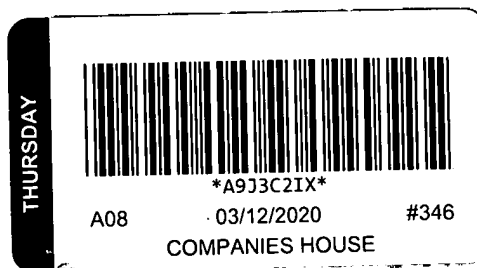


Honeywell Control Systems Limited

Annual Report and Financial Statements For the year ended 31 December 2019



Company Information

Officers and professional advisors

Directors

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

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 2019

The directors present their strategic report for the financial year ended 31 December 2019.

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 SPS (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

The profit for the financial year, after taxation, is £29,273,000 (2018: £64,620,000 of which £31,306,000 was profit from discontinued operations and £6,018,000 was dividend income from subsidiaries). Profit from continuing operations therefore decreased by 12.1%.

Turnover from continuing operations decreased by 8.8%, driven by the reduction in revenue in the HPS (Honeywell Process Solutions, part of PMT) business as large projects came to an end. Sales in the BT and SPS parts of the business were broadly stable. Gross profit from continuing operations decreased by 19.5% to £82,826,000 (2018: £102,830,000), mostly driven by the decrease in projects revenue in the high value added HPS business.

Distribution expenses increased to £27,414,000 (2018: £25,979,000), mostly due to increased investment in sales and marketing in the BT and SPS businesses. Administration costs decreased to £31,141,000 (2018: £47,450,000) due lower R&D (Research and Development) costs and cost containment efforts such as restructuring programmes carried out in the current and previous year, which resulted in lower people-related costs such as salaries, vehicle fleet and travel costs.

Following the reduction in turnover and gross profit, operating profit from continuing operations decreased by £5,130,000 to £24,271,000 (2018: £29,401,000) and consequently operating profit margin reduced to 9.1% of turnover (2018:10.0%).

Impacted by the outbreak of the coronavirus disease ("COVID-19") in 2020, the company faces significant challenges in all its segments as customers have deferred projects, and the company's ability to provide services and therefore generate revenue and profit has been adversely affected due to challenges in accessing customer sites. The business however expects partial recovery in the second half of 2020, and full recovery by the first half of 2021, assuming lockdown restrictions are eased.

In May 2020, the company announced the creation of a new manufacturing line in its Motherwell factory to produce 70 million facemasks for the UK government, creating around 450 jobs.

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

Key performance indicators

Management monitors the business using the following key indicators (Continuing operations only):

	2019	2018
Turnover % change compared with previous year	(8.8)	9.7
Gross profit margin%	30.9	35.0
Operating profit margin% of turnover	9.1	10.0
Headcount % change compared with previous year from continuing operations	(5.8)	(0.6)

Turnover

Turnover from continuing operations decreased by 8.8%, driven by the reduction in revenue in the HPS business as large projects in key markets such as oil and gas came to an end. Sales in the other parts of the business were broadly stable.

Strategic report

for the financial year ended 31 December 2019

Gross profit margin

Gross profit from continuing operations decreased by 19.5% to £82,826,000 (2018: £102,830,000), mostly driven by the decrease in revenue from projects in the high value added HPS business. Consequently, gross margin decreased by 4.1%, from 35.0% in 2018 to 30.9% in 2019.

Operating profit margin

Following on from the decrease in turnover and gross profit, operating profit from continuing operations decreased by £5,130,000 to £24,271,000 (2018: £29,401,000). Distribution expenses increased to £27,414,000 (2018: £25,979,000), mostly due to increased investment in sales and marketing in the BT and SPS businesses. The company drove savings in administrative costs through restructuring, resulting in £15,890,000 savings in staff costs, and a £3,353,000 reduction in R&D expenditure as headcount in R&D decreased from 24 in 2018 to 2 by the end of 2019. Consequently, operating profit margin decreased by 0.9% to 9.1% of turnover (2018:10.0%).

Headcount

The average headcount for continuing and discontinued operations decreased by 18.1%, from 1,456 employees in 2018 to 1,193 employees in 2019. The decrease was mostly due to the disposal of the Homes business, whereby 475 employees transferred to Ademco1 Limited on 29 July 2018. Headcount in continuing operations decreased by 5.8% from 1,266 employees in 2018 to 1,193 employees in 2019, mainly due to restructuring in the BT part of the business as 56 roles became redundant during the year, including 22 roles in R&D.

Strategy

The company is part of the Honeywell Group, and therefore its strategy is aligned to the Group strategy for the BT, the PMT and the SPS Strategic Business Groups.

Across all its segments, the company's strategy is to build a unique position by offering its customers a software driven and connected solution. In the 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 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 HPS 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, customized training, strategic and tactical support, troubleshooting, and engineering services.

In the SPS 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.

Strategic report

for the financial year ended 31 December 2019

Financial risk management, objectives and policies

Interest rate risk

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

Foreign currency risk

The impact of COVID-19 has resulted in increased volatility in foreign exchange rates thus exposing the company to increased foreign currency risks.

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

Liquidity risk

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

Other risk

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

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

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

Principal risks and uncertainties

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

The coronavirus outbreak has developed rapidly, with a significant number of infections. On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. The outbreak of the coronavirus disease ("COVID-19") has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown which can negatively impact the company's operations and adversely affect its business.

The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption, which is likely to affect the demand for Honeywell products globally. The extent to which the COVID-19 pandemic impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration, scope and severity of the pandemic; governmental, business and individual decisions and actions; the impact of the pandemic on economic activity; and the extent to which we or our business partners may be prevented from conducting normal business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities. These factors could, among other things, disrupt the purchasing and payment behaviours of our customers and their end-users; our operations, including our manufacturing activities, the shipment of our products, and the performance of our suppliers and service providers; and our liquidity and cash flow.

The following risks will be applicable to the companies dealing in the BT, PMT and SPS businesses as a whole.

- **Customer risk:** Existing and potential customers and their end-users may choose to reduce or delay spending. Customers may also attempt to renegotiate contracts and obtain concessions, face financial constraints on their ability to make payments to us on a timely basis or at all, or discontinue their business operations, and we may be required to discount the pricing of our products, all of which may materially and negatively impact our operating results, financial condition and prospects. In addition, unfavourable customer site conditions, such as closure of or access restrictions to customer facilities, and disruptions to our customers' third-party logistics, warehousing, inventory management and distribution services may limit our ability to sell products and provide services.

