

HONEYWELL CONTROL SYSTEMS LTD

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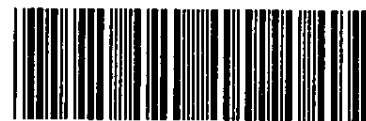
Registration number 03408580

# Honeywell Group Ltd

## Report and financial statements 2013

These accounts form part of the subsidiary package  
application for audit exemption for Honeywell Control  
Systems Limited (company number 00217803) for the  
financial year ended 31 December 2013

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## Strategic report

for the year ended 31 December 2013

Honeywell Group Ltd  
Registration number 03408580

The directors present the strategic report on the group and company for the year ended 31 December 2013

### Review of the business

Despite ongoing uncertainty in some of the markets the group operates in, the group has delivered consistent financial performance in 2013. Operating results are impacted by the level of UK residential and commercial construction (including retrofits and upgrades), capital spending and operating expenditures on buildings and process automation, industrial plant capacity utilisation and expansion, inventory levels in distribution channels, and economic growth rates. UK government and public sector spending on large projects also influence our results.

Turnover fell by 1.3% to £1,055 million compared to 2012 turnover of £1,068 million. The products businesses performed well, taking advantage of improved economic conditions in the UK. The projects businesses continue to operate in competitive environments, as well as competing against the 2012 performance which benefited from the London Olympics contracts.

Gross profit fell by 3.6% to £306 million compared to 2012 gross profit of £317 million. Gross profit margin year on year remained consistent at 29%. 2012 benefitted from the high margins experienced on the London Olympics work, whereas 2013 has seen improved margin in the products businesses through supply chain initiatives and other cost control measures.

The gross profit performance has flowed through to operating profit, which has fallen 8.5% from £57 million in 2012 to £52 million in 2013. SG&A costs have been closely monitored, and together with repositioning activity have contributed to the group's performance.

The group's net assets increased by 19% to £723 million in 2013 compared to £607 million in 2012. The primary driver of this movement was the group's net position in relation to defined benefit pension schemes changing from a net liability of £97 million to a net asset of £12 million, mainly as a result of company contributions of £69 million (2012 £97 million) and actuarial gains of £64 million (2012 £63 million losses) following improved market conditions (note 19).

Other events during the year contributed to the financial results:

- the business of BW Europe Ltd was transferred to other Honeywell companies outside of the group, reducing year on year revenue by £35 million
- shares in B/E Aerospace Inc. were sold realising a gain of £33 million
- net return on pension plan assets were £23 million
- net gain on disposal of assets realised £5 million
- intercompany loan financing reduced by £13 million over 2012

The group is in a strong financial position and is looking forward to another challenging year in 2014, looking for growth opportunities using market leading technology and service to differentiate itself from the competition.

### Pensions

The group's net position in relation to defined benefit pension schemes changed from a net liability of £97 million to a net asset of £12 million, mainly as a result of company contributions of £69 million (2012 £97 million) and actuarial gains of £64 million (2012 £63 million losses) following improved market conditions (note 19).

### Income from other fixed asset investments

The group made a gain of £33 million as a result of the sale of quoted shares in B/E Aerospace Inc. which had been acquired in 2009 as part of the sale of the Consumable Solutions business (note 7).

### Interest income and expense

The group monitors its net interest income/expense.

The interest receivable from group undertakings has reduced in 2013 having seen the full year impact of five year loans that matured in September 2012. The new interest rate for these loans is 1.28%, reduced from 6.13%.

The reduction in interest payable to group undertakings is the result of the replacement, in April, of loans at 7% and 7.5% with new loans at 2.9% and 3.25% respectively.

## Strategic report

for the year ended 31 December 2013

Honeywell Group Ltd

Registration number 03408580

### Key performance indicators

Management monitors the business using the following key indicators

	<u>2013</u>	<u>2012</u>
	<u>%</u>	<u>%</u>
<i>Turnover % change compared with previous year, due to</i>		<i>unaudited</i>
Volume	1.4	1.0
Price	0.6	(5.5)
Divestitures	(3.3)	0.0
	<u>(1.3)</u>	<u>(4.5)</u>
Gross profit %	29.0	29.7
Operating result % of turnover	4.9	5.3
Headcount % change compared with previous year	<u>(1.3)</u>	<u>(4.2)</u>

### Turnover

A number of factors contributed to the turnover performance during 2013. The transfer of the BW Europe Ltd business contributed to the reduction, together with non-repetitive business in 2012 such as the Olympics Games project.

Economic conditions both in the UK and globally impacted performance across the portfolio, with both positive and negative experience depending upon the markets being operated in.

