

Honeywell Control Systems Ltd

Report and accounts 2010

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Directors' report

for the year ended 31 December 2010

The directors of Honeywell Control Systems Ltd present their report and audited accounts of the company for the year ended 31 December 2010

Principal activities

Honeywell Control Systems Ltd is a wholly owned subsidiary of Honeywell International Inc. aligned to the Automation and Control Solutions (ACS) Strategic Business Group. ACS is one of four Strategic Business Groups that operate within Honeywell International Inc. ACS develops and delivers products and integrated solutions that improve energy efficiency, industrial productivity and safety while enhancing convenience and control. Honeywell Control Systems Ltd operates mainly in the UK, with some product sales to mainland Europe, North and South America and Asia Pacific. The company is currently engaged in a significant petrochemical project in the Middle East. The company also has a branch in Ireland.

The company provides innovative solutions and products that make homes, buildings, industrial sites, airport facilities and infrastructure more efficient, safe and comfortable.

Share capital

On 22 December, 2010 64,000,000 £1 ordinary shares were issued to Honeywell Ltd. The consideration of £64,000,000 was satisfied in cash.

Business review and future developments

Turnover

Turnover for 2010 was up 2% on 2009 at £348,306,000 (2009 £340,408,000). The increase in turnover was driven by a recovery of the 2009 downturn in industrial and domestic product markets. Construction building projects also picked up but industrial project commissions continued at the previous disappointing level and activity in the Middle East reduced.

Operating result

The operating profit of the company for the year is £11,959,000 (2009 £37,000 loss). Gross profit margins improved through increased volume, increased margins on industrial project variations booked and cost reductions resulting from the restructuring activity undertaken in 2009 and early 2010. Administrative and distribution expenses also reduced as a result of the restructuring activity while the restructuring charge for 2010 was £2,270,000 (2009 £4,200,000).

The operating result for 2010 incorporates pension costs of £5,080,000 (2009 £8,886,000), the operating cost of £10,757,000 being offset by £5,677,000 income recognised on contributions paid and expended by a fellow group company participating in the pension scheme. Charges relating to share options and restricted units amounted to £1,615,000 (2009 £2,152,000).

In January 2011 the company, together with certain other Honeywell companies worldwide, entered into an asset and stock purchase agreement with Sensata Technologies Inc. whereby Honeywell has sold its business unit known as Automotive-On-Board. The results of this particular business are shown as discontinued operations on page 6.

With the exception of the sales of the Automotive-On-Board business unit and the completion of an industrial controls project in the Middle East, the company expects to continue its activities and 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
- continued expansion into markets such as Energy and Security
- maintaining and extending the installed base through customer productivity improvements and
- strong brand recognition through brand and channel management

Directors' report (continued)

for the year ended 31 December 2010

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
- promotes effective pricing and 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

Key performance indicators

Management monitors the business using the following key indicators

<u>Turnover</u>	<u>2010</u>	<u>2009</u>
% change compared with the prior year	2%	(9%)
The change in net sales in 2010 and 2009 is attributable to the following		
Price	2%	1%
Volume	1%	(11%)
Foreign exchange fluctuations	(1%)	1%
	2%	(9%)
<u>Cost of products and services sold</u>		
Gross margin %	22%	21%

Gross margin as a percentage of turnover improved in 2010. Product margins improved slightly while the largest movements were in commercial project and service margins where the trend is toward lower margins being offset by increased margins from orders booked on industrial projects.

<u>Operating expenses</u>	<u>2010</u>	<u>2009</u>
% of turnover	19%	21%

Reduction in pension costs and share option charges were the major contributors to the reduction in operating expenses in 2010. The full year impact of the prior year restructuring activity plus ongoing productivity initiatives also contributed to the overall reduction against 2009.

<u>Staff numbers</u>	<u>2010</u>	<u>2009</u>
% decrease year on year	(13%)	(9%)

Headcount numbers have reduced as the business has reviewed and implemented various improvement initiatives across all areas of its business. Factory and engineering census reduced by 7%, sales, service and marketing by 11%, and general and administration by 41%.

Results and dividends

The company's profit for the financial year was £10 522 000 (2009 £1.731 000 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 (2009 £nil).

