued at £48,896,700, earning a gain on disposal of £29,716,000. On 28 September 2018, the company distributed the shares of Ademco 1 Limited as a dividend to its immediate parent undertaking Honeywell Limited. Subsequently, on 29 October 2018 Honeywell spun off its former Homes and Global Distribution business including Ademco 1 Limited to a new, publicly traded company called Resideo Technologies, Inc.

On 27 September 2018, the shareholders of Honeywell Control Systems Limited agreed that the company should reduce its share capital by £149,999,999. The reduction resulted in a credit to the P&L reserve.

The profit for the financial year, after taxation, is £64,620,000 (2017: £21,661,000). The increase of £42,959,000 was driven by the £29,716,000 gain on disposal of the company's Homes business to its subsidiary Ademco 1 Limited, as well as increased projects revenue throughout the business and efficiency gains from restructuring programmes. Turnover decreased by 4.2% from £355,116,000 in 2017 to £340,148,000 in 2018, as a result of the divestiture of the Homes business.

Turnover from continuing operations increased by 9.7% to £294,015,000 (2017: £268,134,000), mostly driven by increased revenue from global projects and migration services in the HPS (Honeywell Process Solutions, part of PMT) and BT (Building Technologies) businesses. Gross margin improved from 31.0% in 2017 to 35.0% in 2018 due to the divestiture of the lower margin Homes business, and also driven by an increase in global projects revenue in the HPS (Honeywell Process Solutions) business.

Operating profit in continuing operations increased by 52.8% over last year to £29,401,000 (2017: £19,241,000), driven mostly by the HPS (Honeywell Process Solutions) business which saw an increase in global projects revenue in key markets such as oil and gas and gains in efficiency such as lower staff costs resulting from restructuring programmes, and lower vehicle fleet expenses. Restructuring costs in 2018 amounted to £3,905,000 (2017: £607,000)

The Homes business had a mixed performance. Turnover increased by 13.0% in the first 7 months of 2018 compared to the first 7 months of 2017 before its disposal to Ademco 1 Limited; however gross profit margin decreased by 0.8%, from 17.2 in 2017 to 16.4% in 2018.

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

Strategic report

for the financial year ended 31 December 2018

Key performance indicators

Management monitors the business using the following key indicators:

	Continuing operations		Discontinued operations	
	2018	2017	2018	2017
Turnover % change compared with previous year	9.7	17.0	(88.5)	(3.6)
Gross profit margin%	35.0	31.0	16.4	17.2
Operating profit margin% of turnover	10.0	7.2	3.5	7.6
Headcount % change compared with previous year	(0.6)	(7.5)	(43.1)	3.3

Turnover

Turnover from continuing operations increased by 9.7% to £294,015,000 (2017: £268,134,000), driven primarily by increased revenues from global projects and migration services in the HPS and BT businesses.

Gross profit

Gross profit from continuing operations grew by 23.9% to £102,830,000 (2017: 83,015,000), mostly driven by the HPS (Honeywell Process Solutions) business which saw an increase in global projects revenue in key markets such as oil and gas. Consequently, gross profit margin increased by 4.0%, from 31.0% in 2017 to 35.0% in 2018.

Operating profit margin

Following on from the improvements in revenue and gross profit margin, operating profit margin from continuing operations increased by 2.8%, from 7.2% in 2017 to 10.0% in 2018. The company's increased investment in Research and Development, up 46.3% from £2,802,000 in 2017 to £4,098,000 in 2018 was compensated by gains in efficiency such as lower staff costs and vehicle fleet expenses.

Headcount

Headcount decreased by 9.3%, from 1,606 employees in 2017 to 1,456 employees in 2018. The decrease was mostly due to the disposal of the Homes business, whereby 475 employees were transferred to Ademco 1 Limited on 29 October 2019. Headcount in continuing operations decreased by 0.6%, from 1,274 employees in 2017 to 1,266 employees in 2018 mainly due to the impact of the restructuring programme which took place during 2017 in the BT business.

Financial risk management, objectives and policies

Interest rate risk

The company is exposed to interest rate risk arising out of amounts owed by and to group undertakings & pension schemes. 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 risk

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.

Credit risk

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

Strategic report

for the financial year ended 31 December 2018

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

Liquidity risk

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

Strategy

The company is part of the Honeywell Group, and therefore its strategy is aligned to the Group strategy for the Building Technologies (BT), the Performance Materials and Technologies (PMT) and the S&PS (Safety and Productivity Solutions) Strategic Business Groups.

In the Building Technology (BT) segment, the Business Group strategy is to build a unique position by offering customers a software-driven and connected solution. The starting point is listening carefully to customers to develop products and services that meet their specific needs. The solutions are then designed to operate seamlessly as part of an integrated management system. The Business Group aims to build a smarter, safer, and more sustainable world by helping customers to control their comfort, security, and energy use.

The Performance and Materials Technologies (PMT) Business Group strategy is to generate long-term growth while building a world which is safer and more secure, more comfortable and energy efficient, and more innovative and productive. The Business Group aims to add value for oil and gas companies and enable them to operate more efficiently and profitably by offering them a deep process knowledge, combined with software expertise from Honeywell Process Solutions and an extensive network of laboratories and pilot plant facilities.

By focusing on solutions that offer greater efficiency, the Business Group provides reliable technical service and support, with expertise in plant operations, asset management, customised training, strategic and tactical support, troubleshooting, and engineering services.

In the Safety and Productivity Solutions(S&PS) segment, the Business Group strategy is to build a unique position by offering its customers comprehensive solutions that enhance workplace safety and incident response, improve enterprise performance and enable greater product design innovation. The Business Group builds on Honeywell's expertise in connected solutions to provide real-time safety intelligence, increase worker productivity and enrich operational intelligence with data-driven insights.

The Business Group aims to build a unique position with a broad, deep installed base and understanding of key industries and marketplaces through investing significantly in next-generation technologies, from cloud to artificial intelligence to machine learning.

Principal risks and uncertainties.

The key business risks affecting the company include downturns in capacity utilisation for industrial, and petrochemical plants, raw material demand and supply volatility, product commoditisation, downturns in the level of commercial construction activity, less industrial plant expansion, and changes in the competitive landscape including new market entrants and new technologies. Adverse industry economic conditions including any adverse impact of Brexit and raw material price fluctuations could result in lower market share, reduced selling prices or lower margins.

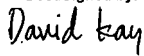
In response to these risks, the company strives to identify emerging technology trends in its target end-markets, understand its customers' needs and enhance its range of products and systems by adding innovative and differentiating features such as solutions that generate less waste or produce cleaner fuels, and bringing them to market quickly and cost effectively.