Strategic report

for the financial year ended 31 December 2019

- **Operations risk:** The temporary closure of our facilities, restrictions inhibiting our employees' ability to access those facilities, and disruptions to the ability of our suppliers or service providers to deliver goods or services to us (including as a result of supplier facility closures or access restrictions, disruptions to their supply chains, and supplier liquidity or bankruptcy risk) could disrupt our ability to provide our services and solutions and result in, among other things, terminations of customer contracts and losses of revenue. Because the COVID-19 pandemic could adversely affect our near-term and long-term revenues, earnings, liquidity and cash flows, we have begun to take and may be required to continue taking significant cost actions, including but not limited to reducing discretionary expenses (such as non-essential travel, contractors, and consultants), reducing hiring, cancelling annual merit increases; reducing executive and board of directors pay, reducing work schedules across the enterprise, shortening or staggering work schedules to match production with demand, and reducing staffing levels. Remote work and increased frequency of cybersecurity attacks, including phishing and malware attempts that utilise COVID-19-related strategies, increase the risk of a material cybersecurity incident that could result in the loss of proprietary or personal data, render us more vulnerable to future cybersecurity attacks, disrupt our operations, or otherwise cause us reputational or financial harm.

In the BT part of the business, some supply and installation projects were put on hold in the second quarter of 2020 due to lockdown restrictions. However, the business expects partial recovery in the fourth quarter of 2020 and full recovery in the first half of 2021.

In the HPS, part of Performance Materials and Technologies, revenue generation is continuing on existing projects, but some new projects have been delayed, especially in the oil and gas business, until these sectors recover. The business expects that recovery would commence in the third quarter of 2020, with full recovery expected in the first half of 2021.

In the SPS business, the company expects lower demand for electrical switches and sensors in the second quarter of 2020. However partial recovery is expected in the fourth quarter of 2020 and full recovery in the first half of 2021. The company expects a surge in demand for personal protective equipment and medical sensors in 2020, which is likely to continue in 2021. In May 2020, the company announced the creation of a new manufacturing line in its Motherwell factory to produce 70 million facemasks for the UK government, creating around 450 jobs.

The company is also undertaking various cost mitigating measures as described above to reduce its current cost base.

The scope and impact of the COVID-19 pandemic is changing rapidly, and additional impacts may arise. A sustained or prolonged COVID-19 outbreak could exacerbate the negative impacts described above, and the resumption of normal business operations may be delayed or constrained by lingering effects on our suppliers, third-party service providers, and/or customers. These effects, alone or taken together, could further impact each of the risks described above.

Brexit

On 23 June 2016, the UK held a referendum on the UK's continuing membership of the EU, the outcome of which was a decision for the UK to leave the EU (Brexit). The UK left the EU on 31 January 2020 and will be in a transition period until 31 December 2020, during which time negotiations around a trade deal with the EU will continue. 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. There is no evidence at this time of Brexit having a material adverse effect on the company's activities.

Statement by the directors in performance of their statutory duties in accordance with s172(1) of Companies Act 2006

The following statement describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172 of the Companies Act 2006.

We recognise the importance of clear communication and proactive engagement with our stakeholders. Comprehensive engagement enables informed decision making and is integral to the long-term success of the company. In the table below, and in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations

Strategic report

for the financial year ended 31 December 2019

2018) (the 'Regulations'), we set out our stakeholder groups, as required by the Regulations, how we engage with them and the impact of that engagement.

Stakeholder group	How we engage	Impact of engagement
Workforce		
<p>We create a workplace where our people can learn and develop their careers while contributing positively to our brand and initiatives. Our key aims for the workforce are as follows:</p> <ul style="list-style-type: none"> maintain a low level of staff attrition; encourage employee engagement with our business in the context of the current market; encourage idea and knowledge-sharing to capitalise on employee ideas and initiatives that could add value to the business; and encourage a healthy work-life balance. 	<p>We have engaged with our workforce in a variety of ways and some specific initiatives are highlighted below:</p> <ul style="list-style-type: none"> on-boarding training on Honeywell value propositions versus next best market alternatives on our products and offerings; training new sales hires with respect to our internal processes and procedures; undertaking various employee surveys, including an annual stress at work survey and internal services surveys; holding employee consultation forums; and holding town halls led by the CEO, as well as local town halls hosted by business line leaders. 	<p>The employee engagement initiatives resulted in:</p> <ul style="list-style-type: none"> enhanced employee understanding of our roadmap and long-term goals as well as increased job satisfaction based on improved awareness, knowledge and training; improved communication between management and employees, with a recognised platform for consideration of workplace matters affecting employees. Outcomes of this process helped us assess employee related health issues; an action plan was developed in response to matters raised as part of the annual stress at work survey; and the launch of a global initiative programme for enhanced career development.
Customers		
<p>We have identified our key customers as those who have the highest impact on our short-to-medium term business. We have engaged with our customers to achieve the following objectives:</p> <ul style="list-style-type: none"> improve customer engagement metrics; improve product quality and product and service offering; and build and maintain positive customer relationships. 	<p>We engaged with our customers in many ways and some of the highlights of this engagement are set out below:</p> <ul style="list-style-type: none"> regular meetings with major customers for discussing frame agreements and upcoming projects; invited negotiation of contracts with service and project customers; conducted customer satisfaction surveys; and implemented a Project Steering Committee and Project Sponsors. 	<p>Customer engagement initiatives resulted in:</p> <ul style="list-style-type: none"> increased customer understanding of our project pipeline; improved end-results in contracts given early engagement and consultation; measurement of customer opinions on our business, products and services, providing actionable insights (based on customer satisfaction surveys); and the Project Steering Committee provided an interface with senior customer executives, enabling us to obtain valuable insights. These are used to improve performance and build trust in our capabilities.

Strategic report

for the financial year ended 31 December 2019

Suppliers

We outsource certain activities to third party suppliers. We aim to build long-term, effective relationships with our suppliers through collaborative measures, including:

- maintaining dialogue with suppliers to facilitate quick resolution of any issues which may arise; and
- encouraging reliable service through engagement and mutually agreeable credit terms.

Some of the highlights of our engagements with suppliers included:

- supplier issues and escalations dealt directly by the directors;
- procurement teams supported through meetings with strategic suppliers; and
- regular attendance by business leaders at trade shows and industry events.

Some of supplier engagement initiatives resulted in:

- improved quality of dialogues between the business and suppliers resulting in improved supplier satisfaction; and
 - building our reputation and engaging with potential customers and suppliers.
-

The company's ultimate controlling party, Honeywell International Inc, shapes the business strategies for the group which has an impact on the long-term development of the company. In practice, all decisions and policies affecting employees, suppliers and business relationships with stakeholders are implemented by the directors in line with the business strategies decided at the group level and promote the interests of the ultimate controlling party and group as a whole. For further information on the strategy and governance of Honeywell International Inc please refer to www.honeywell.com.

Principal Decisions

Being a part of a large multinational group of companies, Honeywell Control Systems Limited adheres to policies and procedures which are often set by the ultimate parent company, Honeywell International Inc. During the year there were no principal decisions, within the context of Section 172 reporting, for the company to disclose.

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

DocuSigned by:

82EDF7230E3A435...
David Andrew Kay
Director
27-Nov-2020

Directors' report

for the financial year ended 31 December 2019

The directors present their annual report and audited financial statements for the company for the financial year ended 31 December 2019.

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 £29,273,000 (2018: £64,620,000, of which £31,306,000 was profit from discontinued operations) which will be transferred to reserves. The results for the financial year are shown on page 13.

