# Novar Systems Limited

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

# Company Information

## Officers and professional advisors

**Directors**

David Kay
David Juggins

**Statutory Auditor**

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

**Bankers**

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

**Registered address**

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

# Strategic report

*for the financial year ended 31 December 2018*

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

## Principal activities

The principal activity of the company is the design, manufacture, installation and service of business systems for life safety within the fire sector.

## Review of the business and future developments

The profit for the financial year, after taxation, is £19,888,000 (2017: £19,631,000).

The company has had a good year with increased marketing opportunities arising from the introduction of more stringent fire safety regulations. The company continues to invest in customer growth as well as developing new product solutions to bring to market. The company continues to maximise operating profit, where feasible, with cost savings initiatives.

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

## Key performance indicators

Management monitors the business using the following key indicators:

| | 2018 | 2017 |
|---|---|---|
| | % | % |
| Turnover (% change on year) | 6.3 | 5.1 |
| Gross profit margin | 45.7 | 43.8 |
| Operating profit margin | 25.3 | 27.7 |

### Turnover

The growth in revenue has continued from prior years with the company experiencing growth in all geographical areas as well as areas of business. The main drivers for the increase in turnover are an increase in customer base as well as increase in products and services available to market.

### Gross profit margin

Gross profit was relatively static when compared to the prior year, with a slight increase in current year due to the mix of product and service sales compared to prior years. The company continues to focus on maintaining margins through stringent cost controls and manufacturing efficiencies.

### Operating profit margin

The company has continued with cost saving initiatives including streamlining operating activities. These cost savings were offset by the GMP equalisation in the defined benefit scheme and one-off costs resulting from restructuring.

# Strategic report

*for the financial year ended 31 December 2018*

**Financial risk management, objectives and policies**

*Foreign currency risk*

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

*Credit risk*

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

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

*Liquidity risk*

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

*Other risks*

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

**Strategy**

Novar Systems Limited generates sustainable growth by-developing a broad range of innovative, value-added fire detection and alarm systems which are mostly brought to the market through a network of trained and supported distributors. The company aims to be the supplier of choice for life and property protection equipment and installations.

**Principal risks and uncertainties**

The key business risks affecting the company include downturns in demand caused by lower levels of capital spending or lower customer demand due to the failure to anticipate and respond to overall trends related to end market demand.

Other potential disruptions include changes in the competitive landscape including new market entrants and technology adverse industry economic conditions including any adverse impact of Brexit, and raw material price fluctuations.

These events could result in lower market share reduced selling prices or lower margins in response to these risks the company strives to identify emerging technology trends In its target end—markets understand its customers' needs and enhance its range of products and systems by adding innovative and differentiating features and bringing them to market quickly and cost effective.

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

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

DocuSigned by:
David Kay
82EDF7230E3A435...
David Kay
Director
20-Dec-2019

# Directors' report

*for the financial year ended 31 December 2018*

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

**Business review and future developments**

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

**Results and dividends**

The company's profit for the financial year, after taxation was £19,888,000 (2017: £19,631,000) which will be transferred to reserves. The results for the financial year are shown on pages 9.

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

**Financial risk management**

Financial risk management of the company is included in the strategic report on page 1.

**Directors of the company**

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

Piyush Jutha (resigned 18 December 2019)
David Kay
David Juggins
John Tus (resigned on 24 September 2019)
Allan Richards (resigned on 26 October 2018)
Mehmet Erkilic (resigned on 31 January 2018)

**Directors' indemnities**

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

**Research and development**

Research and development expenditure for the financial year related mostly to the development of a new control panel for professional fire safety installations, and amounted to £874,000 (2017: £1,203,000).

**Employment of disabled persons**

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

**Employee involvement**

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

# Directors' report

*for the financial year ended 31 December 2018*

### Going concern

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

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

### Disclosure of information to auditors

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

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

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

### Events since the balance sheet date

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

### Independent auditors

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
82EDF7230E3A435...
David Kay
Director
20-Dec-2019

# Directors' responsibilities statement

*for the financial year ended 31 December 2018*

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

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

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

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

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

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

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

# Independent auditor's report

*to the members of Novar Systems Limited*

## Report on the audit of the financial statements

### Opinion

In our opinion the financial statements:

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

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

- the Profit and loss account;
- the Statement of comprehensive income;
- the Balance sheet;
- the Statement of changes in equity; and
- the related notes 1 to 25.

