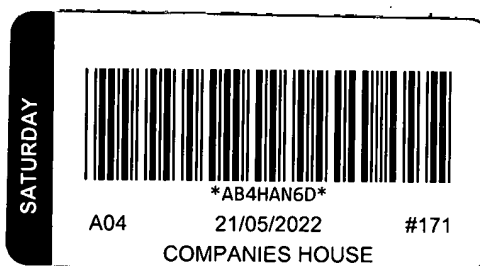


Honeywell Control Systems **Limited**

Annual Report and Financial Statements **For the year ended 31 December 2020**



Honeywell Control Systems Limited
Registration number: 00217803

Company Information

Officers and professional advisors

Directors

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Strategic report

for the financial year ended 31 December 2020

The directors present their strategic report for the financial year ended 31 December 2020.

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 £23,095,000 (2019: £29,273,000).

Turnover decreased by 9.8% to £241,788,000 (2019: £268,103,000) across all business groups, due to the impact of COVID-19 as projects were postponed and buildings could not be accessed due to the lockdown. This was partly compensated by an additional £3,200,000 revenue from the PPE (Personal Protection Equipment) plant in the Newhouse site, which started production in the third quarter of 2020. During the year, the company received dividend income of £8,383,000 (2019: £nil).

Gross profit decreased by 13.4% to £71,704,000 (2019: £82,826,000), mostly affected by the decrease in revenue from projects in the high value added HPS business.

Distribution expenses decreased by 9.3% to £24,860,000 (2019: £27,414,000) mostly due to a reduction in travel and expenses. Administration costs were broadly in line with prior year, as the reduction in travel and expenses and other discretionary expenditure savings were compensated by increases in redundancy costs and R&D expenditure. The balance sheet also strengthened as a result of a net pension assets increase of £77,308,000 (2019: a reduction of £1,123,000) driven by an actuarial gain of £63,887,000.

Following the reduction in turnover and gross profit, operating profit decreased by 37.6% to £15,138,000 (2019: £24,271,000) and consequently operating profit margin decreased by 2.8% to 6.3% of turnover (2019: 9.1%).

The outbreak of the coronavirus disease ("COVID-19") had a significant impact on the entity due to the lockdown in the second and third quarters of 2020, as customers 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 HBT and SPS businesses however saw partial recovery in the second half of 2020 and saw further recovery in 2021 as the lockdown restrictions eased. However, the HPS business continued to face adverse impact due to decline in oil prices and is expected to remain so until the oil and gas industry recovers. 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 EU-UK Trade and Cooperation Agreement (Brexit deal) was signed on 30 December 2020 and is effective from midnight on 31 December 2020. The company's SPS division has a significant level of interaction with the European Union in both its supply chain and sales channels. The impact on the other divisions is minimal as revenue is mostly driven by engineering services performed in the UK, by UK based staff. Initially the Brexit deal caused a delay in product and materials shipments due to bottlenecks at border control resulting from additional clearance requirements, but this stabilised after the first quarter of 2020. Honeywell as a group has taken steps to ensure compliance with new regulations stemming from the Brexit deal. In the longer term the Brexit deal resulted in a small increase in logistics and product costs due to customs clearance requirements, and the need for product certification to allow sales in the EU. Honeywell has implemented a number of mitigating actions which include the use of a shared warehouse in Germany to service customers in the EU. The effects of the Brexit deal are being monitored as detailed in the risk management and principal risks and uncertainties paragraphs included in this report.

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

Strategic report*for the financial year ended 31 December 2020***Key performance indicators**

Management monitors the business using the following key indicators:

	2020	2019
Turnover % change compared with previous year	(9.8)	(8.8)
Gross profit margin %	29.7	30.9
Operating profit margin % of turnover	6.3	9.1
Headcount % change compared with previous year	(5.3)	(5.8)

Turnover

Turnover decreased by 9.8% across all business groups, due to the impact of COVID-19. This was most pronounced in the Performance materials and Technologies segment (-13.5%) as projects were postponed in the oil and gas markets due to depressed commodity prices and in the Building Technologies division (-10.5%) as buildings could not be accessed due to the lockdown. In the Safety and Productivity Solutions division, the reduction in turnover was 5.5%, as the impact of the economic downturn was partly compensated by an additional £3,200,000 revenue from the PPE (Personal Protection Equipment) plant in the Newhouse site, which started production in the third quarter of 2020.

Gross profit margin

Gross profit decreased by 13.4% to £71,704,000 (2019: £82,826,000), mostly affected by the decrease in revenue from projects in the high value added HPS business. Consequently, gross margin decreased by 1.2%, from 30.9% in 2019 to 29.7% in 2020.

Operating profit margin

Following on from the decrease in turnover and gross profit, operating profit decreased by £9,133,000 to £15,138,000 (2019: £24,271,000). Distribution expenses decreased to £24,860,000 (2019: £27,414,000), mostly due to a reduction in travel related expenses as COVID-19 restrictions reduced the incidence of face-to-face meetings. Administration costs were broadly stable, as reductions in payroll costs and travel expenditure savings were compensated by increases in redundancy costs (from £2,666,000 in 2019 to £6,377,000 in 2020) and in R&D expenditure due to 10 new employees recruited in the HBT division (from £745,000 in 2019 to £2,078,000 in 2020). Consequently, operating profit margin decreased by 2.8% to 6.3% of turnover (2019: 9.1%).

Headcount

The average headcount for continuing and discontinued operations decreased by 5.3%, from 1,193 employees in 2019 to 1,130 employees in 2020. The decrease was due to ongoing restructuring across all divisions, as 150 roles became redundant during the year in an attempt to reduce costs and maintain profitability. The reduction was partly compensated by the creation of 47 new roles in the Newhouse site due to the opening of a PPE manufacturing facility in the third quarter of the year.

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.

Strategic report

for the financial year ended 31 December 2020

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.

Financial risk management, objectives and policies

Interest rate risk

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

Foreign currency risks

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

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

Liquidity risks

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

Credit risks

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

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

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

Principal risks and uncertainties

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

Strategic report

for the financial year ended 31 December 2020

In December 2019, a novel strain of coronavirus ("COVID-19") was identified in Asia. Over the next several months, COVID-19 quickly spread across the world. In March 2020, the World Health Organization declared COVID-19 a worldwide pandemic. The outbreak of 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 could negatively impact the company's operations and adversely affect its business. As of December 31, 2020, the virus continues to spread and many countries are experiencing a resurgence in infection rates. Although vaccines have recently been made available, the availability and distribution of the vaccines continues to provide challenges. We remain cautious as many factors remain unpredictable, including the increasing rate of COVID-19 infections. We continue to monitor COVID-19 infection rates and acknowledge the risk of new surges in COVID-19 infections.

The global spread of COVID-19 creates significant volatility, uncertainty and economic disruption, which impacts our business, operations and financial results and may continue to do so. Honeywell's capabilities adapted towards addressing the COVID-19 challenges of our customers around the world. The enduring impact of the COVID-19 pandemic on 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; as well as the timing and availability of effective medical treatments and vaccines; 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 due to shutdowns or other restrictive measures 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, cancel contracts, or cut costs in a manner that reduces demand for our products and services. Customers may also attempt to renegotiate contracts and obtain concessions, face financial constraints on their ability to make payments to us on a timely basis or at all, or discontinue their business operations, and we may be required to discount the pricing of our products, all of which may materially and negatively impact our operating results, financial condition and prospects. In addition, unfavourable customer site conditions, such as closure of or access restrictions to customer facilities, and disruptions to our customers' third-party logistics, warehousing, inventory management and distribution services may limit our ability to sell products and provide services, meet billing milestones or provide services.
- **Operations risk:** The 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 taken and may be required to continue taking significant cost actions, including but not limited to reducing discretionary expenses (such as non-essential travel, contractors, and consultants), reducing hiring, cancelling annual merit increases; reducing executive and board of directors pay, reducing work schedules across the enterprise, shortening or staggering work schedules to match production with demand, and reducing staffing levels, as well as increasing supplier-based productivity and enhancing spending-limit controls. Remote work and increased frequency of cybersecurity attacks, including phishing and malware attempts that 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 saw partial recovery starting in the fourth quarter of 2020 and expecting full recovery in 2021, although trading conditions remain challenging.

