



# **The Hymatic Engineering Company Ltd**

## **Report and Financial Statements 2016**



# Strategic report

for the financial year ended 31 December 2016

The directors present their strategic report for the financial year ended 31 December 2016.

## Review of the business and future developments

The loss for the financial year, after taxation, is £372,000 (2015: £2,679,000). During the year, there has been a significant reduction in administrative expenses of £1,325,000 and in interest payable of £77,000 as compared to 2015 due to reduction of pension costs and finance charges on cash pool arrangements respectively. The results for the year are in line with the directors' expectations and aligns to the business strategic plan. Continued investment in research and development activities have began to realise new product releases and anticipated revenue growth in 2017. This new product pipeline is in place to support multiple new platforms in defence and space, together with significant adjacent opportunities, supported by internal investment. The site capabilities continue to be developed in order to meet future demand via strategic recruitment and continued training and are aligned to our 5 year growth plan.

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

## Key performance indicators

Management monitors the business using the following key indicators:

	2016	2015
Turnover % change compared with previous year, due to:		
Volume	18.8	(9.9)
Gross profit %	18.2	7.1
Operating result % of turnover	(2.5)	(32.0)
Headcount % change compared with previous year	1.2	1.3

## Turnover

Turnover has increased by 18.8%. The main driver for this is an increase in new products due to organic growth relating to existing platforms.

## Gross profit

The increase is mainly as a result of the increase in volume in 2016 and due to a change in the mix of products, with a number of platforms re-launched. The business also enjoyed an increase in productivity.

## Operating result

Operating result % for the financial year is 2.5% which has significantly improved as compared to 2015. This has been impacted by the reduction in administrative expenses on account of reduction in pension costs. This was accompanied by an improvement in gross profit, despite the company continuing to be loss making.

## Headcount

The increase in headcount is as a result of the business re-aligning skills in order to prepare for the growth and development of new products.

## Strategic report

for the financial year ended 31 December 2016

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### Strategy

The company maintains market share and sustainable growth through the following strategies:

- focus on customers, including customer survey programmes to obtain and action customer feedback to improve business performance
- providing the highest standard of product, service and delivery to its customer at a competitive cost
- productivity and process improvement
- product development
- continued expansion into current and new markets
- proactive alignment of its business structure to meet changing market demands
- defending and extending the installed base through productivity improvements
- strong brand recognition through brand and channel management

### Principal risks and uncertainties

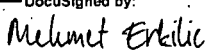
The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks affecting the company are:

- changes in spending and capital investment patterns
- fluctuation in customer demand
- adverse economic conditions
- raw material price fluctuations
- obsolescence arising from a shift in technology
- changes in legislation or government regulations or policies
- cost of employee retirement benefits
- health and safety of employees and contractors

In response to the risks the company:

- ensures continued recognition of brand and quality to maintain market position
- maintains a high technology offering while widening its product base and expanding into new areas
- implements supply chain and procurement initiatives
- actively investigates new technologies and market trends
- monitors applicable regulations to ensure products and systems provide high quality solutions for
- ensures that pension schemes are adequately funded
- ensures that all reasonable steps are taken to provide a safe working environment

Approved by the board of directors and signed on 12 July 2017 on its behalf by:

DocuSigned by:  
  
E4289610934540B...  
Mehmet Erkilic  
Director

## Directors' report

*for the financial year ended 31 December 2016*

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The directors present their report and financial statements for the company for the financial year ended 31 December 2016.

### Principal activities

The principal activity of the company is that of design, manufacture and overhaul of components and systems for the aerospace, defence, industrial and telecommunications markets worldwide.

### 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 loss for the financial year, after taxation was £372,000 (2015: £2,679,000) which will be deducted from reserves. The results for the financial year are shown on page 8.

The directors do not recommend the payment of a dividend (2015: £nil).

### Financial risk management

#### *Credit risk*

Credit risk arises from cash at bank and credit exposures to customers. Bank balances are maintained within the permitted credit limits set by the group's Investment Committee who frequently monitor banks' credit ratings. The creditworthiness of customers granted credit terms in the normal course of business are monitored continually.

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

#### *Liquidity risk*

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

#### *Other risks*

The company's exposure to other risks such as price risk, interest rate risk and cash flow risk is within reasonable limits and these exposures are not hedged. There are no further material risks in which the company believe external hedging is required at present.