Strategic report

for the financial year ended 31 December 2018

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). Currently, the UK is expected to leave the EU on 31 January 2020 and proposed to be in the transition period until 31 Dec 2020 to complete the negotiation of a trade deal with the EU. The outcome of this negotiation will determine whether the UK will exit with or without a trade deal in January 2021. Until the Brexit negotiation process is completed, it is difficult to anticipate the potential impact on the Company and the wider Honeywell Group's operations. The uncertainty during and after the period of negotiation is also expected to increase volatility and may have an economic impact particularly in the UK and Eurozone.

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

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David Kay
Director

24-Jan-2020

Directors' report

for the financial year ended 31 December 2018

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

Business review and future developments

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

Results and dividends

The company's profit for the financial year, after taxation was £64,620,000 (2017: £21,661,000) which will be transferred to reserves. The results for the financial year are shown on page 11.

The directors distributed the stock of Ademco 1 Limited valued at £48,896,700 as dividend to Honeywell Limited (2017: £nil).

Financial risk management

Financial risk management of the company is included in the strategic report on page 3.

Directors of the company

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

James McKenna
Sarah Martin
David Kay
David Jiggins
Sharon Treanor
Mehmet Erkilic (resigned on 31 January 2018)
Cheryl Lim (resigned on 06 November 2018)
John Tus (resigned on 24 September 2019)
Diane Bacquet-Herbaux (appointed on 22 August 2019)
Antonio Carlos Ireneu Dos Santos Rodrigues Das Neves (appointed on 23 October 2019)

Directors' indemnities

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

Research and development

Research and development expenditure for the financial year amounted to £4,098,000 (2017: £2,802,000).

Employment of disabled persons

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

Employee involvement

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

Directors' report

for the financial year ended 31 December 2018

Going concern

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

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

Disclosure of information to auditors

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

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

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

Events since the balance sheet date

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 of directors and signed on its behalf by:

DocuSigned by:

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David Kay
Director
24-Jan-2020

Directors' responsibility statement

for the financial year ended 31 December 2018

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To assist them in discharging these responsibilities, the directors have engaged a number of third party providers including an accounting firm who is 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 North & South Europe. The directors have ensured that adequate processes are in place to maintain oversight and supervision over these various providers and processes and to ensure there is clear linkage with the company's activities.

Independent auditor's report

to the members of Honeywell Control Systems Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

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

We have audited the financial statements of Honeywell Control Systems Limited (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 32.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report

to the members of Honeywell Control Systems Limited

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

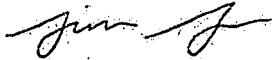
We have nothing to report in respect of these matters.

Independent auditor's report

to the members of Honeywell Control Systems Limited

Use of our report

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



James Boyle CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
28 January 2020

Profit and loss account

for the financial year ended 31 December 2018

		2018	2017
	Notes	£000s	£000s
Continuing operations			
Turnover	5	294,015	268,134
Cost of sales		(191,185)	(185,119)
Gross profit		102,830	83,015
Distribution expenses		(25,979)	(27,375)
Administrative expenses		(47,450)	(36,399)
Operating profit	8	29,401	19,241
Dividend income	11	6,018	-
Interest receivable and similar income	12	7,014	4,213
Interest payable and similar charges	13	(3,125)	(1,695)
Profit before taxation from continuing operations		39,308	21,759
Tax on profit	15	(5,994)	(6,712)
Profit for the financial year from continuing operations		33,314	15,047
Discontinued operations			
Profit from discontinued operations	14	31,306	6,614
Profit for the financial year		64,620	21,661

The company has applied IFRS 15 using the cumulative effects method, the comparative information is not restated.

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

The notes on pages 15 to 50 form an integral part of the financial statements.

Statement of comprehensive income

for the financial year ended 31 December 2018

		2018	2017
	Notes	£000s	£000s
Profit for the financial year		64,620	21,661
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss</i>			
Actuarial gains on pension plan	24	29,882	81,781
Movement on deferred tax relating to pension scheme	15	(5,080)	(13,903)
Other comprehensive income for the financial year net of tax		24,802	67,878
Total comprehensive income for the financial year		89,422	89,539

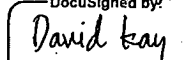
The company has applied IFRS 15 using the cumulative effects method, the comparative information is not restated.

Balance sheet

as at 31 December 2018

		2018	2017
	Notes	£000s	£000s
Fixed assets			
Intangible assets	16	-	11
Tangible assets	17	4,235	9,445
Investments	18	1,167	1,167
		5,402	10,623
Current assets			
Stocks	19	6,979	7,786
Debtors: amounts falling due within one year	20	212,792	206,411
Debtors: amounts falling due after one year	20	1,989	783
Investments	21	-	73,892
Cash at bank and in hand		14,933	-
		236,693	288,872
Creditors: amounts falling due within one year	22	(162,683)	(216,797)
Net current assets		74,010	72,075
Total assets less current liabilities (excluding pension asset)		79,412	82,698
Provisions for liabilities	23	(40,905)	(30,569)
Pension asset	24	246,835	191,046
Pension liability	24	(4,752)	(3,830)
Net assets		280,590	239,345
Capital and reserves			
Called-up share capital	25	-	150,000
Share premium account	26	14,537	14,537
Profit and loss account		266,053	74,808
Total shareholders' funds		280,590	239,345

The financial statements on pages 11 to 50 were approved by the board of directors on 24-Jan-2020 and signed on its behalf by:


David Kay
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Director

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

	<i>Called-up share capital</i>	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Total</i>
	£000s	£000s	£000s	£000s
At 1 January 2017	150,000	14,537	(15,866)	148,671
Profit for the financial year	-	-	21,661	21,661
Other comprehensive income	-	-	67,878	67,878
Total comprehensive profit for the financial year	-	-	73,673	73,673
Movement in respect of share options (note 28)	-	-	1,135	1,135
At 31 December 2017	150,000	14,537	74,808	239,345
Profit for the financial year	-	-	64,620	64,620
Other comprehensive income	-	-	24,802	24,802
Total comprehensive profit for the financial year	-	-	89,422	89,422
Movement in respect of share options (note 28)	-	-	720	720
Share capital reduction (note 25)	(150,000)	-	150,000	-
Dividend paid (note 27)	-	-	(48,897)	(48,897)
At 31 December 2018	-	14,537	266,053	280,590

The company has applied IFRS 15 using the cumulative effects method, the comparative information is not restated.

Notes to the financial statements

for the financial year ended 31 December 2018

1. General information

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

The immediate parent undertaking is Honeywell Limited, a company incorporated in the United Kingdom. The registered address of the parent is Honeywell House, Skimped Hill Lane, Bracknell, Berkshire, RG12 1E3, 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 the group.