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.

Strategic report

for the financial year ended 31 December 2020

In the SPS business, the company saw lower demand for electrical switches and sensors in the second quarter of 2020. However, partial recovery started in the fourth quarter of 2020 and continued throughout 2021. The expected full recovery was hindered by further lockdown measures introduced in the second half of 2021. The company benefitted from an increase in demand for personal protective equipment and medical sensors in 2020, which continued 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.

With the introduction of a vaccine, the COVID-19 pandemic is being brought under control however there is potential for new strains of the virus resulting in reduced efficacy and continuation of government-imposed restrictions to business activities. 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. Due to daily evolution of the COVID-19 pandemic and the responses to curb its spread, we cannot predict the ultimate impact the COVID-19 pandemic will have on our business, financial condition, results of operations, liquidity, and cash flow.

On 23 June 2016, the UK held a referendum on the UK's continuing membership of the EU, the outcome of which was a decision for the UK to leave the EU (Brexit). The UK left the EU on 31 January 2020 and was in a transition period until 31 December 2020. The EU-UK Trade and Cooperation Agreement (Brexit deal) was signed on 30 December 2020 and was effective from 1 January 2021. The deal imposes additional rules and regulations to govern the transfer of goods and services between the United Kingdom and European Union. This is likely to lead to an increase in costs and administrative requirements of trading with the European Union. The implementation of the deal is also expected to impact macroeconomic factors such as exchange rates. A working group has been established by Honeywell International Inc. to monitor the trade deal and regulation and implement mitigating actions to respond to any changes.

The company has a significant degree of interactions with the European Union through its supply chain and sales distribution channels. It will be impacted through additional costs and complexities of transferring products and services between the United Kingdom and the European Union. The company has implemented actions to mitigate the impact of Brexit and continues to monitor the Brexit regulations and will adapt the mitigating actions as needed. In addition, the company may be affected by macroeconomic factors, such as exchange rate and interest rate fluctuations, that are influenced by the deal and affect the environment in which the company operates.

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

Set out below is the Company's report as required under the Companies (Miscellaneous Reporting) Regulations 2018 (the "Regulations"). The Regulations require Honeywell Control Systems Limited (the "Company") to report how the Directors of the Company (the "Board") have considered their duties under section 172 ("Section 172") of the Companies Act 2006 (the "Act"), to promote the success of the Company for the benefit of its shareholder whilst having due regard to the Company's stakeholders. The Company encompasses several different divisions however the principal activities of the Company are developing and delivering products and integrated solutions that improve energy efficiency, industrial productivity and safety while enhancing convenience and control.

The Company is part of the Honeywell group of companies (the "Honeywell Group") and is ultimately owned by Honeywell International Inc. The duty under Section 172 is owed by the Directors to the Company. In the context of a group of companies, the Company's Directors owe their primary duty to the Company and not Honeywell International Inc (though Honeywell International Inc is considered a relevant factor under the Section 172 duty).

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

Strategic report

for the financial year ended 31 December 2020

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

For details of the issues, factors and stakeholders the Directors consider relevant in complying with Section 172 of the Act, and the main methods the Directors have used to engage with stakeholders and understand the issues to which they must have regard, refer to the Engagement with Employees Statement and Engagement with Suppliers, Customers and Others Statement on pages 9 and 13.

Purpose

The purpose of our Company is aligned to the Honeywell Group strategy for the business unit and all values are aligned in accordance with the context of the ultimate parent company, Honeywell International Inc. The Company develops and delivers a range of products and integrated solutions that improve energy efficiency, industrial productivity and safety while enhancing convenience and control.

Our Board is responsible for promoting the purpose of the Company and ensuring that its values, strategy and culture complement this purpose and are strategically aligned with the wider Honeywell business unit strategy. Our purpose is at the heart of everything that we do, it inspires our employees and guides our day-to-day operations, our culture and decision making by the Board whilst our strategic objectives align to the wider Honeywell management area of business strategy.

An annual strategic planning process takes place at Honeywell. The determined business unit strategy is then understood at Honeywell Control Systems Limited who consider how, at the Company level, the strategy can be best implemented.

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

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

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

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

Decision Making Process

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

Strategic report

for the financial year ended 31 December 2020

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

For example during 2020, the Covid-19 pandemic meant that the wider global business had to take decisions to rearrange the ways of operating, with many employees working from home. Decisions were taken with regard to the well-being and safety of employees whilst maintaining the highest operational standards of compliance as set by Honeywell. The Board of Honeywell Control Systems Limited ensured that ways of working were appropriately adapted in the Company whilst maintaining the high standards guided by Honeywell's wider business support functions.

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

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

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

Board composition

The Company has seven Directors, as further described on page 16 of Directors' Report. The current Directors, in addition to their role as statutory Directors of the Company, also occupy key positions within the wider organisation and ensure ongoing oversight of various segments of the business. For example, S.R.Martin previously worked as the General Manager of Electronic and Gas Sensors, SIoT at Honeywell International Inc giving her a broad depth of product knowledge and experience. D.Juggins previously worked as the District Finance Leader for Midlands and South West and is a qualified lawyer and accountant. D.Bacquet-Herbaux has extensive experience as EMEA Chief Labour and Employment Counsel and as a strategic legal partner for all Honeywell's businesses, advising on labour and employment issues for management change projects, acquisitions and disposals, restructurings, reorganisations, relationships with unions, European works council and local works council. D.Bacquet-Herbaux has also been part of the Honeywell group for the past 11 years, bringing extensive knowledge to the Board of the group's values and culture. J.M.Dunn is a Senior HR Professional with nearly 15 years of international HR experience in roles of increasing scope and responsibility including specialist experience in compensation and HR integration. She has a solid understanding of the importance and complexity of working within a high-performing global business environment. J.Mckenna, has experience working as the European product director which brings a broad range of knowledge to be shared and utilised at Board level. Finally, A.C.Neves has had previous involvement with a number of other Honeywell entities where he has built relationships with a range of other Honeywell top-level executives.

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

Strategic report

for the financial year ended 31 December 2020

During, and after the end of, the reporting period, changes were made to the Board's composition to strengthen and align legal entity and executive governance. During the year, S.Treanor resigned from the Company, and J.M.Dunn was appointed as a Director. The decision to appoint J.M.Dunn was taken with a view to promote the long-term success of the Company given her deep understanding of HR and the Honeywell Group.

Training

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

The Directors of the Company are given access to an online training portal where regularly updated training material and modules are made available to enable the Directors to continually refresh and develop their skills and knowledge.

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

Principal decisions

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

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

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

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

In line with the Regulations and FRC guidance, and in accordance with the approach taken during the financial year under review, having considered the Company's principal risks and uncertainties as detailed in the Strategic Report, the Company made the following principal decisions during the year ended 31 December 2020:

- The approval and adoption of Honeywell's Slavery and Human Trafficking Statement 2018.
- The approval and adoption of Honeywell's Slavery and Human Trafficking Statement 2019.
- Noted Dividend Received in the amount of GBP 8,383,000.00 and the approval of the payment of an Interim Dividend in amount of GBP 8,383,000.00 to its sole shareholder.
- The approval of Acquisition of Assets relating to the entire business and assets of Energy ICT Limited.
- Pivoting ways of working in response to disruption from Covid-19.
- Making use of the government Furlough scheme for the Company's employees.

Strategic report*for the financial year ended 31 December 2020*

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

Covid-19 Related Decisions:

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

During 2020, the Covid-19 pandemic meant that the Board had to take decisions to rearrange the ways of operating the business with many employees having to work from home. Decisions on this matter were taken with the highest regard to the well-being and safety of employees whilst maintaining the highest operational standards of compliance as set by Honeywell International Inc.