### 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:

Anthony Hutchings (appointed on 22 February 2017)

Mehmet Erkilic (appointed on 12 December 2016)

Kevin Mogg

Martin Stringer (resigned on 5 May 2017)

Johnathan Parker (resigned on 22 February 2017)

### Directors' indemnities

Pursuant of the company's articles of association, the directors were throughout the financial year ended 31 December 2016 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 ended amounted to £231,000 (2015: £407,000).

## Directors' report

*for the financial year ended 31 December 2016*

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### Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the directors' 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 two separate Big Four accounting firms who are engaged to prepare the company's financial statements and tax returns respectively, as well as Honeywell International Inc.'s own finance shared service centre based in Bengaluru, India. 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 EMEA Region Finance Leader. 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.

### Going concern

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

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

### Disclosure of information to auditors

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

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

## Directors' report

*for the financial year ended 31 December 2016*

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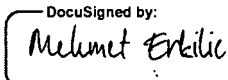
### Events since the balance sheet date

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

### Independent auditors

Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the board of directors and signed on 12 July 2017 on its behalf by:

DocuSigned by:  
  
E4289610934540B...  
Mehmet Erkilic  
Director

## Independent auditor's report

*to the members of The Hymatic Engineering Company Ltd*

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE HYMATIC ENGINEERING COMPANY LTD**

We have audited the financial statements of The Hymatic Engineering Company Ltd for the financial year ended 31 December 2016 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 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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.

#### **Respective responsibilities of directors and auditor**

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the financial year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion 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 and the Directors' Report.

## Independent auditor's report

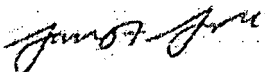
*to the members of The Hymatic Engineering Company Ltd*

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### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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;
- the financial statements are not in agreement with the accounting records and returns;
- 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.



James Boyle CA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Edinburgh, United Kingdom  
17 July 2017



**Profit and loss account***for the financial year ended 31 December 2016*

		2016	Restated*
		2015	
	Notes	£000s	£000s
Turnover	5	8,001	6,734
Cost of sales		(6,545)	(6,258)
<b>Gross profit</b>		<b>1,456</b>	<b>476</b>
Distribution costs		(328)	(275)
Administrative expenses		(1,325)	(2,301)
<b>Operating loss</b>	<b>7</b>	<b>(197)</b>	<b>(2,100)</b>
Interest receivable and similar income	10	134	88
Interest payable and similar expenses	11	(77)	(611)
<b>Loss on ordinary activities before taxation</b>		<b>(140)</b>	<b>(2,623)</b>
Tax on loss on ordinary activities	12	(232)	(56)
<b>Loss for the financial year attributable to owners of the parent</b>		<b>(372)</b>	<b>(2,679)</b>

All amounts are derived from continuing operations.

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

\* Prior year values have been re-stated to correctly present the unwinding of the discount of £234,000 on dilapidation provisions. In the prior year, this was disclosed within administrative expenses but this should be disclosed within interest payable.

**Statement of comprehensive income***for the financial year ended 31 December 2016*

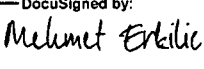
		2016	2015
	Notes	£000s	£000s
Loss for the financial year attributable to owners of the parent		(372)	(2,679)
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss</i>			
Actuarial (losses)/gains on pension plan	18	(1,447)	257
Movement on deferred tax relating to pension assets	12	275	(51)
<b>Other comprehensive income for the financial year net of tax</b>		<b>(1,172)</b>	<b>206</b>
<b>Total comprehensive income for the financial year attributable to owners of the parent</b>		<b>(1,544)</b>	<b>(2,473)</b>

**Balance sheet**

at 31 December 2016

	Notes	2016 £000s	2015 £000s
<b>Fixed assets</b>			
Tangible assets	13	853	762
		<b>853</b>	<b>762</b>
<b>Current assets and liabilities</b>			
Stocks	14	1,030	928
Debtors: amounts falling due within one year	15	3,435	2,171
Cash at bank and in hand		-	1,771
		<b>4,465</b>	<b>4,870</b>
Creditors: amounts falling due within one year	16	(2,590)	(1,240)
<b>Net current assets</b>		<b>1,875</b>	<b>3,630</b>
<b>Total assets less current liabilities (excluding pension asset)</b>		<b>2,728</b>	<b>4,392</b>
Provisions for liabilities	17	(1,324)	(1,206)
Pension asset	18	2,735	2,497
<b>Net assets including pension asset</b>		<b>4,139</b>	<b>5,683</b>
<b>Capital and reserves</b>			
Share capital	19	283	283
Share premium account	20	132	132
Capital reserve	21	35,000	35,000
Profit and loss account		(31,276)	(29,732)
<b>Total shareholders' funds attributable to owners of the parent</b>		<b>4,139</b>	<b>5,683</b>