### Gross profit

The main driver behind the overall decrease in gross profit has been the volume mix being experienced across the businesses. Efficiencies in the manufacturing businesses have helped drive cost management, yielding higher margins, whilst other areas have seen economic conditions drive lower margins in competitive markets.

### Operating result

The operating performance of the business, partly offset by savings from business transformation projects, has resulted in the fall in results for 2013.

### Headcount

Ongoing restructuring and skill realignment work in each of the businesses has resulted in operational efficiencies being achieved resulting in the requirement for less headcount.

### Strategy

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

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

## Strategic report

for the year ended 31 December 2013

Honeywell Group Ltd  
Registration number 03408580

### Principal risks and uncertainties

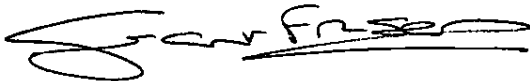
The management of the business and the execution of the group's strategy are subject to a number of risks. The key business risks affecting the group are

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

In response to the risks the group

- maintains a global 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,
- implements supply chain and procurement initiatives,
- actively investigates new technologies and market trends,
- monitors applicable regulations to ensure products and systems provide high quality solutions for current needs,
- ensures that pension schemes are adequately funded, and
- the group and company ensures that all reasonable steps are taken to provide a safe working environment

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



Grant Fraser  
Director  
22 July 2014

## **Directors' report**

*for the year ended 31 December 2013*

Honeywell Group Ltd  
Registration number 03408580

The directors present their report and group financial statements of the group and company for the year ended 31 December 2013

This is the first time that the company has presented consolidated financial statements. Comparative figures for 2012 are shown as unaudited because of the expense of auditing certain foreign subsidiaries which were not audited in 2012. As explained in note 27, preparing consolidated financial statements enables UK subsidiaries to claim an exemption from audit.

### **Principal activities**

The group's principal activities during the year include a diversified portfolio of manufacturing and integrated solutions businesses, across a range of industries including automation and control solutions, aerospace and transportation systems.

Manufacturing activity includes electrical and electronic products, security equipment including intruder detection, video surveillance and building access control, life safety equipment including fire detection and emergency lighting, and intelligent products and systems for measurement and control of the building environments including energy consumption. The group's products are distributed across a wide network for use in domestic, commercial and industrial applications.

The group's integrated solutions and products make homes, buildings, industrial sites, airport facilities and infrastructure more efficient, safe and comfortable by improving energy efficiency, industrial productivity and safety while enhancing convenience and control.

The group's operations in the UK are supported by employees primarily in Bracknell, Glasgow and Basildon.

The aim of the group is to maintain a market leading position in these industries and to continue to grow turnover and profits through investment in technology and people, as well as through acquisitions.

The company's primary activity is that of a holding company.

### **Business review and future developments**

A review of the business of the group and future developments is included in the strategic report.

### **Results and dividends**

The group's profit for the financial year was £68,826,000 (2012 £32,791,000 profit) which will be transferred to reserves. The results for the year are shown on page 9.

The directors do not recommend the payment of a dividend (2012 £nil).

### **Change of name**

On 2 October 2013 the company changed its name from Garrett Thermal Systems Holdings Ltd to Honeywell Group Ltd.

### **Financial risk management**

#### *Foreign currency risk*

The worldwide group hedges its exposures to significant foreign currency movements.

At 31 December, the fair value of unrealised assets/(liabilities) under hedge contracts was not material (2012 £nil).

#### *Credit risk*

Credit risk arises from cash at bank and credit exposures to customers. Bank balances are maintained within the permitted credit limits set by the group's Investment Committee who frequently monitor banks' credit ratings. The creditworthiness of customers granted credit terms in the normal course of business is monitored continually. The terms and conditions of credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer. Sales are not materially dependent on a single customer or a small group of customers.

## **Directors' report**

*for the year ended 31 December 2013*

Honeywell Group Ltd  
Registration number 03408580

### ***Liquidity risk***

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

### ***Other risks***

The group's exposure to other risks such as prices, interest and cash flow is within reasonable limits and these exposures are not hedged

### **Directors**

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

Grant Fraser (appointed 25 October 2013)

Cheryl Lim (appointed 25 October 2013)

Richard Hogan

Olivier Ophele (resigned 28 March 2013)

James Vickerstaff (appointed 1 April 2013)

### **Directors' indemnities**

Pursuant to the company's articles of association, the directors were throughout the year ended 31 December 2013 and are at the date of this report entitled to a qualifying indemnity provision as defined in section 234 of the Companies Act 2006

### **Research and development**

Research and development expenditure for the year amounted to £20,548,000 (2012 £17,866,000)

### **Employment of disabled persons**

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

### **Employee involvement**

The group keeps employees fully informed of the company's strategies and their impact on the performance of the group and encourages employee participation. Briefing meetings are held for each division to give information on group 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 group. Furthermore, employees can acquire shares in the ultimate parent company through the UK ShareBuilder Plan

