

# Novar ED&S Ltd

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## Report and accounts 2011



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## Directors' report

for the year ended 31 December 2011

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The directors of Novar ED&S Ltd present their report and audited accounts of the company for the year ended 31 December 2011

### Principal activities

Novar ED&S Ltd is a leading manufacturer and supplier of electrical and electronic products. These products include wiring accessories, circuit protection devices, cable management, automatic electronic controls and datacoms solutions, door entry systems and security systems. Products are suitable for domestic, commercial and industrial applications and are widely available through an extensive wholesale network of distributors, and to consumers through retail outlets. Products are distributed throughout Europe, the Middle East and the Far East.

### Business review and future developments

On 9 April 2010, the assets of the previous defined benefit pension schemes were transferred to the Honeywell UK Pension Scheme ("HUKPS"), resulting in a reallocation of the assets and liabilities attributable to the company. The effect of this transfer has been recognised in 2011 and is detailed in note 13 of these accounts ("effect of transfer to HUKPS"). An additional actuarial loss of £17,200,000 has been recognised in the statement of total recognised gains and losses as a result of the transfer.

### Turnover

Turnover for 2011 was 0.7% down on 2010 at £136,266,000 (2010: £137,288,000). The main factors affecting the business results for the year and the future outlook for the company are as follows:

The economic environment continued to be challenging and affected both the wholesale and retail channels. The business was also impacted for the second year by customers reducing their stock holding levels. The economic outlook for 2012 continues to be uncertain with construction output forecast to decline driven by a reduction in public sector spend impacting on social housing and public non housing projects.

### Operating profit

The operating result for 2011 incorporates pension costs of £3,200,000 (2010: £2,000,000). Pension costs are expected to continue at the 2011 level for the foreseeable future.

The company expects to continue its activities and its current level of performance for the foreseeable future.

### 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,
- productivity and process improvement,
- extending the installed base through customer productivity improvements, and
- 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:

- rate of growth of domestic and commercial construction
- fluctuation in demand for residential retrofits and upgrades
- fluctuations in industrial capital spend
- adverse economic conditions in the UK construction industry
- changes to fire security, health care and safety concerns/regulations

In response to the risks the company:

- maintains a UK-wide presence and aims to have a competitive installed cost and integrated product solutions through technology and productivity,
- 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, and
- monitors applicable regulations to ensure products and systems provide high quality solutions for current needs.

## Directors' report (continued)

for the year ended 31 December 2011

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### Key performance indicators

Management monitors the business using the following key indicators

<u>Turnover</u>	<u>2011</u>	<u>2010</u>
% change compared with the prior year	(0.7%)	3.2%

Change in net sales due to decrease in retail channel mitigated by increase in lighting control sales

<u>Cost of products and services sold</u>	<u>2011</u>	<u>2010</u>
Gross margin %	33.1%	33.8%

Gross margin declined slightly in 2011 due to materials inflation

<u>Operating expenses</u>	<u>2011</u>	<u>2010</u>
% of turnover	22.6%	20.8%

There was a 1.8% increase in operating expenses due to inflation, particularly labour, utilities and fuel

<u>Staff numbers</u>	<u>2011</u>	<u>2010</u>
% decrease year on year	(0.1%)	(3.2%)

Staff numbers are in line with prior year

### Results and dividends

The company's profit for the financial year was £9,694,000 (2010 £8,556,000 profit) which will be transferred to reserves. The results for the year are shown on page 6.

The directors do not recommend the payment of a dividend (2010 £nil).

### Research and development

The company has its own design and development facility which carries out research into electronics technology and its applications. Research and development expenditure in the year amounted to £5,028,000 (2010 £4,527,000).

### Directors

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

Mike Southgate (resigned 10 November 2011)  
Frank Nonnenmann (appointed 10 November 2011)  
Chris White (resigned 27 January 2012)  
Andrea Quantrill (appointed 27 January 2012)  
James Chorlton  
Mike Hill  
Ernst Malcherek  
Allan Richards (resigned 21 February 2011)  
Grant Fraser  
Tom Larkins  
John Tus

### Directors' indemnities

Pursuant to the company's articles of association, the directors were throughout the year to 31 December 2011 and are at the date of this report entitled to a qualifying indemnity provision as defined in section 236 of the Companies Act 2006.