Directors' report (continued)*for the year ended 31 December 2010*

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 £1 374 000 (2009 £1.603 000).

Directors

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

Bob Baker

Tom Larkins

Grant Fraser

Allan Richards (resigned 21 February 2011)

James Chisholm (appointed 1 March 2010)

Norman Gilsdorf (appointed 1 March 2010)

John Tus

Colin McBeth (appointed 1 June 2010)

Directors' indemnities

Pursuant to the Company's articles of association, the directors were throughout the year to 31 December 2010 and are at the date of this report entitled to a qualifying indemnity provision as defined in section 236 of the Companies Act 2006.

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 has a limited exposure to foreign currency movements related to its operating transactions. It covers its foreign 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.

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 then impact of the performance of the company and the group and encourages employee participation. Briefing meetings are held regularly 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 ShareBuilder Plan.

Directors' report (continued)

for the year ended 31 December 2010

Differences between market and balance sheet value of land and buildings

In the opinion of the directors, the market value of the manufacturing operations land and buildings on an existing use basis exceeds the book value by approximately £300,000. The liability to taxation if land and buildings were sold at that value would be approximately £84,000.

Statement of directors' responsibilities

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 elected to prepare 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 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.

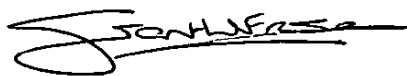
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 2006. 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.

Disclosure of information to auditors

Each director at the date of approval of this report confirms that

- 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 ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board



Grant Fraser
Director

9 MAY 2011

Independent auditors' report

to the members of Honeywell Control Systems Ltd

We have audited the financial statements of Honeywell Control Systems Ltd for the year ended 31 December 2010 the profit and loss account the balance sheet the statement of total recognised gains and losses 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 4 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.

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 2010 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

Uxbridge

a may 2011

Profit and loss account*for the year ended 31 December 2010*

		Continuing operations	Discontinued operations	2010	2009
	Note	2010 £000	2010 £000	£000	£000
Turnover	3	343,974	4,332	348 306	340 408
Cost of sales		(267,354)	(3,529)	(270,883)	(267,620)
Gross profit		76,620	803	77,423	72 788
Distribution costs		(28,792)	(456)	(29,248)	(30 399)
Administrative expenses		(36,145)	(71)	(36 216)	(42 426)
Operating profit/(loss)	4	11,683	276	11,959	(37)
Interest receivable and similar income	6			1,621	940
Interest payable and similar charges	6			(1,438)	(499)
Other finance income	16			3,457	1 451
Profit on ordinary activities before taxation				15,599	1,855
Tax on profit on ordinary activities	7			(5,077)	(124)
Profit on ordinary activities after taxation	18			10,522	1,731

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 2010*

	Note	2010 £000	2009 £000
Profit for the financial year		10,522	1 731
Actuarial gain/(loss)	16	31 289	(91 834)
Movement on deferred tax relating to pension deficit	8	(8,761)	23 220
Movement on current tax related to pension deficit		-	2 493
Total recognised gains and losses relating to the year		33 050	(64 390)

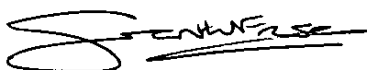
Balance sheet*as at 31 December 2010*

	<u>Note</u>	2010 <u>£000</u>	2009 <u>£000</u>
Fixed assets			
Intangible assets	9	4,085	4 502
Tangible assets	10	8,881	10,748
Investments	11	1,167	1 167
		<u>14 133</u>	<u>16 417</u>
Current assets			
Stocks	12	11,273	11 980
Debtors	13	184,914	156 941
Cash at bank and in hand		30,502	-
		<u>226,689</u>	<u>168 921</u>
Creditors: amounts falling due within one year	14	<u>(115,712)</u>	<u>(103 000)</u>
Net current assets		<u>110,977</u>	<u>65 921</u>
Total assets less current liabilities		125,110	82 338
Provisions for liabilities	15	(1,070)	(717)
Net assets excluding pension liability		<u>124 040</u>	<u>81 621</u>
Pension deficit	16	(7,634)	(63 244)
Net assets including pension liability		<u>116,406</u>	<u>18 377</u>
Capital and reserves			
Called up share capital	17	150 000	86 000
Share premium account	18	14,538	14 538
Profit and loss account	18	(48 132)	(82 161)
Total shareholders' funds	18	<u>116,406</u>	<u>18 377</u>

The accounts were approved by the board of directors on behalf by

9 MAY

2011 and were signed on its



Grant Fraser
Director

Notes to the accounts

for the year ended 31 December 2010

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 FRS20 "Share-based Payment - Group Cash-Settled Share-based Payment Transactions", 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 accounts 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.