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

### Basis for opinion

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

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

### Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

# Independent auditor's report

*to the members of Novar Systems Limited*

**Other information**

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

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

We have nothing to report in respect of these matters.

**Responsibilities of directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

# Independent auditor's report

*to the members of Novar Systems Limited*

## 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.

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

# Profit and loss account

*for the financial year ended 31 December 2018*

| | Notes | 2018 £000s | 2017 £000s |
|---|---|---|---|
| Turnover | 5 | 77,924 | 73,276 |
| Cost of sales | | (42,328) | (41,155) |
| **Gross profit** | | **35,596** | **32,121** |
| Distribution expenses | | (4,398) | (4,159) |
| Administrative expenses | | (11,478) | (7,687) |
| **Operating profit** | 8 | **19,720** | **20,275** |
| Interest receivable and similar income | 11 | 3,484 | 2,006 |
| Interest payable and similar charges | 12 | (1,275) | (1,265) |
| **Profit before taxation** | | **21,929** | **21,016** |
| Tax on profit | 13 | (2,041) | (1,385) |
| **Profit for the financial year** | | **19,888** | **19,631** |

All amounts are derived from continuing operations.

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

The notes on pages 13 to 40 form an integral part of the financial statements.

# Statement of comprehensive income

*for the financial year ended 31 December 2018*

| | Notes | 2018 | 2017 |
|---|---|---|---|
| | | £000s | £000s |
| Profit for the financial year | | 19,888 | 19,631 |
| Other comprehensive income: | | | |
| *Items that cannot be reclassified to profit or loss* | | | |
| Actuarial gains on pension plan | 20 | 5,525 | 43,641 |
| Movement on deferred tax relating to pension scheme | 13 | (939) | (7,419) |
| **Other comprehensive income for the financial year net of tax** | | **4,586** | **36,222** |
| **Total comprehensive income for the financial year** | | **24,474** | **55,853** |

Novar Systems Limited
Registration number: 00264047

# Balance sheet
*as at 31 December 2018*

| | Notes | 2018 £000s | 2017 £000s |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 14 | 150 | 124 |
| | | **150** | **124** |
| **Current assets** | | | |
| Stocks | 15 | 1,353 | 1,180 |
| Debtors: amounts falling due within one year | 16 | 93,962 | 58,463 |
| Cash at bank and in hand | | 233 | 16,231 |
| | | **95,548** | **75,874** |
| **Creditors: amounts falling due within one year** | 17 | (35,816) | (27,126) |
| **Net current assets** | | **59,732** | **48,748** |
| **Total assets less current liabilities** | | **59,882** | **48,872** |
| Creditors: amounts falling due after more than one year | 18 | (16,868) | (16,868) |
| Provisions for liabilities | 19 | (20,184) | (16,966) |
| Pension asset | 20 | 119,393 | 102,496 |
| **Net assets** | | **142,223** | **117,534** |
| **Capital and reserves** | | | |
| Called-up share capital | 21 | 27 | 27 |
| Share premium account | 22 | 2,990 | 2,990 |
| Profit and loss account | | 139,206 | 114,517 |
| **Total shareholders' funds** | | **142,223** | **117,534** |

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

DocuSigned by:
David Kay
82EDF7230E3A435...
David Kay
Director

# Statement of changes in equity

*for the financial year ended 31 December 2018*

| | *Called-up share capital* | *Share premium account* | *Profit and loss account* | *Total* |
|---|---|---|---|---|
| | *£000s* | *£000s* | *£000s* | *£000s* |
| At 1 January 2017 | 27 | 2,990 | 58,218 | 61,235 |
| Profit for the financial year | - | - | 19,631 | 19,631 |
| Other comprehensive income | - | - | 36,222 | 36,222 |
| Movement in respect of share options (note 23) | - | - | 446 | 446 |
| **At 31 December 2017** | **27** | **2,990** | **114,517** | **117,534** |
| Profit for the financial year | - | - | 19,888 | 19,888 |
| Other comprehensive income | - | - | 4,586 | 4,586 |
| Movement in respect of share options (note 23) | - | - | 215 | 215 |
| **At 31 December 2018** | **27** | **2,990** | **139,206** | **142,223** |

# Notes to the financial statements

*for the financial year ended 31 December 2018*

## 1. General information

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

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

## 2. Significant accounting policies

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

*Basis of preparation*

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

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

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

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

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

# Notes to the financial statements

*for the financial year ended 31 December 2018*

*Going concern*

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

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

*Turnover and revenue recognition*

The company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from those under IFRS 15 and the impact of changes is disclosed in note 4.