The directors do not recommend the payment of a dividend (2018: the directors distributed the company's investment in Ademco 1 Limited valued at £48,896,700 as dividend to Honeywell Limited).

Financial risk management, objectives and policies

The details of the financial risk management of the company are 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 Rachel Martin
David Andrew Kay
David Juggins
Sharon Treanor (resigned on 25 September 2020)
Diane Bacquet-Herbaux (appointed on 22 August 2019)
Antonio Carlos Ireneu Dos Santos Rodrigues Das Neves (appointed on 23 October 2019)
John J Tus (resigned on 24 September 2019)
Jennifer Maike Dunn (appointed on 25 September 2020)

Directors' indemnities

Pursuant to the company's articles of association, the directors were throughout the financial year ended 31 December 2019 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 £745,000 (2018: £4,098,000), due to a reorganisation of the R&D function in all businesses except HPS. In BT, 20 research and development roles became redundant during 2019. In the SP&S business, R&D work previously carried out by employees recharged from a Honeywell entity in Europe moved to the US and is no longer recharged to the company.

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 engagement

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 2019

Stakeholder Engagement

We recognise the importance of clear communication and proactive engagement with our stakeholders. Further detail on the engagement with employees undertaken during the year appears as part of our Section 172 statement on page 4.

Going concern

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

The ultimate parent company, Honeywell International Inc. has indicated that, it will provide financial support to the company for at least one year from the date of signing these financial statements. While considering the ability of the ultimate parent company to provide financial support, the directors, have reviewed the operating results for 2019 and 9 months ended 30 September 2020 and financial performance of Honeywell International Inc. as well as representations and initiatives of Honeywell Executive Leadership. The directors have further relied on forward looking assessments provided by Honeywell International Inc under various possible COVID-19 scenarios and are satisfied that the ultimate parent company is in a position to provide the necessary financial support. As part of their consideration, the directors have acknowledged the cost control measures already taken across Honeywell International Inc and the group's cash, cash equivalents and short term investments balance at 30 September 2020 of \$15.0 billion.

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

Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Disclosure of information to auditor

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

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

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

Events since the balance sheet date

Subsequent to the balance sheet date, as noted in the strategic report, the COVID-19 outbreak has developed rapidly, being declared a global pandemic. The principal risks and uncertainties and the impact on going concern have been discussed in detail elsewhere in these financial statements. We have concluded that the outbreak is a non-adjusting event in accordance with IAS 10.

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:

825DE7230E3A435
David Andrew Kay
Director
27-Nov-2020

Directors' responsibilities statement

for the financial year ended 31 December 2019

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

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

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

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

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

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

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

Independent auditor's report

to the members of Honeywell Control Systems Limited.

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Honeywell Control Systems Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 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 36.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent auditor's report

to the members of Honeywell Control Systems Limited.

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 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.

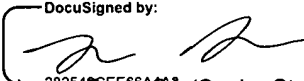
Independent auditor's report

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.

DocuSigned by:



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

Profit and loss account

for the financial year ended 31 December 2019

		2019	2018
	Notes	£000s	£000s
Continuing operations			
Turnover	5	268,103	294,015
Cost of sales		(185,277)	(191,185)
Gross profit		82,826	102,830
Distribution expenses		(27,414)	(25,979)
Administrative expenses		(31,141)	(47,450)
Operating profit	8	24,271	29,401
Dividend income	11	-	6,018
Interest receivable and similar income	12	8,809	7,014
Interest payable	13	(1,265)	(3,125)
Profit before taxation		31,815	39,308
Tax on profit	15	(2,542)	(5,994)
Profit for the financial year from continuing operations		29,273	33,314
Discontinued operations			
Profit from discontinued operations	14	-	31,306
Profit for the financial year		29,273	64,620

The notes on pages 17 to 52 form an integral part of the financial statements.

Statement of comprehensive income

for the financial year ended 31 December 2019

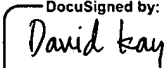
		2019	2018
	Notes	£000s	£000s
Profit for the financial year		29,273	64,620
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss</i>			
Actuarial (losses)/gains on pension plan	27	(7,410)	29,882
Movement on deferred tax relating to pension scheme	15	1,260	(5,080)
Other comprehensive (expense)/income for the year, net of tax		(6,150)	24,802
Total comprehensive income for the year, net of tax		23,123	89,422

Balance sheet

as at 31 December 2019

	Notes	2019 £000s	2018 £000s
Fixed assets			
Intangible assets	16	-	-
Tangible assets	17	8,994	4,235
Right-of-use assets	18	22,031	-
Investments	19	1,167	1,167
		32,192	5,402
Current assets			
Stocks	20	7,667	6,979
Debtors: amounts falling due within one year	21	165,927	212,792
Debtors: amounts falling due after one year	21	2,817	1,989
Short term deposits	22	74,864	-
Cash at bank and in hand		183	14,933
		251,458	236,693
Creditors: amounts falling due within one year	23	(156,968)	(162,683)
Net current assets		94,490	74,010
Total assets less current liabilities (excluding pension asset)		126,682	79,412
Creditors: amounts falling due after more than one year	24	(21,729)	-
Provisions for liabilities	26	(40,894)	(40,905)
Pension asset	27	246,022	246,835
Pension liability	27	(5,062)	(4,752)
Net assets		305,019	280,590
Capital and reserves			
Called-up share capital	28	-	-
Share premium account	29	14,537	14,537
Profit and loss account		290,482	266,053
Total shareholder's funds		305,019	280,590

The financial statements on pages 13 to 52 were approved by the board of directors on 27-Nov-2020 and signed on its behalf by:

DocuSigned by:

 82EDF7230E3A435...
 David Andrew Kay
 Director

Statement of changes in equity
for the financial year ended 31 December 2019

	<i>Called-up share capital</i>	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
At 1 January 2018	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
Dividend paid (note 30)	-	-	(48,897)	(48,897)
Movement in respect of share options (note 31)	-	-	720	720
Share capital reduction (Note 28)	(150,000)	-	150,000	-
At 31 December 2018	-	14,537	266,053	280,590
Profit for the financial year	-	-	29,273	29,273
Other comprehensive expense	-	-	(6,150)	(6,150)
Total comprehensive income for the financial year	-	-	23,123	23,123
Movement in respect of share options (note 31)	-	-	1,306	1,306
At 31 December 2019	-	14,537	290,482	305,019

Notes to the financial statements

for the financial year ended 31 December 2019

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, Berks, 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, Honeywell, 300 South Tryon Street, Charlotte, North Carolina 28202, 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 FRS 101. The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

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

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment, paragraph 118(e) of IAS 38 Intangible Assets and paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- 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;
- the requirements of paragraph 52 of IFRS 16 Leases; and

Notes to the financial statements

for the financial year ended 31 December 2019

- the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Going concern

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

The ultimate parent company, Honeywell International Inc. has indicated that, it will provide financial support to the company for at least one year from the date of signing these financial statements. While considering the ability of the ultimate parent company to provide financial support, the directors, have reviewed the operating results for 2019 and 9 months ended 30 September 2020 and financial performance of Honeywell International Inc. as well as representations and initiatives of Honeywell Executive Leadership. The directors have further relied on forward looking assessments provided by Honeywell International Inc under various possible COVID-19 scenarios and are satisfied that the ultimate parent company is in a position to provide the necessary financial support. As part of their consideration, the directors have acknowledged the cost control measures already taken across Honeywell International Inc and the group's cash, cash equivalents and short term investments balance at 30 September 2020 of \$15.0 billion.