Additionally, the Board took advantage of the assistance provided by the UK government by way of the "Furlough" scheme which aided the Company in the payment of employee's wages if it was necessary to place them onto flexible furlough due to effects of the pandemic.

Engagement with Suppliers, Customers and Others in a Business Relationship with the Company Statement (Stakeholders):

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

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

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

Regularly engaging with the key stakeholders is a priority for the Company and the following information describes how the Directors had regard to the need to foster relationships with the Company's key stakeholders, how outcomes were considered and how concerns were identified and addressed during the reporting period. Further detail of these decisions, and in particular the Principal Decisions in relation to the stakeholders, are discussed in the s172 Statement on page 15:

Key stakeholders	Stakeholders' interests	How we have fostered relationships	How the fostering of relationships impacted decision making
Employees	For details on how we have engaged with Honeywell Control Systems Limited's UK-based employees, how the Directors had regard to those employees' interests, and the effect of that regard, including on the decisions taken during the reporting period, refer to the Engagement with Employees Statement in the Directors' report (details of which are set out on page 16).		

Strategic report*for the financial year ended 31 December 2020*

<p>Suppliers</p>	<p>To receive a clearly stated set of requirements to understand Honeywell Control Systems Limited's needs and expectations.</p> <p>To receive regular support from Honeywell Control Systems Limited to improve suppliers' business management system and effectively avoid any defects and operational issues.</p> <p>To be part of a fair and respectful tender and supplier selection process.</p> <p>To be part of an ongoing supplier relationship based on mutual respect and treating each other as valued business partners.</p>	<p>The Company maintains a number of group-wide policies to ensure fair and respectful treatment of its actual and potential suppliers across the organisation. The policies clearly set out the Company's expectations in relation to the quality of supplier products and services delivered and requirements that need to be met to ensure smooth and mutually beneficial business relationship.</p> <p>As part of the wider Honeywell Group, the Company's supplier engagement is measured as part of Honeywell's global procurement organisation.</p> <p>Further information can be found on Honeywell International's supplier code of business;</p> <p>www.honeywell.com/en-us/company/integrity-and-compliance.com</p>	<p>On an exceptional basis, the Directors will engage with suppliers through means of the procurement teams in the case of any escalation.</p>
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Strategic report*for the financial year ended 31 December 2020*

<p>Customers</p>	<p>To provide the Company's customers with top quality services.</p> <p>To demonstrate excellence in service delivery on a global scale and build trust between customers and the Company.</p> <p>Ensuring safety of the products and services provided to customers.</p> <p>Ensuring that any claims in relation to quality of safety of products or services are addressed and resolved.</p> <p>Ensuring that customer data is kept in a secure environment and only for the duration and purposes the data was collected for.</p>	<p>The Company maintains a number of group-wide policies aimed at ensuring ongoing security of customer data, high standards of safety and quality of the products and services and continued confidence and trust of our customers.</p> <p>In the event of an escalated issue, if appropriate, members of the Board will seek to resolve directly with customers.</p>	<p>The Board is provided with regular reports on renewals of, and negotiations for new, supplier agreements by a dedicated supply chain team. The information received supports effective decision making by the Board and considering long-term consequences on customers well-being and satisfaction. The sales group team's active daily engagement with customers is fed back to the Board to be used when decision making, providing insight into demand and improve customer retention.</p> <p>By understanding our customers, it has allowed us to clarify the Company's vision for future growth and ways to continually add brand value.</p>
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Strategic report*for the financial year ended 31 December 2020*

<p>Community and environment</p>	<p>To manufacture and deliver high quality products and services in an energy efficient and environmentally responsible manner.</p> <p>To conduct business in a manner to minimise negative impact on the surrounding area and be respectful and conscientious of the environment.</p> <p>To take into account the interest of the local community when considering future investments and business decisions.</p> <p>As aforementioned, the Company as part of the wider Honeywell Group takes into consideration the sustainability policy of Honeywell International Inc.</p>	<p>The Company maintains a number of group-wide policies to promote sustainable and environmentally friendly business and operational practices.</p> <p>Engagement with employees has resulted in the Board understanding that there is an increasing desire for a more environmentally friendly workplace.</p>	<p>By following and implementing the group wide sustainability policy, the Company has been able to foster the interests of the community and environment in which it operates in Board decisions.</p> <p>From listening to the views of employees, the Board is moving towards implementing electric car charging points and parking bays during refurbishments of the Company's places of work.</p>
<p>Shareholder</p>	<p>The Company is 100% owned by Honeywell Limited and the ultimate shareholder is Honeywell International Inc.</p>	<p>Group Treasury, Tax and Finance functions, in conjunction with the senior management, make recommendations to declare dividends, coordinate and evaluate the amount of dividend and impact at local level</p> <p>The Company reports to its shareholder on a regular basis in the form of its financial statements, monthly and quarterly Board reports and business reviews, presentations to the Board of the Group, business plans and strategic plans as well as risk reporting.</p>	<p>The Company's strategy is to pursue strategic growth to create long term value for its shareholder.</p> <p>The receipt of this information, and the coordination with Group functions, aids the Board when considering whether to declare dividends, the amount of dividend and impact at local level</p> <p>Dividends, which are categorised as a principal decision, were considered</p>

Strategic report*for the financial year ended 31 December 2020*

			and however were not subject for approval this financial period.
Regulator(s)	<p>To receive regular feedback on any consultations.</p> <p>To have an open and honest relationship with the Company where Regulation and Guidance can be discussed.</p>	<p>The Company's Directors have delegated much responsibility for engagement with the Regulators to the ultimate parent Honeywell International Inc</p> <p>The Company keeps the Regulators informed of any significant changes to the Company.</p>	

Employee Engagement Statement:

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

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

Strategic report*for the financial year ended 31 December 2020*

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

The table below sets out the details of how the Company engaged with its employees and how the Directors have regard to the employees' interests and the impact of these considerations on the decisions taken by the Board during the reporting period. Further detail of these decisions, and in particular the Principal Decisions in relation to the employees, are discussed in the s172 Statement on page 8:

Employees' interests	How have the Directors engaged with employees	How the Directors have had regard to employee interests, and the effect of that regard
<p>Providing information on matters of concern to them as employees and to achieve an awareness of factors affecting the performance of the Company, such as quarterly results, strategy, sustainability, training, bi-annual performance related bonus scheme, career development and diversity and inclusion.</p>	<p>The Directors have delegated much of the engagement to Group's employee engagement mechanisms, including the Group intranet, Group social media channel, regular team and one-to-one updates provided by divisional leaders and line managers.</p> <p>The Group HR function, to whom the Directors have delegated training responsibility, ensure that training and career development sessions to employees are provided.</p> <p>Employees are kept informed by ad hoc updates on key developments, changes to strategic objectives and priorities, updates on progress of ongoing projects, updates on Brexit developments and its impact on the business and workforce, updates and announcements in respect of the Covid-19 pandemic.</p> <p>The Company also publishes annually the Company's Gender Pay Gap Report, as well as communications around how and what improvements the Company is trying to progress.</p>	<p>We strive to promote inclusivity and does not discriminate between employees or potential employees on grounds of race or ethnic origin, disability, gender, sexual orientation, age, religion or belief.</p> <p>We are committed to valuing the diversity of its people and it monitors and reports internally on aspects such as gender and age equality. The Company and the group are strongly dedicated to ensuring equal pay for all workforce across the organization regardless of gender, race or ethnic origin, disability, gender, sexual orientation, age, religion or belief and regularly report on both group and legal entity level.</p>

Strategic report

for the financial year ended 31 December 2020

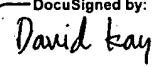
<p>Being consulted on a regular basis so that the views of employees can be taken into account in the decisions made by the Directors which are likely to affect their interests.</p>	<p>The Company's employees are actively encouraged to participate in Company "townhalls", where open and honest discussions take place and questions are permitted from all those in attendance. The townhalls take place on either a monthly and quarterly basis held by leadership where the employees are able to voice their opinions and raise any outstanding issues. The results of the townhalls are reported back to the Board for consideration and analysis.]</p> <p>An employee forum is in place allowing our Board to consult with employee representatives on a regular basis.</p>	<p>The results of the townhall are submitted to the Board and considered. The outcomes and any workforce-related issues and requests are considered, addressed and the employees updated on the actions to be taken.</p> <p>The presence of the employee forum allows the Board to receive input from employees at all levels of the Company to be considered when decision making.</p>
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Principal Decisions

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

During the year, the company undertook payment of dividends which is considered to be a principal decision. Dividends are paid in accordance with cash strategy set by Honeywell International Inc. and are only made after considering the cash needs and solvency of the company.