## **Directors' report (continued)**

*for the year ended 31 December 2011*

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### **Financial instrument policies**

#### *Financial risk management*

The company's operations expose it to a variety of financial risks that include interest rate risk, foreign exchange risk, credit risk and liquidity risk. Financial risks are monitored by the directors in order to mitigate the risks.

#### *Interest rate risk*

The company borrows in the United Kingdom at both fixed and floating rates of interest. The interest rate characteristics of new borrowings are positioned according to expected movements in interest rates.

#### *Currency risk*

The company is exposed to foreign currency movements on its loan transactions. It covers its currency risk by obtaining currency hedges with the ultimate parent company.

#### *Credit risk*

The company's credit risk is primarily attributable to its trade receivables. The company's client base principally comprises large blue chip organisations. As a result, the company has good visibility as to the standing and reputation of its clients. The financial institutions which the company has banking arrangements with are approved by the Honeywell group.

#### *Liquidity risk*

The company ensures availability of funding through an appropriate amount of committed facilities, on a group wide basis, that are designed to ensure the company has sufficient available funds for its operations.

### **Employment of disabled persons**

It is the company's policy that persons who are disabled or become disabled during their employment shall be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

### **Employee involvement**

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

### **Directors responsibilities statement**

The directors are responsible for preparing the Directors' report and the accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have prepared the accounts in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the accounts 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 of the company for that period.

In preparing these accounts, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make accounting judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts 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 accounts 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.

## Directors' report (continued)

for the year ended 31 December 2011

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### Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the Directors' report. The company participates in the group's centralised treasury arrangement and so shares bank arrangements with its parent and fellow subsidiaries. The ultimate parent company, Honeywell International Inc, has indicated it will provide financial support to the company for at least one year from the date of signing these accounts.

The directors, having taken into account the financial support from the ultimate parent company, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern or its ability to continue with the current banking arrangements.

### 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 auditors are unaware, and
- each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board



**Andrea Quantrill**

Director

3<sup>rd</sup> April 2012

# Independent auditors' report

*to the members of Novar ED&S Ltd*

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We have audited the financial statements of Novar ED&S Ltd for the year ended 31 December 2011 which comprise the profit and loss account, statement of total recognised gains and losses, the balance sheet and the related notes. 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).

## Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 3, 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## 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 Directors' report to identify material inconsistencies with the audited financial statements. 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 2011 and of its profit for the 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 matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## 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, 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.

**Alison Cashmore (Senior Statutory Auditor)**

**For and on behalf of PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

West London

10 April 2012

## Profit and loss account

for the year ended 31 December 2011

	<u>Note</u>	<u>2011</u> <u>£000</u>	<u>2010</u> <u>£000</u>
<b>Turnover</b>	3	136,266	137,288
Cost of sales		(91,098)	(90,818)
<b>Gross profit</b>		<u>45,168</u>	<u>46,470</u>
Distribution costs		(12,269)	(12,588)
Administration expenses		(18,584)	(15,900)
<b>Operating profit</b>	4	<u>14,315</u>	<u>17,982</u>
Interest receivable and similar income	6	32	21
Interest payable and similar charges	6	(3,036)	(3,033)
Other finance income/(expense)	18	5,000	(700)
<b>Profit on ordinary activities before taxation</b>		<u>16,311</u>	<u>14,270</u>
Tax on profit on ordinary activities	7	(6,617)	(5,714)
<b>Profit on ordinary activities after taxation</b>	20	<u><u>9,694</u></u>	<u><u>8,556</u></u>

All results derive from continuing operations

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

## Statement of total recognised gains and losses

for the year ended 31 December 2011

	<u>Note</u>	<u>2011</u> <u>£000</u>	<u>2010</u> <u>£000</u>
<b>Profit for the financial year</b>		9,694	8,556
Actuarial (loss)/gain	18	(51,928)	20,900
Movement on deferred tax relating to pension liability	8	12,759	(5,852)
Movement on current tax related to pension liability		998	-
<b>Total recognised gains and losses relating to the year</b>		<u><u>(28,477)</u></u>	<u><u>23,604</u></u>