Turnover and revenue recognition

Turnover comprises sales to customers and service revenues net of value added tax. Revenue from product and service sales is recognised on delivery and when acceptance by the customer has occurred. Revenue from long term contracts for custom built control systems is recognised on the percentage of completion basis once the outcome of the contract can be recognised with reasonable certainty. Revenue from service contracts is recognised evenly over the period of the contract. Revenue from the sale of consignment stock is recognised when the title of goods sold passes to the customer. 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 payment on account.

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.

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. Foreign currency hedges obtained from the ultimate parent company are recorded on the balance sheet as assets or liabilities and are measured at fair value. Any changes in fair value are recognised in the current year profit and loss account as gains or losses on foreign exchange.

Taxation

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

Notes to the accounts (continued)

for the year ended 31 December 2010

1. Accounting policies (continued)

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

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

Purchased know-how and licences are stated at cost and amortised on a straight line basis over the period which the company expects to derive economic benefit. The period of amortisation ranges from 3 to 5 years

Patents are stated at purchased cost and are amortised on a straight line basis over 5 years

The company evaluates the carrying value of intangible assets in each financial year to determine if there has been an impairment in value resulting in the company being unable to recover the carrying amount. Where it is determined that the carrying value exceeds the recoverable amount the excess is written off to 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 estimated useful life. Cost comprises purchase cost, together with any incidental expenses of acquisition. The annual depreciation rates used for the major assets are

Land & buildings - freehold buildings	5%
Land & buildings - leasehold improvements	10% or life of lease if under 10 years
Plant & machinery	8% - 33%
Fixtures & fittings	6% - 17%

Freehold land is not depreciated

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

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

Notes to the accounts (continued)

for the year ended 31 December 2010

1. Accounting policies (continued)

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.

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 with turnover.

Warranty provision

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.

Contract provision

The contract provision relates to future losses on long term contracts and is based on the estimated completion cost on the sale of goods.

Litigation provision

The litigation provision has been made to cover a specific legal exposure.

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.

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 2010

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 makes provision 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

The business operations of Honeywell Control Systems Ltd fall within one business segment known as Automation and Control Systems consistent with Honeywell International Inc presentation. 68.5% (2009 66%) of turnover is attributed to markets within the UK, and 31.5% (2009 34%) to non-UK markets.

4. Operating profit/(loss)	2010	2009
<i>Operating profit/(loss) is stated after charging</i>	<u>£000</u>	<u>£000</u>
<i>Depreciation and amortisation</i>		
Tangible assets - owned	2,140	2,238
Intangible assets	417	417
Loss on disposal of tangible assets	152	18
<i>Rental charges under operating leases</i>		
Plant and machinery	3,730	4,048
Other operating leases	3,447	3,296
Research and development	1,374	1,603
Restructuring costs	2,270	4,200
Loss on foreign exchange	159	1,246
<i>Auditors' remuneration</i>		
Audit fees - statutory audit	204	230

Notes to the accounts (continued)*for the year ended 31 December 2010*

5. Employees and directors	2010	2009
<i>Average number of persons employed during the year</i>	<u><i>number</i></u>	<u><i>number</i></u>
(including executive directors)		
Factory and engineering	517	555
Selling, servicing and marketing	1,384	1,553
General and administration	132	222
	<u>2,033</u>	<u>2,330</u>
<i>Staff costs</i>	<u><i>£000</i></u>	<u><i>£000</i></u>
Wages and salaries	77,950	94,030
Social security costs	7,519	9,044
Pension costs - defined benefit (note 16)	10,757	8,886
Pension costs - defined contributions (note 16)	3,308	3,411
Share based payment charges (note 19)	1,615	2,152
	<u>101,149</u>	<u>117,523</u>
<i>Directors' remuneration</i>		
Aggregate emoluments	624	612
Pension	19	11
Compensation for loss of office	-	256
	<u>643</u>	<u>879</u>
<i>Highest paid director</i>		
Aggregate emoluments	257	278
Pension	-	11
Compensation for loss of office	-	256
	<u>257</u>	<u>545</u>