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

Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Turnover and revenue recognition

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. A good or service is considered to be transferred when the customer obtains control. IFRS 15 states that "control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset". Control also means the ability to prevent others from directing the use of, and receiving the benefit from, a good or service.

As per IFRS 15, the performance obligations are deemed to be satisfied as follows:

<u>Type of sale</u>	<u>Recognition</u>
Product and service sales	On dispatch and when acceptance by the customer has occurred.
Licensing agreements	Where 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. Where 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.
Licensing agreements	Where licensing agreement is distinct from other goods and services the same is treated as a separate performance obligation and is recognised over a period of time. Where licensing agreement is not distinct from other goods and services the same is treated as a single performance obligation and is recognised over a period of time when the combined performance obligation is satisfied.
Sale of consignment stock	When the title of goods sold passes to the customer.

Notes to the financial statements

for the financial year ended 31 December 2019

Service contracts	As and when performance obligation is satisfied using cost-to-cost measure of progress.
Long term contracts	Percentage of completion basis once the outcome of the contract can be recognised with reasonable certainty.

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.

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 are 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 affect 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.

Notes to the financial statements

for the financial year ended 31 December 2019

Warranty obligations

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

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

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.

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.

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.

Notes to the financial statements

for the financial year ended 31 December 2019

Leases – as lessee

The company has adopted IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16.

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

Lease liability – Initial measurement

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

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

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

Variable lease payments are not included in the determination of the lease liability and are charged to the profit and loss account in the period that they arise. (applicable for car lease rentals)

Lease liability – Subsequent measurement

The lease liability is subsequently measured at amortised cost.

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

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

Right-of-use assets

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

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

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

Operating leases – Accounting policies applied until 31 December 2018

- 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.

Notes to the financial statements

for the financial year ended 31 December 2019

Research and development

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

Foreign currency translation

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

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

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

Taxation

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

Deferred income tax is recognised on 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. 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.

Notes to the financial statements

for the financial year ended 31 December 2019

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 & machinery	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. The company also assess the right-of-use asset for impairment when such indicators exists.

Financial instruments

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

Financial asset – recognition and measurement

Initial recognition and measurement

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

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

Notes to the financial statements

for the financial year ended 31 December 2019

Classification of financial assets

Currently, all financial asset meets 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 finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss.

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 expected credit loss (ECL) model for measurement and recognition of impairment loss on all financial assets not measured at fair value.

The company estimates the expected credit loss in relation to its financial assets considering the nature of business, past history and other mitigating factors. The company reviews this policy annually, if required.

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

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

Financial liabilities - recognition and measurement

Initial recognition and measurement

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

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

The company's financial liabilities comprise of loans and borrowings and trade and other payables.

Notes to the financial statements

for the financial year ended 31 December 2019

Subsequent measurement

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

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

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 statement of 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 27, the company participates in a defined benefit pension scheme for the benefit of certain of its employees, the assets of which are held separately from those of the company in independently administered funds. The rates of contribution are determined by independent professionally qualified actuaries.

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

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

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

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

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

Notes to the financial statements

for the financial year ended 31 December 2019

Current asset investment

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

Provisions

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

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.

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

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

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

Notes to the financial statements

for the financial year ended 31 December 2019

Judgements

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

Estimates and assumptions

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

(i) 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.

The percentage of completion and the revenue to recognise are determined on the basis of a large number of estimates. Consequently, the company has implemented an internal financial budgeting and reporting system. In particular, the company reviews each quarter the estimates of contract revenue and contract costs as the contracts progress.

(ii) Estimates used for DB pension scheme

The cost of defined benefit pensions plans, and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the actuary considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Management works closely with the actuary to agree to these assumptions. The value of a net pension benefit asset is restricted to the present value of any amount the company expects to recover by way of refunds from the plan or reductions in the future contributions. Further details are given in note 27.

(iii) Impairment of investments

The investment in subsidiary undertakings is carried at cost less impairment. The assessment of impairment involves estimation in relation to the value of the unquoted investment based on the net assets of the underlying investment and projected cash flows, wherever applicable. At the period end the value of the investment was £1,167,000 (2018: £1,167,000). There was no impairment charge during the current year (2018: £nil)

(iv) Impairment of financial assets

The company estimates the expected credit loss in relation to its financial assets considering the nature of business, past history and other mitigating factors. The company reviews this policy annually, if required. Accordingly, the company has recognised a provision for expected credit loss of £1,005,000 (2018: £610,000).

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.

Notes to the financial statements

for the financial year ended 31 December 2019

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 2019. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

Under previous standards, leases where the lessor retained a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable were charged to the profit and loss account on a straight-line basis over the lease term. Under IFRS 16 the company is required to recognise a right-of-use asset and related lease liability for all leases, including those previously classified as operating leases, except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The company has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. For leases previously treated as operating leases, the company has elected to follow the approach in IFRS 16.C8(b)(ii), whereby right-of-use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including unamortised lease incentives.

On transition to IFRS 16, the company recognised £24,877,000 of right-of-use assets and lease liabilities. This resulted in an additional depreciation charge on right-of-use assets and interest expense on the lease liability instead of rental expense which was being charged to the profit and loss account (refer note 36).

The company also applied the available practical expedients wherein it:

- Used a central incremental borrowing rate (IBR) to the leases entered into by it;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Benefitted from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Notes to the financial statements

for the financial year ended 31 December 2019

5. Turnover

	2019 £000s	2018 £000s	2018 £000s	2018 £000s
	Continuing operations and Total	Continuing operations	Discontinued operations	Total
<i>Analysis of turnover by geographical market</i>				
United Kingdom	181,469	204,218	45,879	250,097
Rest of Europe	79,043	82,207	254	82,461
North America	3,275	3,350	-	3,350
Other	4,316	4,240	-	4,240
<i>Total turnover by geographical market</i>	268,103	294,015	46,133	340,148
<i>Analysis of turnover by business category</i>				
Building technologies	84,274	88,979	-	88,979
Performance materials and technologies	91,399	117,406	-	117,406
Safety and productivity solutions	92,430	87,630	-	87,630
Homes	-	-	46,133	46,133
<i>Total turnover by category</i>	268,103	294,015	46,133	340,148

6. Construction contracts

	2019 £000s	2018 £000s
Contract revenue recognised in period	110,927	138,851
Advances received	108	26
Retention asset	1,603	1,278
Contract costs incurred	1,104,075	1,036,659
Recognised profits less recognised losses	335,400	296,615
<i>Contract costs incurred and recognised profits (less recognised losses)</i>	1,439,475	1,333,274
Less: progress billings	(1,441,140)	(1,337,612)
<i>Amounts due to customers</i>	(1,665)	(4,338)
Amounts due from customers included within debtors	8,212	10,832
Amounts due to customers included within creditors	(9,877)	(15,170)

Notes to the financial statements

for the financial year ended 31 December 2019

Retention assets are included in trade debtors

Contract cost incurred, recognised profits and progress billings are stated from inception of the contract to 31 December 2019. As a result of certain contracts spanning several years, these amounts are therefore not recognised in entirety, in the current year.