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the financial statements of Honeywell International Inc., a company registered in the USA. Honeywell International Inc. is the company's ultimate parent company and controlling party, heading up the smallest and largest group to consolidate these financial statements. The registered office of the ultimate parent company is located at 251, Little Falls Drive, Wilmington, DE 19808, USA. The financial statements of Honeywell International Inc. are publicly available and can be obtained from Corporate Publications, PO Box 2245, Morristown, New Jersey 07962-2245, USA or from the Internet at www.honeywell.com.

2. Significant accounting policies

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

Basis of preparation

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

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

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

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

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

Notes to the financial statements

for the financial year ended 31 December 2018

Going concern

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

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

Turnover and revenue recognition

The company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

Turnover comprises revenue from sales to customers and service revenues net of value added tax. Turnover also comprises the cost plus mark-up of general administration support to fellow group companies, net of value added tax.

The company recognises revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer excluding amounts collected on behalf of third parties. The company measures revenue at the transaction price, excluding estimates of variable considerations and recognises revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer excluding amounts collected on behalf of third parties. A good 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 in respect of the following:

<u>Type of sale</u>	<u>Recognition</u>
Product and service sales	On dispatch and when acceptance by the customer has occurred Where a licensing agreement is distinct from other goods and services the same is treated as a separate performance obligation and the revenue is recognised when such performance obligation is satisfied.
Licensing agreements	Where a licensing agreement is not distinct from other goods and services the same is treated as a single performance obligation and the revenue is recognised when the combined performance obligation is satisfied.
Service contracts	As and when performance obligations are satisfied using cost to cost measure of progress*
Sale of consignment stock	When the title of goods sold passes to the customer
Long term contracts	Percentage of completion basis once the outcome of the contract can be recognised with reasonable certainty.

* also refer to Construction contracts

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.

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for the financial year ended 31 December 2018

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.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

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.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the company performs under the contract.

Cost to obtain a contract

The company recognises the incremental costs of obtaining contracts with customers and the costs incurred in fulfilling the contracts with customers that are directly associated with the contract as an asset if those costs are expected to be recoverable. The company amortises such costs using the straight line method over the period of the contract.

The company pays sales commission to its employees/third party for each contract that they obtain for bundled sales of equipment and installation services. The company has elected to apply the optional practical expedient for costs to obtain a contract which allows the company to immediately expense sales commissions (included under employee benefits and part of cost of sales) because the amortisation period of the asset that the company otherwise would have used is one year or less.

Construction contracts

Revenue from construction contracts is recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The company considers that the input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations.

The company determines at contract inception that the control of a promised good or service is transferred over time, when any of the following conditions are satisfied:

- The customer is receiving and consuming the benefits of the company's performance as the company performs
- The company creates or enhances an asset that the customer controls as it is created or enhanced
- The company's performance does not create an asset with alternative use and the company has a right to payment for performance completed to date

The company becomes entitled to invoice customers for contracts based on achieving a series of performance-related milestones. The company will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the company recognises a contract liability for the difference.

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for the financial year ended 31 December 2018

The company's contracts are typically negotiated for the construction of a single asset or a group of assets that are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the measurement criteria is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Owing to the nature of the contracts entered into by the company, it assumes significant integration of goods and services in order to effect the delivery of the combined item the customer contracts for and hence considers the contracted services under such contracts as a single performance obligation.

Assets covered by a single contract are treated separately when:

- separate proposals have been submitted for each asset
- each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset
- the costs and revenues of each asset can be identified

A group of contracts are treated as a single construction contract when:

- the group of contracts is negotiated with a single commercial objective;
- the consideration paid for one contract is dependent on the price or performance of another contract or goods; or
- services promised are a single performance obligation.

Revenue – Accounting policies applied until 31 December 2017

- *Turnover and revenue recognition*

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

<u>Type of sale</u>	<u>Recognition</u>
Product sales	On delivery and when acceptance by the customer has occurred
Licensing agreements	Evenly over the period of the agreement
Service contract	Evenly over the period of the contract and the difference is reported in accrued or deferred income
Sale of consignment stock	When the title of goods sold passes to the customer
Long term contracts	Percentage of completion basis once the outcome of the contract can be recognised with reasonable certainty.

- *Construction contracts*

In the comparative period, the company recognised contract revenue by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction contract could be estimated reliably.

Interest receivable

Interest income 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.

Notes to the financial statements

for the financial year ended 31 December 2018

Dividend income

Dividend income is recognised when the shareholder's right to payment is established, that is on declaration of the dividend by the subsidiary.

Operating leases – as lessee

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

Research and development

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

Foreign currency translation

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

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

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

Taxation

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

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

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

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

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

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

Intangible assets

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.

Notes to the financial statements

for the financial year ended 31 December 2018

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.

Software is stated at purchased cost and is amortised on a straight line basis over the period that the company expects to derive economic benefit. The period of amortisation is 5 years.

Tangible assets and depreciation

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

Buildings - leasehold improvements	10% or life of lease if under 10 years
Buildings - freehold	2.0%-3.3%
Plant & equipment	6.6%-33.3%
Fixtures & fittings	6.6%-33.3%

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

Land is not depreciated.

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

Investments

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

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.

Financial instruments

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

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for the financial year ended 31 December 2018

Financial asset – recognition and measurement

Initial recognition and measurement

Financial assets are recognised when the entity becomes a party to the contract and, as a consequence, has a legal right to receive cash.

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

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

Classification of financial assets

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

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

Derecognition

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

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

Impairment of financial assets

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

- a) Financial assets that are debt instruments, and are measured at amortised cost e.g., loans, debt securities, deposits, trade receivables and bank balance.
- b) Trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of IFRS 15.

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

ECL is the weighted average of the 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

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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.

Financial liabilities - recognition and measurement

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

De-recognition

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

Financial Instruments – Accounting policies applied until 31 December 2017

Financial assets - recognition and measurement

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

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

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

Impairment of financial assets

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

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other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

Stocks

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

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

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

Pensions

As described in note 24, the company participates in defined benefit pension schemes for the benefit of certain of its employees, the assets of which are held separately from those of the company in independently administered funds. The rates of contribution are determined by independent professionally qualified actuaries.

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

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

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

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

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

Current asset investment

Amounts held as current asset investments represent short term deposits held by banks approved by the worldwide group's treasury facility.

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Provisions

The company recognises a provision when it has a present obligation, either legal or constructive, which 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.