At the end of the year the highest paid director's accrued pension was £123,000 (2009 £120,000)

During the year three directors (2009 two) exercised options over shares of Honeywell International Inc, the ultimate parent company

Two directors (2009 two) are remunerated by other group companies for their services to the group as a whole

<i>The number of directors who were</i>	2010	2009
Members of a defined benefit plan	<u><i>number</i></u>	<u><i>number</i></u>
	2	1
6. Interest	2010	2009
<i>Interest receivable and similar income</i>	<u><i>£000</i></u>	<u><i>£000</i></u>
Interest receivable from group undertakings	1,192	927
Other interest receivable	429	13
	<u>1,621</u>	<u>940</u>
<i>Interest payable and similar charges</i>		
Bank interest	342	499
Interest payable to group undertakings	1,096	-
	<u>1,438</u>	<u>499</u>

Notes to the accounts (continued)*for the year ended 31 December 2010*

7. Tax on profit on ordinary activities	2010	2009
<i>Current tax</i>	<u>£000</u>	<u>£000</u>
UK corporation tax on profits of the year	-	2,493
Adjustment in respect of prior years	-	(2 831)
Total current tax	-	(338)
<i>Deferred tax</i>		
Accelerated capital allowances	353	128
Pension	15,344	-
Other timing differences	(1,390)	(240)
Tax losses	(9,230)	-
Adjustment in respect of prior years	-	574
	<u>5,077</u>	<u>462</u>
Tax on profit on ordinary activities	<u>5,077</u>	<u>124</u>

The tax assessed for the year is different to the standard rate of UK corporation tax rate of 28% (2009 28%) and the differences are explained below

Profit on ordinary activities before tax	<u>15,599</u>	<u>1,855</u>
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Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)

<u>4,368</u>	<u>519</u>
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Effects of

Expenses not deductible for tax purposes and other permanent differences	998	1 089
Capital allowances for the year in excess of depreciation	(141)	(128)
Movements in general provisions and other short term timing differences	292	47
Timing differences related to the pension asset	(15,089)	-
Group relief not paid for	-	966
Unrelieved tax losses carried forward	9,572	-
Adjustment in respect of prior years	-	(2 831)
Total current tax charge/(credit) for the year	<u>-</u>	<u>(338)</u>

Factors that may affect future tax charges

Deferred tax is provided at 27% on temporary differences reversing in 2011 and 27% on differences reversing after 2011. There are proposals to reduce UK Corporation Tax in stages to 23% by April 2014, and the effect of these proposals is not material

8. Deferred taxation

	2010	2009
<i>Tax effect of timing differences because of</i>	<u>£000</u>	<u>£000</u>
Differences between capital allowances and depreciation	281	634
Short term timing differences	2 831	1 441
Tax losses	9,230	-
Deferred tax excluding that relating to pension scheme liability (note 13)	<u>12,342</u>	<u>2 075</u>
Deferred tax asset on pension liability (note 16)	<u>6 865</u>	<u>30 970</u>
Total deferred tax asset	<u>19 207</u>	<u>33 045</u>

Movement in deferred tax excluding that relating to pension liability

At 1 January	2 075	2 537
(Credit)/charge to the profit and loss account	<u>10,267</u>	<u>(462)</u>
At 31 December	<u>12 342</u>	<u>2 075</u>

Notes to the accounts (continued)*for the year ended 31 December 2010*

8. Deferred taxation (continued)	2010	2009
<i>Amounts included within pension deficit relating to deferred tax</i>	<u>£000</u>	<u>£000</u>
At 1 January	30,970	7,750
Charge to the profit and loss account	(15,344)	-
(Charge)/credit to the statement of total recognised gains and losses	(8,761)	23,220
At 31 December	<u>6,865</u>	<u>30,970</u>