Turnover comprises revenue from sales of products and services arising from contracts with customers and excludes amounts collected on behalf of third parties. The company measures revenue at the transaction price, excluding estimates of variable consideration, net of value added taxation. Any customer discounts or value rebates are deducted in determining the revenue to be recognised.

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

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

| Type of sale | Recognition |
|---|---|
| Sale of goods | When the products have been delivered in accordance with the terms of the contract with the customer. |
| Project installation | 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. |
| Service contracts | As and when performance obligations are satisfied using cost to cost measure of progress* |
| Royalty income | In the period that the use of the intellectual property occurs based on the underlying sales. The licence has been valued by and external third party. |

* also refer Construction contracts

Volume rebates

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

Warranty obligations

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

*Contract balances*

*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 to be invoiced to the customer.

*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). Trade receivables are recognised when an amount is invoiced to a customer in accordance with the milestones set out in the contract with the customer. 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, of the customer is invoiced, 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.

*Project installation contracts*

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 is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

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

Assets covered by a single contract are treated separately when:

- the 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 contracts or goods; or
- services promised are a single performance obligation

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

*Turnover and revenue recognition*

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

| Type of sale | Recognition |
|---|---|
| Product sales | On delivery and when acceptance by the customer has occurred |
| Royalty income | Royalty revenue in the period relates to the sale of the licence for use of internally generated intellectual property. The licence has been valued by and external third party. |
| Service contract | Percentage of completion basis over the life of the contract |

Construction contracts

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

*Interest receivable*

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

*Operating leases – as lessee*

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

# Notes to the financial statements

*for the financial year ended 31 December 2018*

*Research and development*

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

*Foreign currency translation*

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

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

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

*Taxation*

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

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement 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.

*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 | 13% |
| Buildings – short leasehold | 13% |
| Plant & machinery | 6-33% |
| Fixtures & fittings | 7-25% |

# Notes to the financial statements

*for the financial year ended 31 December 2018*

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.

*Impairment of non-financial assets*

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

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

*Financial instruments*

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

*Financial asset – recognition and measurement*

*Initial recognition and measurement*

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

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

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

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 amortized cost,
- those to be measured subsequently at fair value through other comprehensive income (FVTOCI)

*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.

# Notes to the financial statements

*for the financial year ended 31 December 2018*

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

*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 the following financial assets and credit risk exposure:

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

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

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

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

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

*Financial liabilities - recognition and measurement*

*Initial recognition and measurement*

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

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

# Notes to the financial statements

*for the financial year ended 31 December 2018*

The company's financial liabilities comprises of loans, trade creditors and borrowings including bank overdrafts.

*Subsequent measurement*

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of 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.

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

- *Financial assets - recognition and measurement*

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

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

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

Impairment of financial assets

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

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

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

*Stocks*

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

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

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

# Notes to the financial statements

*for the financial year ended 31 December 2018*

*Provisions*

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

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

*Pensions*

As described in note 20, the company participates in a defined benefit pension scheme for the benefit of certain of its employees, the assets of which are held separately from those of the company in independently administered funds. The rates of contribution are determined by independent professionally qualified actuaries.

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

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

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

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

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

*Share-based payments*

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

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

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

## 3. Judgements and key sources of estimation uncertainty

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

**Judgements**

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

**Estimates and assumptions**

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

(i) *Estimates used for revenue recognition*

*Project installations*

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 contract progress.

*(ii) Estimates used for provisions*

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

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

*Warranty provision*

Provisions for warranty costs are recognised when the product is sold to the customer. Initial recognition is based on historical experiences. To calculate the provision for warranty cost, management take all returns/credit in relation to the products for the last 12 months and considers the cost of sales for those credits for the warranty period. The estimate of warranty costs is revised annually. The carrying amount of the warranty provision as at 31 December 2018 was £342,000 (2017: £372,000).