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

DocuSigned by:

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David Kay
Director
16 May 2022

Directors' report

for the financial year ended 31 December 2020

The directors present their annual report and audited financial statements for the company for the financial year ended 31 December 2020.

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 £23,095,000 (2019: £29,273,000) which will be transferred to reserves. The results for the financial year are shown on page 23.

The directors recommended and paid a dividend of £8,000,000 for 1 equity share at £8,000,0000 per share (2019: £nil).

Financial risk management, objectives and policies

The details of the financial risk management of the company are included in the strategic report on page 3.

Directors of the company

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

James McKenna
Sarah Martin
David Kay
David Juggins
Diane Bacquet-Herbaux
Antonio Carlos Ireneu Dos Santos Rodrigues Das Neves
Sharon Treanor (resigned on 25 September 2020)
Jennifer 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 2020 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 £2,078,000 (2019: £745,000), due to addition of 10 research and development roles in BT as well the associated costs related to the R&D department.

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. Further detail on the engagement with employees undertaken during the year appears as part of our Section 172 statement on page 9.

Directors' report*for the financial year ended 31 December 2020***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 9.

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 2020 / 2021 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 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 31 March 2022 of \$9.8 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.

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

Disclosure of information to auditor

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

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

Global GHG emissions and energy use for the period

Statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting (SECR) covering energy use and associated greenhouse gas emissions relating to gas, electricity and transport, intensity ratios and information relating to energy efficiency actions.

Reporting year (Jan'20 – Dec'20)

Categories

	Scope	Tons Co2e	KWh
Natural Gas	Scope 1	1,000	5,436,762
Fleet	Scope 1	1,527	6,044,821
Purchased electricity	Scope 2	1,116	4,788,102
Business Travel & personal mileage	Scope 3	86	326,315
Gross emissions & energy		3,729	16,596,000

Turnover (£000)

241,788

Tons CO2e/ Turnover (£000)

0.0154

Directors' report

for the financial year ended 31 December 2020

Year on year comparison will be included in future reports

Energy Actions Taken:

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

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

- Global energy program allowing any site to avail funding for energy reduction projects
- Implementing lighting and control systems upgrade projects, compressed air and cooling plant upgrade projects in the UK. The entity has completed actions to reduce 11 Tons of CO2e as part of the 2020 program.
- Newsletter communication on Honeywell Sustainability that includes best practice sharing. These communications provide awareness and knowledge sharing of energy savings across UK
- Specific program to optimize the facilities during the Covid period in UK. The entity has completed actions to reduce 64 Tons of CO2e as part of this program.
- Purchasing electricity with REC's in many UK sites

Methodology used in the calculation:

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

Intensity ratios calculated using revenue.

- Tons CO2e/\$ Revenue

Data estimation:

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

Events since the balance sheet date

On 31 July 2021, the company acquired the trading business relating to the supply, installation and service of electricity meters from Energy ICT Limited for £1,022,000 and from Energy ICT NV for €1,120,000.

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:

David Kay

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David Kay

Director

16 May 2022

Directors' responsibilities statement

for the financial year ended 31 December 2020

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

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

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

In preparing these 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 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

To assist themselves in discharging these responsibilities, the directors have engaged a number of third-party providers including accounting firms who are engaged to prepare the company's financial statements, as well as Honeywell International Inc.'s own finance shared service 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 2020 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 35.

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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the 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 this regard.

Independent auditor's report

to the members of Honeywell Control Systems Limited.

Responsibilities of the 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.

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

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

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

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

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

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

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

due to the significant judgements in determining the percentage of completion for revenue contracts, there is a risk that revenue could be inaccurately recorded: we tested the design and implementation of relevant controls and have tested a sample by reviewing the contract, agreeing cumulative costs incurred to date to invoice and comparing the estimated costs to complete against invoices received post period end.

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

Independent auditor's report

to the members of Honeywell Control Systems Limited.

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

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

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.

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:



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James Boyle CA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

18 May 2022

Honeywell Control Systems Limited
Registration number: 00217803

Profit and loss account

for the financial year ended 31 December 2020

		2020	2019
	Notes	£000s	£000s
Turnover	5	241,788	268,103
Cost of sales		(170,084)	(185,277)
Gross profit		71,704	82,826
Distribution expenses		(24,860)	(27,414)
Administrative expenses		(31,841)	(31,141)
Government grant income	8	135	-
Operating profit	9	15,138	24,271
Dividend income	12	8,383	-
Interest receivable	13	8,187	8,809
Interest payable	14	(3,195)	(1,265)
Profit before taxation		28,513	31,815
Tax on profit	15	(5,418)	(2,542)
Profit for the financial year		23,095	29,273

The notes on pages 27 to 61 form an integral part of the financial statements.

Statement of comprehensive income*for the financial year ended 31 December 2020*

		2020	2019
	Notes	£000s	£000s
Profit for the financial year		23,095	29,273
Other comprehensive income/expense:			
<i>Items that cannot be reclassified to profit or loss</i>			
Actuarial gains/(losses) on pension plan	27	63,887	(7,410)
Movement on deferred tax relating to pension scheme	15	(14,223)	1,260
Other comprehensive income/(expense) for the year, net of tax		49,664	(6,150)
Total comprehensive income for the year, net of tax		72,759	23,123

Balance sheet*as at 31 December 2020*

	Notes	2020 £000s	2019 Restated £000s
Fixed assets			
Intangible assets	16	-	-
Tangible assets	17	12,488	8,994
Right-of-use assets	18	19,126	22,031
Investments	19	1,167	1,167
		32,781	32,192
Current assets			
Stocks	20	8,828	7,667
Debtors: amounts falling due within one year	21	137,465	165,927
Debtors: amounts falling due after one year	21	3,179	2,817
Short term deposits	22	60,000	74,864
Cash at bank and in hand		72,360	55,247*
		281,832	306,522
Creditors: amounts falling due within one year	23	(181,918)	(212,032)*
Net current assets		99,914	94,490
Total assets less current liabilities (excluding pension asset)		132,695	126,682
Creditors: amounts falling due after more than one year	24	(18,666)	(21,729)
Provisions for liabilities	26	(61,273)	(40,894)
Pension asset	27	323,912	246,022
Pension liability	27	(5,644)	(5,062)
Net assets		371,024	305,019
Capital and reserves			
Called-up share capital	28	-	-
Share premium account	29	14,537	14,537
Profit and loss account		356,487	290,482
Total shareholder's funds		371,024	305,019

Honeywell Control Systems Limited
Registration number: 00217803

Balance sheet

as at 31 December 2020

* In 2019, the cash balances of £55,064k was netted off against the bank overdraft balance of £75,090k. Accordingly, the net balance of £20,026k was classified under 'Creditors: amounts falling due within one year' on the balance sheet. As such, given that the balances do not meet the criteria under IAS 32 to be netted off, 'Cash & Cash Equivalents' has been under-stated by £55,064k and 'Creditors: amounts falling due within one year' has been under-stated by £55,064k. There is also an impact on the 2019 disclosure note for 'Creditors: amounts falling due within one year', which requires to disclose 'Bank overdraft' in the amount of £75,090k instead of £20,026k. There has been no impact on the net assets, profit for the year or the equity balance as a result of this restatement.