9. Intangible assets

	Goodwill	Know-how and licences	Patents	Total
<i>Cost</i>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January and 31 December	9,021	1,992	348	11,361
<i>Accumulated amortisation</i>				
At 1 January 2010	4,519	1,992	348	6,859
Charge for the year	417	-	-	417
At 31 December 2010	<u>4,936</u>	<u>1,992</u>	<u>348</u>	<u>7,276</u>
<i>Net book value</i>				
At 31 December 2010	<u>4,085</u>	<u>-</u>	<u>-</u>	<u>4,085</u>
At 31 December 2009	<u>4,502</u>	<u>-</u>	<u>-</u>	<u>4,502</u>

10. Tangible assets

	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 2010	17,145	50,505	5,325	2,327	75,302
Additions	-	2	-	1,486	1,488
Disposals	(332)	(17,879)	(306)	-	(18,517)
Reclassifications	1,118	(2,213)	4,499	(3,404)	-
At 31 December 2010	<u>17,931</u>	<u>30,415</u>	<u>9,518</u>	<u>409</u>	<u>58,273</u>
<i>Accumulated depreciation</i>					
At 1 January 2010	14,200	45,597	4,757	-	64,554
Charge for the year	469	1,344	327	-	2,140
Disposals	(312)	(16,746)	(244)	-	(17,302)
Reclassifications	-	(3,858)	3,858	-	-
At 31 December 2010	<u>14,357</u>	<u>26,337</u>	<u>8,698</u>	<u>-</u>	<u>49,392</u>
<i>Net book value</i>					
At 31 December 2010	<u>3,574</u>	<u>4,078</u>	<u>820</u>	<u>409</u>	<u>8,881</u>
At 31 December 2009	<u>2,945</u>	<u>4,908</u>	<u>568</u>	<u>2,327</u>	<u>10,748</u>

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

Land and buildings are short leasehold except for freehold assets with a net book value of £398,000 (2009 £398,000).

Notes to the accounts (continued)

for the year ended 31 December 2010

11. Investments

Cost and net book value

At 1 January 2010 and 31 December 2010

Ordinary shares in subsidiary undertakings

£000

1,167

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 2010. The company's principal subsidiary undertakings, all of which are 100% owned unless otherwise indicated, are as follows:

<u>Name of company</u>	<u>Principal activities</u>	<u>Country of incorporation</u>
<u>Directly held subsidiaries</u>		
Honeywell Southern Africa (Pty) Ltd	Control systems	South Africa
<u>Indirectly held subsidiaries</u>		
Honeywell Automation and Control Solutions South Africa (Pty) Ltd (74.9%)	Control systems	South Africa

12. Stocks

	2010	2009
	£000	£000
Raw materials	4,338	4,091
Work in progress	662	1,533
Finished goods for sale	4,141	4,341
Spare parts held at customers' sites on consignment	2,132	2,015
	<u>11,273</u>	<u>11,980</u>

Consignment stock is held by certain customers as part of maintenance agreements between the company and those customers. The stock is replenished when used.

13. Debtors

	2010	2009
	£000	£000
Amounts recoverable on contracts	11,871	12,820
Trade debtors	59,817	58,703
Amounts owed by group undertakings	95,309	68,803
Corporation tax	-	3,910
Deferred taxation (note 8)	12,342	2,075
Other debtors	2,321	7,828
Prepayments and accrued income	2,211	2,802
	<u>183,871</u>	<u>156,941</u>
<i>Amounts falling due after more than one year</i>		
Contract retentions	1,043	-
	<u>184,914</u>	<u>156,941</u>

Included in amounts owed by group undertakings are loans of £85,800,000 (2009 £49,995,000), that bear interest at UK base rate plus 1%. All other amounts are non interest bearing. All amounts are unsecured and repayable on demand.

Notes to the accounts (continued)*for the year ended 31 December 2010*

14. Creditors: amounts falling due within one year	2010	2009
	<u>£000</u>	<u>£000</u>
Bank overdrafts	-	12,118
Payments received on account	6,402	6,794
Trade creditors	27,590	27,234
Amounts owed to group undertakings	50,634	30,754
Corporation tax	289	-
Taxation and social security	4,041	1,856
Accruals and deferred income	26,756	24,244
	<u>115,712</u>	<u>103,000</u>

Included in amounts owed to group undertakings is a loan of £12,007,000 (2009 £nil), that bears interest at UK base rate plus 1%. All other amounts are non interest bearing. All amounts are unsecured and repayable on demand.