## Directors' report

for the year ended 31 December 2013

Honeywell Group Ltd  
Registration number 03408580

### Directors' responsibilities statement

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to

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

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

### 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 to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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



Grant Fraser  
Director  
22 July 2014

## **Independent auditors' report**

*to the members of Honeywell Group Ltd*

Registration number 03408580

### **Report on the financial statements**

#### **Our opinion**

In our opinion the financial statements, defined below

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2013 and of the group's 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

This opinion is to be read in the context of what we say in the remainder of this report

#### **What we have audited**

The financial statements, which are prepared by Honeywell Group Ltd, comprise

- the group and parent company balance sheets as at 31 December 2013,
- the group profit and loss account for the year then ended,
- the statement of group total recognised gains and losses for the year then ended,
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

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)

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events

#### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") 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 Group and the parent 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 Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

#### **Other matter**

The financial statements of the group for the year ended 31 December 2012, forming the corresponding figures in the financial statements for the year ended 31 December 2013, are unaudited

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report and the strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements

## **Independent auditors' report**

*to the members of Honeywell Group Ltd*

Registration number 03408580

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made

We have no exceptions to report arising from this responsibility

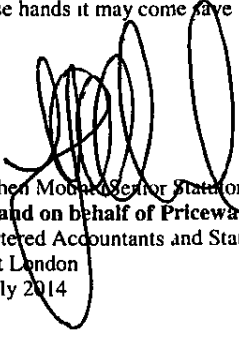
### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

As explained more fully in the directors' responsibilities statement set out on page 6 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 ISAs (UK & 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



Stephen Moore (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
West London  
22 July 2014

## Consolidated profit and loss account

for the year ended 31 December 2013

Honeywell Group Ltd  
Registration number 03408580

	Note	2013 £000	2012 £000 <i>unaudited</i>
Turnover	3	1,054,914	1,068,562
Cost of sales		(749,055)	(751,254)
<b>Gross profit</b>		<b>305,859</b>	<b>317,308</b>
Distribution costs		(101,958)	(104,334)
Administrative expenses		(151,728)	(156,122)
<b>Operating profit</b>	4	<b>52,173</b>	<b>56,852</b>
Income from other fixed assets investments	13	32,764	-
Profit on sale of fixed assets		4,818	-
Interest receivable and similar income	7	40,240	53,774
Interest payable and similar charges	8	(30,023)	(43,123)
<b>Profit on ordinary activities before taxation</b>		<b>99,972</b>	<b>67,503</b>
Tax on profit on ordinary activities	9	(30,971)	(34,328)
<b>Profit on ordinary activities after taxation before minority interests</b>		<b>69,001</b>	<b>33,175</b>
Minority interests		(175)	(384)
<b>Profit for the financial year</b>	21	<b>68,826</b>	<b>32,791</b>

All amounts are derived 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

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. Its profit for the year amounted to £16,091,000 (2012 £16,352,000)

## Statement of group total recognised gains and losses

for the year ended 31 December 2013

	Note	2013 £000	2012 £000 <i>unaudited</i>
<b>Profit for the financial year</b>		<b>68,826</b>	<b>32,791</b>
Exchange adjustments offset in reserves		(6,427)	1,234
Actuarial gain/(loss) on pension plan	19	61,948	(61,632)
Movement on deferred tax relating to pension asset	10	(12,416)	4,907
Movement on current tax relating to pension asset		-	7,239
<b>Total recognised gains/(losses) relating to the year</b>		<b>111,931</b>	<b>(15,461)</b>