(ii) *Estimates used for DB pension scheme*

The cost of defined benefit pensions plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the actuary considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Management works closely with the actuary to agree to these assumptions. 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 20.

## 4. New and amended standards and interpretations

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

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

*IFRS 15 Revenue from contracts with customers*

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

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

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

*IFRS 9 Financial Instruments*

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

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in the changes in accounting policies and adjustments to the amounts recognised in the financial statements. The company estimated its due contractual cash flows discounted at the original effective interest rate, with the respective risks of default on external debts. On application of such model (ECL), the company estimated that the amount of expected credit losses for the year as £110,000 (2017: £110,000) (note 16). In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

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

# Notes to the financial statements

*for the financial year ended 31 December 2018*

## 5. Turnover

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| *Analysis of turnover by geographical market* | | |
| United Kingdom | 57,109 | 53,996 |
| Europe | 13,377 | 12,386 |
| Other | 7,438 | 6,894 |
| *Total turnover* | 77,924 | 73,276 |

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| *Analysis of turnover by category* | | |
| Sale of goods | 54,426 | 51,595 |
| Project Installation | 2,705 | 2,855 |
| Royalty income | 3,651 | 3,412 |
| Rendering of services | 17,142 | 15,414 |
| *Total turnover by category* | 77,924 | 73,276 |

# Notes to the financial statements

*for the financial year ended 31 December 2018*

## 6. Construction contracts

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| Contract revenue recognised in the year (note 5) | 2,705 | 2,855 |
| Total cumulative contract costs incurred | 35,323 | 34,058 |
| Recognised profits less recognised losses | 9,684 | 8,244 |
| *Contract costs incurred and recognised profits (less recognised losses)* | 45,007 | 42,302 |
| Less: progress billings | (44,454) | (42,003) |
| *Amount due from customers* | 553 | 299 |
| Made up of: | | |
| Amounts due from customers included within contract assets | 556 | 405 |
| Amount due to customer included within contract liabilities | (3) | (106) |

Retention assets are included in trade debtors

## 7. Contract balances

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

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| Trade debtors (note 16) | 10,530 | 9,446 |
| Contract assets (note 16) | 1,304 | 962 |
| Contract liabilities (note 17) | (1,013) | (1,142) |

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

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| At 1 January | 110 | 72 |
| Allowance for impairment during the year | - | 38 |
| At 31 December | 110 | 110 |

## 8. Operating profit

| | *2018* | *2017* |
|---|---|---|
| | £000s | £000s |
| This is stated after charging/(crediting): | | |
| *Depreciation (refer note 14)* | | |
| Tangible assets – owned | 52 | 80 |
| Rental charges under operating leases | | |
| Land and buildings | 432 | 425 |
| Gain on disposal of fixed assets | - | (26) |
| Reorganisation and redundancy | 436 | 259 |
| Research and development | 874 | 1,203 |
| Loss/(gain) on foreign exchange | 128 | (1) |

## 9. Auditor's remuneration

Fees payable to the auditor, Deloitte LLP, amounted to £21,457 (2017: £19,600) for the audit of the financial statements. This cost was incurred by Honeywell Control Systems Limited, a fellow UK subsidiary of Honeywell International Inc., and it is not recharged to the company.

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

## 10. Employees and directors

*(a). Staff costs*

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| Wages and salaries | 10,381 | 11,774 |
| Social security costs | 1,139 | 1,485 |
| Contributions to defined contribution pension plans | 1,333 | 850 |
| Pension costs for defined benefit plans (note 20) | 2,069 | 710 |
| *Total staff costs* | 14,922 | 14,819 |

# Notes to the financial statements

*for the financial year ended 31 December 2018*

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

| | *2018* | *2017* |
|---|---|---|
| | *No.* | *No.* |
| Direct | 128 | 133 |
| Indirect | 134 | 141 |
| *Total monthly average number of employees* | 262 | 274 |