The financial statements on pages 8 to 30 were approved by the board of directors on 12 July 2017 and signed on its behalf by:

DocuSigned by:  
  
 E4289610934540B...  
 Mehmet Erkilic  
 Director

**Statement of changes in equity***at 31 December 2016*

	<i>Share capital</i>	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Capital reserve</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
At 1 January 2015	283	132	(27,259)	-	(26,844)
Loss for the financial year attributable to owners of the parent	-	-	(2,679)	-	(2,679)
Capital contribution received	-	-	-	35,000	35,000
Other comprehensive income	-	-	206	-	206
<b>At 31 December 2015</b>	<b>283</b>	<b>132</b>	<b>(29,732)</b>	<b>35,000</b>	<b>5,683</b>
Loss for the financial year attributable to owners of the parent	-	-	(372)	-	(372)
Other comprehensive income	-	-	(1,172)	-	(1,172)
<b>At 31 December 2016</b>	<b>283</b>	<b>132</b>	<b>(31,276)</b>	<b>35,000</b>	<b>4,139</b>

# Notes to the financial statements

at 31 December 2016

## 1. General information

The Hymatic Engineering Company Ltd is a limited company which is incorporated and domiciled in England. The nature of the company's operations and its principal activities are set out in the directors' report on page 3. The registered address of the company is Honeywell House, Skimped Hill Lane, Bracknell, Berkshire, RG12 1EB, United Kingdom.

The financial statements contain information about the company as an individual company and do not contain consolidated financial information as parent of a group. The immediate parent undertaking is Hymatic Aerospace Ltd, a company incorporated in England.

The company has taken advantage of the exemption under section 401 of the Companies Act 2006 not to prepare group accounts as company's results are included in the consolidated financial statements of Honeywell International Inc., a company registered in the USA, which is the smallest and largest group to consolidate these financial statements. The financial statements of Honeywell International Inc. are publicly available and can be obtained from Corporate Publications, PO Box 2245, Morristown, New Jersey 07962-2245, USA or from the Internet at [www.honeywell.com](http://www.honeywell.com).

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

## 2. Accounting policies

### *Basis of preparation*

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 in accordance with 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 accounting policies which follow set out those policies which apply in preparing the financial statements for the financial year ended 31 December 2016.

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 and paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

## Notes to the financial statements

at 31 December 2016

### *Going concern*

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

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

### *Turnover and revenue recognition*

Turnover comprises revenue from customers, being sales of goods and service revenues net of value added tax.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

#### Type of sale

#### Recognition

Product and service sales

- on delivery and when acceptance by the customer has occurred

Equipment contracts

- evenly over the period of the contract and the difference is reported in accrued or deferred income

Where, for a particular contract, turnover exceeds amounts invoiced on account, the excess is included in debtors as amounts recoverable on contracts. Where amounts invoiced exceed turnover, the excess is included in payments on account.

### *Construction contracts*

The company recognises contract revenue by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction contract can be estimated reliably.

The outcome of a construction contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

**Contract revenue** — Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

**Contract costs** — Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design and technical assistance that is directly related to the contract.

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 percentage of completion method is applied to the separately identifiable components of a

## Notes to the financial statements

at 31 December 2016

single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Assets covered by a single contract are treated separately when:

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

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

- the group of contracts is negotiated as a single package; the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin
- the contracts are performed concurrently or in a continuous sequence

### *Operating leases – as lessee*

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

### *Operating leases – as lessor*

Operating lease income is recognised on a straight line basis with any rental increases recognised during the period of lease.

### *Research and development*

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

### *Foreign currency translation*

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### *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.