Share-based payments

The company's employees participate in share option plans operated by Honeywell International Inc., the ultimate parent company. All share-based payments are equity-settled and are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the company's estimate of the number of options that will eventually vest. At each balance sheet date, the company reviews its estimate of the number of options that are expected to vest.

In accordance with IFRS 2, the charge arising for share-based payments is recognised in the profit and loss account of the company that employs those to whom share-based awards are granted. The credit entry is reported directly to reserves as a capital contribution.

The company accrues for employers' national insurance contributions payable on share-based payments at the applicable contribution rate.

Discontinued operations

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

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

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

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

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

Additional disclosures are provided in note 14. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

3. Judgements and key sources of estimation uncertainty

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

Judgements

In the process of applying the company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of investments

The investment in subsidiaries is carried at cost less impairment. The assessment of impairment involves judgement and estimations as to the value of the unquoted investment. At the period end the value of the investment was £1,167,000 (2017: £1,167,000).

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

Notes to the financial statements

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the next financial year, are described below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the company. Such changes are reflected in the assumptions when they occur.

(i) Estimates used for revenue recognition

Construction contracts

The use of the cost-to-cost method requires the company to estimate the proportion of costs incurred to the total estimated costs to complete the contract.

(ii) Estimates used for provisions

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken where required through internal or external subject matter experts.

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

A warranty provision is estimated based on historical warranty return rate and time lag, applied to the revenue generated over the lag period. The carrying amount of the warranty provision as at 31 December 2018 is £366,000 (2017: £357,000).

The redundancy provision covers a number of employees and is calculated on individual basis to take account of variables such as length of service. As at 31 December 2018, the carrying amount of redundancy provision was £129,000 (2017: £607,000).

The contract provision represents the expected loss on installation projects based on current estimate at completion. As at 31 December 2018, the carrying amount of contract loss provision was £223,000 (2017: £638,000).

(iii) Estimates used for Defined Benefit 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 24.

4. New and amended standards and interpretations

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

The nature and the effect of these changes are disclosed below. Although these new standards and amendments were applied for the first time in 2018, they did not have a material impact on the annual financial statements of the company. The nature and the impact of each new standard or amendment is described below:

Notes to the financial statements

for the financial year ended 31 December 2018

IFRS 15 Revenue from contracts with customers

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

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

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

IFRS 9 Financial Instruments

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

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in the changes in accounting policies and adjustments to the amounts recognised in the financial statements. The company estimated its due contractual cash flows discounted at the original effective interest rate, with the respective risks of default on external debts. On application of such model (ECL), the company estimated that the amount of expected credit losses for the year as £610,000 (2017: £1,880,000) (refer to note 20). In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

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

5. Turnover

	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Analysis of turnover by geographical market</i>						
United Kingdom	204,218	189,563	45,879	86,367	250,097	275,931
Rest of Europe	82,207	69,592	254	606	82,461	70,198
North America	3,350	3,776	-	-	3,350	3,776
Other	4,240	5,203	-	9	4,240	5,211
<i>Total turnover by geographical market</i>	<i>294,015</i>	<i>268,134</i>	<i>46,133</i>	<i>86,982</i>	<i>340,148</i>	<i>355,116</i>

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	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Analysis of turnover by business category</i>						
Homes	-	-	46,133	86,982	46,133	86,982
Building technologies	88,979	90,395	-	-	88,979	90,395
Performance materials and technologies	117,406	99,319	-	-	117,406	99,319
Safety and productivity solutions	87,630	78,420	-	-	87,630	78,420
<i>Total turnover by business category</i>	294,015	268,134	46,133	86,982	340,148	355,116

6. Construction contracts

	2018	2017
	£000s	£000s
Contract revenue recognised in period	138,851	92,822
Retention asset	1,278	900
Contract costs incurred	1,036,659	939,917
Recognised profits less recognised losses	296,615	254,354
Contract costs incurred and recognised profits (less recognised losses)	1,333,274	1,194,271
Less: progress billings	(1,337,612)	(1,199,001)
Amounts due to customers	(4,338)	(4,730)
Amounts due from customers included within debtors	10,832	10,264
Amount due to customers included within creditors	(15,170)	(14,994)

Contract costs incurred, recognised profits and progress billings are stated from inception of the contract to 31 December 2018. As a result of certain contracts spanning several years, these amounts are therefore not recognised in entirety, in the current year.

Notes to the financial statements

for the financial year ended 31 December 2018

7. Contract balances

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

	2018	2017
	£000s	£000s
Trade receivables, included in "Trade debtors" (note 20)	57,448	68,708
Contract assets, included in "Amounts recoverable on Contracts less than 1 year (note 20)	20,274	32,027
Contract liabilities, included in "Accruals and deferred income" (note 22)	(18,601)	(13,136)

Set out below is the movement in the allowance for expected credit losses of trade receivables:

	2018	2017
	£000s	£000s
As at 1 January	(1,880)	-
Provision for expected credit losses	-	(1,880)
Write off	1,270	-
As at 31 December (note 20)	(610)	(1,880)

The company has not recognised any impairment losses in relation to the contract assets.

8. Operating profit

	2018	2017
	£000s	£000s
This is stated after charging/(crediting):		
<i>Depreciation and amortisation (notes 16 and 17)</i>		
Tangible assets – owned	1,485	1,851
Intangible assets	7	18
Rental charges under operating leases		
Land and buildings	2,285	2,227
Loss/(gain) on disposal of fixed assets (note 17)	60	(1,820)
Reorganisation and redundancy	3,905	607
Research and development	4,098	2,802
Rental income under operating lease	-	(1,431)
Vehicle fleet and other rental expense	3,752	5,463

Notes to the financial statements

for the financial year ended 31 December 2018

Loss on foreign exchange	188	907
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9. Auditor's remuneration

	2018	2017
	£000s	£000s
Audit of the financial statements of the company	35	23
Audit of the financial statements of other group companies	771	716
Total auditor remuneration	806	739

Audit fees have been incurred with the company incurring fees for the other UK Honeywell companies as mentioned in their respective financial statements. The company did not recharge these costs.