*(b). Directors' remuneration*

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| Aggregate emoluments | 156 | 344 |
| Pension costs – defined contribution | - | 4 |
| *Total payments to directors* | 156 | 348 |
| Highest paid director | | |
| Aggregate emoluments | 156 | 184 |
| Pension costs – defined contribution | - | 59 |
| *Total payments to highest paid director* | 156 | 243 |

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

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

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

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

## 11. Interest receivable and similar income

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| Interest receivable from group undertakings | 865 | 555 |
| Bank interest receivable | - | 2 |
| Pension interest (note 20) | 2,619 | 1,449 |
| *Total interest receivable and similar income* | 3,484 | 2,006 |

## 12. Interest payable and similar charges

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| Interest payable on bank overdraft | 10 | - |
| Preference share dividend | 1,265 | 1,265 |
| *Total interest payable and similar charges* | 1,275 | 1,265 |

## 13. Taxation

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

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| *Current tax:* | | |
| UK corporation tax on profit for financial year | - | - |
| *Total current tax* | - | - |
| *Deferred tax:* | | |
| Origination and reversal of temporary differences | 2,043 | 2,192 |
| Effect of change in tax laws and rates | - | (822) |
| Adjustment in respect of prior years | (2) | 15 |
| Total deferred tax | 2,041 | 1,385 |
| *Total tax expense reported in the profit and loss account* | 2,041 | 1,385 |

# Notes to the financial statements

*for the financial year ended 31 December 2018*

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

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| *Current tax:* | | |
| Tax on items relating to components of other comprehensive income | - | - |
| Total current tax | - | - |
| *Deferred tax:* | | |
| Remeasurements on defined benefit pension plans | 939 | 7,419 |
| Total deferred tax | 939 | 7,419 |
| *Total tax expense in the statement of comprehensive income* | 939 | 7,419 |

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

The tax expense in the profit and loss account for the financial year is lower to the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| **Profit before income tax** | 21,929 | 21,016 |
| Accounting profit multiplied by the effective rate of corporation tax in the UK of 19% (2017:19.25%) | 4,167 | 4,045 |
| Effects of: | | |
| Expenses not deductible for tax purposes and other permanent differences | 295 | 355 |
| Effect of change in tax laws and rates | - | (822) |
| Difference in current tax rate to deferred rate | (240) | (290) |
| Adjustment in respect of prior years | (2) | 15 |
| Group relief not paid for | (2,179) | (1,918) |
| *Total tax expense reported in the profit and loss account* | 2,041 | 1,385 |

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

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

# Notes to the financial statements

*for the financial year ended 31 December 2018*

*(e). Deferred tax*

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| *The deferred tax included in the balance sheet is as follows:* | | |
| Deferred tax asset | | |
| Differences between capital allowances and depreciation | 635 | 740 |
| Other short term timing differences | 87 | 90 |
| *Total deferred tax asset* | 722 | 830 |
| Deferred tax liability | | |
| Deferred tax provision on pension asset (note 20) | (20,296) | (17,424) |
| *Total deferred tax liability* | (20,296) | (17,424) |
| Net deferred tax liability | (19,574) | (16,594) |

There are no unprovided amounts relating to deferred tax.

| *Movements in deferred tax* | *Excluding pension* | *Pension* | *Total* |
|---|---|---|---|
| | £000s | £000s | £000s |
| At 1 January 2018 | 830 | (17,424) | (16,594) |
| Charge to profit and loss account | (108) | (1,933) | (2,041) |
| Charge to statement of comprehensive income | - | (939) | (939) |
| At 31 December 2018 | 722 | (20,296) | 19,574 |

# Notes to the financial statements

*for the financial year ended 31 December 2018*

## 14. Tangible assets

| | *Land and buildings* | *Plant and equipment* | *Fixtures and fittings* | *Construction in progress* | *Total* |
|---|---|---|---|---|---|
| | *£000s* | *£000s* | *£000s* | *£000s* | *£000s* |
| *Cost* | | | | | |
| At 1 January 2018 | 94 | 1,085 | 623 | 51 | 1,853 |
| Additions | - | - | - | 78 | 78 |
| Reclassification | - | 29 | - | (29) | - |
| At 31 December 2018 | 94 | 1,114 | 623 | 100 | 1,931 |
| *Accumulated depreciation* | | | | | |
| At 1 January 2018 | 76 | 1,054 | 599 | - | 1,729 |
| Provided during the financial year | 6 | 44 | 2 | - | 52 |
| At 31 December 2018 | 82 | 1,098 | 601 | - | 1,781 |
| *Net book value:* | | | | | |
| *At 31 December 2018* | 12 | 16 | 22 | 100 | 150 |
| *At 31 December 2017* | 18 | 31 | 24 | 51 | 124 |