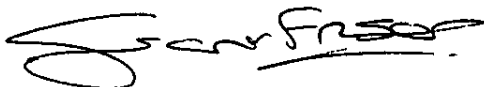
# Balance sheets

at 31 December 2013

Honeywell Group Ltd  
Registration number 03408580

	Note	Company		Group	
		2013	2012	2013	2012
		£000	£000	£000	£000
<b>Fixed assets</b>					<i>unaudited</i>
Intangible assets	11	-	-	320,770	350,947
Tangible assets	12	-	-	36,049	37,481
Investments	13	1,055,277	167,376	156,746	176,400
		<u>1,055,277</u>	<u>167,376</u>	<u>513,565</u>	<u>564,828</u>
<b>Current assets</b>					
Stocks	14	-	-	46,501	51,993
Debtors	16	2,220	873,495	1,396,223	1,266,756
Current asset investment	15	-	-	80,770	10,521
Cash at bank and in hand	10	-	-	177,528	165,939
		<u>2,230</u>	<u>873,495</u>	<u>1,701,022</u>	<u>1,495,209</u>
Creditors amounts falling due within one year	17	(36,090)	(35,545)	(1,377,803)	(1,202,781)
<b>Net current (liabilities)/assets</b>		<u>(33,860)</u>	<u>837,950</u>	<u>323,219</u>	<u>292,428</u>
<b>Total assets less current liabilities</b>		<u>1,021,417</u>	<u>1,005,326</u>	<u>836,784</u>	<u>857,256</u>
<b>Creditors: amounts falling due after more than one year</b>	17	-	-	(114,835)	(143,628)
Provisions for liabilities	18	-	-	(11,304)	(8,998)
<b>Net assets excluding pension asset/(liability)</b>		<u>1,021,417</u>	<u>1,005,326</u>	<u>710,645</u>	<u>704,630</u>
Pension asset/(liability)	19	-	-	12,483	(97,222)
<b>Net assets including pension asset/(liability)</b>		<u>1,021,417</u>	<u>1,005,326</u>	<u>723,128</u>	<u>607,408</u>
<b>Capital and reserves</b>					
Called up share capital	20	837,064	837,064	837,064	837,064
Share premium account	21	1,003	1,003	1,003	1,003
Profit and loss account	21	183,350	167,259	(184,593)	(298,105)
<b>Total shareholders' funds</b>	21	<u>1,021,417</u>	<u>1,005,326</u>	<u>653,474</u>	<u>539,962</u>
Minority interests		-	-	69,654	67,446
<b>Capital employed</b>		<u>1,021,417</u>	<u>1,005,326</u>	<u>723,128</u>	<u>607,408</u>

The financial statements on pages 9 to 28 were approved by the board of directors on 22 July 2014 and signed on its behalf by



**Grant Fraser**  
Director

## Notes to the financial statements

for the year ended 31 December 2013

Honeywell Group Ltd  
Registration number 03408580

### 1. Accounting policies

These financial statements 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.

The prior year comparatives for the group are unaudited. This is the first time that the company has presented consolidated financial statements.

#### *Changes in accounting policies*

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

There were no changes to accounting standards in 2013 which were applicable to the group or to the company.

#### *Consolidation of group companies*

The consolidated financial statements comprise the financial statements of the company and all its subsidiary undertakings and incorporate the results of its associated undertakings. The results of subsidiaries acquired during the year are included from the date of acquisition and are accounted for using the acquisition method of accounting. Associates are accounted for using the equity method.

The group's subsidiaries are shown in note 27 of these financial statements.

#### *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 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 and the difference is reported in accrued or deferred income. Revenue from the sale of consignment stock is recognised when the title of goods sold passes to the customer. Instalments receivable after completion are recognised when the timing of their receipt becomes certain. Revenue from licensing agreements is recognised evenly over the period of the agreement.

Where, for a particular contract, turnover exceeds amounts invoiced on account, the excess is included in debtors as amounts recoverable on contracts. Where amounts invoiced exceed turnover, the excess is included in payments on account. Royalty income is recognised in line with the performance criteria specified in the royalty agreement.

On 1 September 2002 a UK General Partnership ('the partnership') was formed by Honeywell Aerospace BV (99%), a company registered in the Netherlands, and Honeywell UK Ltd (1%), a UK registered company. From this date certain subsidiaries of the group have acted as disclosed agents for the partnership earning commission income on staff costs recharged to the partnership. Commission income on staff costs is recognised upon supply to the partnership.

#### *Leases- as lessee*

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

#### *Leases- as lessor*

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

#### *Bad debt provision*

An allowance for doubtful debts is made against trade debtors which exceed 180 days past due date. Provisioning made against debts subsequently settled after 180 days past due are released back to the current profit and loss account.

## Notes to the financial statements

for the year ended 31 December 2013

Honeywell Group Ltd  
Registration number 03408580

### *Research and development*

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

### *Foreign currency*

Transactions denominated in foreign currency are booked 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.

The cost of investment in overseas subsidiaries and associates is stated at the rate of exchange in force at the date each investment was made. The results of overseas subsidiaries and associates are translated into Pounds sterling at the average rate of exchange during the year. Assets and liabilities of overseas subsidiaries are translated into Pounds sterling at rates ruling at the balance sheet date. Currency differences arising from the retranslation of the opening net investments subsidiaries and associates are taken to reserves.

### *Taxation*

Current tax is the amount of tax estimated to be payable or recoverable in respect of the taxable profit or loss for a period, along with adjustments to estimates in respect of previous periods.

### *Deferred tax*

Deferred tax is recognised in respect of the future estimated tax consequences of transactions or events recognised in the group financial statements of the current and previous periods.

Deferred tax assets are recognised to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the 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 3 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 group expects to derive economic benefit. The period of amortisation ranges from 3 to 5 years.