# Balance sheet

as at 31 December 2011

	Note	2011 £000	2010 £000
<b>Fixed assets</b>			
Intangible assets	9	8,010	8,752
Tangible assets	10	13,374	13,720
Investments	11	15,484	16,128
		<u>36,868</u>	<u>38,600</u>
<b>Current assets</b>			
Stocks	12	11,324	11,717
Debtors	13	27,347	32,730
Cash at bank and in hand		32,472	11,600
		<u>71,143</u>	<u>56,047</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(80,119)</u>	<u>(77,011)</u>
<b>Net current liabilities</b>		<u>(8,976)</u>	<u>(20,964)</u>
<b>Total assets less current liabilities</b>		27,892	17,636
<b>Creditors: amounts falling due after more than one year</b>	15	(40,441)	(40,441)
Provisions for liabilities	17	(2,738)	(2,696)
<b>Net liability excluding pension (liability)/asset</b>		<u>(15,287)</u>	<u>(25,501)</u>
Pension (liability)/asset	18	(21,045)	17,646
<b>Net liabilities including pension (liability)/asset</b>		<u>(36,332)</u>	<u>(7,855)</u>
<b>Capital and reserves</b>			
Called up share capital	19	1,101	1,101
Share premium account	20	19,800	19,800
Investment revaluation reserve	20	714	714
Profit and loss account	20	(57,947)	(29,470)
<b>Total equity shareholders' deficit</b>	20	<u>(36,332)</u>	<u>(7,855)</u>

The accounts were approved by the board of directors on 3rd Apr 2012 and were signed on its behalf by



**Andrea Quantrill**  
Director

## Notes to the accounts

*for the year ended 31 December 2011*

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### 1. Accounting policies

These accounts are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The accounting policies which have been applied consistently throughout the year, are set out below.

#### *Changes in accounting policies*

The accounting policies have been reviewed by the board of directors in accordance with FRS18 "Accounting policies".

During the year amendments to FRS8 "Related Party Disclosures" have been adopted. The amendments to this policy have had no impact on the accounts of the company.

#### *Group accounts*

The accounts contain information about the company as an individual company and do not contain consolidated financial information as parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of Honeywell International Inc, a company registered in the USA and whose accounts the directors consider to be drawn up in a manner equivalent to the 7th Directive. The accounts of Honeywell International Inc are publicly available.

#### *Going concern*

The company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the Directors' report. The company participates in the group's centralised treasury arrangement and so shares bank arrangements with its parent and fellow subsidiaries. The ultimate parent company, Honeywell International Inc, has indicated it will provide financial support to the company for at least one year from the date of signing these accounts.

The directors, having taken into account the financial support from the ultimate parent company, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern or its ability to continue with the current banking arrangements.

#### *Turnover and revenue recognition*

Turnover comprises sales to customers and service revenues net of value added tax and rebates. Revenue from sales of products is recognised on delivery to the customer. Revenue on service work is recognised on the completion of the repair or overhaul.

#### *Leases*

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the lease.

#### *Research and development*

All costs associated with research, engineering, product design and product development are written off to the profit and loss account in the year of expenditure.

## Notes to the accounts (continued)

for the year ended 31 December 2011

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### 1. Accounting policies (continued)

#### *Foreign currency*

Transactions denominated in foreign currency are booked into the accounts using daily or monthly exchange rates prevailing when the transaction is recorded. Monetary assets and liabilities which are denominated in foreign currencies are translated into pounds sterling at rates of exchange approximating to those ruling at the balance sheet date. Exchange gains or losses resulting from the year's trading are reflected in the operating results for the year. Exchange gains and losses from financing activities are recognised in interest income and expense. Gains or losses on foreign currency hedges obtained from the ultimate parent company are recognised when realised. The fair value of unrealised hedges at the year end is disclosed in the Directors report if material.

#### *Taxation*

Taxation is calculated on profits chargeable to UK corporation tax at the current rate applicable.

#### *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### *Intangible assets*

Goodwill arises where the fair value of consideration for an acquired business differs from the fair value of net assets acquired. Purchased goodwill is stated at purchase cost and amortised on a straight line basis over its estimated useful life. Purchased goodwill is assessed on a business by business basis to determine its useful life, the useful life being the period of amortisation. The period of amortisation ranges from 5 years to 20 years.

#### *Tangible assets and depreciation*

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation with the exception of freehold properties, which are stated at valuation 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 cost, together with any incidental expenses of acquisition. The annual depreciation rates used for the major assets are

Freehold buildings and leasehold buildings	2 - 3%
Plant & machinery	10 - 33%
Fixtures & fittings	10 - 14%

Freehold land is not depreciated.

Depreciation is not provided on assets under construction until the asset is completed.