15. Provisions for liabilities	Warranty	Contracts	Litigation	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January 2010	482	35	200	717
Charged to the profit and loss account	330	23	-	353
At 31 December 2010	<u>812</u>	<u>58</u>	<u>200</u>	<u>1,070</u>

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 and is based on the estimated completion cost.

The litigation provision has been made to cover a protracted specific legal exposure that is expected to be resolved during 2012.

16. Pension commitments

The company is a participating employer in the Honeywell UK Pension Scheme, which was established on 8 March 2010 to provide benefits for former members and beneficiaries of various predecessor pension schemes within the UK.

Until 9 April 2010, the company was the principal participating employer of the Honeywell Retirement Plan (the "Predecessor Scheme"), which had a defined benefit section (closed to new members since 31 December 2002) and two defined contribution sections called PensionBuilder (open to new members) and AlliedSignal (for former members of the AlliedSignal UK Retirement Plan).

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

The Honeywell Control Systems Ltd Pension and Death Benefit Scheme continues as a separate scheme for former and current employees of the company's Irish branch.

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 2011 are estimated to be £1,500,000.

Honeywell Control Systems Ltd Pension and Death Benefit Scheme (Irish scheme)

The Honeywell Control Systems Ltd Pension and Death Benefit Scheme is a funded defined benefit scheme providing retirement benefits based on salary. The scheme also provides life assurance cover. Regular employer contributions to the scheme in 2011 are estimated to be £140,000.

The defined benefit obligation is based on a full assessment of the liabilities as at 31 December 2010 using the projected unit credit method.

Notes to the accounts (continued)

for the year ended 31 December 2010

16. Pension commitments (continued)

	Irish Scheme	HRP	Irish Scheme	HRP
	2010	2010	2009	2009
<i>Main actuarial assumptions</i>				
Inflation (RPI)	2.00%	3.50%	2.00%	3.60%
Inflation (CPI)	-	2.60%	-	-
Pension increases	3.00%	4.50%	3.00%	4.60%
Rate of increase for pensions pre 1997 (excess of guaranteed minimum payments)	2.20%	2.50%	2.20%	2.50%
Rate of increase for other pensions and deferred pensions	2.00%	3.30%	2.00%	3.60%
Discount rate for scheme liabilities	5.10%	5.50%	5.10%	5.70%
Expected rate of return	5.80%	6.90%	5.60%	7.31%

Assumptions reflect the Government's proposed changes to indexation of pensions from RPI to CPI. The effect of the change on assumptions this year is reflected in the STRGL. This change only affects deferred pensioners, as the Scheme Rules refer to RPI specifically for pensions in payment.

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 2010 at age 65 will live on average for a further 21 years after retirement if male or a further 24 years if female, and a member who retires in 2025 at age 65 will live on average for a further 23 years after retirement if male or a further 26 years if female.

	Irish scheme	HUKPS	Total 2010	2009	2008
	£000	£000	£000	£000	£000
<i>Fair value by class of asset</i>					
Gilts	-	12,200	12,200	78,900	77,500
Bonds	465	190,500	190,965	46,511	46,782
Property	140	25,100	25,240	-	-
Equities	2,470	328,600	331,070	321,568	267,563
Other	175	27,000	27,175	42,889	29,267
	<u>3,250</u>	<u>583,400</u>	<u>586,650</u>	<u>489,868</u>	<u>421,112</u>

Reconciliation of funded status to balance sheet

Fair value of assets	3,250	583,400	586,650	489,868
Present value of funded defined benefit obligations	(3,549)	(597,600)	(601,149)	(584,082)
Net pension liability	(299)	(14,200)	(14,499)	(94,214)
Related deferred tax asset @ 27% (2009 28%)	81	3,834	3,915	26,380
Deferred tax on excess pension contributions deductible in future years	-	2,950	2,950	4,590
Net pension deficit	<u>(218)</u>	<u>(7,416)</u>	<u>(7,634)</u>	<u>(63,244)</u>

Analysis of profit and loss charge/(credit)