The group evaluates the carrying value of intangible assets in each financial year to determine if there has been an impairment in value resulting in the group 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.

## Notes to the financial statements

for the year ended 31 December 2013

Honeywell Group Ltd  
Registration number 03408580

### *Tangible assets and depreciation*

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

#### *Land & buildings*

Buildings - short leasehold	10% or life of lease if less than 10 years
Buildings - leasehold improvements	7-30%
Buildings - freehold	2-3%
Plant & machinery	5-33%
Fixtures & fittings	6-20%

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

Land is not depreciated

### *Investments*

An investment is classed as a subsidiary undertaking if the company or group has a controlling interest

An investment is classed as an associated company if the group has significant control or influence, but not a controlling interest

Investments are shown at cost less provision for permanent impairment. The value of investments is reviewed annually by 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.

### *Current asset investments*

Amounts held as current asset investments represent short term deposits held by banks approved by the worldwide group's treasury facility

### *Amounts recoverable on contracts*

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

### *Provisions*

The group recognises a provision when it has a present obligation, either legal or constructive, which can be reliably measured and it is probable that the transfer of economic benefits will be required to settle that obligation. Provisions are based on the best estimate of expenditure required to settle the obligation

## Notes to the financial statements

for the year ended 31 December 2013

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### *Pensions*

Defined benefit plan assets are measured at market value and plan liabilities are measured using the projected unit method. Liabilities are discounted at the current rate of return on a high quality corporate bond of term and equivalent currency to the liability. Full actuarial valuations are obtained every three years, and are updated at each balance sheet date.

The group's share of the surplus or deficit of a defined benefit plan 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 plan, normally in proportion to the number of defined benefit members reported on the most recent annual return from the trustees to the pension regulator.

A surplus is recognised to the extent that it is recoverable through reduced contributions and refunds.

Current and past service costs are included in the profit and loss account within operating expenses. The net amount of interest cost and expected return on assets is shown as other finance costs or income. Actuarial gains and losses, including differences between the expected and actual return on plan assets, are recognised in the statement of group total recognised gains and losses, net of related deferred tax.

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

### *Share-based payments*

The group'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 group's estimate of the number of options that will eventually vest. At each balance sheet date, the group 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 profit and loss account of the group which employs those to whom share-based awards are granted. The credit entry is reported directly to reserves as a capital contribution.

The group 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 it and its subsidiaries are included in the consolidated financial statements of that company, which are publicly available. Consequently, the group 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 worldwide group are not required to be disclosed in these financial statements, on the grounds that this company is a wholly owned subsidiary of Honeywell International Inc, whose financial statements are publicly available.

**Notes to the financial statements**  
for the year ended 31 December 2013

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**3. Segmental reporting**

	2013	2012
	<u>£000</u>	<u>£000</u>
<i>Analysis of turnover by geographical market</i>		<i>unaudited</i>
United Kingdom	447,630	447,517
Europe	316,551	291,395
North America	230,521	216,497
Other	60,212	113,153
	<u>1,054,914</u>	<u>1,068,562</u>
<i>Turnover by class of business</i>		
Automated controls	1,019,448	1,031,642
Aerospace	29,969	32,226
Transportation systems	5,497	4,694
	<u>1,054,914</u>	<u>1,068,562</u>
<i>Profit before tax by origin</i>		
United Kingdom	95,034	68,734
Europe	13,397	11,055
North America	(10,314)	(16,795)
Other	1,855	4,509
	<u>99,972</u>	<u>67,503</u>
<i>Profit before tax by class of business</i>		
Automation and control solutions	63,027	52,506
Transportation systems	1,296	1,194
Aerospace	5,611	7,546
Other	30,038	6,257
	<u>99,972</u>	<u>67,503</u>
<i>Net assets/(liabilities) by origin</i>		
United Kingdom	71,923	93,625
Europe	314,499	221,638
North America	293,407	266,413
Other	43,299	25,732
	<u>723,128</u>	<u>607,408</u>
<i>Net assets/(liabilities) by class of business</i>		
Automation and control solutions	763,732	726,087
Transportation systems	104,117	102,821
Aerospace	46,583	42,437
Other	(191,304)	(263,937)
	<u>723,128</u>	<u>607,408</u>

## Notes to the financial statements

for the year ended 31 December 2013

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4. Operating profit	2013	2012
<i>Operating profit is stated after charging/(crediting)</i>	<u>£000</u>	<u>£000</u>
<i>Depreciation and amortisation</i>		<i>unaudited</i>
Tangible assets - owned	7,826	7,423
Intangible assets	30,071	34,851
<i>Rental charges under operating leases</i>		
Land and buildings	9,295	5,841
Plant and machinery	8,925	9,112
Rental or hire income	(219)	(213)
Research and development	20,548	17,866
Reorganisation and redundancy	3,124	1,445
Loss on foreign exchange	4,397	4,033

During the year staff and other costs of £43,009,000 (2012 £42,604,000) were recharged to Honeywell Aerospace UK (the 'partnership') at 2% mark up in line with the terms of the partnership agreement. The mark up earned of £860,000 (2012 £852,000) is included within turnover.

