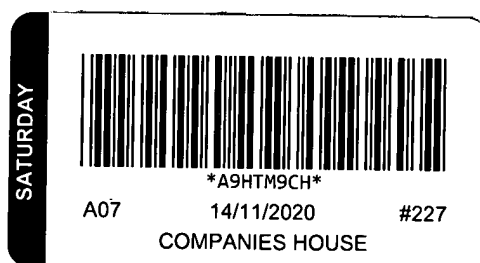


Novar Systems Limited

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



Company Information

Officers and professional advisors

Directors

David Kay
David Juggins
Stuart Morley

Auditor

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

Bankers

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

Registered address

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

Strategic report

for the financial year ended 31 December 2019

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

Principal activities

The 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 £25,665,000 (2018: restated profit of £18,543,000).

The company has continued with the expansion of its products business through increased marketing activities. This has resulted in the increase in revenue from the sale of goods. The company has however experienced a fall in the project and services revenue. The introduction of further fire regulations in 2017 contributed to the company securing large projects for the design and installation of fire prevention solutions to meet the new regulations. These projects were completed towards the end of 2018 with an increase in revenue for 2018. The demand brought about by the fire regulations has reduced as customers achieve compliance, resulting in a decrease in projects revenue for 2019. The company continues to maximise operating profit, where feasible, with cost savings initiatives which includes rationalising its headcount which has reduced from 262 for 2018 to 229 for 2019.

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

The directors intend that the company will continue to design, manufacture, install and service the business systems for life safety within the fire sector. Subsequent to year end the directors decided to outsource the company's assembly and shipping activities to other Honeywell entities based in UK and Romania. The transfer was approved in May 2020 and will be completed in January 2021. The cost of relocating these activities is expected to be £1,300,000. All other activities are expected to remain unchanged.

Key performance indicators

Management monitors the business using the following key indicators:

		<i>*Restated</i>
	2019	2018
	%	%
Turnover (change year on year)	2.6	6.3
Gross profit margin	45.4	44.0
Operating profit margin	28.5	23.6

Turnover

As noted, the company has experienced good growth in turnover from the sale of goods with a year on year increase of 10.4%. This is mainly attributable to increases in sales to customers where installation projects have completed in prior year. This was offset by the projects and services revenue with a 19% year on year decrease as disclosed above. The company continues actively market its offerings to further grow sales of goods and to improve revenue from projects and services.

Gross profit margin

The gross profit margin has remained relatively constant with prior year with the decrease being attributable to the change in the mix between product sales and project and services revenue. The company continues to focus on maintaining margins through stringent cost controls and manufacturing efficiencies.

* Cost of sales for 2018 have been restated as described in note 28.

Strategic report

for the financial year ended 31 December 2019

Operating profit margin

The improvement in the operating profit margin is due to the equalisation of the guaranteed minimum pension ("GMP") in the defined benefit scheme and one-off restructuring costs incurred in the prior year which were not repeated in the current year. The company reduced its headcount towards the end of the year and will benefit from the cost reductions in future years.

Strategy

The company is part of Honeywell group's Building Technologies (HBT) business. The company 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.

Financial risk management, objectives and policies

Interest risks

The company is exposed to interest rate risk arising out of amounts owed 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 risk

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

The company continues to monitor and manage the increased foreign currency risks with the assistance of Treasury Department of Honeywell International Inc.

Liquidity risk

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

Other risks

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

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

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

Principal risks and uncertainties

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

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

The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption, which is likely to affect the demand for Honeywell products globally. The extent to which the COVID-19 pandemic impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration, scope and severity of the pandemic; governmental, business and individual decisions and actions; the impact of the pandemic on economic activity; and the extent to which we or our business partners may be prevented from conducting normal business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities.

Strategic report

for the financial year ended 31 December 2019

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 operating in Honeywell building technologies business as a whole:

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

The company sells fire safety products and also installs and services fire safety solutions for entities outside the Honeywell group. As a result, the impact of the COVID-19 pandemic on the company is expected to be consistent with the impact on the Honeywell's building technology segment as described above. The company has also been implementing the cost cutting measures disclosed above.

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

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

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

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

When making decisions, each director ensures that they act in a way that they consider, in good faith, would most likely promote the company's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to:

Strategic report

for the financial year ended 31 December 2019

Section 172(1)	Overview of performance of statutory duties
(A) - The likely consequences of any decision in the long term	The directors understand the business and the evolving environment in which we operate. The strategy followed by the board, and decisions taken to implement it, is intended to strengthen our position in the market place over the longer term and support our aim of being the supplier of choice for life and property protection equipment and installations.
(B) - The interests of the company's employees	The directors recognise that the company's employees are an important part of our business and delivery of our ambitions. The success of our business depends on attracting, retaining and motivating high calibre employees. The directors factor the implications of decisions on employees, where relevant and feasible. Further information on employment of disabled persons and employee involvement can be found on page 5 and 6.
(C) - The need to foster the company's business relationships with suppliers, customers and others	<p>The directors recognise the importance of clear communication and proactive engagement with stakeholders. Comprehensive engagement enables informed decision making and is integral to the long-term success of the company. The directors factor the implications of decisions on stakeholders, where relevant and feasible.</p> <p>Engagement with suppliers is managed as a part of Honeywell global procurement organisation. For more information on Honeywell International's supplier code of business conduct please refer to www.honeywell.com/en-us/company/integrity-and-compliance.com</p>
(D) - The impact of the company's operations on the community and the environment	<p>The directors apply Honeywell International Inc's Sustainable Opportunity Policy which is based on the principle that by integrating health, safety and environmental considerations into all aspects of our business, Honeywell protects its people, communities and the environment; achieves sustainable growth and accelerated productivity; drives compliance with all applicable regulations; and develops technologies that expand the sustainable capacity of our world.</p> <p>This policy is deliberately and directly embedded into the group-wide operating system, a blueprint for continuous operational improvement. Endorsed annually by the Honeywell International Inc CEO and senior leadership, the policy is posted in every facility and communicated to all employees and contractors.</p>
(E) - The desirability of the company maintaining a reputation for high standards of business conduct	The directors apply Honeywell International Inc's Code of Business Conduct which is designed to provide guidance on the Group's standards of Integrity and Compliance. By doing so the directors help to ensure that high standards are maintained both within the business and the business relationships we maintain.
(F) - The need to act fairly as between members of the company	By weighing up all relevant factors, the directors consider which course of action best enables delivery of strategy through the long-term, taking into consideration the impact on stakeholders, for the time being the company only has one shareholder.

Principal Decisions

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

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

DocuSigned by:

 825DE7230E3A435...
 David Kay
 Director
 02-Nov-2020

Directors' report

for the financial year ended 31 December 2019

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

Business review and future developments

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

Results and dividends

The company's profit for the financial year, after taxation was £25,665,000 (2018: restated profit of £18,543,000) which will be transferred to reserves. The results for the financial year are shown on page 12.

The directors do not recommend the payment of a dividend (2018: £nil).

Financial risk management, objectives and policies

The details of the financial risk management of the company are included in the strategic report on page 2.

Directors of the company

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

David Kay
David Juggins
John Tus (resigned on 24 September 2019)
Piyush Jutha (resigned on 18 December 2019)
Stuart Morley (appointed on 31 December 2019)

Directors' indemnities

Pursuant to the company's articles of association, the directors were throughout the financial year ended 31 December 2019 and are at the date of this report entitled to a qualifying indemnity provision as defined in section 234 of the Companies Act 2006.

Research and development

Research and development expenditure for the financial year related mostly to an allocation of global costs for the development of new software and hardware products and amounted to £868,000 (2018: £874,000).

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 and stakeholder engagement

We recognise the importance of clear communication and proactive engagement with our stakeholders. Comprehensive engagement enables informed decision making and is integral to the long-term success of the company. In the disclosures below, and in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), we set out our stakeholder groups, as required by the Regulations and how we engage with them.

Directors' report

for the financial year ended 31 December 2019

Impact of group-wide policies and procedures on stakeholder engagement

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

Employee engagement

Directors of the company usually do not engage with employees directly, most of the engagement takes place through function specific HR services. However, when relevant, one-on-one director meetings are held with employees. Any employee escalations are managed by engineers' managers, field service leaders or project managers as required.

Although directors do not usually engage with employees directly, 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.

Supplier Engagement

Engagement with suppliers is managed as a part of Honeywell global procurement organisation. For more information on Honeywell International's supplier code of business conduct please refer to www.honeywell.com/en-us/company/integrity-and-compliance.com.

Customer engagement

Directors do not usually engage with customers directly. Most, if not all, engagement with, and feedback from, customers is managed by dedicated business development teams as set out in the section 172 statement on page 4.

Going concern

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

The ultimate parent company, Honeywell International Inc, has indicated that it will provide financial support to the company for at least one year from the date of signing these financial statements. While considering the ability of the ultimate parent company to provide financial support, the directors, have reviewed the operating results for 2019 and 6 months ended 30 June 2020, and financial performance of Honeywell International Inc, as well as representations and initiatives of Honeywell Executive Leadership. The directors have further relied on forward looking assessments provided by Honeywell International Inc under various possible COVID 19 scenarios and are satisfied that the ultimate parent company is in a position to provide the necessary financial support. As part of their consideration, the directors have acknowledged the cost control measures already taken across Honeywell International Inc and the group's cash, cash equivalents and short-term investments balance at 30 June 2020 of \$15.1 billion.

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

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

Directors' report

for the financial year ended 31 December 2019

Disclosure of information to auditor

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

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

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

Events since the balance sheet date

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

Further, the directors also decided to outsource the company's assembly and shipping activities to other Honeywell entities based in UK and Romania. The transfer was approved in May 2020 and will be completed in January 2021. The cost of relocating these activities is expected to be £1,300,000. All other activities are expected to remain unchanged.