7. Disclosures in respect of contracts with customers

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

	2019	2018
	£000s	£000s
Trade receivables, included in "Trade debtors" (note 21)	39,056	57,448
Contract assets, included in "Amounts recoverable on Contracts - less than 1 year" (note 21)	11,276	20,274
Contract liabilities, included in "Accruals and deferred income" (note 23)	(11,348)	(18,601)

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

	2019	2018
	£000s	£000s
As at 1 January	(610)	(1,880)
Provision for expected credit losses	(773)	-
Write off	378	1,270
As at 31 December (note 21)	(1,005)	(610)

Notes to the financial statements

for the financial year ended 31 December 2019

8. Operating profit

The 2018 numbers in the table below include continuing and discontinued operations:

	2019	2018
	£000s	£000s
This is stated after charging:		
<i>Depreciation and amortisation</i>		
Tangible assets – owned (note 17)	1,076	1,485
Intangible assets (note 16)	-	7
Right-of-use assets (note 18)	2,846	-
<i>Lease rental charges</i>		
Payment on short term lease	288	-
Land and buildings	-	2,285
Impairment losses on receivables and contracts assets from contracts with customers	378	1,270
Loss on disposal of fixed assets	568	60
Reorganisation and redundancy	2,666	3,905
Research and development	745	4,098
Vehicle fleet and other rental expense	2,574	3,752
Loss on foreign exchange	675	188

9. Auditor's remuneration

	2019	2018
	£000s	£000s
Audit of the financial statements of the company	30	35
Audit of the financial statements of other group companies	640	771
<i>Total auditor remuneration</i>	670	806

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 in 2019 and 2018.

There are no non audit services fees payable to the auditor (2018: £nil).

Notes to the financial statements

for the financial year ended 31 December 2019

10. Employees and directors

(a). Staff costs

The 2018 numbers in the table below include continuing and discontinued operations:

	2019	2018
	£000s	£000s
Wages and salaries	70,718	79,564
Social security costs	8,572	9,619
Contributions to defined contribution pension plans	8,618	10,038
Pension costs for defined benefit plans (note 27)	285	4,850
Share based payment charges (note 31)	1,306	720
Total staff costs	89,499	104,791

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

(including executive directors)

	2019	2018
	No.	No.
Direct	567	678
Indirect	626	778
Total monthly average number of employees	1,193	1,456

(b). Directors' remuneration

	2019	2018
	£000s	£000s
Aggregate emoluments	330	411
Pension costs- defined contribution	87	43
Total payments to directors	417	454
Highest paid director		
Aggregate emoluments	184	199
Accrued pension at financial year end	42	41
Total payments to highest paid director	226	240

Notes to the financial statements

for the financial year ended 31 December 2019

During the financial year the highest paid director did (2018: did not) exercise options over shares of Honeywell International Inc., the ultimate parent company.

	2019 No.	2018 No.
Number of directors who:		
Were members of defined benefit plans	4	6

In 2019, four directors (2018: three directors) were remunerated by other group companies for their services to the group as a whole.

11. Dividend income

	2019 £000s	2018 £000s
Dividend from subsidiaries	-	6,018
<i>Total dividend income</i>	-	6,018

12. Interest receivable and similar income

	2019 £000s	2018 £000s
Interest receivable from group undertakings	1,329	1,172
Pension interest (note 27)	7,373	5,717
Other interest receivable	107	125
<i>Total interest receivable and similar income</i>	8,809	7,014

13. Interest payable

	2019 £000s	2018 £000s
Interest payable to group undertakings	807	2,209
Interest expense on lease liability	414	-
Interest payable on bank overdraft	44	916
<i>Total interest expense</i>	1,265	3,125

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 Ademco1 Limited in consideration for shares valued at £48,498,000, resulting in a gain on disposal of £29,716,000. This represented the entirety of the company's Homes operating segment until 29 July 2018.

Notes to the financial statements

for the financial year ended 31 December 2019

The results of the Homes division for the year 2018 are presented below:

	29 th July 2018
	£000s
<i>Results of discontinued operations</i>	
Turnover	46,133
Expenses	(44,498)
Results from operating activities	1,635
Interest income	17
Profit before tax from discontinued operations	1,652
Tax charged (note 15)	(62)
Profit for the year from discontinued operations after tax	1,590
Gain on disposal of operations after tax	29,716
Profit for the year from discontinued operations after tax	31,306

The details of net assets transferred are as follows:

	29 July 2018
	£000s
Fixed Assets	
Intangible assets	4
Tangible assets	4,786
Investment in subsidiaries	6,018
	10,808
Current Assets	
Stocks	42
Debtors: amounts falling due within one year	16,391
	16,433
Creditors: amounts 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 2019

15. Taxation

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

	2019	2018
	£000s	£000s
<i>Current tax:</i>		
UK corporation tax on profit for financial year	1,140	-
Foreign tax suffered	208	748
<i>Total current tax</i>	<u>1,348</u>	<u>748</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	1,435	5,496
Adjustments in respect of prior years	(241)	(188)
<i>Total deferred tax</i>	<u>1,194</u>	<u>5,308</u>
<i>Total tax expense in the profit and loss account</i>	<u>2,542</u>	<u>6,056</u>
Tax expense reported in the statement of profit or loss	<u>2,542</u>	<u>5,994</u>
Tax expense attributable to discontinued operations	-	62

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

	2019	2018
	£000s	£000s
<i>Current tax:</i>		
Tax on items relating to components of other comprehensive income	-	-
<i>Total current tax</i>	<u>-</u>	<u>-</u>
<i>Deferred tax:</i>		
Remeasurements on defined benefit pension plans	(1,260)	5,080
<i>Total deferred tax</i>	<u>(1,260)</u>	<u>5,080</u>
<i>Total tax (income)/expense in the statement of comprehensive income</i>	<u>(1,260)</u>	<u>5,080</u>

Notes to the financial statements

for the financial year ended 31 December 2019

(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% (2018: 19%). The differences are reconciled below:

	2019	2018
	£000s	£000s
Profit before income tax	31,815	70,676
Profit multiplied by the effective rate of corporation tax in the UK of 19% (2018:19%)	6,045	13,428
<i>Effects of:</i>		
Expenses not deductible for tax purposes and other permanent differences	149	652
Income not taxable	(481)	(6,925)
Difference in current tax rate to deferred rate	(169)	(647)
Adjustments in respect of prior years	(241)	(188)
Withholding tax	-	748
Foreign tax suffered	208	-
Group relief not paid for	(2,969)	(1,012)
<i>Total tax expense reported in the profit and loss account</i>	<i>2,542</i>	<i>6,056</i>

(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 decided to reduce the rate further to 17% from 1 April 2020. However, as per the budget announced on 11 March 2020, it was decided to maintain the UK corporation tax rate at 19%.