Following the implementation of FRS15 "Tangible fixed assets" the company has adopted a policy of not revaluing fixed assets. The directors have taken advantage of the transitional arrangements of FRS 15 to freeze revaluation at 1 January 2000 and not perform any further revaluations.

## Notes to the accounts (continued)

for the year ended 31 December 2011

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### 1. Accounting policies (continued)

#### *Investments*

The company's interest in subsidiary undertakings is shown at cost less provision for permanent impairment. The value of investments is reviewed annually by the directors or more frequently if there is a triggering event, and provision made where it is considered that there has been a permanent impairment of value.

#### *Stocks*

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value. The cost of raw materials, consumables and goods for resale represents 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. Provisions for obsolete and slow moving stocks are made where appropriate. Consignment stock is held by certain customers as part of maintenance agreements between the company and those customers. This stock is replenished when used.

#### *Warranty provisions*

Provision is made for the direct labour and material costs expected to be incurred during the warranty period entered into on the sale of goods.

#### *Litigation*

Provision is made for legal proceedings taken against the company, the costs are the directors' best estimate of the eventual settlement of the claim.

#### *Pensions*

The company participates in a defined benefit pension scheme, the assets of which are held separately from those of the company in an independently administered fund. Full actuarial valuations of the company's defined benefit scheme are carried out every three years and the valuations are updated to 31 December each year by qualified independent actuaries. For the purposes of these annual updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method. The liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. Assets and liabilities are allocated in proportion to the number of defined benefit members for the scheme, as reported by the scheme's trustees to the pension regulator.

The company's share of the post-retirement benefits surplus or deficit of schemes in which it participates is based on its actual shares of assets and obligations to the extent they are identifiable, or otherwise in proportion to its anticipated share of future contributions to the scheme.

This share is included on the company's balance sheet, net of the related amount of deferred tax. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the statement of total recognised gains and losses.

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

## Notes to the accounts (continued)

for the year ended 31 December 2011

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### 1. Accounting policies (continued)

#### Share-based payment

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 FRS20, the charge arising for share based payments is recognised in the income statement of the company which employs those to whom share based awards are granted. The credit entry is reported directly to reserves as a capital contribution.

The company has taken advantage of the exemption available and has applied the provisions of FRS20 only to those options granted after 7 November 2002 and which had not vested on or before 31 December 2005.

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

### 2. Cash flow statement and related party transactions

The company is a wholly owned subsidiary company of a group headed by Honeywell International Inc, and is included in the consolidated accounts of that company, which are publicly available. Consequently, the company has taken advantage of the exemption within FRS 1 "Cash flow statements" (revised 1996) from preparing a cash flow statement.

In accordance with the exemptions available under FRS 8 "Related party disclosures", transactions with other wholly owned undertakings within the Honeywell group are not required to be disclosed in these accounts, on the grounds that this company is a wholly owned subsidiary of Honeywell International Inc, whose accounts are publicly available.

### 3. Turnover

Turnover is derived from markets and classes of business which do not differ substantially from each other.

### 4. Operating profit

	2011	2010
<i>Operating profit is stated after charging</i>	<u>£000</u>	<u>£000</u>
<i>Depreciation and amortisation</i>		
Tangible assets - owned	1,978	2,064
Intangible assets	742	742
(Profit) on disposal of tangible assets	(12)	-
<i>Rental charges under operating leases</i>		
Plant and machinery	261	279
Other operating leases	587	568
Gain on foreign exchange	65	85
<i>Auditors' remuneration</i>		
Audit fees - statutory audit	59	59

## Notes to the accounts (continued)

for the year ended 31 December 2011

### 5. Employees and directors

*Average number of persons employed during the year*

(including executive directors)

Factory and engineering

Selling, servicing and marketing

General and administration

2011	2010
<u>number</u>	<u>number</u>
586	575
172	177
85	92
<u>843</u>	<u>844</u>

*Staff costs*

Wages and salaries

Social security costs

Pension costs - defined benefit (note 16)

Pension costs - defined contributions (note 16)

Share based payment charges

<u>£000</u>	<u>£000</u>
25,424	25,365
1,954	2,383
3,172	2,000
2,207	1,272
-	278
<u>32,757</u>	<u>31,298</u>