Current service cost	198	10,600	10,798	7,859
Exchange movement	(41)	-	(41)	(73)
Past service cost	-	-	-	1,100
Contributions paid by subsidiaries	-	(5,677)	(5,677)	-
Interest cost	197	32,500	32,697	27,770
Expected return on pension scheme assets	(154)	(36,000)	(36,154)	(29,221)
Charge recognised in profit and loss	<u>200</u>	<u>1,423</u>	<u>1,623</u>	<u>7,435</u>

Notes to the accounts (continued)

for the year ended 31 December 2010

16. Pension commitments (continued)

Changes in present value of defined benefit obligation

	Irish scheme	HUKPS	Total 2010	2009
	£000	£000	£000	£000
At 1 January	3,782	580,300	584,082	448,791
Transfer in	-	-	-	(255)
Current service cost	198	10,600	10,798	7,859
Exchange movement	(150)	-	(150)	-
Interest cost	197	32,500	32,697	27,770
Contributions by participants	33	300	333	351
Actuarial (gains)/losses on liabilities	(508)	(3,700)	(4,208)	121,475
Net benefits paid out	(3)	(22,400)	(22,403)	(23,009)
Past service cost	-	-	-	1,100
At 31 December	3,549	597,600	601,149	584,082

Changes in fair value of scheme assets

At 1 January	2,768	487,100	489,868	421,112
Transfer in	-	-	-	(182)
Expected return on assets	154	36,000	36,154	29,221
Exchange movement	(109)	-	(109)	-
Actuarial gains on assets	181	26,900	27,081	29,641
Contributions by the employer	226	55,500	55,726	32,734
Contributions by participants	33	300	333	351
Net benefits paid out	(3)	(22,400)	(22,403)	(23,009)
At 31 December	3,250	583,400	586,650	489,868

Actual return on assets

Expected return on assets	154	36,000	36,154	29,221
Actuarial gains on assets	181	26,900	27,081	29,641
Actual return on assets	335	62,900	63,235	58,862

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

Total actuarial gains/(losses)	689	30,600	31,289	(91,834)
Cumulative amount of losses recognised in STRGL	(525)	(231,880)	(232,405)	(263,694)

History of asset values DBO and deficit

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Fair value of assets	586,650	489,868	421,112	510,400	494,200
Defined benefit obligation (DBO)	(601,149)	(584,082)	(448,791)	(517,600)	(495,800)
Deficit in scheme	(14,499)	(94,214)	(27,679)	(7,200)	(1,600)

History of experience gains and losses

Experience gain/(loss) on assets	27,081	29,641	(124,007)	(3,000)	2,100
Experience gain/(loss) on liabilities	4,100	(4,800)	(3,473)	(3,500)	(1,600)

Defined contribution sections

The contribution to the plans during the year were £3,308,000 (2009 £3,411,000). Contributions accrued at year end amounted to £nil (2009 £455,000).

Notes to the accounts (continued)*for the year ended 31 December 2010*

17. Called up share capital	2010	2009
<i>Authorised, allotted, and fully paid</i>	<u>£000</u>	<u>£000</u>
At 1 January 86,000,000 ordinary shares of £1 each	86,000	86,000
Authorised, allotted and fully paid up during the year	64,000	-
At 31 December 150,000,000 (2009 86,000,000) ordinary shares of £1 each	<u>150,000</u>	<u>86,000</u>

On 22 December 2010 64,000 000 £1 ordinary shares were issued to the immediate parent undertaking, Honeywell Ltd
The consideration of £64 000,000 was satisfied in cash

18. Reconciliation of shareholders' funds and movements on reserves

	Share capital	Share premium account	Profit and loss account	2010 Total	2009 Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January	86,000	14,538	(82,161)	18,377	80,515
Shares issued in year (note 17)	64,000	-	-	64,000	-
Profit for the financial year	-	-	10,522	10,522	1,731
Movement in respect of share options	-	-	979	979	2,252
Actuarial gain/(loss) on the pension plan	-	-	31,289	31,289	(91,834)
Movement on current tax relating to pension deficit	-	-	-	-	2,493
Movement on deferred tax relating to pension deficit	-	-	(8,761)	(8,761)	23,220
At 31 December	<u>150,000</u>	<u>14,538</u>	<u>(48,132)</u>	<u>116,406</u>	<u>18,377</u>

19. Share-based payments*Share option scheme*

The company participates in the Honeywell Stock Incentive Plan for employees. Options are granted over shares in Honeywell International Inc. Options are granted with a fixed exercise price which is not less than the market price of the shares on that date. The options vest over a four year period at 25% per year and expire after 10 years. There are no specific performance criteria attached to the options.