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

10. Employees and directors

(a). Staff costs

	2018	2017
	£000s	£000s
Wages and salaries	79,270	85,679
Social security costs	7,868	10,576
Contributions to defined contribution pension plans	8,615	8,027
Pension costs and curtailments for defined benefit plans (note 24)	4,850	4,265
Share based payment charges (note 28)	720	1,135
Total staff costs	101,323	109,682

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

(including executive directors)

	2018	2017
	No.	No.
Direct	678	729
Indirect	778	877
Total monthly average number of employees	1,456	1,606

Notes to the financial statements

for the financial year ended 31 December 2018

(b). Directors' remuneration

	2018	2017
	£000s	£000s
Aggregate emoluments	590	736
Pension costs – defined contribution	43	54
Total payments to directors	633	790
Highest paid director		
Aggregate emoluments	199	289
Total payments to highest paid director	199	289

During the financial year the highest paid director exercised options over no shares (2017: 1,390 shares) of Honeywell International Inc., the ultimate parent company

	2018	2017
	No.	No.
Number of directors who:		
Were members of a defined contribution plan	6	4
Exercised options over shares of Honeywell International Inc., the ultimate parent	-	1

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

11. Income from shares in group undertakings

	2018	2017
	£000s	£000s
<i>Income from shares in group undertakings</i>		
Dividend from Honeywell South Africa (PTY) Ltd	6,018	-

Notes to the financial statements

for the financial year ended 31 December 2018

12. Interest receivable and similar income

	2018	2017
	£000s	£000s
Interest receivable from group undertakings	1,172	1,114
Pension interest (note 24)	5,717	3,089
Other interest receivable	125	10
<i>Total interest receivable and similar income</i>	<u>7,014</u>	<u>4,213</u>

13. Interest payable and similar charges

	2018	2017
	£000s	£000s
Interest payable to group undertakings	2,209	576
Interest payable on bank overdraft	916	1,119
<i>Total interest payable and similar charges</i>	<u>3,125</u>	<u>1,695</u>

14. Discontinued operations

In 2018 the ultimate parent company Honeywell International Inc. spun off its Homes product portfolio and ADI global distribution business into a stand-alone, publicly-traded company as a result of its comprehensive portfolio review. As part of the implementation, on 29 July 2018 the company sold the assets and liabilities relating to its Homes division to Ademco 1 Limited in consideration for shares valued at £48,896,700, resulting in a gain on disposal of £29,715,800. This represented the entirety of the company's Homes operating segment as at 29 July 2018.

Notes to the financial statements

for the financial year ended 31 December 2018

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

	2018	2017
	£000s	£000s
<i>Results of discontinued operations</i>		
Turnover	46,133	86,982
Expenses	(44,498)	(80,380)
Results from operating activities	1,635	6,602
Interest income	17	32
Profit before tax from discontinued operations	1,652	6,634
Tax charged (note 15)	(62)	(20)
Profit for the year from discontinued operations after tax	1,590	6,614
Gain on disposal of operations after tax	29,716	-
Profit for the year from discontinued operations after tax	31,306	6,614

The details of net assets transferred are as follows:

29 July 2018

	£000s
Fixed Assets	
Intangible assets (note 16)	4
Tangible assets (note 17)	4,786
Investments in subsidiaries (note 18)	6,018
	10,808
Current Assets	
Stocks	42
Debtors: amount falling due within one year	16,391
	16,433
Creditors: amount falling due within one year	(8,060)
Net current assets	8,373
Net assets transferred	19,181
Sale consideration received	48,897
Gain on disposal of business	29,716

Notes to the financial statements
for the financial year ended 31 December 2018

15. Taxation

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

	2018	2017
	£000s	£000s
<i>Current tax:</i>		
Foreign tax suffered	748	748
<i>Total current tax</i>	<u>748</u>	<u>748</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	5,496	4,607
Effect of change in tax laws and rates	-	(1,230)
Adjustment in respect of prior years	(188)	2,607
<i>Total deferred tax</i>	<u>5,308</u>	<u>5,984</u>
<i>Total tax expense in the profit and loss account</i>	<u>6,056</u>	<u>6,732</u>
Tax expense reported in the statement of profit or loss	5,994	6,712
Tax expense attributable to discontinued operations	62	20

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

	2018	2017
	£000s	£000s
<i>Deferred tax:</i>		
Remeasurements on defined benefit pension plans	5,080	13,903
<i>Total deferred tax</i>	<u>5,080</u>	<u>13,903</u>
<i>Total tax expense in the statement of comprehensive income</i>	<u>5,080</u>	<u>13,903</u>

Notes to the financial statements

for the financial year ended 31 December 2018

(c). Reconciliation of the total tax charge

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

	2018	2017
	£000s	£000s
Profit before tax from continuing operations	39,308	21,759
Profit before tax from discontinued operations (note 14)	31,368	6,634
Profit before tax	70,676	28,393
Profit multiplied by the effective rate of corporation tax in the UK of 19% (2017: 19.25%)	13,428	5,466
<i>Effects of:</i>		
Expenses not deductible for tax purposes and other permanent differences	652	63
Income not taxable	(6,925)	(34)
Share based payments	-	3
Effect of change in tax laws and rates	-	(1,230)
Difference in current tax rate to deferred rate	(647)	(610)
Adjustment for tax for prior years	(188)	2,607
Withholding tax	748	748
Group relief not paid for	(1,012)	(281)
Total tax expense reported in the profit and loss account	6,056	6,732

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

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

(e). Deferred tax

	2018	2017
	£000s	£000s
<i>The deferred tax included in the balance sheet is as follows:</i>		
Deferred tax liability		
Deferred tax provision on pension asset (note 24)	(41,154)	(31,827)
Total deferred tax liability	(41,154)	(31,827)

Notes to the financial statements

for the financial year ended 31 December 2018

Deferred tax asset		
Differences between capital allowances and depreciation	703	1,732
Other short term timing differences	264	255
Tax loss carried forward	-	873
<i>Total deferred tax asset</i>	<u>967</u>	<u>2,860</u>
<i>Net deferred tax liability (note 23)</i>	<u>(40,187)</u>	<u>(28,967)</u>

<i>Movements in deferred tax</i>	<i>Excluding pension</i>	<i>Pension</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
At 1 January 2018	2,860	(31,827)	(28,967)
Charge to profit and loss account			
Continuing operations	(999)	(4,247)	(5,246)
Discontinued operations	(62)	-	(62)
Charge to statement of comprehensive income	-	(5,080)	(5,080)
Disposals pertaining to discontinued operations (note 14)	(832)	-	(832)
At 31 December 2018	<u>967</u>	<u>(41,154)</u>	<u>(40,187)</u>

The deferred tax asset is recognised because it is more likely than not that there will be sufficient taxable profits in the future to recover the assets.

There are no unprovided amounts relating to deferred tax.

Notes to the financial statements

for the financial year ended 31 December 2018

16. Intangible assets

	Software
	£000s
<i>Cost</i>	
At 1 January 2018	1,447
Disposals pertaining to discontinued operations (note 14)	(100)
Other disposals	(605)
At 31 December 2018	742
<i>Accumulated amortisation/impairment</i>	
At 1 January 2018	1,436
Provided during the financial year	7
Disposals pertaining to discontinued operations (note 14)	(96)
Other disposals	(605)
At 31 December 2018	742
<i>Net book value:</i>	
At 31 December 2018	-
At 31 December 2017	11

During the year, the company disposed of its assets relating to its Homes division having a net book value of £4,000 as part of the spin-off exercise carried out by the company.