During the year operating leases of £1,187,000 (2012 £1,394,000) were recharged to partnership at cost in line with the terms of the partnership agreement.

5. Auditors' remuneration	2013	2012
	<u>£000</u>	<u>£000</u>
		<i>unaudited</i>
Fees payable for audit of these financial statements	707	-
Audit of financial statements of subsidiaries and associates	142	756
Tax compliance services	2	-
Other non-audit services	1	2

6. Employees and directors
<i>Monthly average number of persons employed during the year</i>
<i>(including executive directors)</i>
Factory and engineering
Selling, servicing and marketing
General and administration

number	number
3,310	3,328
2,204	2,286
659	641
6,173	6,255

Staff costs	£000	£000
Wages and salaries	234,317	240,233
Social security costs	25,330	24,758
Contributions to defined contribution pension plans	9,305	10,435
Pension costs for defined benefit plans (note 19)	19,437	17,185
Share based payment charges (note 22)	1,739	1,229
	290,128	293,840

Outstanding contributions for defined contribution plans at the end of the year	194	225
---------------------------------------------------------------------------------	-----	-----

Directors' remuneration		
Aggregate emoluments	342	-
Pension costs - defined contribution	38	-
	380	-

Highest paid director		
Aggregate emoluments	168	-
Pension costs - defined contribution	18	-
	186	-

## Notes to the financial statements

for the year ended 31 December 2013

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	2013	2012
	<u>£000</u>	<u>£000</u>
		<i>unaudited</i>
<i>The number of directors who were</i>	<i>number</i>	<i>number</i>
Members of a defined contribution plans	3	-

During the year no director (2012 no director) exercised options over shares of Honeywell International Inc, the ultimate parent company

<b>7. Interest receivable and similar income</b>	2013	2012
	<u>£000</u>	<u>£000</u>
		<i>unaudited</i>
Interest receivable from group undertakings	10,682	32,157
Share of associated companies' interest income	3,783	3,833
Bank interest receivable	2,318	2,887
Other finance income (note 19)	23,457	14,897
	<u>40,240</u>	<u>53,774</u>
<b>8. Interest payable and similar charges</b>		
Interest payable to group undertakings	29,961	43,046
Other interest payable	62	77
	<u>30,023</u>	<u>43,123</u>
<b>9. Tax on profit on ordinary activities</b>		
<i>Current tax</i>		
UK corporation tax on profit for the year	-	8,217
Foreign tax	10,606	7,780
Adjustment in respect of prior years	(489)	(47)
Total current tax	<u>10,117</u>	<u>15,950</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	19,538	14,525
Effect of decreased tax rate on opening balance	1,316	3,853
Total deferred tax	<u>20,854</u>	<u>18,378</u>
<b>Tax on profit on ordinary activities</b>	<u>30,971</u>	<u>34,328</u>

### Factors affecting tax charge for the year

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the company's results for this financial year are taxed at an effective rate of 23.25%.

## Notes to the financial statements

for the year ended 31 December 2013

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The tax assessed for the year is different to the standard rate of UK corporation tax of 23.25% (2012 24.5%) and the differences are explained below

	2013 £000	2012 £000 <i>unaudited</i>
Profit on ordinary activities before taxation	99,972	67,503
Standard rate of UK corporation tax (%)	23.25	24.5
Profit on ordinary activities multiplied by the standard rate of UK corporation tax	23,243	16,538
<i>Effects of</i>		
Expenses not deductible for tax purposes and other permanent differences	272	12,773
Capital allowances (less than)/in excess of depreciation	(1,359)	1,381
Timing differences related to pensions	(19,288)	(1,933)
Movements in general provisions and other short term timing differences	(3,422)	(5,850)
Non taxable income	-	(1,131)
Effect of overseas taxation at different rates	2,258	923
Group relief not paid for	7,101	(2,719)
Tax losses carried forward/(utilised)	1,801	(3,985)
Adjustments in respect of prior years	(489)	(47)
Total tax charge for the year	10,117	15,950

### Factors that may affect future tax charges

Deferred tax provided at 21% on temporary differences reversing in 2014 and 20% on temporary differences reversing in 2015 and thereafter. Legislation to reduce UK Corporation Tax in stages to 20% by April 2015 was enacted on 17 July 2013.