The financial statements on pages 23 to 61 were approved by the board of directors on 16 May 2022 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 2020

	<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 2019	-	14,537	266,053	280,590
Profit for the financial year	-	-	29,273	29,273
Other comprehensive expense	-	-	(6,150)	(6,150)
Total comprehensive expense 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
Profit for the financial year	-	-	23,095	23,095
Other comprehensive income	-	-	49,664	49,664
Total comprehensive income for the financial year	-	-	72,759	72,759
Movement in respect of share options (note 31)	-	-	1,246	1,246
Dividend paid (note 30)	-	-	(8,000)	(8,000)
At 31 December 2020	-	14,537	356,487	371,024

Notes to the financial statements*for the financial year ended 31 December 2020***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 1EB, England, United Kingdom.

The financial statements contain information about the company as an individual company and do not contain consolidated financial information as parent of 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 300 South Tryon Street, Charlotte, NC 28202, USA. The financial statements of Honeywell International Inc. are publicly available and can be obtained from the Internet at www.honeywell.com.

2. 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' and the Companies Act 2006.

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

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' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- 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 (reconciliations between the carrying amount at the beginning and end of the period), and
 - paragraph 17 of IAS 24 Related Party Disclosures (key management compensation);
- the requirements of following paragraphs of IAS 1 Presentation of Financial Statements
 - 10(d) (statement of cash flows),
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements and 16 (statement of compliance with all IFRS),
 - 38A to 38D (requirement for minimum of two primary statements, including cash flow statements and additional comparative information),
 - 40A to 40D, 111 (statement of cash flows information) and 134-136 (capital management disclosures) of IAS 1;
- 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 (disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);

Notes to the financial statements

for the financial year ended 31 December 2020

- 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
- 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 2020 / 2021 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 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 31 March 2022 of \$9.8 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.

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

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.

Notes to the financial statements*for the financial year ended 31 December 2020*

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.
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.

Notes to the financial statements

for the financial year ended 31 December 2020

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.

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.

Notes to the financial statements

for the financial year ended 31 December 2020

Interest receivable

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

Interest payable

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

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.

Leases – as lessee

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.

Notes to the financial statements

for the financial year ended 31 December 2020

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 2020**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 and equipment	6.6% - 33.3%
Fixtures and 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- recognition, measurement and impairment

Investments in subsidiaries are accounted for at cost less any provision for impairment. The value of investments is reviewed annually by the directors or more frequently if there is a triggering event and provision made where the investment's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment losses been recognised for the investment in prior years. A reversal of impairment loss is recognised immediately in the profit and loss account.

Impairment of non-financial assets

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

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

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.

Notes to the financial statements

for the financial year ended 31 December 2020

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

Classification of financial assets

Classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The company classifies its financial assets in the following measurement categories:

- those measured at amortised cost,
- those to be measured subsequently at fair value, either through other comprehensive income (FVTOCI) or through profit or loss (FVTPL).

Financial asset at amortised cost

A financial asset is measured at the amortised cost if both the following conditions are met:

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

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by 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.

Financial asset at FVTOCI

A 'financial asset' is classified as at the FVTOCI if both of the following criteria are met:

- The objective of the business model is achieved both by collecting contractual cash flows and selling the financial assets, and
- The asset's contractual cash flows represent SPPI.

Derecognition

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

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

Impairment of financial assets

In accordance with IFRS 9, the company applies the expected credit loss (ECL) model for measurement and recognition of impairment loss on all financial assets not measured at fair value.

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.

Notes to the financial statements

for the financial year ended 31 December 2020

Financial liabilities - recognition and measurement

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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.

Notes to the financial statements

for the financial year ended 31 December 2020

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

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

Current asset investment

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

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 retained earnings as a capital contribution.

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

Government grants

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

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

3. Judgements and key sources of estimation uncertainty

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

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

Notes to the financial statements

for the financial year ended 31 December 2020

Judgements

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

Estimates and assumptions

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

(i) Impairment of investments

The investment in subsidiary undertakings is carried at cost and tested for impairment when indicators of potential impairment exist. The assessment of impairment involves estimation in relation to the value of the unquoted investment based on the net assets of the underlying investment and projected cash flows, wherever applicable. At the year end the value of the investment was £1,167,000 (2019: £1,167,000). There was no impairment charge during the current year (2019: £nil). The effect of COVID-19 on the profitability of the company's subsidiaries has been factored into the projections used when performing the impairment assessment.

(ii) 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. Contract revenue recognised in the year is £85,270,000 (2019: £110,927,000).

(iii) Estimates used for provisions

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

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

Redundancy provision

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. The redundancy provision as at 31 December 2020 is £1,076,000 (2019: £263,000).

(iv) 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.

Notes to the financial statements*for the financial year ended 31 December 2020**(v) 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 £611,000 (2019: £1,005,000).

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. Accordingly, the company has not recognised a provision for expected credit loss.

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 2020. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of Honeywell Control Systems Limited, nor is there expected to be any future impact to the company.

5. Turnover

	2020 £000s	2019 £000s
<i>Analysis of turnover by geographical market</i>		
United Kingdom	156,537	181,469
Rest of Europe	73,114	79,043
North America	3,726	3,275
Rest of the world	8,411	4,316
<i>Total turnover by geographical market</i>	<u>241,788</u>	<u>268,103</u>
<i>Analysis of turnover by business category</i>		
Building technologies	75,432	84,274
Performance materials and technologies	79,027	91,399
Safety and productivity solutions	87,329	92,430
<i>Total turnover by category</i>	<u>241,788</u>	<u>268,103</u>

Notes to the financial statements*for the financial year ended 31 December 2020***6. Construction contracts**

	2020	2019
	£000s	£000s
Contract revenue recognised in period	85,270	110,927
Advances received	13	108
Retention asset	1,945	1,603
Contract costs incurred	1,174,222	1,104,075
Recognised profits less recognised losses	355,405	335,400
<i>Contract costs incurred and recognised profits (less recognised losses)</i>	<i>1,529,627</i>	<i>1,439,475</i>
Less: progress billings	(1,530,189)	(1,441,140)
<i>Amounts due to customers</i>	<i>(562)</i>	<i>(1,665)</i>
Amounts due from customers included within trade receivables	6,758	8,212
Amounts due to customers included within trade creditors	(7,320)	(9,877)

Retention assets are included in trade receivables.

Contract cost incurred, recognised profits and progress billings are stated from inception of the contract to 31 December 2020. As a result of certain contracts spanning several years, these amounts are therefore not recognised in entirety, in the current year.

Amounts relating to construction contracts are balances due from customers under construction contracts that arise when the company receives payments from customers in line with a series of performance – related milestones.

7. Disclosures in respect of contracts with customers

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

	2020	2019
	£000s	£000s
Revenue from contracts with customers (note 5)	241,788	268,103
Impairment reversal on receivables arising from contracts with customers	(394)	(395)

Notes to the financial statements*for the financial year ended 31 December 2020*

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

	2020	2019
	£000s	£000s
Gross trade receivables	36,312	40,061
Provision for expected credit loss	(611)	(1,005)
Trade receivables (note 21)	35,701	39,056
Contract assets (note 21)	8,983	11,276
Contract liabilities (note 23)	(9,463)	(11,348)

8. Government grant income

During the year, the company recognised a government grant of £135,000 (2019: £nil) under the Coronavirus Job Retention Scheme (JRS). The grant is given to UK employers to cover all or part of the wages and salary costs of employees on temporary leave (furlough) due to the COVID-19 pandemic.