Notes to the financial statements
for the financial year ended 31 December 2018

17. Tangible assets

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Fixtures and fittings</i>	<i>Construction in progress</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
<i>Cost</i>					
At 1 January 2018	13,723	19,556	4,632	1,557	39,468
Additions	82	842	-	568	1,492
Disposals pertaining to discontinued operations (note 14)	(11,324)	(10,290)	(397)	-	(22,011)
Other disposals	-	(710)	(38)	(126)	(874)
Reclassification	340	825	-	(1,165)	-
At 31 December 2018	2,821	10,223	4,197	834	18,075
<i>Accumulated depreciation</i>					
At 1 January 2018	10,969	15,216	3,838	-	30,023
Provided during the financial year	427	951	107	-	1,485
Disposals pertaining to discontinued operations (note 14)	(9,216)	(7,637)	(372)	-	(17,225)
Other disposals	-	(406)	(37)	-	(443)
At 31 December 2018	2,180	8,124	3,536	-	13,840
<i>Net book value:</i>					
At 31 December 2018	641	2,099	661	834	4,235
At 31 December 2017	2,754	4,340	794	1,557	9,445

During the year, the company disposed of its assets held in its Homes division having a net book value of £4,785,500 as part of the spin-off exercise carried out by the company.

The above figures include:

	<i>2018</i>	<i>2017</i>
	<i>£000s</i>	<i>£000s</i>
Freehold land and buildings, at net book value	-	377
Short leasehold land and buildings, at net book value	641	2,377

Notes to the financial statements

for the financial year ended 31 December 2018

18. Investments

	2018	2017
	£000s	£000s
<i>Cost</i>		
At 1 January	1,167	1,167
Additions during the year	54,915	-
Disposals during the year	(54,915)	-
At 31 December	1,167	1,167
<i>Provision for impairment</i>		
At 1 January and 31 December	-	-
<i>Net book value</i>	1,167	1,167

On 19 March 2018, the company incorporated Ademco 1 Limited in the United Kingdom as a wholly owned subsidiary. On 29 July 2018, the company received shares in South Africa Ademco (Pty) Ltd valued at £6,018,000 as a dividend distribution from its subsidiary Honeywell Southern Africa (Proprietary) Ltd. On the same date, the company sold the assets and liabilities relating to its Homes division and the entirety of its shareholding in South Africa Ademco (Pty) Ltd to Ademco 1 Limited in consideration for shares valued at £48,896,700. On 28 September 2018, Honeywell Control Systems Limited distributed the shares of Ademco 1 Limited valued at £48,896,700 as dividend to Honeywell Limited.

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

Shares in the company's subsidiary undertakings are ordinary shares. The subsidiary undertakings are listed in note 32.

19. Stocks

	2018	2017
	£000s	£000s
Raw materials	3,064	3,540
Work in progress	15	203
Finished goods	2,116	2,073
Consignment stock	1,784	1,970
<i>Total stocks</i>	6,979	7,786
The amount of inventories recognised as an expense during the period	52,374	49,249
The amount of inventories written down recognised as an expense in the period	830	457

The consignment stocks are held by certain customers under maintenance agreements with the company. The stocks are replenished when used.

Notes to the financial statements

for the financial year ended 31 December 2018

20. Debtors

	2018	2017
	£000s	£000s
<i>Amounts falling due within one year</i>		
Trade debtors	57,448	68,708
Amounts owed by group undertakings	125,786	98,267
Amounts recoverable on Contracts - less than 1 year	20,274	32,027
Retention assets	1,278	900
Other debtors	1,266	1,458
Prepayments and accrued income	6,740	5,051
<i>Total amounts falling due within one year</i>	<u>212,792</u>	<u>206,411</u>

Amounts falling due after more than one year

Accrued income	1,989	783
<i>Total amounts owed by debtors</i>	<u>214,781</u>	<u>207,194</u>

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

Receivable	Currency	Interest terms	2018	2017
			£000s	£000s
On demand	GBP	UK Base Rate Plus 1%	75,459	71,963

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

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

31 December 2018

	Trade receivables						
	Days past due						
	Not due	<30 days	30-60 days	61-90 days	91-180 days	>180 days	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Expected credit loss rate	-	0.63%	3.07%	5.73%	10.46%	63.70%	
Estimated total gross carrying amount at default	-	53,791	2,267	917	1,014	69	58,058
Expected credit loss	-	(338)	(70)	(53)	(105)	(44)	(610)

Notes to the financial statements

for the financial year ended 31 December 2018

31 December 2017

	Trade receivables						
	Days past due						Total
	Not due	<30 days	30-60 days	61-90 days	91-180 days	>180 days	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Expected credit loss rate	-	0.63%	3.10%	5.79%	10.57%	64.41%	
Estimated total gross carrying amount at default	-	65,213	1,570	916	920	1,969	70,588
Expected credit loss	-	(413)	(49)	(53)	(97)	(1,268)	(1,880)

21. Current asset investments

	2018	2017
	£000s	£000s
Short term deposits	-	73,892

Short term deposits are with banks approved by the group's treasury department. The credit risk associated with these deposits is considered to be low.

22. Creditors: amounts falling due within one year

	2018	2017
	£000s	£000s
Bank Overdraft	-	62,026
Payments received on account	84	68
Trade creditors	36,677	32,177
Amounts owed to group undertakings	91,269	85,336
Taxation and social security	7,674	9,990
Accruals and deferred income	26,979	27,200
<i>Total amount owed to creditors</i>	<i>162,683</i>	<i>216,797</i>

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

Payable	Currency	Interest terms	2018	2017
			£000s	£000s
On demand	GBP	UK base rate plus 1%	45,783	45,056

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

Notes to the financial statements

for the financial year ended 31 December 2018

23. Provisions for liabilities

	Warranty	Contract	Severance pay	Deferred tax liability (note 15)	Total
	£000s	£000s	£000s	£000s	£000s
At 1 January 2018	357	638	607	28,967	30,569
Charged to P&L –continuing operations	886	5,647	3,905	5,246	11,908
Charged to P&L –discontinued operations	-	-	-	62	62
Charge to OCI	-	-	-	5,080	5,080
Utilised	(877)	(6,062)	(4,383)	-	(7,546)
Transfers pertaining to discontinued operations (note 14)	-	-	-	832	832
At 31 December 2018	366	223	129	40,187	40,905

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

The contract provision represents the expected loss on installation projects based on current estimate at completion.