## Notes to the financial statements

at 31 December 2016

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

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

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

### *Tangible assets and depreciation*

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

Plant & machinery	10% - 30%
Fixtures & fittings	20%

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

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

### *Impairment of non-financial assets*

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

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

### *Financial assets - recognition and measurement*

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.



## Notes to the financial statements

at 31 December 2016

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### *Impairment of financial assets*

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

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

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

### *Derecognition of financial assets*

Financial assets are derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) 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.

### *Financial liabilities*

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

Thereafter, the company's trade creditors and amounts owed to group undertakings are carried at amortised cost.

### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

### *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.

### *Amounts recoverable on contracts*

Debtors include amounts recoverable on contracts, representing work in progress on long term contracts not included in stocks. Amounts recoverable on contracts are stated at cost incurred net of amounts transferred to cost of sales, after deducting foreseeable losses and payments on account not matched to turnover.

### *Provisions*

The company recognises a provision when it has a present obligation, either legal or constructive, which can be reliably measured and it is probable that the transfer of economic benefits will be required to settle that obligation. Provisions are based on the best estimate of expenditure required to settle the obligation. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as an interest expense in the profit and loss account.

## Notes to the financial statements

at 31 December 2016

### *Pensions*

As described in note 18, the company participates in a defined benefit pension scheme for the benefit of certain of its employees, the assets of which are held separately from those of the company in independently administered funds. The rates of contribution are determined by independent professionally qualified actuaries.

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

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

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

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

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

### 3. Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the financial year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements and estimates have a significant effect on amounts recognised in the financial statements:

#### *Construction contracts*

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.

#### *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.

#### *Estimates used for DB pension scheme*

The cost of defined benefit pensions plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In

## Notes to the financial statements

at 31 December 2016

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. Further details are given in note 18.

### 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 2016. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual financial statements of the company. The nature and the impact of each new standard or amendment is described below:

#### *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

#### *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1
- that specific line items in the profit and loss account, statement of comprehensive income and the balance sheet may be disaggregated
- that entities have flexibility as to the order in which they present the notes to financial statement

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the balance sheet, the profit and loss account and the statement of comprehensive income. These amendments do not have any impact on the company.

#### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

**Notes to the financial statements***at 31 December 2016***5. Turnover**

	2016	2015
	£000s	£000s
<i>Analysis of turnover by geographical market</i>		
United Kingdom	3,583	3,493
Europe	1,995	1,147
North America	2,046	1,783
Other	377	311
<i>Total turnover</i>	8,001	6,734

	2016	2015
	£000s	£000s
<i>Analysis of turnover by category</i>		
Sale of goods	7,701	6,105
Rendering of services	300	629
<i>Total turnover by category</i>	8,001	6,734

**6. Construction contracts**

	2016	2015
	£000s	£000s
Contract revenue recognised in period	1,196	1,008
Contract costs incurred	1,993	1,979
Recognised profits less recognised losses	1,119	366
<i>Contract costs incurred and recognised profits (less recognised losses)</i>	3,112	2,345
Less: progress billings	(2,160)	(1,643)
Amounts due from customers	952	702
Amounts due from customers included within trade debtors	961	738
<i>Amount due to customer included within trade creditors</i>	(9)	(36)

## Notes to the financial statements

at 31 December 2016

### 7. Operating loss

	2016	2015
	£000s	£000s
This is stated after charging/(crediting):		
Depreciation		
Tangible assets – owned	162	172
Rental charges under operating leases		
Land and buildings	530	530
Plant and machinery	16	12
Operating lease income	-	(46)
Loss on foreign exchange	125	39
Research and development	231	407

### 8. Auditor's remuneration

Fees paid to the auditor, Deloitte LLP, have not been disclosed in the stand-alone entity as the total UK audit fee is agreed on an aggregate basis and is incurred and disclosed in Honeywell Control Systems UK Ltd, a fellow UK subsidiary of Honeywell International Inc.