### 10. Deferred tax - group

	2013 £000	2012 £000 <i>unaudited</i>
<i>Tax effect of timing differences because of</i>		
Differences between capital allowances and depreciation	4,057	3,808
Other short term timing differences	10,087	16,640
Tax losses carried forward	3,030	1,282
Deferred tax asset (note 16)	17,174	21,730
Deferred tax on pension asset/(liability) (note 19)	(6,842)	18,882
Net deferred tax asset	10,332	40,612

### Movements in deferred tax

	Excluding pension £000	Pension £000	Total £000
Deferred tax asset at 1 January 2013	21,730	18,882	40,612
Charge to the profit and loss account (note 9)	(7,546)	(13,308)	(20,854)
Charge to the SGTRGL	-	(12,416)	(12,416)
Exchange adjustments	2,990	-	2,990
Deferred tax asset/(liability) at 31 December 2013	17,174	(6,842)	10,332

### Unrecognised deferred tax asset @20% (2012 23%)

	2013 £000	2012 £000 <i>unaudited</i>
Accelerated capital allowances	1,166	1,365
Other short term timing differences	1,451	2,125
Overseas interest not paid	6,851	5,825
Pensions	(1,148)	563
Tax losses carried forward	11,377	13,269
	19,697	23,147

Deferred tax assets are recognised only for subsidiaries which are more likely than not to have sufficient taxable profits in future to recover the asset.

**Notes to the financial statements**  
for the year ended 31 December 2013

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**11. Intangible assets - group**

	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 2013	601,023	474	1,992	603,489
Disposals	(35)	-	-	(35)
Exchange adjustments	(99)	14	-	(85)
At 31 December 2013	600,889	488	1,992	603,369
<i>Accumulated depreciation</i>				
At 1 January 2013	250,325	225	1,992	252,542
Charge for the year	30,023	48	-	30,071
Exchange adjustments	(21)	7	-	(14)
At 31 December 2013	280,327	280	1,992	282,599
<i>Net book value</i>				
At 31 December 2013	320,562	208	-	320,770
At 31 December 2012 unaudited	350,698	249	-	350,947

**12. Tangible assets - group**

	Land & buildings	Plant & machinery	Construction in progress	Fixtures & fittings	Total
<i>Cost</i>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January 2013	38,650	76,436	3,006	20,505	138,597
Additions	776	2,978	4,371	1,126	9,251
Disposals	(5,363)	(7,247)	(26)	(4,205)	(16,841)
Reclassification	2,005	3,364	(3,522)	(1,847)	-
Exchange adjustments	(484)	(749)	(10)	(339)	(1,582)
Transfers from affiliated undertakings	1,707	495	(252)	102	2,052
At 31 December 2013	37,291	75,277	3,567	15,342	131,477
<i>Accumulated depreciation</i>					
At 1 January 2013	22,699	60,842	-	17,575	101,116
Charge for the year	1,910	4,711	-	1,205	7,826
Disposals	(2,601)	(6,898)	-	(4,150)	(13,649)
Reclassification	192	1,382	-	(1,574)	-
Exchange adjustments	(241)	(406)	-	(226)	(873)
Transfers from affiliated undertakings	592	373	-	43	1,008
At 31 December 2013	22,551	60,004	-	12,873	95,428
<i>Net book value</i>					
At 31 December 2013	14,740	15,273	3,567	2,469	36,049
At 31 December 2012 unaudited	15,951	15,594	3,006	2,930	37,481

	2013 <u>£000</u>	2012 <u>£000</u> <i>unaudited</i>
<i>The above figures include</i>		
Freehold land and buildings, at net book value	7,408	7,875
Leasehold land and buildings, at net book value	7,332	8,076
	<u>14,740</u>	<u>15,951</u>

The intra-group transfers were at net book value

# Notes to the financial statements

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13. Investments	Company Subsidiary undertakings	Associated companies	Group Listed investments	Other investments	Total
Cost	£000	£000	£000	£000	£000
At 1 January 2013	167,376	166,408	9,992	919	177,319
Additions	887,901	-	-	-	-
Share of associated companies' profits	-	3,417	-	-	3,417
Exchange adjustments	-	(13,079)	-	-	(13,079)
Disposals	-	-	(9,992)	-	(9,992)
At 31 December 2013	1,055,277	156,746	-	919	157,665
<i>Provision for impairment</i>					
At 1 January and 31 December 2013	-	-	-	919	919
<i>Net book value</i>					
At 31 December 2013	1,055,277	156,746	-	-	156,746
At 31 December 2012	167,376	166,408	9,992	-	176,400

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

## Subsidiary undertakings

Shares in the company's subsidiary undertakings are held in ordinary shares. The subsidiary undertakings are listed in note 27.

On 20 December 2013, the company contributed its loan of £887,901,000 to its subsidiary Garrett Thermal Systems UK Ltd in exchange for shares.