*The above figures include:*

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| Short leasehold land and buildings, at net book value | 12 | 18 |

## 15. Stocks

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| Raw materials | 512 | 325 |
| Work in progress | 149 | 107 |
| Finished goods | 692 | 748 |
| *Total stocks* | 1,353 | 1,180 |
| The amount of inventories recognised as an expense during the period | 29,325 | 27,184 |
| The amount of inventories written down recognised as an expense in the period | (5) | 65 |

## 16. Debtors

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| *Amounts falling due within one year* | | |
| Trade debtors | 10,530 | 9,446 |
| Amounts owed by group undertakings | 81,904 | 48,055 |
| Contract assets | 1,304 | 962 |
| Prepayments | 224 | - |
| *Total amounts falling due within one year* | 93,962 | 58,643 |

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

| *Receivable* | *Currency* | *Interest terms* | *2018* £000s | *2017* £000s |
|---|---|---|---|---|
| On demand | GBP | UK Base Rate Plus 1% | 75,263 | 42,397 |

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

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

**31 December 2018**

| | Trade receivables | | | | |
|---|---|---|---|---|---|
| Days past due | <30 days | 30-60 days | 61-90 days | >91 days | Total |
| | £000s | £000s | £000s | £000s | £000s |
| Expected credit loss rate | 0.07% | 3.17% | 6.39% | 13.37% | |
| Estimated total gross carrying amount at default | 8,957 | 817 | 531 | 334 | 10,640 |
| Expected credit loss | 6 | 26 | 34 | 44 | 110 |

**31 December 2017**

| | Trade receivables | | | | |
|---|---|---|---|---|---|
| Days past due | <30 days | 30-60 days | 61-90 days | >91 days | Total |
| | £000s | £000s | £000s | £000s | £000s |
| Expected credit loss rate | 0.50% | 0.15% | 6.39% | 13.30% | |
| Estimated total gross carrying amount at default | 8,227 | 591 | 433 | 305 | 9,556 |
| Expected credit loss | 41 | 1 | 28 | 40 | 110 |

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

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

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| Trade creditors | 4,283 | 3,570 |
| Amounts owed to group undertakings | 7,750 | 1,143 |
| Taxation and social security | 1,982 | 1,658 |
| Accrued expenses | 1,664 | 1,754 |
| Accrued preference dividends | 19,124 | 17,859 |
| Contract liabilities | 1,013 | 1,142 |
| *Total amount owed to creditors* | 35,816 | 27,126 |

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

Accrued preference dividends represent an annual dividend of £1,265,000 since 2003 on 7.5% cumulative preference shares of £1 each.

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

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| 7.5% cumulative preference shares of £1 each | 16,868 | 16,868 |

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

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

## Notes to the financial statements

*for the financial year ended 31 December 2018*

# 19. Provisions for liabilities

| | *At 1 January 2018* | *Charge to P&L* | *Utilised* | *Charge to OCI* | *At 31 December 2018* |
|---|---|---|---|---|---|
| | *£000s* | *£000s* | *£000s* | *£000s* | *£000s* |
| Severance pay | - | 436 | (167) | - | 269 |
| Warranty | 372 | 371 | (401) | - | 342 |
| Deferred tax liability (note 13) | 16,594 | 2,041 | - | 939 | 19,574 |
| Total | 16,966 | 2,848 | (568) | 939 | 20,184 |

The company offers a limited warranty for product sales that generally provides customers with a three year warranty period against defects. The provision for warranty related costs represents management's best estimate of the expenditure required to settle the obligation. It is recorded at the time products are sold and is reviewed and adjusted by management periodically to reflect actual and anticipated experience. There were no long term warranty obligations as at 31 December 2018 and 2017.

The amount of severance provision is based on the best estimate of the cost of severance pay for notified individuals at the balance sheet date..