Notes to the financial statements

for the financial year ended 31 December 2019

e). Deferred tax

	2019	2018
	£000s	£000s
<i>The deferred tax included in the balance sheet is as follows:</i>		
Deferred tax asset		
Differences between capital allowances and depreciation	708	703
Other short-term timing differences	134	264
<i>Total deferred tax asset</i>	<i>842</i>	<i>967</i>
Deferred tax liability		
Deferred tax provision on pension asset	(40,963)	(41,154)
<i>Total deferred tax liability</i>	<i>(40,963)</i>	<i>(41,154)</i>
<i>Net deferred tax liability</i>	<i>(40,121)</i>	<i>(40,187)</i>

<i>Movements in deferred tax</i>	<i>Excluding pension</i>	<i>Pension</i>	<i>Total</i>
	£000s	£000s	£000s
At 1 January 2019	967	(41,154)	(40,187)
Charge to the profit and loss account	(125)	(1,069)	(1,194)
Credit to statement of comprehensive income	-	1,260	1,260
<i>At 31 December 2019</i>	<i>842</i>	<i>(40,963)</i>	<i>(40,121)</i>

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.

The deferred tax liability has been calculated at 17%, since this was the enacted rate at the balance sheet date expected to be in place when the deferred tax asset/liability reverses. In his Budget on 11 March 2020, the Chancellor indicated that the rate reduction of 2% would be removed and therefore the deferred tax is likely to unwind in future when the corporation tax rate is 19%. Had the deferred tax been calculated at 19%, then the tax charge in the income statement would have been £1,334,000 and the deferred tax liability £44,842,000.

There are no unprovided amounts relating to deferred tax.

Notes to the financial statements

for the financial year ended 31 December 2019

16. Intangible assets

	Software £000s
Cost	
At 1 January 2019	742
Disposals	(591)
At 31 December 2019	151
Accumulated amortisation	
At 1 January 2019	742
Disposals	(591)
At 31 December 2019	151
Net book value:	
At 31 December 2019	-
At 31 December 2018	-

During the year, the company disposed of some software assets having a nil net book value.

17. Tangible assets

	Land and buildings £000s	Plant and equipment £000s	Fixtures and fittings £000s	Construction in progress £000s	Total £000s
Cost					
At 1 January 2019	2,821	10,223	4,197	834	18,075
Additions	5,762	56	-	700	6,518
Disposals	(1,934)	(860)	(1,804)	-	(4,596)
Transfers	26	311	-	(337)	-
At 31 December 2019	6,675	9,730	2,393	1,197	19,995
Accumulated depreciation					
At 1 January 2019	2,180	8,124	3,536	-	13,840
Provided during the financial year	463	530	83	-	1,076
Disposals	(1,319)	(856)	(1,740)	-	(3,915)
At 31 December 2019	1,324	7,798	1,879	-	11,001
Net book value:					
At 31 December 2019	5,351	1,932	514	1,197	8,994
At 31 December 2018	641	2,099	661	834	4,235

Notes to the financial statements

for the financial year ended 31 December 2019

The above figures include:

	2019	2018
	£000s	£000s
Short leasehold land and buildings, at net book value	-	641

18. Right-of-use assets

	Land and buildings £000s
Cost	
At 1 January 2019	-
Transition to IFRS 16 (note 36)	24,877
At 31 December 2019	24,877
Accumulated depreciation	
At 1 January 2019	-
Provided during the financial year	2,846
At 31 December 2019	2,846
Net book value:	
At 31 December 2019	22,031
At 31 December 2018	-

The company has entered into commercial leases on certain properties. The terms of the leases range from 2 years to 11 years.

Notes to the financial statements

for the financial year ended 31 December 2019

19. Investments

	2019	2018
	£000s	£000s
<i>Cost</i>		
At 1 January	1,167	1,167
Addition during the year	-	54,915
Disposals during the year	-	(54,915)
As 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 34.

20. Stocks

	2019	2018
	£000s	£000s
Raw materials	3,672	3,064
Work in progress	665	15
Finished goods	1,465	2,116
Consignment stock	1,865	1,784
<i>Total stocks</i>	7,667	6,979
The amount of inventories recognised as an expense during the year	51,071	52,374
The amount of inventories written down recognised as an expense in the year	1,005	830

Notes to the financial statements

for the financial year ended 31 December 2019

21. Debtors

	2019	2018		
	£000s	£000s		
<i>Amounts falling due within one year</i>				
Trade debtors	39,056	57,448		
Amounts owed by group undertakings	108,898	125,786		
Amounts recoverable on contracts – less than 1 year	11,276	20,274		
Retention asset	335	1,278		
Other debtors	-	1,266		
Prepayments and accrued income	6,362	6,740		
<i>Total amounts falling due within one year</i>	165,927	212,792		
<i>Amounts falling due after more than one year</i>				
Long term retention assets	1,268	-		
Accrued income	1,549	1,989		
<i>Total amounts falling due after more than once year</i>	2,817	1,989		
Amounts owed by group undertakings include the following interest-bearing loans and other borrowings:				
<i>Receivable</i>	<i>Currency</i>	<i>Interest terms</i>	2019	2018
			£000s	£000s
On demand	GBP	UK Base Rate Plus 1%	75,201	75,459

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

Notes to the financial statements

for the financial year ended 31 December 2019

Trade debtors

	2019			2018		
	Gross carrying amount at risk of default	Expected credit loss rate	Expected credit loss	Gross carrying amount at risk of default	Expected credit loss rate	Expected credit loss
	£000s	%	£000s	£000s	%	£000s
Amounts due:						
Not due	30,927	0.42%	(131)	-	-	-
within 30 days	4,463	0.84%	(42)	53,791	0.63%	(338)
31 – 60 days	1,034	4.56%	(47)	2,267	3.07%	(70)
61 – 90 days	904	9.95%	(90)	917	5.73%	(53)
After 90 days	2,733	25.41%	(695)	1,083	13.76%	(149)
Total	40,061		(1,005)	58,058		(610)

22. Short term deposits

	2019	2018
	£000s	£000s
Short term deposits	74,864	-

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.