### 9. Employees and directors

#### (a) Staff costs

	2016	2015
	£000s	£000s
Wages and salaries	2,674	2,572
Social security costs	248	217
Contributions to defined contribution pension plans	56	53
Pension costs for defined benefit plans (note 18)	393	425
<b>Total staff costs</b>	<b>3,371</b>	<b>3,267</b>

	2016	2015
	£000s	£000s
Outstanding contributions for defined contribution plans at the end of the financial year:		

## Notes to the financial statements

at 31 December 2016

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

(including executive directors)

	2016	2015
	No.	No.
Factory and engineering	77	76
Selling, servicing and marketing	1	1
General and administration	4	4
<i>Total monthly average number of employees</i>	<u>82</u>	<u>81</u>

(b). Directors' remuneration

	2016	2015
	£000s	£000s
Aggregate emoluments	115	111
Pension costs – defined contribution	12	6
<i>Total payments to directors</i>	<u>127</u>	<u>117</u>

During the year the highest paid director did not (2015: did not) exercise options over shares of Honeywell International Inc., the ultimate parent company.

	2016	2015
	No.	No.
Number of directors who:		
Were members of defined contribution plans	1	1
Exercised options over shares of Honeywell International Inc., the ultimate parent	-	-

In 2016, two directors (2015: two directors) were remunerated by other group companies for their services to the group as a whole. No charge has been made to the company as in the opinion of the directors it is not possible to determine with reasonable accuracy the split by the company.

### 10. Interest receivable and similar income

	2016	2015
	£000s	£000s
Other finance income (note 18)	134	88
<i>Total interest receivable and similar income</i>	<u>134</u>	<u>88</u>

## Notes to the financial statements

at 31 December 2016

### 11. Interest payable and similar expenses

	2016	Restated*
	2015	
	£000s	£000s
Interest payable on bank overdrafts	10	376
Unwinding of discount on provisions	67	235
<b>Total interest payable and similar expenses</b>	<b>77</b>	<b>611</b>

\* Prior year values have been re-stated to correctly present the unwinding of the discount of £234,000 on dilapidation provisions. In the prior year, this was disclosed within administrative expenses but this should be disclosed within interest payable.

### 12. Taxation

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

	2016	2015
	£000s	£000s
<b>Current income tax:</b>		
UK corporation tax on profit for financial year	-	-
<b>Total current income tax</b>	<b>-</b>	<b>-</b>

#### Deferred tax:

Origination and reversal of temporary differences	245	56
Effect of change in tax laws and rates	(13)	-
<b>Total deferred tax expense</b>	<b>232</b>	<b>56</b>
<b>Total tax expense reported in the profit and loss account</b>	<b>232</b>	<b>56</b>

## Notes to the financial statements

at 31 December 2016

### (b). Tax relating to items (credited)/ charged to the statement of comprehensive income

	2016	2015
	£000s	£000s
<i>Current tax:</i>		
Tax on items relating to components of other comprehensive income		
<i>Deferred tax:</i>		
Remeasurements on defined benefit pension plans	(275)	51
<i>Total deferred tax (credit)/ expense</i>	<u>(275)</u>	<u>51</u>
<i>Total tax (credit)/expense in the statement of comprehensive income</i>	<u>(275)</u>	<u>51</u>

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

The tax expense in the profit and loss account for the financial year is higher/lower to the standard rate of corporation tax in the UK of 20% (2015: 20%). The differences are reconciled below:

	2016	2015
	£000s	£000s
Loss before tax	(140)	(2,623)
Effective tax at 20% (2015: 20.25%)	20	20.25
Loss on ordinary activities multiplied by the effective rate	<u>(28)</u>	<u>(532)</u>
<i>Effects of:</i>		
Difference in current tax rate to deferred tax rate	(13)	-
Effect of change in tax laws and rates	(14)	-
Timing differences related to pensions	-	(1)
Group relief not paid for	287	589
<i>Total tax expense reported in the profit and loss account</i>	<u>232</u>	<u>56</u>

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

The standard rate of UK corporation tax reduced from 21% to 20% on 1 April 2015. The 2016 Finance Act received Royal Assent on 15 September 2016 which will reduce the rate further to 19% from 1 April 2017, and to 17% from 1 April 2020. These reductions will reduce the company's future tax charge accordingly.



**Notes to the financial statements***at 31 December 2016**(e). Deferred tax*

	2016	2015
	£000s	£000s
<i>The deferred tax included in the balance sheet is as follows:</i>		
Differences between capital allowances and depreciation	89	60
Other short term timing differences	195	160
Deferred tax asset	284	220
Deferred tax liability on pension asset (note 17)	(520)	(499)
Net deferred tax provision	(236)	(279)

*Movement in deferred tax*

	<i>Excluding pension</i>	<i>Pension</i>	<i>Total</i>
	£000s	£000s	£000s
At 1 January 2016	220	(499)	(279)
Credit/(charged) to profit and loss account	63	(295)	(232)
Credited to statement of comprehensive income	-	275	275
At 31 December 2016	283	(519)	(236)

There are no unprovided amounts relating to deferred tax.