*Directors' remuneration*

Aggregate emoluments

Pension - defined benefit

631	680
243	226
<u>874</u>	<u>906</u>

*Highest paid director*

Aggregate emoluments

Pension - defined benefit

183	290
44	121
<u>227</u>	<u>411</u>

During the year the highest paid director did (2010 did) exercise options over shares of Honeywell International Inc , the ultimate parent company

At the end of the year the highest paid directors' accrued pension was £44,000 (2010 £121,000)

During the year one director (2010 two) exercised options over shares of Honeywell International Inc , the ultimate parent company

*The number of directors who were*

Members of a defined benefit plan

<u>number</u>	<u>number</u>
4	4

### 6. Interest

*Interest receivable and similar income*

Interest receivable from group undertakings

2011	2010
<u>£000</u>	<u>£000</u>
32	21

*Interest payable and similar charges*

Bank interest and overdrafts

Preference share dividend 7 5p (2010 7 5p) per £1 share

3	-
3,033	3,033
<u>3,036</u>	<u>3,033</u>

## Notes to the accounts (continued)

for the year ended 31 December 2011

7. Tax on profit on ordinary activities	2011	2010
<i>Current tax</i>	<u>£000</u>	<u>£000</u>
UK corporation tax on profits of the year	998	-
Adjustment in respect of prior years	-	1
Total current tax	<u>998</u>	<u>1</u>
<i>Deferred tax</i>		
Adjustment in respect of prior years	(4)	(61)
Other timing differences	3,673	(3,891)
Deferred tax relating to pension scheme	<u>1,950</u>	<u>9,665</u>
	<u>5,619</u>	<u>5,713</u>
Tax on profit on ordinary activities	<u>6,617</u>	<u>5,714</u>

The tax assessed for the year is different to the standard rate of UK corporation tax rate of 26½% (2010 28%) and the differences are explained below

Profit on ordinary activities before tax	<u>16,311</u>	<u>14,270</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26½% (2010 28%)	4,322	3,996
<i>Effects of</i>		
Expenses not deductible for tax purposes and other permanent differences	1,182	1,595
Capital allowances for the year in excess of depreciation	668	(850)
Movements in general provisions and other short term timing differences	93	(9,915)
Group relief not paid for	(198)	-
Adjustment in respect of prior years	-	1
Difference between pension contribution relief and net pension cost charge	(1,426)	-
Unrelieved tax losses carried forward	<u>(3,643)</u>	<u>5,174</u>
Total current tax charge for the year	<u>998</u>	<u>1</u>

Factors that may affect future tax charges

Deferred tax is provided at 25% on temporary differences reversing in 2012 and 25% on differences reversing after 2012. There are proposals to reduce UK Corporation Tax in stages to 22% by April 2014, and the effect of these proposals either will be to reduce the deferred tax asset which is not material.

8. Deferred taxation	2011	2010
<i>Tax effect of timing differences because of</i>	<u>£000</u>	<u>£000</u>
Differences between capital allowances and depreciation	4,499	2,896
Tax losses	-	4,990
Short term timing differences	855	1,137
Deferred tax excluding that relating to pension scheme liability (note 18)	<u>5,354</u>	<u>9,023</u>
Deferred tax (liability)/asset on pension liability (note 18)	<u>9,255</u>	<u>(1,554)</u>
Net deferred tax asset	<u>14,609</u>	<u>7,469</u>

*Movement in deferred tax excluding that relating to pension liability*

At 1 January	9,023	5,071
Credit to profit and loss account	(3,673)	3,952
Prior year	4	-
At 31 December	<u>5,354</u>	<u>9,023</u>

## Notes to the accounts (continued)

for the year ended 31 December 2011

8. Deferred taxation (continued)	2011	2010
<i>Amounts included within pension liability relating to deferred tax</i>	<u>£000</u>	<u>£000</u>
At 1 January	(1,554)	13,963
Charge to the profit and loss account	(1,950)	(9,665)
Credit to the statement of total recognised gains and losses	12,759	(5,852)
At 31 December	<u>9,255</u>	<u>(1,554)</u>