23. Creditors: amounts falling due within one year

	2019	2018
	£000s	£000s
Bank overdraft	20,026	-
Trade creditors	30,938	36,677
Amounts owed to group undertakings	71,965	91,269
Taxation and social security	9,604	7,674
Corporation tax	1,348	-
Accruals and deferred income	19,001	26,979
Lease liability (note 25)	1,733	-
Other creditors	2,348	-
Payments received on account	5	84
Total amount owed to creditors	156,968	162,683

Notes to the financial statements

for the financial year ended 31 December 2019

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

<i>Payable</i>	<i>Currency</i>	<i>Interest terms</i>	<i>2019</i> <i>£000s</i>	<i>2018</i> <i>£000s</i>
On demand	GBP	UK Base Rate Plus 1%	46,590	45,783

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

24. Creditors: amounts falling due after more than one year

	<i>2019</i> <i>£000s</i>	<i>2018</i> <i>£000s</i>
Lease liability (note 25)	21,729	-

25. Lease liabilities

	<i>2019</i> <i>£000s</i>	<i>2018</i> <i>£000s</i>
Non-current (note 24)	21,729	-
Current (note 23)	1,733	-
Total	23,462	-

The non-cancellable lease payments are due

	<i>2019</i> <i>£000s</i>	<i>2018</i> <i>£000s</i>
Within 1 year	1,733	-
Between 1 and 5 years	14,377	-
After 5 years	7,352	-
Total	23,462	-

The company has entered into commercial leases on certain properties and networking equipment leases. The term of lease ranges from 2 years to 11 years. There are no restrictions placed upon the lessee by entering into these leases.

The total cash outflow for leases amounted to £2,083,000 in the current year.

Lease payments of £3,111,200 are payable in the following year in respect of short term and variable payments as car lease rentals.

Notes to the financial statements

for the financial year ended 31 December 2019

26. Provisions for liabilities

	Severance pay	Warranty	Contract	Deferred tax liability (note 15)	Total
	£000s	£000s	£000s	£000s	£000s
At 1 January 2019	129	366	223	40,187	40,905
Charge to Profit and Loss account	263	102	631	1,194	2,190
Credit to Other Comprehensive income	-	-	-	(1,260)	(1,260)
Utilised	(129)	(208)	(604)	-	(941)
At 31 December 2019	263	260	250	40,121	40,894

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.

27. Pension commitments

Honeywell UK Pension Scheme (HUKPS)

The company is a participating employer in the Honeywell UK Pension Scheme (HUKPS) which is a funded defined-benefit plan based on salary. The scheme was closed for future accruals of benefits with effect from 30 June 2017 and all active members at this date became deferred members. Regular employer contributions to the plan by the company in 2020 are estimated to be nil. Defined benefit obligations are based on a full valuation of the scheme's liabilities as at 31 December 2019, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2019.

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 2020 are estimated to be £1,895,155. Defined benefit obligations are based on a full valuation of the liabilities of the Irish plan as at 31 December 2019, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2019.

	2019			2018		
	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	8,224	1,227,419	1,235,643	7,293	1,122,891	1,130,184
Present value of defined benefit obligations	(13,286)	(981,397)	(994,683)	(12,045)	(876,056)	(888,101)
Net assets/(liabilities)	(5,062)	246,022	240,960	(4,752)	246,835	242,083

Notes to the financial statements

for the financial year ended 31 December 2019

	2019			2018		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Amounts recognised in profit or loss</i>						
Interest cost	249	25,422	25,671	235	24,367	24,602
Expected return on pension plan assets	(154)	(32,890)	(33,044)	(156)	(30,163)	(30,319)
<i>Finance (credit)/cost recognised</i>	95	(7,468)	(7,373)	79	(5,796)	(5,717)

	2019			2018		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Remeasurements</i>						
Liability losses/(gains) due to changes in assumptions	1,218	122,978	124,196	-	(85,214)	(85,214)
Liability (gains)/losses due to experience during the year	100	(2,165)	(2,065)	233	4,379	4,612
Asset (gains)/ losses arising during the financial year	(921)	(113,800)	(114,721)	507	50,213	50,720
Total actuarial losses/(gain) recognised in OCI	397	7,013	7,410	740	(30,622)	(29,882)

Notes to the financial statements

for the financial year ended 31 December 2019

	2019			2018		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Changes in present value of defined benefit obligation</i>						
At 1 January	12,045	876,056	888,101	11,194	963,337	974,531
Current service cost	285	-	285	271	-	271
Interest cost	249	25,422	25,671	235	24,367	24,602
Exchange movement	(606)	-	(606)	118	-	118
Past service cost and curtailments	-	-	-	-	4,579	4,579
Actuarial losses/(gains) on liabilities-financial assumptions	1,218	131,447	132,665	-	(69,892)	(69,892)
Actuarial gains on liabilities - demographic assumptions	-	(8,469)	(8,469)	-	(15,322)	(15,322)
Actuarial (gains)/losses on liabilities-experience	100	(2,165)	(2,065)	233	4,379	4,612
Contributions by participants	29	-	29	28	-	28
Net benefits paid out	(34)	(40,894)	(40,928)	(34)	(35,392)	(35,426)
At 31 December	13,286	981,397	994,683	12,045	876,056	888,101

	2019			2018		
	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	7,293	1,122,891	1,130,184	7,381	1,154,382	1,161,763
Expected return on assets	154	32,890	33,044	156	30,163	30,319
Actuarial gains/(losses) on assets	921	113,800	114,721	(507)	(50,213)	(50,720)
Contributions by employer	243	-	243	223	25,020	25,243
Actual administration expenses paid	(10)	(1,268)	(1,278)	(9)	(1,069)	(1,078)
Exchange movement	(372)	-	(372)	55	-	55
Contributions by participants	29	-	29	28	-	28
Net benefits paid out	(34)	(40,894)	(40,928)	(34)	(35,392)	(35,426)
At 31 December	8,224	1,227,419	1,235,643	7,293	1,122,891	1,130,184

Notes to the financial statements

for the financial year ended 31 December 2019

	2019		2018	
<i>Major categories of plan assets as a percentage of total plan assets</i>	Irish Scheme	HUKPS	Irish Scheme	HUKPS
	%	%	%	%
Equities (including venture capital and alternative investments)	49	32	48	32
Bonds	41	13	42	63
Property	3	3	3	4
Cash	7	52	7	1
Total	100	100	100	100

	2019		2018	
	Irish Scheme	HUKPS	Irish Scheme	HUKPS
	%	%	%	%
<i>Main actuarial assumptions</i>				
Inflation (RPI)	1.2	2.9	1.5	3.2
Inflation (CPI)	-	1.9	-	2.1
Rate of general long term increases in salaries	2.5	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%	-	2.8	-	3.1
Pensions subject to limited price indexation to 2.5%	-	2.1	-	2.2
Other pensions and deferred pensions	1.2	1.9	1.5	2.1
Discount rate for scheme liabilities	1.4	2.0	2.1	2.9

Mortality

HUPKS

For HUPKS, mortality assumptions are based on standard mortality tables that allow for future mortality improvements. These tables assume that a member who retired in 2019 at age 65 will live on average for a further 22.3 years (2018: 21.6 years) after retirement if male or a further 24.0 years (2018: 23.5 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 2019 at age 65 will live on average for a further 22.4 years (2018: 22.8 years) after retirement if male or a further 24.4 years (2018: 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 2019

28. Called-up share capital

	2019 £000s	2018 £000s
<i>Authorised and allotted, called up and fully paid</i>		
1 (2018: 1) ordinary shares of £1 at 1 January and 31 December	-	-

29. Share premium account

	2019 £000s	2018 £000s
<i>Balance at 1 January and 31 December</i>		
Premium arising on issue of equity shares	14,537	14,537

30. Dividends paid

The directors do not recommend the payment of a dividend (2018: the directors distributed the company's investment in Ademco 1 Limited valued at £48,896,700 as dividend to Honeywell Limited).