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:

82EDF7230E3A435...
David Kay
Director
02-Nov-2020

Directors' responsibilities statement

for the financial year ended 31 December 2019

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

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

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

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

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

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

To assist them in discharging these responsibilities, the directors have engaged a number of third party providers including accounting firms who are engaged to prepare the company's financial statements, as well as Honeywell International Inc.'s own finance shared service centre 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 Western Europe. The directors have ensured that adequate processes are in place to maintain oversight and supervision over these various providers and processes and to ensure there is clear linkage with the company's activities.

Independent auditor's report

to the members of Novar Systems Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 29.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

Independent auditor's report

to the members of Novar Systems Limited

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

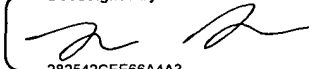
Independent auditor's report

to the members of Novar Systems Limited

Use of our report

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

DocuSigned by:



282542CEE66A4A3...
James Boyle CA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

03-Nov-2020

Profit and loss account

for the financial year ended 31 December 2019

		<i>*Restated</i>	
		2019	2018
	Notes	£000s	£000s
Turnover	5	79,919	77,924
Cost of sales		(43,667)	(43,673)
Gross profit		36,252	34,251
Distribution expenses		(5,065)	(4,398)
Administrative expenses		(8,424)	(11,478)
Operating profit	8	22,763	18,375
Interest receivable and similar income	11	4,765	3,484
Interest payable and similar charges	12	(1,281)	(1,275)
Profit before taxation		26,247	20,584
Tax on profit	13	(582)	(2,041)
Profit for the financial year		25,665	18,543

*The comparative figures for cost of sales, creditors: amounts falling due within one year and the cumulative profit and loss account have been restated as set out in note 28.

The notes on pages 16 to 45 form an integral part of the financial statements.

Statement of comprehensive income

for the financial year ended 31 December 2019

			*Restated
		2019	2018
	Notes	£000s	£000s
Profit for the financial year		25,665	18,543
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss</i>			
Actuarial gains on pension plan	22	873	5,525
Movement on deferred tax relating to pension scheme	13	(149)	(939)
Other comprehensive income for the year, net of tax		724	4,586
Total comprehensive income for the year, net of tax		26,389	23,129

Balance sheet

as at 31 December 2019

			*Restated
	Notes	2019 £000s	2018 £000s
Fixed assets			
Tangible assets	14	121	150
Right-of-use assets	15	807	-
		928	150
Current assets			
Stocks	16	1,232	1,353
Debtors: amounts falling due within one year	17	91,963	93,962
Cash at bank and in hand		25,921	233
		119,116	95,548
Creditors: amounts falling due within one year	18	(37,552)	(37,161)
Net current assets		81,564	58,387
Total assets less current liabilities (excluding pension asset)		82,492	58,537
Creditors: amounts falling due after more than one year	19	(17,220)	(16,868)
Provisions for liabilities	21	(20,610)	(20,184)
Pension asset	22	123,121	119,393
Net assets		167,783	140,878
Capital and reserves			
Called-up share capital	23	27	27
Share premium account	24	2,990	2,990
Profit and loss account		164,766	137,861
Total shareholder's funds		167,783	140,878

*The comparative figures for cost of sales, creditors: amounts falling due within one year and the cumulative profit and loss account have been restated as set out in note 28.

The financial statements on pages 12 to 45 were approved by the board of directors on 02-Nov-2020 and signed on its behalf by:

DocuSigned by:

82EDF7230E3A435...
David Kay
Director

Statement of changes in equity

for the financial year ended 31 December 2019

	<i>Called-up share capital</i>	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
At 1 January 2018	27	2,990	114,517	117,534
Restated profit for the financial year attributable to owners of the parent (note 28)	-	-	18,543	18,543
Other comprehensive income	-	-	4,586	4,586
Movement in respect of share options (note 25)	-	-	215	215
At 31 December 2018 (restated*)	27	2,990	137,861	140,878
Profit for the financial year	-	-	25,665	25,665
Other comprehensive income	-	-	724	724
Movement in respect of share options (note 25)	-	-	516	516
At 31 December 2019	27	2,990	164,766	167,783

*The comparative figures for cost of sales, creditors: amounts falling due within one year and the cumulative profit and loss account have been restated as set out in note 28.

Notes to the financial statements

for the financial year ended 31 December 2019

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 is Honeywell House, Skimped Hill Lane, Bracknell, Berks, 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, Honeywell, 300 South Tryon Street, Charlotte, North Carolina 28202, USA or from the Internet at www.honeywell.com.