# 20. Pension commitments

The company is a participating employer in the Honeywell UK Pension Scheme (HUKPS) which is a funded defined benefit plan based on salary It is closed to new entrants and from June 2017 closed to future accruals and employee contributions. Regular employer contributions to the plan by the company in 2018 are estimated to be £11,304,000. Defined benefit obligations are based on a full valuation of the schemes liabilities as at 31 March 2018 measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2018.

| *Amounts recognised in the balance sheet* | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| Fair value of plan assets | 530,044 | 572,318 |
| Present value of defined benefit obligations | (410,651) | (469,822) |
| Net assets | 119,393 | 102,496 |

| *Amounts recognised in profit or loss* | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| Interest cost | 11,009 | 12,166 |
| Expected return on pension plan assets | (13,628) | (13,615) |
| *Finance credit recognised* | (2,619) | (1,449) |
| Current service cost | - | 711 |
| Past service cost (including curtailments) | 2,069 | - |
| Total administrative expenses recognised in P&L | 483 | 518 |
| Credit recognised in profit and loss | (67) | (220) |
| Actual return on assets | 36,980 | 58,563 |

# Notes to the financial statements

*for the financial year ended 31 December 2018*

| *Amounts recognised in the statement of comprehensive income (SOCI)* | *2018* *£000s* | *2017* *£000s* |
|---|---|---|
| Actuarial (gains)/losses on changes in financial assumptions | (38,501) | 7,961 |
| Actuarial gains due to experience | (17,632) | (6,654) |
| Asset losses/(gains) arising during the financial year | 50,608 | (44,948) |
| Total actuarial gain | (5,525) | (43,641) |

| Changes in present value of defined benefit obligation | | |
|---|---|---|
| At 1 January | 469,822 | 473,394 |
| Current service cost | - | 711 |
| Interest cost | 11,009 | 12,166 |
| Curtailments | 2,069 | - |
| Actuarial (gains)/(losses) on liabilities-financial assumption | (31,578) | 14,964 |
| Actuarial gains on liabilities - demographic assumptions | (6,923) | (7,003) |
| Actuarial gains on liabilities-experience | (17,632) | (6,654) |
| Contributions by participants | - | 16 |
| Net benefits paid out | (16,116) | (17,772) |
| At 31 December | 410,651 | 469,822 |

| *Changes in fair value of scheme assets* | *2018* *£000s* | *2017* *£000s* |
|---|---|---|
| At 1 January | 572,318 | 520,831 |
| Expected return on assets | 13,628 | 13,615 |
| Actuarial gains on assets | (50,608) | 44,948 |
| Contributions by employer | 11,304 | 11,198 |
| Actual administration expenses paid | (482) | (518) |
| Contributions by participants | - | 16 |
| Net benefits paid out | (16,116) | (17,772) |
| At 31 December | 530,044 | 572,318 |

# Notes to the financial statements

*for the financial year ended 31 December 2018*

| *Major categories of plan assets as a percentage of total plan assets* | *2018* | *2017* |
|---|---|---|
| | % | % |
| Equities | 32.0 | 60.0 |
| Bonds | 63.0 | 35.0 |
| Property | 4.0 | 1.0 |
| Cash | 1.0 | 4.0 |
| Total (%) | 100 | 100 |

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

*Mortality*

Mortality assumptions are based on standard mortality tables that allow for future mortality improvements. These tables assume that a member who retired in 2018 at age 65 will live on average for a further 21.6 years (2017: 22.5 years) after retirement if male or a further 23.5 years (2017: 24.3 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.

## 21. Share capital

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| *Authorised capital* | | |
| 4,984,600 ordinary shares of £1 each | 4,985 | 4,985 |
| 15,400 non-cumulative preference shares of £1 each | 15 | 15 |
| | 5,000 | 5,000 |
| *Allotted, called up and fully paid* | | |
| 11,540 (2017: 11,540) ordinary shares *of £1 each* | 12 | 12 |
| 15,400 (2017: 15,400) non-cumulative preference shares of £1 each | 15 | 15 |
| Total share capital | 27 | 27 |

## 22. Share premium account

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| *Balance at 1 January and 31 December* | | |
| Premium arising on issue of equity shares | 2,990 | 2,990 |

## 23. 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 and historical volatility of Honeywell stock. We used a Monte Carlo simulation model to derive an expected term, using historic data to estimate option activity and post-vest termination behaviour. The expected term represents an estimate of the time that options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the US Treasury yield curve in effect at the time of the grant.