31. 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 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. 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.

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

	2019 £000s	2018 £000s
Expense arising from equity-settled share-based payment transactions	1,306	720
<i>Total expense arising from share-based payment transactions</i>	<i>1,306</i>	<i>720</i>

There were no cancellations or modifications to the awards in 2019 or 2018.

	2019	2018
Weighted average fair values at the measurement date	£16.56	£16.98
Expected annual dividend yield	2.65%	2.49%
Expected volatility	18.40%	18.93%
Risk-free interest rate	2.46%	2.71%
Expected life of share options (years)	4.87	4.95
Weighted average share price	118.38	106.90

Notes to the financial statements

for the financial year ended 31 December 2019

Model used	Black-Scholes option-pricing		Black-Scholes option-pricing	
Share options during the year			2018	
	2019	2019	Number	2018
	Number	Price £		Price £
Outstanding at 1 January	80,943	88.27	92,900	78.42
Granted during the year	26,515	119.73	23,076	107.18
Exercised during the year	(19,842) ²	82.80	(12,274) ¹	72.43
Transferred in	-	-	6,149	86.41
Transferred out	(15,116)	101.36	(23,491)	76.25
Forfeited	-	-	(5,417)	85.83
Outstanding at 31 December	72,500	98.54	80,943	88.27
Exercisable at 31 December	26,140	77.29	36,428	69.01

¹ The weighted average share price at the date of exercise of these options was £72.43.

² The weighted average share price at the date of exercise of these options was £82.80.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 7.51 years (2018: 7.70 years).

The weighted average fair value of options granted during the year was £16.27 (2018: £17.04).

The range of exercise prices for options outstanding at the end of the year was £46.1 to £137.14 (2018: £46.10 to £107.18).

Notes to the financial statements

for the financial year ended 31 December 2019

Weighted average life and average exercise price by range

	2019			2018		
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	3.91	53.81	6,980	4.91	53.81
£67.21	1,989	5.16	67.21	8,783	6.16	67.21
£73.89	9,424	6.15	73.89	17,764	7.15	73.89
£78.14	2,313	6.34	78.14	2,313	7.34	78.14
£100.43	12,788	7.16	100.43	22,027	8.16	100.43
£107.18	16,759	8.16	107.18	23,076	9.16	107.18
£116.48	18,080	9.16	116.48	-	-	-
£137.14	4,167	9.63	137.14	-	-	-
Total	72,500	7.51	98.54	80,943	7.70	88.27

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 three years and are payable in common stock of Honeywell International Inc. upon vesting.

Restricted stock units outstanding during the year

	2019 number	2019 value £	2018 number	2018 value £
Outstanding at 1 January	31,882	88.08	40,008	77.39
Granted during the year	7,162	125.57	10,151	108.48
Exercised during the year	(8,731) ²	68.38	(10,267) ¹	60.31
Transferred in	910	104.69	3,414	82.76
Transferred out	(4,083)	95.20	(7,106)	95.58
Forfeited	-	-	(4,318)	86.47
Outstanding at 31 December	27,140	103.80	31,882	88.08

Notes to the financial statements

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¹ The weighted average share price at the date of exercise of these options was £60.31.

² The weighted average share price at the date of exercise of these options was £68.38.

The charge for the year relating to share based payment plans was £1,349,000 (2018: £720,000).

After deferred tax the total charge was £1,306,000 (2018: £720,000).

32. Capital commitments

	2019	2018
	£000s	£000s
Commitments contracted for but not yet provided	12	533

At 31 December 2019, the company had commitments of £12,000 relating to the acquisition of property, plant and equipment.

33. 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 £560,423,000 (2018: £423,389,000).

Positive cash balances held by the group exceeded overdrawn balances in 2019 and 2018.

Duty deferment guarantees amounting to £3,071,000 (2018: £3,074,000) have been given to the tax authorities. Performance guarantees amounting to £131,000 (2018: £138,000) have been given to customers of a fellow group company, Honeywell Turki Arabia Ltd.

34. Subsidiary undertakings

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

Name of company	Principal activity	% holding	Country of incorporation	Registered address
Directly held subsidiaries:				
Honeywell Southern Africa (Pty) Limited	Control Systems	-	South Africa	*
Indirectly held subsidiaries:				
Honeywell Automation and Control Solutions South Africa (Pty) Limited	Control Systems	75%	South Africa	*

* Honeywell House, Treur Close, Waterfall Park, Vorna Valley. PO Box 6674, Midrand, 1685

35. Events after balance sheet date

Subsequent to the balance sheet date, as noted in the strategic report, the COVID-19 outbreak has developed rapidly, being declared a global pandemic. The principal risks and uncertainties and the impact on going concern have been discussed in detail elsewhere in these financial statements. We have concluded that the outbreak is a non-adjusting event in accordance with IAS 10.

Notes to the financial statements

for the financial year ended 31 December 2019

36. Change in accounting policies

Except for the changes below, the company has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The company has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. For leases previously treated as operating leases, the company has elected to follow the approach in IFRS 16.C8(b)(ii), whereby right-of-use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including unamortised lease incentives.

On transition to IFRS 16, the company recognised £24,877,000 of right-of-use assets and lease liabilities. This resulted in an additional depreciation charge on right-of-use assets and interest expense on the lease liability instead of rental expense which was being charged to the profit and loss account.

Impact on financial statements

Effect of adoption of IFRS 16 on the balance sheet as at 1 January 2019:

	As reported £000s	Adjustments £000s	Balances without IFRS 16 '£000s
Right-of-use assets	24,877	24,877	-
Total assets	24,877	24,877	-
Lease liabilities	24,877	24,877	-
Total liabilities	24,877	24,877	-

Effect of adoption of IFRS 16 on the balance sheet as at 31 December 2019:

	As reported £000s	Adjustments £000s	Balances without IFRS 16 '£000s
Right-of-use assets	22,031	22,031	-
Total assets	22,031	22,031	-
Lease liabilities	23,462	23,462	-
Total liabilities	23,462	23,462	-

Effect of adoption of IFRS 16 on the statement of profit and loss for the year ending 31 December 2019:

	As reported £000s	Adjustments £000s	Balances without IFRS 16 '£000s
Depreciation on ROU assets	2,846	2,846	-
Interest payable on lease liabilities	414	414	-
Rental expense	-	(1,761)	1,761
Profit before tax	(31,815)	1,499	(33,314)
Income tax expense	2,542	-	2,542
Profit for the year	(29,273)	1,499	(30,772)