2. Significant accounting policies

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

Basis of preparation

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

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

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

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

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment, paragraph 118(e) of IAS 38 Intangible Assets and paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52 of IFRS 16 Leases; and
- the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Notes to the financial statements

for the financial year ended 31 December 2019

Going concern

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

The ultimate parent company, Honeywell International Inc. has indicated that it will provide financial support to the company for at least one year from the date of signing these financial statements. While considering the ability of the ultimate parent company to provide financial support, the directors, have reviewed the operating results for 2019 and 6 months ended 30 June 2020, and financial performance of Honeywell International Inc. as well as representations and initiatives of Honeywell Executive Leadership. The directors have further relied on forward looking assessments provided by Honeywell International Inc under various possible COVID 19 scenarios and are satisfied that the ultimate parent company is in a position to provide the necessary financial support. As part of their consideration, the directors have acknowledged the cost control measures already taken across Honeywell International Inc and the group's cash, cash equivalents and short-term investments balance at 30 June 2020 of \$15.1 billion.

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

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

Turnover and revenue recognition

Turnover comprises revenue from sales to customers and service revenues net of value added tax.

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

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

<u>Type of sale</u>	<u>Recognition</u>
Product and service sales	On delivery and when acceptance by the customer has occurred
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 a performance obligation is 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.

Notes to the financial statements

for the financial year ended 31 December 2019

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; or
- 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 the delivery of the combined item the customer contracts for and hence considers the contracted services under such contracts as a single performance obligation.

Assets covered by a single contract are treated separately when:

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

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

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

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.

Notes to the financial statements

for the financial year ended 31 December 2019

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.

Interest receivable

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

Leases – as lessee

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

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

Lease liability – Initial measurement

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

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

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

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.

Notes to the financial statements

for the financial year ended 31 December 2019

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;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

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

Operating leases – accounting policies applied until 31 December 2018

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

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.

Notes to the financial statements

for the financial year ended 31 December 2019

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%
Plant and machinery	6-33%
Fixtures and fittings	7-25%

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

Financial instruments

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

Financial asset – recognition and measurement

Initial recognition and measurement

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

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

Classification of financial assets

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

Notes to the financial statements

for the financial year ended 31 December 2019

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

- those measured at amortised 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.

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

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

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

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

Notes to the financial statements

for the financial year ended 31 December 2019

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, at amortised cost, net of directly attributable transaction costs.

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

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

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

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.

Notes to the financial statements

for the financial year ended 31 December 2019

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

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

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

Provisions

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

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

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

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

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

Judgements

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

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.

Notes to the financial statements

for the financial year ended 31 December 2019

(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 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.

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 2019 was £334,000 (2018: £342,000).

(iii) 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 22.

(iv) Impairment of financial assets

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

Notes to the financial statements

for the financial year ended 31 December 2019

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

IFRS 16 Leases

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

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

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

On transition to IFRS 16, the company recognised £1,214,000 of right-of-use assets and lease liabilities. This resulted in an additional depreciation charge on right-of-use assets and interest expense on the lease liability instead of rental expense which was being charged to the profit and loss account (refer note 27).

The company also applied the available practical expedients wherein it:

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

5. Turnover

	2019	2018
	£000s	£000s
<i>Analysis of turnover by geographical market</i>		
United Kingdom	56,397	57,109
Rest of Europe	14,459	13,377
Other	9,063	7,438
<i>Total turnover by geographical market</i>	<u>79,919</u>	<u>77,924</u>

Notes to the financial statements

for the financial year ended 31 December 2019

	2019	2018
	£000s	£000s
<i>Analysis of turnover by category</i>		
Sale of goods	60,087	54,426
Project Installation	794	2,705
Royalty income	3,697	3,651
Rendering of services	15,341	17,142
<i>Total turnover by category</i>	<u>79,919</u>	<u>77,924</u>
<i>Timing of revenue recognition</i>		
Point of time	60,087	54,426
Over time	19,832	23,498
<i>Total revenue from contracts with customers</i>	<u>79,919</u>	<u>77,924</u>

6. Construction contracts

	2019	2018
	£000s	£000s
Contract revenue recognised in period (note 5)	794	2,705
Contract costs incurred	35,908	35,323
Recognised profits less recognised losses	9,893	9,684
<i>Contract costs incurred and recognised profits (less recognised losses)</i>	<u>45,801</u>	<u>45,007</u>
Less: progress billings	(45,429)	(44,454)
<i>Amount due from customers</i>	<u>372</u>	<u>553</u>
Amounts due from customers included within contract assets	405	556
Amount due to customers included within contract liabilities	(33)	(3)

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.