## 9. Intangible assets

<i>Cost</i>	<u>£000</u>
At 1 January and 31 December	<u>14,850</u>

### Accumulated amortisation

At 1 January 2011	6,098
Charge for the year	742
At 31 December 2011	<u>6,840</u>

### Net book value

At 31 December 2011	<u>8,010</u>
At 31 December 2010	<u>8,752</u>

## 10. Tangible assets

	Short leasehold land & buildings	Plant & machinery	Fixtures & fittings	Construction in progress	Total
<i>Cost</i>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January 2011	10,448	15,676	1,902	701	28,727
Additions	40	739	9	911	1,699
Disposals	(34)	(463)	(20)	-	(517)
Reclassifications	-	568	-	(568)	-
At 31 December 2011	<u>10,454</u>	<u>16,520</u>	<u>1,891</u>	<u>1,044</u>	<u>29,909</u>
<i>Accumulated depreciation</i>					
At 1 January 2011	3,264	10,231	1,512	-	15,007
Charge for the year	450	1,435	93	-	1,978
Disposals	-	(443)	(7)	-	(450)
At 31 December 2011	<u>3,714</u>	<u>11,223</u>	<u>1,598</u>	<u>-</u>	<u>16,535</u>
<i>Net book value</i>					
At 31 December 2011	<u>6,740</u>	<u>5,297</u>	<u>293</u>	<u>1,044</u>	<u>13,374</u>
At 31 December 2010	<u>7,184</u>	<u>5,445</u>	<u>390</u>	<u>701</u>	<u>13,720</u>

During the year certain assets have been reclassified. The reclassification has had no impact on the results of the company for the year.



## Notes to the accounts (continued)

for the year ended 31 December 2011

### 11. Investments

Cost

At 1 January 2011 and 31 December 2011

Ordinary shares in subsidiary undertakings

£000

20,903

Provision for impairment

At 1 January 2011

4,775

Additions during the year

644

At 31 December 2011

5,419

Net book value

31 December 2011

15,484

31 December 2010

16,128

The directors believe that the book value of the investments is not less than the value of the underlying net assets

The company had investments in the following subsidiary undertakings as at 31 December 2011. The company's principal subsidiary undertakings, all of which are 100% owned unless indicated, are as follows

<u>Name of company</u>	<u>Principal activities</u>	<u>Country of incorporation</u>
<u>Directly held subsidiaries</u>		
Honeywell Electrical Devices & Systems India Ltd (91%)	Electrical devices and systems	India
<u>Participating interests</u>		
Hawa-MK Electrical Accessories Ltd (40%)	Electrical devices	Saudi Arabia
Friedland Ltd	Non trading	England and Wales
Ackermann Ltd	Non trading	England and Wales

### 12. Stocks

Raw materials

2011 2010

£000 £000

3,341 2,818

Work in progress

1,677 983

Finished goods for sale

6,306 7,916

11,324 11,717

### 13. Debtors

Trade debtors

11,746 13,083

Amounts owed by group undertakings

9,712 9,365

Deferred taxation (note 8)

5,354 9,023

Prepayments and accrued income

535 1,259

27,347 32,730

Included in amounts owed by group undertakings is a loan of £2,123,000 (2010 £2,091,000) that bears interest at UK base rate plus 1% and non interest bearing loans of £2,277,000 (2010 £2,363,000) and non interest bearing current accounts amounting to £5,312,000 (2010 £4,420,000). All amounts owed by group undertakings are unsecured and repayable on demand.

## Notes to the accounts (continued)

for the year ended 31 December 2011

	2011 £000	2010 £000
<b>14. Creditors: amounts falling due within one year</b>		
Trade creditors	15,275	14,781
Amounts owed to group undertakings	37,327	36,671
Accrued preference share dividends	21,231	18,198
Taxation and social security	3,339	3,035
Accruals and deferred income	2,947	4,326
	<u>80,119</u>	<u>77,011</u>

Amounts owed by group undertakings consist of the following non interest bearing loans of £33,882,000 (2010 £33,882,000) and non interest bearing current accounts amounting to £3,445,000 (2010 £2,789,000) All amounts owed to group undertakings are unsecured and repayable on demand

	2011 £000	2010 £000
<b>15. Creditors: amounts falling due after more than one year</b>		
7 5% cumulative redeemable preference shares of £1 each (note 16)	<u>40,441</u>	<u>40,441</u>

	2011 £000	2010 £000
<b>16. Loans and other borrowings</b>		
7 5% cumulative redeemable preference shares of £1 each		
In more than five years	<u>40,441</u>	<u>40,441</u>

### Preference share capital

#### Authorised

45,000,000 (2010 45,000,000) redeemable cumulative preference shares of £1 each

	<u>45,000</u>	<u>45,000</u>
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#### Called up, allotted and fully paid