**Notes to the financial statements***at 31 December 2016***13. Tangible assets**

	<i>Plant and equipment</i>	<i>Fixtures and fittings</i>	<i>Construction in progress</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
<i>Cost</i>				
At 1 January 2016	4,599	1,521	-	6,120
Additions	133	-	120	253
At 31 December 2016	4,732	1,521	120	6,373
<i>Accumulated depreciation</i>				
At 1 January 2016	3,837	1,521	-	5,358
Provided during the financial year	162	-	-	162
At 31 December 2016	3,999	1,521	-	5,520
<i>Net book value:</i>				
At 31 December 2016	733	-	120	853
At 31 December 2015	762	-	-	762

**14. Stocks**

	<i>2016</i>	<i>2015</i>
	<i>£000s</i>	<i>£000s</i>
Raw materials	495	513
Work in progress	371	380
Finished goods	164	35
<i>Total stocks</i>	1,030	928
The amount of inventories recognised as an expense during the period	2,283	2,494
The amount of inventories written down recognised as an expense in the period	-	-

**Notes to the financial statements***at 31 December 2016***15. Debtors**

	2016	2015
	£000s	£000s
<i>Amounts falling due within one year</i>		
Trade debtors	3,049	1,818
Amounts recoverable on contracts	96	73
Amounts owed by group undertakings	100	77
Prepayments and accrued income	190	203
<i>Total amount owed by debtors</i>	<u>3,435</u>	<u>2,171</u>

**16. Creditors: amounts falling due within one year**

	2016	2015
	£000s	£000s
Bank overdraft	769	-
Payments received on account	178	1
Trade creditors	1,443	1,061
Amounts owed to group undertakings	100	71
Other creditors	2	64
Accruals and deferred income	98	43
<i>Total amount owed to creditors</i>	<u>2,590</u>	<u>1,240</u>

**17. Provisions for liabilities**

	<i>At 1 January 2016</i>	<i>Charge/(credit) to P&amp;L</i>	<i>Credit to OCI</i>	<i>At 31 December 2016</i>
	£000s	£000s	£000s	£000s
Property	730	232	-	962
Warranty	25	-	-	25
Contract	172	(71)	-	101
Deferred tax liability (note 12)	279	232	(275)	236
<b>Total</b>	<u>1,206</u>	<u>393</u>	<u>(275)</u>	<u>1,324</u>

The property provision covers the anticipated dilapidation costs of returning certain properties to their original condition at the end of the lease in 2023.

## Notes to the financial statements

at 31 December 2016

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

The contract provision relates to future losses on long term contracts based on the estimated completion costs.

### 18. Pension commitments

#### Defined benefit plans

##### Honeywell UK Pension Scheme (HUKPS)

The company is a participating employer in the Honeywell UK Pension Scheme (HUKPS) which is a funded defined benefit pension plan based on salary. It is closed to new entrants. Regular employer contributions to the plan by the company in 2017 are estimated to be £1,069,000. Defined benefit obligations are based on a full valuation of the schemes liabilities as at 31 December 2016, measured using the projected unit credit method.

	2016	2015
<i>Amounts recognised in the balance sheet</i>	<i>£000s</i>	<i>£000s</i>
Fair value of plan assets	33,910	28,184
Present value of defined benefit obligations	(31,175)	(25,687)
Net assets	2,735	2,497

	2016	2015
<i>Amounts recognised in profit or loss</i>	<i>£000s</i>	<i>£000s</i>
Interest cost	996	942
Expected return on pension plan assets	(1,130)	(1,030)
Finance credit recognised	(134)	(88)
Current service cost	393	425
Past service cost (including curtailments)	(876)	-
Administrative expenses	24	31
(Credit)/ charge recognised in profit and loss	(593)	368
Actual return on assets	5,680	417