Notes to the financial statements

for the financial year ended 31 December 2019

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:

	2019	2018
	£000s	£000s
Revenue from contracts with customers (note 5)	79,919	77,924
Impairment losses on receivables or contract assets arising from contracts with customers	117	-
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,013	1,142

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

	2019	2018
	£000s	£000s
Trade receivables (note 17)	9,582	10,530
Contract assets (note 17)	1,058	1,304
Contract liabilities (note 18)	(963)	(1,013)

8. Operating profit

	2019	2018
	£000s	£000s
This is stated after charging:		
<i>Depreciation</i>		
Tangible assets – owned (note 14)	29	52
Right-of-use assets (note 15)	407	-
<i>Lease rental charges</i>		
Under operating leases	-	432
Reorganisation and redundancy	404	436
Research and development	868	874
Loss on foreign exchange	365	128

Notes to the financial statements

for the financial year ended 31 December 2019

9. Auditor's remuneration

Fees payable to the auditor, Deloitte LLP, amounted to £20,300 (2018: £21,500) 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 (2018: nil).

10. Employees and directors

(a). Staff costs

	2019	2018
	£000s	£000s
Wages and salaries	10,455	10,381
Social security costs	1,196	1,139
Contributions to defined contribution pension plans	1,248	1,333
Pension costs for defined benefit plans (note 22)	-	2,069
Total staff costs	12,899	14,922

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

(including executive directors)

	2019	2018
	No.	No.
Direct	100	128
Indirect	129	134
Total monthly average number of employees	229	262

(b). Directors' remuneration

	2019	2018
	£000s	£000s
Aggregate emoluments	174	335
Pension costs - defined contribution	29	-
Total payments to directors	203	335
Highest paid director		
Aggregate emoluments	90	156
Accrued pension at financial year end	8	8
Total payments to highest paid director	98	164

Notes to the financial statements

for the financial year ended 31 December 2019

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

	2019	2018
	No.	No.
Number of directors who:		
Were members of defined benefit plans	1	1

In 2019, one director (2018: three directors) did not undertake any relevant services to the entity and were remunerated by other group companies for their services to the group as a whole.

11. Interest receivable and similar income

	2019	2018
	£000s	£000s
Interest receivable from group undertakings	1,327	865
Pension interest (note 22)	3,438	2,619
<i>Total interest receivable and similar income</i>	<i>4,765</i>	<i>3,484</i>

12. Interest payable and similar charges

	2019	2018
	£000s	£000s
Interest payable on bank overdraft	1	10
Interest expense on lease liability	15	-
Preference share dividend	1,265	1,265
<i>Total interest expense and similar expenses</i>	<i>1,281</i>	<i>1,275</i>

Notes to the financial statements

for the financial year ended 31 December 2019

13. Taxation

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

	2019	*Restated 2018
	£000s	£000s
<i>Current tax:</i>		
Adjustments in respect of prior years	44	-
<i>Total current tax</i>	44	-
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	564	2,043
Adjustment in respect of prior years	(26)	(2)
<i>Total deferred tax</i>	538	2,041
<i>Total tax expense in the profit and loss account</i>	582	2,041

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

	2019	2018
	£000s	£000s
<i>Deferred tax:</i>		
Remeasurements on defined benefit pension plans	149	939
<i>Total deferred tax</i>	149	939
<i>Total tax expense in the statement of comprehensive income</i>	149	939

Notes to the financial statements

for the financial year ended 31 December 2019

(c). Reconciliation of the total tax charge

The tax expense in the profit and loss account for the financial year is lower than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019	*Restated 2018
	£000s	£000s
Profit before income tax	26,247	20,584
Profit multiplied by the effective rate of corporation tax in the UK of 19% (2018: 19%)	4,987	3,911
Effects of:		
Expenses not deductible for tax purposes and other permanent differences	251	295
Income not taxable for tax purposes	(70)	-
Difference in current tax rate to deferred rate	(66)	(240)
Adjustment in respect of prior years	18	(2)
Group relief not paid for	(4,538)	(1,923)
Total tax expense reported in the profit and loss account	582	2,041

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

The standard rate of UK corporation tax reduced from 20% to 19% on 1 April 2017. The Finance (No.2) Act 2017 received Royal Assent on 16 November 2017 which decided to reduce the rate further to 17% from 1 April 2020. However, as per the budget announced on 11 March 2020, it was decided to maintain the UK corporation tax rate at 19%.

e). Deferred tax

	2019	2018
	£000s	£000s
The deferred tax included in the balance sheet is as follows:		
Deferred tax asset		
Differences between capital allowances and depreciation	569	635
Other short term timing differences	101	88
Total deferred tax asset	670	723
Deferred tax liability		
Deferred tax provision on pension asset (note 22)	(20,930)	(20,296)
Total deferred tax liability	(20,930)	(20,296)
Net deferred tax liability	(20,260)	(19,573)

Notes to the financial statements

for the financial year ended 31 December 2019

	Excluding pension	Pension	Total
	£000s	£000s	£000s
<i>Movements in deferred tax</i>			
At 1 January 2019	723	(20,296)	(19,573)
Charge to the profit and loss account	(53)	(485)	(538)
Charge to statement of comprehensive income	-	(149)	(149)
At 31 December 2019	670	(20,930)	(20,260)

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

The deferred tax liability has been calculated at 17%, since this was the enacted rate at the balance sheet date expected to be in place when the deferred tax liability reverses. In his Budget on 11 March 2020, the Chancellor indicated that the rate reduction of 2% would be removed and therefore the deferred tax is likely to unwind in future when the corporation tax rate is 19%. Had the deferred tax been calculated at 19%, then the tax charge in the income statement would have been £602,000 and the deferred tax liability £22,645,000.