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

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

| | 2018 | 2017 |
|---|---|---|
| | £000s | £000s |
| Expense arising from equity-settled share-based payment transactions | 215 | 446 |
| *Total expense arising from share-based payment transactions* | 215 | 446 |

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

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

| *Share options during the financial year* | 2018 Number | 2018 price £ | 2017 Number | 2017 price £ |
|---|---|---|---|---|
| Outstanding at 1 January | 29,738 | 81.66 | 28,911 | 66.21 |
| Granted during the financial year | 6,473 | 107.18 | 12,000 | 100.43 |
| Exercised during the financial year | (6,786)[2] | 70.55 | (11,173)[1] | 61.84 |
| Transferred in | - | - | - | - |
| Transferred out | - | - | - | - |
| Forfeited | (5,493) | - | - | - |
| Outstanding at 31 December | 23,932 | 89.44 | 29,738 | 81.66 |
| Exercisable at 31 December | - | - | - | - |

[1] The weighted average share price at the date of exercise of these options was £61.84.

[2] The weighted average share price at the date of exercise of these options was £70.55.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was 7.70 years (2017: 8.18 years).

The weighted average fair value of options granted during the financial year was £17.04 (2017: £13.38).

The range of exercise prices for options outstanding at the end of the financial year was £67.21 to £x107.18 (2017: £56.37 to £100.43).

# Notes to the financial statements

*for the financial year ended 31 December 2018*

| Exercise price (range) | *2018* *Number outstanding* | *2018* *Weighted average life in years* | *2018* *Weighted exercise price £* | *2017* *Number outstanding* | *2017* *Weighted average life in years* | *2017* *Weighted exercise price £* |
|---|---|---|---|---|---|---|
| £56.37-£67.21 | - | - | - | 2,720 | 6.16 | 56.37 |
| £67.21-£73.89 | 4,519 | 6.16 | 67.21 | 5,967 | 7.16 | 67.21 |
| £73.89-£100.43 | 5,900 | 7.15 | 73.89 | 9,051 | 8.15 | 73.89 |
| £100.43-£107.18 | 7,040 | 8.16 | 100.43 | 12,000 | 9.16 | 100.43 |
| £107.18 | 6,473 | 9.16 | 107.18 | - | - | - |
| Total | 23,932 | 7.70 | 88.27 | 29,738 | 7.66 | 74.48 |

*Restricted stock units*

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

*Restricted stock units outstanding during the financial year*

| | *2018* *Number* | *2018* *value £* | *2017* *Number* | *2017* *value £* |
|---|---|---|---|---|
| Outstanding at 1 January | 15,366 | 78.25 | 12,379 | 67.32 |
| Granted during the financial year | 5,222 | 108.84 | 4,720 | 98.95 |
| Exercised during the financial year | (4,444)[2] | 61.72 | (1,840)[1] | 56.37 |
| Expired during the financial year | - | - | - | - |
| Transferred in | - | - | 107 | 53.50 |
| Transferred out | - | - | - | - |
| Forfeited | (5,180) | 79.41 | - | - |
| Outstanding at 31 December | 10,964 | 98.98 | 15,366 | 78.25 |

[1] The weighted average share price at the date of exercise of these options was £56.37.

[2] The weighted average share price at the date of exercise of these options was £61.72.

## 24. Operating lease commitments

| | *2018* | *2017* |
|---|---|---|
| | *£000s* | *£000s* |
| At 31 December the future minimum rentals payable under non-cancellable operating leases are as follows: | | |
| *Land and buildings* | | |
| Not later than one year | 425 | 425 |
| After one year but not more than five years | 814 | 1,239 |
| *Total land and building operating lease commitments* | 1,239 | 1,664 |

The company has entered into commercial leases on certain properties. One lease has a duration of 3 years and the other two are for 20 years (3 years remain on the current lease). The two 20 year leases contain an option for renewal, with such options being exercisable three months before the expiry of the lease term at rentals based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases.

## 25. Contingent liabilities

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

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