**Notes to the financial statements***at 31 December 2016*

<i>Amounts recognised in the statement of comprehensive income (SOC)</i>	<i>2016</i>	<i>2015</i>
	<i>£000s</i>	<i>£000s</i>
Actuarial losses/(gains) on changes in financial assumptions	6,179	(689)
Actuarial gains on changes in demographic assumptions	(494)	-
Actuarial losses/(gains) due to experience	312	(181)
Asset (gains)/losses arising during the financial year	(4,550)	613
<b>Total actuarial loss/(gain)</b>	<b>1,447</b>	<b>(257)</b>

<i>Changes in present value of defined benefit obligation</i>	<i>2016</i>	<i>2015</i>
	<i>£000s</i>	<i>£000s</i>
At 1 January	25,687	26,192
Current service cost	393	425
Interest cost	996	942
Curtailments	(876)	-
Actuarial losses/ (gains) on liabilities-financial assumption	6,179	(689)
Actuarial gains on liabilities - demographic assumptions	(494)	-
Actuarial gains on liabilities-experience	312	(181)
Contributions by participants	10	10
Net benefits paid out	(1,032)	(1,012)
<b>At 31 December</b>	<b>31,175</b>	<b>25,687</b>

<i>Changes in fair value of scheme assets</i>	<i>2016</i>	<i>2015</i>
	<i>£000s</i>	<i>£000s</i>
At 1 January	28,184	27,726
Expected return on assets	1,130	1,030
Actuarial gains/(losses) on assets	4,550	(613)
Contributions by employer	1,092	1,074
Actual administration expenses paid	(24)	(31)
Contributions by participants	10	10
Net benefits paid out	(1,032)	(1,012)
<b>At 31 December</b>	<b>33,910</b>	<b>28,184</b>

## Notes to the financial statements

at 31 December 2016

	2016	2015
<i>Major categories of plan assets as a percentage of total plan assets</i>	%	%
Equities	57.0	57.0
Bonds	38.0	37.0
Property	4.0	5.0
Cash	1.0	1.0
Total	100.0	100.0

	2016	2015
<i>Main actuarial assumptions</i>	%	%
Inflation (RPI)	3.2	3.1
Inflation (CPI)	2.1	2.0
Rate of general long term increases in salaries	2.6	2.5
<i>Rate of increase for pensions</i>		
Pensions subject to limited price indexation to 5%	3.1	3.0
Pensions subject to limited price indexation to 2.5%	2.2	2.1
Other pensions and deferred pensions	2.1	2.0
Discount rate for scheme liabilities	2.7	3.8

### Mortality

Mortality assumptions are based on standard mortality tables that allow for future mortality improvements. These tables assume that a member who retired in 2016 at age 65 will live on average for a further 22.5 years (2015: 22.8 years) after retirement if male or a further 24.5 years (2015: 24.5 years) if female.

### Overall long-term rate of return

The company employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with a higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected rate of return for each asset class over the actual asset allocation for the plan at the year end.

## 19. Share capital

	2016	2015
	£000s	£000s
<i>Allotted, called up and fully paid</i>		
282,800 ordinary shares of £1 each	283	283

**Notes to the financial statements***at 31 December 2016***20. Share premium account**

	2016	2015
	£000s	£000s
<i>Balance at 1 January and 31 December</i>		
Premium arising on issue of equity shares	132	132

**21. Capital reserve**

	2016	2015
	£000s	£000s
Capital contribution	35,000	35,000

The company received a capital contribution of £35,000,000 in the prior year from its immediate parent undertaking Hymatic Aerospace Ltd. The capital contribution is not distributable.

**22. Operating lease commitments**

	2016	2015
	£000s	£000s
<i>At 31 December the future minimum rentals payable under non-cancellable operating leases are as follows:</i>		
<i>Land and buildings</i>		
Not later than one year	530	530
After one year but not more than five years	2,120	2,120
After five years	642	1,172
	3,292	3,822
<i>Other leases</i>		
Not later than one year	16	16
After one year but not more than five years	16	32
After five years	-	-
<i>Total operating lease commitments</i>	32	48

The company has not entered into commercial leases on certain properties and items of machinery during 2016. The existing leases have an average duration of between 3 and 25 years with no option of renewal.

## Notes to the financial statements

at 31 December 2016

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### 23. 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 the group companies, amounting to £596,213,000 (2015: £421,960,000).

Positive cash balances held by the group exceeded overdrawn balances in 2016 and 2015.