There are no unprovided amounts relating to deferred tax.

14. Tangible assets

	Land and buildings	Plant and machinery	Fixtures and fittings	Construction in progress	Total
	£000s	£000s	£000s	£000s	£000s
<i>Cost</i>					
At 1 January 2019	94	1,114	623	100	1,931
Transfer	-	37	-	(37)	-
At 31 December 2019	94	1,151	623	63	1,931
<i>Accumulated depreciation</i>					
At 1 January 2019	82	1,098	601	-	1,781
Provided during the financial year	6	21	2	-	29
At 31 December 2019	88	1,119	603	-	1,810
<i>Net book value:</i>					
At 31 December 2019	6	32	20	63	121
At 31 December 2018	12	16	22	100	150

Notes to the financial statements

for the financial year ended 31 December 2019

The above figures include:

	2019	2018
	£000s	£000s
Short leasehold land and buildings, at net book value	8	12

15. Right-of-use assets

	Land and buildings
	£000s
<i>Cost</i>	
At 1 January 2019	-
Transition to IFRS 16 (refer note 27)	1,214
At 31 December 2019	1,214
<i>Accumulated depreciation</i>	
At 1 January 2019	-
Provided during the financial year	407
At 31 December 2019	407
<i>Net book value:</i>	
At 31 December 2019	807
At 31 December 2018	-

The right of use asset is in respect of the company's warehouse and distribution centre based in Leicester as disclosed in note 20.

16. Stocks

	2019	2018
	£000s	£000s
Raw materials	393	512
Work in progress	104	149
Finished goods	735	692
<i>Total stocks</i>	1,232	1,353

Notes to the financial statements

for the financial year ended 31 December 2019

	2019	2018
	£000s	£000s
The amount of inventories recognised as an expense during the year	33,622	29,325
The amount inventories written down recognised as an expense in the year	53	(5)

17. Debtors: amounts falling due within one year

	2019	2018
	£000s	£000s
<i>Amounts falling due within one year</i>		
Trade receivables	9,582	10,530
Amounts owed by group undertakings	81,058	81,904
Contract assets	1,058	1,304
Prepayments	90	224
R&D tax recoverable	162	-
Other debtors	13	-
<i>Total amounts falling due within one year</i>	91,963	93,962

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

<i>Receivable</i>	<i>Currency</i>	<i>Interest terms</i>	2019	2018
			£000s	£000s
On demand	GBP	UK Base Rate Plus 1%	76,589	75,263

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

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

Notes to the financial statements

for the financial year ended 31 December 2019

Trade receivables

	2019				2018		
	Gross carrying amount at risk of default	Expected credit loss rate	Expected credit loss		Gross carrying amount at risk of default	Expected credit loss rate	Expected credit loss
	£000s	%	£000s		£000s	%	£000s
Amounts due:							
Not due	7,602	0.29	23		-	-	-
within 30 days	483	0.52	3		8,957	0.07	6
30 – 60 days	603	2.36	14		817	3.17	26
61 – 90 days	326	5.00	16		531	6.39	34
After 90 days	796	21.61	172		335	13.17	44
Total	9,810		228		10,640		110

18. Creditors: amounts falling due within one year

	<i>*Restated</i>	
	2019	2018
	£000s	£000s
Trade creditors	3,303	4,283
Amounts owed to group undertakings	9,258	7,750
Taxation and social security	1,899	1,982
Accrued expenses	1,403	3,009
Accrued preference dividends	20,389	19,124
Contract liabilities	963	1,013
Lease liability (note 20)	310	-
Other creditors	27	-
<i>Total amount owed to creditors</i>	<i>37,552</i>	<i>37,161</i>

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.

* The comparative figures for accrued expenses has been restated as set out in note 28.

Notes to the financial statements

for the financial year ended 31 December 2019

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

	2019	2018
	£000s	£000s
7.5% cumulative preference shares of £1 each	16,868	16,868
Lease liability (note 20)	352	-
Total amount owed to creditors	17,220	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.

20. Lease liabilities

	2019	2018
	£000s	£000s
Non-current (note 19)	352	-
Current (note 18)	310	-
Total	662	-

The non-cancellable lease payments are due

	2019	2018
	£000s	£000s
Within 1 year	310	-
Between 1 and 5 years	352	-
Total	662	-

The company has a commercial lease over its right of use asset described in note 15. The lease has a total term of 10 years and expires in November 2021. There are no restrictions placed upon the lessee by entering into these leases.