40,440,536 (2010 40,440,536) redeemable cumulative preference shares of £1 each

	<u>40,441</u>	<u>40,441</u>
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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 shall, subject to the requirements of the Companies Act, be entitled to redeem all or part of the preference shares in issue at any time after 1 January 2005 and the amount payable shall be £1 per share, together with any arrears of dividends

### 17. Provisions for liabilities

	Litigation £000	Warranty £000	Total £000
At 1 January 2011	660	2,036	2,696
Charged to the profit and loss account	-	558	558
Utilised in year		(516)	(516)
At 31 December 2011	<u>660</u>	<u>2,078</u>	<u>2,738</u>

#### Litigation

A number of claims have arisen out of the termination of a joint venture between the company and its co-venturer which started in 1994. The matters are subject to continued legal proceedings in Saudi Arabia and at present it is unclear when the claims will be resolved. A provision of £660,000 has been made in respect of debit notes raised against the company by the joint venture, being the directors' best estimate of the eventual settlement.

#### Warranty

The warranty provision relates to expected costs to be incurred under product warranty obligations. The amount of the provision is based on historical experience of warranty claims from customers. It is expected to be utilised over a period between 1 and 20 years depending on the product group.

## Notes to the accounts (continued)

for the year ended 31 December 2011

### 18. Pension commitments

Until 9 April 2010, the company operated two defined benefit schemes, the MK Pension Scheme and the MK Executive Pension Scheme (the "Predecessor Schemes")

On 9 April 2010, the assets of the Predecessor Schemes were transferred to the Honeywell UK Pension Scheme

#### Defined benefit sections

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

The Honeywell UK Pension Scheme is a funded defined benefit scheme providing retirement benefits based on salary. It is closed to new entrants. Regular employer contributions to the scheme by the company in 2012 are estimated to be £19,279,000.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Honeywell UK Pension Scheme as at 31 March 2011. The present values of the defined benefit obligation were measured using the projected unit credit method. Following the valuation, the participating members are able to identify their share of the pension assets and liabilities with effect from 1 January 2011. The effect of the change in allocations on the company's share of opening assets and liabilities is disclosed in this note as "effect of transfer to HUKPS".

<i>Main actuarial assumptions</i>	<u>2011</u>	<u>2010</u>
Inflation rate (RPI)	3.1%	3.4%
Inflation rate (CPI)	2.2%	2.5%
Rate of general long-term increase in salaries	4.1%	4.4%
<i>Rate of increase for pensions</i>		
Pensions subject to limited price indexation to 5%	3.0%	3.2%
Pensions subject to limited price indexation to 2½%	2.1%	2.2%
Discount rate for scheme liabilities	4.8%	5.5%
Expected rate of return	<u>6.1%</u>	<u>6.9%</u>

#### *Basis used to determine the overall long-term rate of return*

The company employs a building block approach in determining the long-term rate of return on pension scheme 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 scheme at the year end.

#### *Mortality assumptions*

Mortality assumptions are based on standard mortality tables which allow for future mortality improvements. These tables assume that a member who retires in 2011 at age 65 will live on average for a further 22.8 years after retirement if male or a further 24.9 years if female.

<i>Expected return on assets by class of asset</i>	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
Equities	216,700	143,800
Property	17,600	11,000
Government bonds	110,500	5,300
Corporate bonds	20,100	83,400
Other	9,400	11,700
	<u>374,300</u>	<u>255,200</u>

## Notes to the accounts (continued)

for the year ended 31 December 2011

### 18. Pension commitments (continued)

#### Reconciliation of funded status to balance sheet

Fair value of assets	374,300	255,200
Present value of funded defined benefit obligations	(404,600)	(234,000)
Assets not recoverable in the future	-	(2,000)
Net pension (liability)/asset	(30,300)	19,200
Related deferred tax asset/(liability) @ 25% (2010 27%)	7,575	(5,184)
Deferred tax on excess pension contributions deductible in future years	1,680	3,630
Net pension (liability)/asset after tax	(21,045)	17,646

#### Analysis of profit and loss (credit)/charge

Current service cost	3,172	2,000
Interest cost	19,600	13,200
Expected return on pension scheme assets	(24,600)	(12,600)
The effect on the limit on balance sheet asset	-	100
(Credit)/charge recognised in profit and loss	(1,828)	2,700