9. Operating profit

	2020	2019
	£000s	£000s
This is stated after charging:		
<i>Depreciation and amortisation</i>		
Intangible assets (note 16)	-	-
Tangible assets – owned (note 17)	1,561	1,076
Right-of-use assets (note 18)	3,303	2,846
<i>Lease rental charges</i>		
Payment on short term lease	228	288
Loss on disposal of fixed assets (note 17)	503	568
Reorganisation and redundancy	6,377	2,666
Research and development	2,078	745
Vehicle fleet and other rental expense	3,828	2,574
Loss on foreign exchange	890	675

Notes to the financial statements*for the financial year ended 31 December 2020***10. Auditor's remuneration**

The remuneration of the statutory auditor is analysed as follows:

	2020	2019
	£000s	£000s
Audit of the financial statements of the company	27	30
Audit of the financial statements of other group companies	596	640
Total auditor's remuneration	623	670

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 2020 and 2019.

There are no non audit services fees payable to the auditor (2019: £nil).

11. Employees and directors*(a). Staff costs*

	2020	2019
	£000s	£000s
Wages and salaries	70,539	70,718
Social security costs	8,671	8,572
Contributions to defined contribution pension plans	9,363	8,618
Pension costs for defined benefit plans (note 27)	331	285
Share based payment charges (note 31)	1,246	1,306
Total staff costs	90,150	89,499

The average monthly number of employees during the financial year was made up as follows:
(including executive directors)

	2020	2019
	No.	No.
Direct	511	567
Indirect	619	626
Total monthly average number of employees	1,130	1,193

Notes to the financial statements*for the financial year ended 31 December 2020**(b). Directors' remuneration*

	2020	2019
	£000s	£000s
Aggregate emoluments	609	330
Pension costs - defined contribution	125	87
Total payments to directors	734	417
Highest paid director		
Aggregate emoluments	227	184
Accrued pension at financial year end	43	42
Total payments to highest paid director	270	226

During the financial year the highest paid director did not (2019: did) exercise options over shares of Honeywell International Inc., the ultimate parent company.

	2020	2019
	No.	No.
Number of directors who:		
Were members of defined benefit plans	5	4
Entitled to shares under a long-term incentive scheme	1	1

In 2020, five directors (2019: four directors) were remunerated by other group companies for their services to the group as a whole.

12. Dividend income

	2020	2019
	£000s	£000s
Dividend from subsidiaries	8,383	-
Total dividend income	8,383	-

Notes to the financial statements*for the financial year ended 31 December 2020***13. Interest receivable**

	<i>2020</i>	<i>2019</i>
	<i>£000s</i>	<i>£000s</i>
Interest receivable from group undertakings	2,517	1,329
Pension interest (note 27)	5,586	7,373
Other interest receivable	84	107
<i>Total interest receivable</i>	8,187	8,809

14. Interest payable

	<i>2020</i>	<i>2019</i>
	<i>£000s</i>	<i>£000s</i>
Interest payable to group undertakings	429	807
Interest payable on lease liability	465	414
Interest payable on bank overdraft	2,266	44
Other interest payable	35	-
<i>Total interest payable</i>	3,195	1,265

Notes to the financial statements*for the financial year ended 31 December 2020***15. Taxation***(a). Tax charged in the profit and loss account*

	2020	2019
	£000s	£000s
<i>Current tax:</i>		
UK corporation tax on profit for financial year	-	1,140
Foreign tax suffered	-	208
<i>Total current tax</i>	-	1,348
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	2,407	1,435
Effect of change in tax laws and rates	376	-
Adjustments in respect of prior years	2,635	(241)
<i>Total deferred tax</i>	5,418	1,194
<i>Total tax expense in the profit and loss account</i>	5,418	2,542

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

	2020	2019
	£000s	£000s
<i>Current tax:</i>		
Tax on items relating to components of other comprehensive income	-	-
<i>Total current tax</i>	-	-
<i>Deferred tax:</i>		
Effect of change in tax laws and rates	2,085	-
Remeasurements on defined benefit pension plans	12,138	(1,260)
<i>Total deferred tax</i>	14,223	(1,260)
<i>Total tax expense/(income) in the statement of comprehensive income</i>	14,223	(1,260)

Notes to the financial statements*for the financial year ended 31 December 2020**(c): Reconciliation of the total tax charge*

The tax expense in the profit and loss account for the financial year is higher than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below:

	2020	2019
	£000s	£000s
Profit before income tax	28,513	31,815
Profit multiplied by the effective rate of corporation tax in the UK of 19% (2019:19%)	5,417	6,045
<i>Effects of:</i>		
Expenses not deductible for tax purposes and other permanent differences	307	149
Income not taxable	(1,962)	(481)
Difference in current tax rate to deferred rate	-	(169)
Adjustments in respect of prior years	376	(241)
Effect of change in tax laws and rates	2,635	-
Foreign tax suffered	-	208
Group relief not paid for	(1,355)	(2,969)
<i>Total tax expense reported in the profit and loss account</i>	<i>5,418</i>	<i>2,542</i>

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

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019:17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. The company has assessed the impact of the change in rate on its deferred tax assets and liabilities and the impact would be to increase the deferred tax liability at the balance sheet date by £19,000,000.

Notes to the financial statements*for the financial year ended 31 December 2020**e). Deferred tax*

	2020	2019
	£000s	£000s
<i>The deferred tax included in the balance sheet is as follows:</i>		
Deferred tax asset		
Differences between capital allowances and depreciation	341	708
Other short-term timing differences	152	134
Total deferred tax asset	493	842
Deferred tax liability		
Deferred tax provision on pension asset	(60,255)	(40,963)
Total deferred tax liability	(60,255)	(40,963)
Net deferred tax liability	(59,762)	(40,121)

<i>Movements in deferred tax</i>	<i>Excluding pension</i>	<i>Pension</i>	<i>Total</i>
	£000s	£000s	£000s
At 1 January 2020	842	(40,963)	(40,121)
Charge to the profit and loss account	(349)	(5,069)	(5,418)
Charge to statement of comprehensive income		(14,223)	(14,223)
At 31 December 2020	493	(60,255)	(59,762)

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.

Notes to the financial statements*for the financial year ended 31 December 2020***16. Intangible assets**

	<i>Software £000s</i>
<i>Cost</i>	
At 1 January 2020	151
Disposals during the year	(151)
At 31 December 2020	-
<i>Accumulated amortisation</i>	
At 1 January 2020	(151)
Disposals during the year	151
At 31 December 2020	-
<i>Net book value:</i>	
At 31 December 2020	-
At 31 December 2019	-

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

17. Tangible assets

	<i>Land and buildings £000s</i>	<i>Plant and equipment £000s</i>	<i>Fixtures and fittings £000s</i>	<i>Construction in progress £000s</i>	<i>Total £000s</i>
<i>Cost</i>					
At 1 January 2020	6,675	9,730	2,393	1,197	19,995
Additions during the year	228	268	400	4,970	5,866
Disposals during the year	(735)	(1,479)	(363)	-	(2,577)
Transfers during the year	169	995	28	(1,192)	-
At 31 December 2020	6,337	9,514	2,458	4,975	23,284
<i>Accumulated depreciation</i>					
At 1 January 2020	(1,324)	(7,798)	(1,879)	-	(11,001)
Provided during the financial year	(607)	(852)	(102)	-	(1,561)
Disposals during the year	694	749	323	-	1,766
At 31 December 2020	(1,237)	(7,901)	(1,658)	-	(10,796)
<i>Net book value:</i>					
At 31 December 2020	5,100	1,613	800	4,975	12,488
At 31 December 2019	5,351	1,932	514	1,197	8,994

Notes to the financial statements
*for the financial year ended 31 December 2020***18. Right-of-use assets**

	<i>Land and buildings</i>
	<i>£000s</i>
<i>Cost</i>	
At 1 January 2020	24,877
Additions during the year	398
Disposals during the year	(287)
At 31 December 2020	<u>24,988</u>
<i>Accumulated depreciation</i>	
At 1 January 2020	(2,846)
Provided during the year	(3,303)
Disposals during the year	287
At 31 December 2020	<u>5,862</u>
<i>Net book value:</i>	
At 31 December 2020	<u>19,126</u>
At 31 December 2019	<u>22,031</u>

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

19. Investments

	<i>2020</i>	<i>2019</i>
	<i>£000s</i>	<i>£000s</i>
<i>Cost</i>		
At 1 January and 31 December	<u>1,167</u>	<u>1,167</u>
<i>Provision for impairment</i>		
At 1 January and 31 December	<u>-</u>	<u>-</u>
<i>Net book value</i>	<u>1,167</u>	<u>1,167</u>

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.