Notes to the financial statements

for the financial year ended 31 December 2019

21. Provisions for liabilities

	Severance Pay	Warranty	Deferred tax liability (note 13)	Total
	£000s	£000s	£000s	£000s
At 1 January 2019	269	342	19,573	20,184
Charge to profit and loss account	404	335	538	1,277
Charge to statement of comprehensive income	-	-	149	149
Utilised	(657)	(343)	-	(1,000)
At 31 December 2019	16	334	20,260	20,610

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 2019 and 2018.

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.

22. Pension commitments

Honeywell UK Pension Scheme (HUKPS)

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

	2019	2018
<i>Amounts recognised in the balance sheet</i>	£000s	£000s
Fair value of plan assets	591,457	530,044
Present value of defined benefit obligations	(468,336)	(410,651)
Net assets	123,121	119,393

Notes to the financial statements

for the financial year ended 31 December 2019

	2019	2018
<i>Amounts recognised in profit or loss</i>	<i>£000s</i>	<i>£000s</i>
Interest cost	11,703	11,009
Expected return on pension plan assets	(15,141)	(13,628)
<i>Finance credit recognised</i>	<i>(3,438)</i>	<i>(2,619)</i>
Past service cost (including curtailments)	-	2,069
Total administrative expenses recognised in P&L	583	482
Credit recognised in profit and loss	(2,855)	(68)
Actual return on assets	80,887	36,980

	2019	2018
<i>Remeasurements</i>	<i>£000s</i>	<i>£000s</i>
Liability losses/(gains) due to changes in assumptions	56,615	(38,501)
Liability losses/(gains) due to experience during the year	8,258	(17,632)
Asset (gains)/losses arising during the financial year	(65,746)	50,608
Total actuarial gain recognised in OCI	(873)	(5,525)

	2019	2018
<i>Changes in present value of defined benefit obligation</i>	<i>£000s</i>	<i>£000s</i>
At 1 January	410,651	469,822
Interest cost	11,703	11,009
Curtailments	-	2,069
Actuarial losses/(gains) on liabilities-financial assumption	60,513	(31,578)
Actuarial gains on liabilities - demographic assumptions	(3,898)	(6,923)
Actuarial losses/(gains) on liabilities-experience	8,258	(17,632)
Net benefits paid out	(18,891)	(16,116)
At 31 December	468,336	410,651

Notes to the financial statements

for the financial year ended 31 December 2019

	2019	2018
<i>Changes in fair value of scheme assets</i>	£000s	£000s
At 1 January	530,044	572,318
Expected return on assets	15,141	13,628
Actuarial losses/(gains) on assets	65,746	(50,608)
Contributions by employer	-	11,304
Actual administration expenses paid	(583)	(482)
Net benefits paid out	(18,891)	(16,116)
At 31 December	591,457	530,044

	2019	2018
<i>Major categories of plan assets as a percentage of total plan assets</i>	%	%
Equities (including venture cap and alternative investments)	32.0	32.0
Bonds	13.0	63.0
Property	3.0	4.0
Cash	52.0	1.0
Total	100	100

<i>Main actuarial assumptions</i>	2019	2018
	%	%
Inflation (RPI)	2.9	3.2
Inflation (CPI)	1.9	2.1
Rate of general long term increases in salaries	n/a	n/a
<i>Rate of increase for pensions</i>		
Pensions subject to limited price indexation to 5%	2.8	3.1
Pensions subject to limited price indexation to 2.5%	2.1	2.2
Other pensions and deferred pensions	1.9	2.1
Discount rate for scheme liabilities	2.0	2.9

Mortality

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

Notes to the financial statements

for the financial year ended 31 December 2019

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.

23. Called-up share capital

	2019	2018
	£000s	£000s
<i>Authorised capital</i>		
4,984,600 (2018: 4,984,600) ordinary shares of £1 each	4,985	4,985
15,400 (2018: 15,400) non-cumulative preference shares of £1 each	15	15
	<hr/> 5,000	<hr/> 5,000
<i>Allotted, called up and fully paid</i>		
11,540 (2018: 11,540) ordinary shares of £1 each at 1 January and 31 December	12	12
15,400 (2018: 15,400) non-cumulative preference shares of £1 each at 1 January and 31 December	15	15
Total called-up share capital	<hr/> 27	<hr/> 27

24. Share premium account

	2019	2018
	£000s	£000s
<i>Balance at 1 January and 31 December</i>		
Premium arising on issue of equity shares	2,990	2,990

25. 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.

Notes to the financial statements

for the financial year ended 31 December 2019

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

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

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

	2019 £000s	2018 £000s
Expense arising from equity-settled share-based payment transactions	516	215
<i>Total expense arising from share-based payment transactions</i>	<i>516</i>	<i>215</i>

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

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

Model used	Black-Scholes option-pricing	Black-Scholes option-pricing
------------	------------------------------	------------------------------

Share options during the year

	2019 Number	2019 Price £	2018 Number	2018 Price £
Outstanding at 1 January	23,932	89.44	29,738	81.66
Granted during the year	-	-	6,473	107.18
Exercised during the year	(16,481) ¹	84.71	(6,786) ²	70.55
Transferred in	-	-	-	-
Transferred out	-	-	-	-
Forfeited	(7,451)	99.90	(5,493)	-
Outstanding at 31 December	-	-	23,932	89.44
Exercisable at 31 December	-	-	-	-

¹ The weighted average share price at the date of exercise of these options was £84.71.