#### Changes in present value of defined benefit obligation

At 1 January	234,000	234,500
Effect of transfer to HUKPS	139,600	-
Current service cost	3,172	2,000
Interest cost	19,600	13,200
Contributions by participants	200	-
Actuarial losses/(gains) on liabilities	21,628	(7,800)
Net benefits paid out	(13,600)	(7,900)
At 31 December	404,600	234,000

#### Changes in fair value of scheme assets

At 1 January	255,200	205,000
Effect of transfer to HUKPS	122,400	-
Expected return on assets	24,600	12,500
Actuarial (losses)/gains on assets	(15,100)	14,900
Contributions by the employer	600	30,700
Contributions by participants	200	-
Net benefits paid out	(13,600)	(7,900)
At 31 December	374,300	255,200

#### Actual return on assets

Expected return on assets	24,600	12,500
Actuarial (losses)/gains on assets	(15,100)	14,900
Actual return on assets	9,500	27,400

#### Amounts recognised in the statement of total recognised gains and losses (STRGL)

Total actuarial (losses)/gains	(36,728)	22,700
Effect of transfer to HUKPS	(17,200)	-
Change in assets not recoverable in the future	2,000	(1,800)
Total (loss)/gain in STRGL	(51,928)	20,900
Cumulative amount of losses recognised in STRGL	(89,428)	(37,500)

## Notes to the accounts (continued)

for the year ended 31 December 2011

### 18. Pension commitments (continued)

	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
<i>History of asset values, DBO and liability</i>					
Fair value of assets	374,300	255,200	205,000	163,100	205,500
Defined benefit obligation (DBO)	(404,600)	(234,000)	(234,500)	(184,700)	(194,400)
Change in assets not recoverable in the future	-	(2,000)	(200)	-	-
(Liability)/asset in scheme	(30,300)	19,200	(29,700)	(21,600)	11,100
<i>History of experience gains and losses</i>					
Experience (loss)/gain on assets	(15,100)	14,900	11,800	(49,800)	(4,500)
Experience gain/(loss) on liabilities	23,700	500	(1,900)	(19,900)	(400)

### Defined contribution sections

Contributions to defined contribution plans during the year were £2,207,000 (2010 £1,272,000) Contributions accrued at year end amounted to £nil (2010 £nil)

### 19. Called up share capital

	2011	2010
	£000	£000
<i>Authorised</i>		
1,500,000 ordinary shares of £1 each	1,500	1,500
<i>Called up, allotted and fully paid</i>		
1,100,605 ordinary shares of £1 each	1,101	1,101

### 20. Reconciliation of shareholders' deficit and movements on reserves

	Share capital	Share premium account	Investment revaluation	Profit & loss account	2011 Total	2010 Total
	£000	£000	£000	£000	£000	£000
At 1 January	1,101	19,800	714	(29,470)	(7,855)	(31,703)
Profit for the financial year	-	-	-	9,694	9,694	8,556
Capital contribution in respect of share options	-	-	-	-	-	244
Actuarial (loss)/gain on the pension plan	-	-	-	(51,928)	(51,928)	20,900
Movement on deferred tax relating to pension liability	-	-	-	12,759	12,759	(5,852)
Movement on current tax relating to pension liability	-	-	-	998	998	-
At 31 December	1,101	19,800	714	(57,947)	(36,332)	(7,855)

### 21. Operating lease commitments

At 31 December the company had annual commitments under non-cancellable operating leases expiring as follows

	2011	2010
	£000	£000
<i>Land and buildings</i>		
expiring in one year	46	8
expiring in two to five years	-	90
expiring after five years	525	525
	571	623
<i>Other leases</i>		
expiring in one year	-	279
expiring after five years	261	-
	261	279

## **Notes to the accounts (continued)**

*for the year ended 31 December 2011*

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### **22. Contingent liabilities**

All UK Honeywell group companies have entered into a composite accounting agreement whereby each company has provided a guarantee to the bank. This agreement permits the set-off of balances, on a group basis, for interest purposes. The maximum liability arising from this arrangement, on a group basis, is the total overdraft balances held by group companies amounting to £568,591,000 (2010 £470,428,000). Positive cash balances held in the group exceeded the overdraft balances in 2011 and 2010.

### **23. Ultimate parent undertakings**

The immediate parent undertaking is Novar Electrical Holdings Ltd.

The ultimate parent undertaking and controlling party is Honeywell International Inc, a company incorporated in the USA, which is the smallest and largest group to consolidate these accounts. Copies of these accounts 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).