The company has obligations in respect of redundancy relating principally to restructuring of its operations. The amount of the provision is based on the best estimate of the cost of severance pay for notified individuals at the balance sheet date.

24. Pension commitments

Defined benefit plans

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 2019 are estimated to be nil. Defined benefit obligations are based on a full-valuation of the schemes liabilities as at 31 December 2018, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2018.

Honeywell Control Systems Ltd Pension and Death Benefit Scheme (Irish plan)

The Honeywell Control Systems Ltd Pension and Death Benefit Scheme is a funded defined benefit plan providing retirement benefits based on salary. The plan also provides life assurance cover. Regular employer contributions to the plan in 2019 are estimated to be £566,000. Defined benefit obligations are based on a full valuation of the liabilities of the Irish plan as at 31 December 2018, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2018.

Notes to the financial statements

for the financial year ended 31 December 2018

	2018			2017		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Amounts recognised in the balance sheet</i>						
Fair value of plan assets	7,293	1,122,891	1,130,184	7,364	1,154,383	1,161,747
Present value of defined benefit obligations	(12,045)	(876,056)	(888,101)	(11,194)	(963,337)	(974,531)
Net assets	(4,752)	246,835	242,083	(3,830)	191,046	187,216

	2018			2017		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Amounts recognised in profit or loss</i>						
Interest cost	235	24,367	24,602	220	26,264	26,484
Expected return on pension plan assets	(156)	(30,163)	(30,319)	(139)	(29,794)	(29,933)
Finance cost/(credit) recognised	79	(5,796)	(5,717)	81	(3,530)	(3,449)

	2018			2017		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Remeasurements</i>						
Liability (gains)/losses due to changes in assumptions	-	(85,214)	(85,214)	-	17,421	17,421
Liability losses/(gains) due to experience during the year	233	4,379	4,612	171	(11,330)	(11,159)
Asset losses/(gains) arising during the financial year	507	50,213	50,720	(370)	(87,673)	(88,043)
Total actuarial (gain) recognised in OCI	740	(30,622)	(29,882)	(199)	(81,582)	(81,781)

Notes to the financial statements
for the financial year ended 31 December 2018

	2018			2017		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Changes in present value of defined benefit obligation						
At 1 January	11,194	963,337	974,531	10,061	963,872	973,933
Current service cost	271	-	271	252	4,013	4,265
Interest cost	235	24,367	24,602	220	26,624	26,844
Exchange movement	118	-	118	495	-	495
Past service cost and curtailments	-	4,579	4,579	-	-	-
Actuarial (gains)/losses on liabilities-financial assumptions	-	(69,892)	(69,892)	-	32,746	32,746
Actuarial (gains) on liabilities - demographic assumptions	-	(15,322)	(15,322)	-	(15,325)	(15,325)
Actuarial losses/(gains) on liabilities-experience	233	4,379	4,612	171	(11,330)	(11,159)
Contributions by participants	28	-	28	27	91	118
Net benefits paid out	(34)	(35,392)	(35,426)	(32)	(37,354)	(37,386)
At 31 December	12,045	876,056	888,101	11,194	963,337	974,531

Notes to the financial statements

for the financial year ended 31 December 2018

	2018			2017		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Changes in fair value of scheme assets</i>						
At 1 January	7,381	1,154,382	1,161,763	6,304	1,048,470	1,054,774
Expected return on assets	156	30,163	30,319	139	29,794	29,933
Actuarial (losses)/ gains on assets	(507)	(50,213)	(50,720)	370	87,673	88,043
Contributions by employer	223	25,020	25,243	252	26,844	27,096
Actual administration expenses paid	(9)	(1,069)	(1,078)	(11)	(1,135)	(1,146)
Exchange movement	55	-	55	315	-	315
Contributions by participants	28	-	28	27	91	118
Net benefits paid out	(34)	(35,392)	(35,426)	(32)	(37,354)	(37,386)
At 31 December	7,293	1,122,891	1,130,184	7,364	1,154,383	1,161,747

<i>Major categories of plan assets as a percentage of total plan assets</i>	2018		2017	
	Irish Scheme	HUKPS	Irish Scheme	HUKPS
	%	%	%	%
Equities (including venture cap and alternative investments)	48	32	51	60
Bonds	42	63	39	35
Property	3	4	2	1
Cash	7	1	8	4
<i>Total</i>	100	100	100	100

Notes to the financial statements
for the financial year ended 31 December 2018

	2018		2017	
	Irish Scheme	HUKPS	Irish Scheme	HUKPS
	%	%	%	%
<i>Main actuarial assumptions</i>				
Inflation (RPI)	1.5	3.2	1.5	3.2
Inflation (CPI)	-	2.1	-	2.1
Rate of general long term increases in salaries	3.0	n/a	3.0	n/a
<i>Rate of increase for pensions</i>	3.0	-	3.0	-
Pensions subject to limited price indexation to 5%	-	3.1	-	3.1
Pensions subject to limited price indexation to 2.5%	-	2.2	-	2.2
Other pensions and deferred pensions	1.5	2.1	1.5	2.1
Discount rate for scheme liabilities	2.1	2.9	2.1	2.5

Mortality

HUPKS

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

Irish scheme

For the Irish scheme, mortality assumptions are based on standard mortality tables that allow for future mortality improvements. These tables assume that a member who retired in 2018 at age 65 will live on average for a further 22.8 years (2017: 22.8 years) after retirement if male or a further 26.0 years (2017: 26.0 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 financial year ended 31 December 2018

25. Share capital

	2018	2017
	£000s	£000s
<i>Authorised and allotted, called-up and fully paid</i>		
1 (2017: 150,000,000) ordinary share of £1 each	-	150,000

On 27 September 2018, under section 642 of the Companies Act 2006, the board of directors passed a special resolution in order to reduce the share capital of the company by 149,999,999 shares, each with a nominal value of £1. The distributable reserve arising from the share capital reduction has been included within the P&L Reserve account.

26. Share premium account

	2018	2017
	£000s	£000s
<i>Balance at 1 January and 31 December</i>		
Premium arising on issue of equity shares	14,537	14,537

27. Dividends paid

On 28 September 2018, the directors distributed its investment in Ademco 1 Limited valued at £48,896,700 as dividend to Honeywell Limited (2017: £Nil).