Notes to the financial statements

for the financial year ended 31 December 2019

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

There are no share options outstanding as at 31 December 2019. At 31 December 2018, the weighted average remaining contractual life for the share options was 7.70 years.

The weighted average fair value of options granted during the year was £16.43 (2018: £17.04).

There are no share options outstanding as at 31 December 2019. At 31 December 2018, the range of exercise prices for options outstanding was £67.21 to £107.18.

Weighted average life and average exercise price by range

Exercise price (range)	2019 Number outstanding	2019 Weighted average life in years	2019 Weighted exercise price £	2018 Number outstanding	2018 Weighted average life in years	2018 Weighted exercise price £
£56.37-£67.21	-	-	-	-	-	-
£67.21-£73.89	-	-	-	4,519	6.16	67.21
£73.89-£100.43	-	-	-	5,900	7.15	73.89
£100.43-£107.18	-	-	-	7,040	8.16	100.43
£107.18	-	-	-	6,473	9.16	107.18
Total	-	-	-	23,932	7.70	88.27

Restricted stock units

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

Restricted stock units outstanding during the year

	2019 Number	2019 value £	2018 Number	2018 value £
Outstanding at 1 January	10,964	98.98	15,366	78.25
Granted during the year	258	130.33	5,222	108.84
Exercised during the year	(2,022) ¹	74.28	(4,444) ²	61.72
Transferred in	-	-	-	-
Transferred out	-	-	-	-
Forfeited	(8,130)	104.11	(5,180)	79.41
Outstanding at 31 December	1,070	114.24	10,964	98.98

¹ The weighted average share price at the date of exercise of these options was £74.28.

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

The charge for the year relating to share based payment plans was £314,000 (2018: £183,000).

The total charge, before deferred tax was £516,000 (2018: £215,000).

Notes to the financial statements

for the financial year ended 31 December 2019

26. Contingent liabilities

The company, with other Honeywell group companies in the UK, has provided a bank guarantee under a composite accounting agreement. Under this agreement, bank interest is calculated on the net group position after setting off positive and overdrawn cash balances. The maximum contingent liability under this agreement is the total of overdrawn balances held by group companies, amounting to £560,423,000 (2018: £423,389,000).

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

27. Change in accounting policies

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

IFRS 16 Leases

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

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

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

On transition to IFRS 16, the company recognised £1,214,000 of right-of-use assets and lease liabilities. This resulted in an additional depreciation charge on right-of-use assets and interest expense on the lease liability instead of rental expense which was being charged to the profit and loss account.

Impact on financial statements

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

	As reported	Adjustments	Balances without IFRS 16
	£000s	£000s	£000s
Right-of-use assets	1,214	1,214	-
Total assets	1,214	1,214	-
Lease liabilities	1,214	1,214	-
Total liabilities	1,214	1,214	-

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

	As reported	Adjustments	Balances without IFRS 16
	£000s	£000s	£000s
Right-of-use assets	807	807	-
Total assets	807	807	-
Lease liabilities	662	662	-
Total liabilities	662	662	-

Notes to the financial statements

for the financial year ended 31 December 2019

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

	As reported	Adjustments	Balances without IFRS 16
	£000s	£000s	£000s
Rent expense	-	(443)	443
Depreciation on ROU assets	407	407	-
Interest payable on lease liabilities	15	15	-
Profit before tax	(26,247)	(21)	(26,268)
Income tax expense	582	-	582
Profit for the year	(25,665)	(21)	(25,686)

28. Prior year re-statement

During the current year, it was identified that a true up of 2018 shared manufacturing costs charged by a related Honeywell entity of £1,345,000 had not been accrued and recognised in cost of sales for the year ended 31 December 2018.

Accordingly, cost of sales and accrued expenses for 2018 have been restated to include this recharge. As a result, the profit before tax has decreased by £1,345,000 with a corresponding increase in accrued expenses.

Impact on equity

	31 December 2018
	£000s
Current liabilities	
Creditors: amounts falling due within one year	1,345
Capital and reserves	
Profit and loss account	1,345
Net impact on equity	1,345

	31 December 2018
	£000s
Cost of sales	1,345
Net impact on profit for the financial year attributable to owners of the parent	1,345

29. Events after balance sheet date

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

Further, the directors also decided to outsource the company's assembly and shipping activities to other Honeywell entities based in UK and Romania. The transfer was approved in May 2020 and will be completed in January 2021. The cost of relocating these activities is expected to be £1,300,000. All other activities are expected to remain unchanged.