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

The fair value of each stock option grant made during 2010 was estimated on the grant date using the Black-Scholes model using the following weighted-average assumptions consistent with the requirements of FRS20

Notes to the accounts (continued)*for the year ended 31 December 2010*

19. Share-based payments (continued)	<u>2010</u>	<u>2009</u>
Expected volatility	29.39%	35.78%
Expected annual dividend yield	3.00%	4.26%
Risk-free rate of return	2.64%	2.53%
Expected option term (years)	5.4	5.8

<i>Share options outstanding during the year</i>	<u>2010</u> <u>number</u>	<u>2010</u> <u>price*</u>	<u>2009</u> <u>number</u>	<u>2009</u> <u>price*</u>
Outstanding at 1 January	421,755	£21.92	314,805	£22.93
Granted	131,000	£25.11	111,000	£19.80
Exercised	(41,950)	£20.07	-	-
Transferred in	10,000	£24.76	53,550	£24.12
Transferred out	(5,775)	£17.97	-	-
Forfeited	(21,350)	£23.58	(57,600)	£25.40
Outstanding at 31 December **	<u>493,680</u>	<u>£23.12</u>	<u>421,755</u>	<u>£21.92</u>
Exercisable at 31 December	<u>178,155</u>	<u>£22.28</u>	<u>347,205</u>	<u>£21.40</u>

*The price is the weighted average exercise price

**Share options outstanding at 31 December have a weighted average remaining contractual life of 6.95 years

Restricted stock units

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

<i>Restricted stock units outstanding during the year</i>	<u>2010</u> <u>number</u>	<u>2010</u> <u>price*</u>	<u>2009</u> <u>number</u>	<u>2009</u> <u>price*</u>
Outstanding at 1 January	118,621	£25.22	80,920	£24.21
Granted	77,456	£26.33	60,771	£25.16
Exercised	(31,260)	£25.28	(31,730)	£21.91
Transferred in	39,229	£25.38	18,910	£24.82
Transferred out	(379)	£27.72	-	-
Forfeited	(3,848)	£24.50	(10,250)	£26.42
Outstanding at 31 December **	<u>199,819</u>	<u>£23.94</u>	<u>118,621</u>	<u>£25.22</u>

*The price is the weighted average exercise price

** Restricted stock units outstanding at 31 December have a weighted average remaining contractual life of 2.75 years

The charge for the year relating to share based payment plans was £1,615,000 (2009 £2,152,000). After deferred tax the total charge was £682,000 (2009 £1,960,000).

20. Operating lease commitments

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

	<u>2010</u> <u>£000</u>	<u>2009</u> <u>£000</u>
<i>Land and buildings</i>		
expiring in one year	150	116
expiring in two to five years	1,085	1,274
expiring after five years	1,922	1,934
	<u>3,157</u>	<u>3,324</u>
<i>Other leases</i>		
expiring in one year	1,168	1,193
expiring in two to five years	4,137	5,005
	<u>5,305</u>	<u>6,198</u>

Notes to the accounts (continued)

for the year ended 31 December 2010

21. Capital commitments	2010	2009
	<u>£000</u>	<u>£000</u>
Contracted for but not provided in the accounts	128	2 198

22. Guarantees

Bank guarantees, in favour of HM Customs and Excise, have been entered into with our bankers in the normal course of business amounting to £2 052,000 (2009 £2 052 000). The company has also provided guarantees to HM Customs and Excise amounting to £3 730 000 (2009 £3 730,000) on behalf of fellow group companies.

Performance guarantees amounting to £5,131,000 (2009 £667,000) have been given to customers of a fellow group company, Honeywell Turki-Arabia Ltd. When Honeywell Turki-Arabia Ltd obtains their own line of credit these guarantees will be transferred into Honeywell Turki-Arabia Ltd's name.

23. 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 £470,428,000 (2009 £659,538 000). Positive cash balances held in the group exceeded the overdraft balances in 2010 and 2009.

24. Ultimate parent undertakings

The immediate parent undertaking is Honeywell 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.