Notes to the financial statements*for the financial year ended 31 December 2020***20. Stocks**

	2020	2019
	£000s	£000s
Raw materials	4,379	3,672
Work in progress	731	665
Finished goods	2,213	1,465
Consignment stock	1,505	1,865
Total stocks	8,828	7,667
Cost of stocks recognised as an expense during the year	47,880	51,071
Cost of stocks written down recognised as an expense in the year	1,093	1,005

21. Debtors: amounts falling due within and after one year

	2020	2019
	£000s	£000s
<i>Amounts falling due within one year</i>		
Trade debtors	35,701	39,056
Amounts owed by group undertakings	87,231	108,898
Contract assets	8,983	11,276
Retention asset	568	335
Prepayments and accrued income	4,982	6,362
Total amounts falling due within one year	137,465	165,927
<i>Amounts falling due after more than one year</i>		
Long term retention assets	1,377	1,268
Accrued income	1,802	1,549
Total amounts falling due after more than one year	3,179	2,817

Notes to the financial statements*for the financial year ended 31 December 2020*

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

<i>Receivable</i>	<i>Currency</i>	<i>Interest terms</i>	<i>2020 £000s</i>	<i>2019 £000s</i>
On demand	GBP	UK Base Rate Plus 1%	76,131	75,201

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

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

Trade receivables

	2020			2019		
	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	28,662	0.35%	101	30,927	0.42%	131
within 30 days	4,422	0.63%	28	4,463	0.94%	42
31 – 60 days	1,087	2.48%	27	1,034	4.56%	47
61 – 90 days	801	7.24%	58	904	9.95%	90
After 90 days	1,340	29.63%	397	2,733	25.41%	695
Total	36,312		611	40,061		1,005

22. Short term deposits

	<i>2020 £000s</i>	<i>2019 £000s</i>
Short term deposits	60,000	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.

Notes to the financial statements*for the financial year ended 31 December 2020***23. Creditors: amounts falling due within one year**

	2020	2019
		<i>Restated</i>
	£000s	£000s
Bank overdraft	63,168	75,090*
Trade creditors	31,214	30,938
Amounts owed to group undertakings	54,629	71,965
Taxation and social security	10,324	9,604
Corporation tax	1,348	1,348
Accruals and deferred income	8,577	7,653
Lease liability (note 25)	3,178	1,733
Other creditors	8	2,348
Payments received on account	9	5
Contract liabilities	9,463	11,348
Total amount owed to creditors	181,918	212,032*

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

<i>Payable</i>	<i>Currency</i>	<i>Interest terms</i>	2020	2019
			£000s	£000s
On demand	GBP	UK Base Rate Plus 1%	33,250	46,590

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

* In 2019, the cash balances of £55,064k was netted off against the bank overdraft balance of £75,090k. Accordingly, the net balance of £20,026k was classified under 'Creditors: amounts falling due within one year' on the balance sheet. As such, given that the balances do not meet the criteria under IAS 32 to be netted off, 'Cash & Cash Equivalents' has been under-stated by £55,064k and 'Creditors: amounts falling due within one year' has been under-stated by £55,064k. There is also an impact on the 2019 disclosure note for 'Creditors: amounts falling due within one year', which requires to disclose 'Bank overdraft' in the amount of £75,090k instead of £20,026k. There has been no impact on the net assets, profit for the year or the equity balance as a result of this restatement.

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

	2020	2019
	£000s	£000s
Lease liability (note 25)	18,666	21,729

Notes to the financial statements
*for the financial year ended 31 December 2020***25. Lease liabilities**

	2020	2019
	£000s	£000s
Non-current (note 24)	18,666	21,729
Current (note 23)	3,178	1,733
Total	21,844	23,462

The non-cancellable lease payments are due

	2020	2019
	£000s	£000s
Within 1 year	3,178	1,733
Between 1 and 5 years	13,012	14,377
After 5 years	5,654	7,352
Total	21,844	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.

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

26. Provisions for liabilities

	Severance pay	Warranty	Contract	Deferred tax liability (note 15)	Total
	£000s	£000s	£000s	£000s	£000s
At 1 January 2020	263	260	250	40,121	40,894
Charge to profit and loss account	1,076	142	210	5,418	6,846
Charge to other comprehensive income	-	-	-	14,223	14,223
Utilised during the year	(263)	(130)	(297)	-	(690)
At 31 December 2020	1,076	272	163	59,762	61,273

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.

Notes to the financial statements*for the financial year ended 31 December 2020***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 2021 are estimated to be £nil. Defined benefit obligations are based on a full valuation of the scheme's liabilities as at 31 March 2020, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2020.

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 2021 are estimated to be £1,061,000. Defined benefit obligations are based on a full valuation of the liabilities of the Irish plan as at 31 December 2020, measured using the projected unit credit method.

	2020			2019		
	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	10,245	1,378,749	1,388,994	8,224	1,227,419	1,235,643
Present value of defined benefit obligations	(15,889)	(1,054,837)	(1,070,726)	(13,286)	(981,397)	(994,683)
Net assets/(liabilities)	(5,644)	323,912	318,268	(5,062)	246,022	240,960

	2020			2019		
	Irish Scheme	HUKPS	Total Irish Scheme	HUKPS	Total	
	£000s	£000s	£000s	£000s	£000s	£000s
<i>Amounts recognised in profit and loss account</i>						
Interest cost	189	19,728	19,917	249	25,422	25,671
Expected return on pension plan assets	(133)	(25,370)	(25,503)	(154)	(32,890)	(33,044)
Finance (credit)/cost recognised	56	(5,642)	(5,586)	95	(7,468)	(7,373)
Current service cost	331	-	331	285	-	285
Past service cost (including curtailments)	-	84	84	-	-	-
Total administrative expenses recognised in profit and loss account	70	1,698	1,768	10	1,267	1,277
Exchange movement	387	-	387	(234)	-	(234)
Cost recognised in profit and loss account	844	(3,860)	(3,016)	156	(6,201)	(6,045)
Actual return on assets	475	152,977	153,452	1,075	146,689	147,764

Notes to the financial statements
for the financial year ended 31 December 2020

Remeasurements	2020			2019		
	Irish Scheme	HUKPS	Total	Irish Scheme	HUKPS	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Liability losses due to changes in assumptions	1,907	83,796	85,703	1,218	122,978	124,196
Liability losses/(gains) due to experience during the year	140	(15,869)	(15,729)	100	(2,165)	(2,065)
Asset gains arising during the financial year	(342)	(127,607)	(127,949)	(921)	(113,800)	(114,721)
Gains on transfer between companies	-	(5,912)	(5,912)	-	-	-
Total actuarial losses/(gain) recognised in OCI	1,705	(65,592)	(63,887)	397	7,013	7,410

	2020			2019		
	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	13,286	981,397	994,683	12,045	876,056	888,101
Current service cost	331	-	331	285	-	285
Transfer between companies*	-	19,254	19,254	-	-	-
Interest cost	189	19,728	19,917	249	25,422	25,671
Exchange movement	1,049	-	1,049	(606)	-	(606)
Past service cost and curtailments	-	84	84	-	-	-
Actuarial losses/(gains) on liabilities-financial assumptions	1,907	78,611	80,518	1,218	131,447	132,665
Actuarial gains on liabilities - demographic assumptions	-	5,185	5,185	-	(8,469)	(8,469)
Actuarial (gains)/losses on liabilities-experience	140	(15,869)	(15,729)	100	(2,165)	(2,065)
Contributions by participants	29	-	29	29	-	29
Net benefits paid out	(1,042)	(33,553)	(34,595)	(34)	(40,894)	(40,928)
At 31 December	15,889	1,054,837	1,070,726	13,286	981,397	994,683

* In 2020, Honeywell Normalair Garrett (Holdings) Limited settled a section 75 debt as per the Pensions Act 1995 and as a result is no longer a participating employer in the HUKPS. The membership in the pension scheme has been reallocated to other participating companies.