28. Share-based payments

Share option plan

The company participates in the Honeywell Stock Incentive Plan for employees. Options are granted over shares in Honeywell International Inc. Options are granted with a fixed exercise price that is not less than the market price of the shares as on that date. The options vest over a four year period at 25% per year and expire after 10 years. There are no specific performance criteria attached to the options.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on implied volatilities from traded options on Honeywell stock and historical volatility of Honeywell stock. We used a Monte Carlo simulation model to derive an expected term, using historic data to estimate option activity and post-vest termination behaviour. The expected term represents an estimate of the time that options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the US Treasury yield curve in effect at the time of the grant.

The fair value of each stock option grant made was estimated on the grant date using the Black-Scholes model using the following weighted-average assumptions consistent with the requirements of IFRS 2.

Notes to the financial statements

for the financial year ended 31 December 2018

The expense recognised for employee services received during the financial year is shown in the following table:

	2018	2017
	£000s	£000s
Expense arising from equity-settled share-based payment transactions	720	1,135
<i>Total expense arising from share-based payment transactions</i>	<i>720</i>	<i>1,135</i>

There were no cancellations or modifications to the awards in 2018 or 2017.

	2018	2017
Weighted average fair values at the measurement date	£16.98	£16.68
Expected annual dividend yield	2.49%	2.81%
Expected volatility	18.93%	18.96%
Risk-free interest rate	2.71%	2.02%
Expected life of share options (years)	4.95	5.04
Weighted average share price	106.90	124.99

Model used	Black-Scholes option-pricing		Black-Scholes option-pricing	
	2018	2018	2017	2017
<i>Share options during the financial year</i>	<i>Number</i>	<i>price £</i>	<i>Number</i>	<i>price £</i>
Outstanding at 1 January	92,900	78.42	116,877	62.33
Granted during the financial year	23,076	107.18	32,000	100.43
Exercised during the financial year	(12,274) ²	72.43	(22,287) ¹	64.07
Transferred in	6,149	86.41	-	-
Transferred out	(23,491)	76.25	(23,927)	46.32
Forfeited	(5,417)	85.83	9,763	68.95
Outstanding at 31 December	80,943	88.27	92,900	78.42
Exercisable at 31 December	36,428	69.01	19,318	59.75

Notes to the financial statements

for the financial year ended 31 December 2018

1 The weighted average share price at the date of exercise of these options was £64.07.

2 The weighted average share price at the date of exercise of these options was £72.43.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was 7.70 years (2017: 7.93 years).

The weighted average fair value of options granted during the financial year was £17.04 (2017: £8.82).

The range of exercise prices for options outstanding at the end of the financial year was £46.10 to £107.18 (2017: £46.10 to £100.43).

Weighted average life and average exercise price by range

	2018	2018	2018	2017	2017	2017
Exercise price (range)	Number outstanding	Weighted average life in years	Weighted exercise price £	Number outstanding	Weighted average life in years	Weighted exercise price £
£46.10-£56.37	6,980	4.91	53.81	16,867	5.89	53.56
£67.21	8,783	6.16	67.21	15,549	7.16	67.21
£73.89	17,764	7.15	73.89	24,160	8.15	73.89
£78.14	2,313	7.34	78.14	4,324	8.34	78.14
£100.43	22,027	8.16	100.43	32,000	9.16	100.43
£107.18	23,076	9.16	107.18	-	-	-
Total	80,943	7.70	88.27	92,900	7.93	78.42

Restricted stock units

The Honeywell Stock Incentive Plan includes restricted stock units (RSUs) that entitle the holder to receive one share of common stock for each unit when the units vest. RSUs are issued to certain key employees at fair market value at the date of grant as remuneration. RSUs typically vest after 3 years and are payable in common stock of Honeywell International Inc. upon vesting.

Restricted stock units outstanding during the financial year

	2018	2018	2017	2017
	Number	value £	Number	value £
Outstanding at 1 January	40,008	77.39	38,858	62.00
Granted during the financial year	10,151	108.48	14,530	98.94
Exercised during the financial year	(10,267) ²	60.31	(9,391) ¹	52.08
Transferred in	3,414	82.76	216	41.77
Transferred out	(7,106)	95.58	(1,997)	56.34
Forfeited	(4,318)	86.47	(2,207)	70.86
Outstanding at 31 December	31,882	88.08	40,009	77.39

Notes to the financial statements

for the financial year ended 31 December 2018

1 The weighted average share price at the date of exercise of these options was £52.08.

2 The weighted average share price at the date of exercise of these options was £60.31.

The charge for the financial year relating to share based payment plans was £720,000 (2017: £1,135,000).

29. Capital commitments

	2018	2017
	£000s	£000s
Commitments contracted for but not yet provided	533	598

At 31 December 2018, the company had commitments of £533,000 relating to the acquisition of property, plant and equipment.

30. Operating lease commitments

	2018	2017
	£000s	£000s
<i>Land and buildings</i>		
Not later than one year	2,285	2,227
After one year but not more than five years	7,542	7,271
After five years	68	339
<i>Total land and building operating lease commitments</i>	<u>9,895</u>	<u>9,837</u>
<i>Other leases</i>		
Not later than one year	2,579	3,205
After one year but not more than five years	1,740	3,750
<i>Total other leases commitments</i>	<u>4,319</u>	<u>6,955</u>

The company has entered into commercial leases on certain properties and vehicles. These leases have an average duration of between 4 and 12 years. Only the property lease agreements contain an option for renewal, with such options being exercisable six months before the expiry of the lease term at rentals based on market prices at the time of exercise. In March 2019, the company ended the lease on its office situated in Bracknell and initiated a new lease which terminates in 2030.

There are no restrictions placed upon the lessee by entering into these leases.

31. Contingent liabilities

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

Positive cash balances held by group exceeded overdrawn balances in 2018 and 2017.

Notes to the financial statements

for the financial year ended 31 December 2018

Guarantees

Duty deferment guarantees amounting to £3,074,000 (2017: £2,573,000) have been given to the tax authorities. Performance guarantees amounting to £138,000 (2017: £175,000) have been given to customers of a fellow group company, Honeywell Turki Arabia Ltd.

32. Subsidiary undertakings

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

<i>Name of company</i>	<i>Principal activity</i>	<i>% holding</i>	<i>Country of incorporation</i>	<i>Registered address</i>
Directly held subsidiaries:				
Honeywell Southern Africa (Proprietary) Limited	Control Systems	-	South Africa	Honeywell House, Treur Close, Waterfall Park, Vorna Valley, PO Box 6674, Midrand, 1685
Indirectly held subsidiaries:				
Honeywell Automation and Control Solutions South Africa (Pty) Ltd	Control systems	75%	South Africa	Honeywell House, Treur Close, Waterfall Park, Vorna Valley, PO Box 6674, Midrand, 1685.