Notes to the financial statements*for the financial year ended 31 December 2020*

	2020			2019		
	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	8,224	1,227,419	1,235,643	7,293	1,122,891	1,130,184
Transfer between companies*	-	25,166	25,166	-	-	-
Expected return on assets	133	25,370	25,503	154	32,890	33,044
Actuarial gains on assets	342	127,607	127,949	921	113,800	114,721
Contributions by employer	1,967	8,438	10,405	243	-	243
Actual administration expenses paid	(70)	(1,698)	(1,768)	(10)	(1,268)	(1,278)
Exchange movement	662	-	662	(372)	-	(372)
Contributions by participants	29	-	29	29	-	29
Net benefits paid out	(1,042)	(33,553)	(34,595)	(34)	(40,894)	(40,928)
At 31 December	10,245	1,378,749	1,388,994	8,224	1,227,419	1,235,643

<i>Major categories of plan assets as a percentage of total plan assets</i>	2020		2019	
	Irish Scheme	HUKPS	Irish Scheme	HUKPS
	%	%	%	%
Equities (including venture capital and alternative investments)	46	28	49	32
Bonds	46	59	41	13
Property	2	12	3	3
Cash	6	1	7	52
<i>Total</i>	100	100	100	100

Notes to the financial statements
for the financial year ended 31 December 2020

	2020		2019	
	Irish Scheme	HUKPS	Irish Scheme	HUKPS
	%	%	%	%
<i>Main actuarial assumptions</i>				
Inflation (RPI)	1.5	2.7	1.2	2.9
Inflation (CPI)	-	2.2	-	1.9
Rate of general long term increases in salaries	3.0	n/a	2.5	n/a
<i>Rate of increase for pensions</i>	3.0	-	3.0	-
Pensions subject to limited price indexation to 5%	-	2.6	-	2.8
Pensions subject to limited price indexation to 2.5%	-	2.0	-	2.1
Other pensions and deferred pensions	1.5	2.2	1.2	1.9
Discount rate for scheme liabilities	1.1	1.4	1.4	2.0

*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 2020 at age 65 will live on average for a further 22.4 years (2019: 22.3 years) after retirement if male or a further 24.1 years (2019: 24.0 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 2020 at age 65 will live on average for a further 22.2 years (2019: 22.4 years) after retirement if male or a further 24.6 years (2019: 24.4 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.

28. Called-up share capital

	2020 £000s	2019 £000s
<i>Authorised and allotted, called up and fully paid</i>		
1 (2019: 1) ordinary shares of £1 at 1 January and 31 December	-	-

Notes to the financial statements*for the financial year ended 31 December 2020***29. Share premium account**

	2020 £000s	2019 £000s
<i>Balance at 1 January and 31 December</i>	14,537	14,537

30. Dividends paid

On 19 November 2020, the directors recommended and paid a dividend of £8,000,000 (equivalent to £8,000,000 per share) (2019: £nil).

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:

	2020 £000s	2019 £000s
Expense arising from equity-settled share-based payment transactions	1,246	1,306
Total expense arising from share-based payment transactions	1,246	1,306

There were no cancellations or modifications to the awards in 2020 or 2019.

	2020	2019
Weighted average fair values at the measurement date	£16.04	£16.56
Expected annual dividend yield	2.59%	2.65%
Expected volatility	18.76%	18.40%
Risk-free interest rate	1.32%	2.46%
Expected life of share options (years)	4.62	4.87
Weighted average share price	133.23	118.38

Notes to the financial statements*for the financial year ended 31 December 2020*

Model used	<i>Black-Scholes option-pricing</i>		<i>Black-Scholes option-pricing</i>	
<i>Share options during the year</i>	<i>2020</i>	<i>2020</i>	<i>2019</i>	<i>2019</i>
	<i>Number</i>	<i>Price £</i>	<i>Number</i>	<i>Price £</i>
Outstanding at 1 January	72,500	98.54	80,943	88.27
Granted during the year	24,801	138.41	26,515	119.73
Exercised during the year	(27,711) ¹	86.86	(19,842) ²	82.80
Transferred in	-	-	-	-
Transferred out	-	-	(15,116)	101.36
Forfeited	(7,947)	117.97	-	-
Outstanding at 31 December	61,643	117.33	72,500	98.54
Exercisable at 31 December	12,068	86.30	26,140	77.29

¹ The weighted average share price at the date of exercise of these options was £86.86.

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 2020 was 6.66 years (2019: 7.51 years).

The weighted average fair value of options granted during the year was £16.45 (2019: £16.27).

The range of exercise prices for options outstanding at the end of the year was £46.10 to £139.00 (2019: £46.10 to £137.14).

Notes to the financial statements*for the financial year ended 31 December 2020**Weighted average life and average exercise price by range*

Exercise price (range)	2020 Number outstanding	2020 Weighted average life in years	2020 Weighted exercise price £	2019 Number outstanding	2019 Weighted average life in years	2019 Weighted exercise price £
£46.10 - £56.37	2,615	2.83	52.95	6,980	3.91	53.81
£67.21	-	4.15	67.21	1,989	5.16	67.21
£73.89	2,222	5.15	73.89	9,424	6.15	73.89
£78.14	2,313	5.33	78.14	2,313	6.34	78.14
£100.43	5,582	6.16	100.43	12,788	7.16	100.43
£107.18	9,330	7.16	107.18	16,759	8.16	107.18
£116.48	12,906	8.15	116.48	18,080	9.16	116.48
£130.88	1,797	9.82	130.88	-	-	-
£137.14	4,167	8.63	137.14	4,167	9.63	137.14
£139.00	20,711	9.12	139.00	-	-	-
Total	61,643	6.66	117.33	72,500	7.51	98.54

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

	2020 number	2020 value £	2019 number	2019 value £
Outstanding at 1 January	27,140	104.72	31,882	88.08
Granted during the year	11,882	122.09	7,162	125.57
Dividend reinvested	2,223	85.26	-	-
Exercised during the year	(10,184) ¹	95.56	(8,731) ²	68.38
Transferred in	-	-	910	104.69
Transferred out	(439)	109.13	(4,083)	95.20
Forfeited	(1,922)	108.69	-	-
Outstanding at 31 December	28,700	112.45	27,140	103.80

Notes to the financial statements*for the financial year ended 31 December 2020*¹ The weighted average share price at the date of exercise of these options was £95.56.² 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 £1,320,000 (2019: £1,349,000).

After deferred tax the total charge was £1,246,000 (2019: £1,306,000).

32. Capital commitments

	2020	2019
	£000s	£000s
Commitments contracted for but not yet provided	-	12

At 31 December 2020, the company had commitments of £nil 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 £494,085,000 (2019: £560,423,000).

Positive cash balances held by the group exceeded overdrawn balances in 2020 and 2019.

Duty deferment guarantees amounting to £3,074,000 (2019: £3,071,000) have been given to the tax authorities. Performance guarantees amounting to £137,000 (2019: £131,000) 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

On 31 July 2021, the company acquired the trading business along with net assets relating to the supply, installation and service of electricity meters from Energy ICT Limited for £1,022,000 and from Energy ICT NV for €1,120,000.