## Associated companies

Name of company	Principal activity	% holding	Country of incorporation
FT Hungary 1 Asset Management Kft	Holding company	34	Hungary
FT Hungary 2 Asset Management Kft	Holding company	34	Hungary
Honeywell Finance Ontario LP	Finance company	33.8	Canada

Through its subsidiary, FT North America Ltd, the group holds class B shares in FT Hungary 1 Asset Management Kft which entitle the group to 99% of its distributions and 34% of the voting rights. FT Hungary 1 Asset Management Kft owns 100% of FT Hungary 2 Asset Management Kft who in turn owns 99.5% of Honeywell Finance Ontario LP.

## Listed investments

During the year the group sold its 807,578 \$0.01 shares in B/E Aerospace Inc. for £42,756,000, realising a gain of £32,764,000. The shares had been acquired as part of the consideration for the sale of the Consumable Solutions business in 2009, at a cost of £9,992,000. Their market value at 31 December 2012 was £19,923,000. B/E Aerospace Inc. is a company incorporated in USA and listed on the NASDAQ exchange.

## Other investments

The group holds a 1% share of the Honeywell Aerospace UK partnership, a manufacturer of aerospace equipment.

14. Stocks - group	2013 £000	2012 £000
		<i>unaudited</i>
Raw materials	14,375	16,206
Work in progress	2,914	3,647
Finished goods for sale	27,173	29,937
Consignment stocks	2,039	2,203
	46,501	51,993

Consignment stocks are held by certain customers under maintenance agreements with the company. The stocks are replenished when used.

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## 15. Current asset investments - group

	2013	2012
	<u>£000</u>	<u>£000</u>
		<i>unaudited</i>
Short term deposits	80,770	10,521

Short term deposits are with banks approved by the group's treasury facility. The credit risk associated with these deposits is considered to be low.

## 16. Debtors

	Company		Group	
	2013	2012	2013	2012
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
				<i>unaudited</i>
<i>Amounts falling due within one year</i>				
Amounts recoverable on contracts	-	-	17,919	12,005
Trade debtors	-	-	155,767	159,387
Amounts owed by group undertakings	2,220	873,495	1,196,042	1,063,793
Deferred tax asset (note 10)	-	-	17,174	21,730
Other debtors	-	-	5,409	3,928
Prepayments and accrued income	-	-	3,912	5,913
	<u>2,220</u>	<u>873,495</u>	<u>1,396,223</u>	<u>1,266,756</u>

## 17. Creditors

### *Amounts falling due within one year*

Bank overdrafts	-	-	274,804	279,543
Payments received on account	-	-	20,007	18,033
Trade creditors	-	-	80,761	81,689
Amounts owed to group undertakings	36,090	35,545	940,761	755,597
Corporation tax	-	-	1,337	2,047
Other taxation and social security	-	-	9,899	10,012
Accruals and deferred income	-	-	50,234	55,860
	<u>36,090</u>	<u>35,545</u>	<u>1,377,803</u>	<u>1,202,781</u>

### *Amounts falling due after more than one year*

Amounts owed to group undertakings	-	-	110,101	139,227
Share-based payment	-	-	4,734	4,401
	<u>-</u>	<u>-</u>	<u>114,835</u>	<u>143,628</u>

The share-based payment liability represents a put option held by the minority shareholder of Honeywell Automation and Control Solutions South Africa (Pty) Ltd to sell its interests to Honeywell at a price linked to the subsidiary's earnings. The group anticipates the option will be exercised in April 2022.

### *Loans and other borrowings - company*

Amounts owed to group undertakings include the following loans and other borrowings. All amounts are unsecured.

			2013	2012
<u>Repayable</u>	<u>Currency</u>	<u>Interest terms</u>	<u>£000</u>	<u>£000</u>
On demand	GBP	UK base rate plus 1%	36,090	35,545

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## Loans and other borrowings - group

Amounts owed to group undertakings include the following loans and other borrowings. All amounts are unsecured

Repayable	Currency	Interest terms	2013	2012
			£000	£000
				<i>unaudited</i>
On demand	GBP	UK base rate plus 1%	293,469	142,689
On demand	GBP	2.90%-3.25%	412,044	-
On demand	GBP	7%-7.50%	-	461,091
On demand	EUR	3 month Euribor plus 1%	54,580	70,371
On demand	GBP	5.23%	3,162	3,043
On demand	EUR	2.39%	2,663	2,631
On demand	EUR	3 month Euribor plus 2.51%	791	747
On demand	SGD	SIBOR plus 25%	84	87
2 April -25 May 2017	CAD	7.50%	110,101	139,227
			<u>876,894</u>	<u>819,886</u>

## 18. Provisions for liabilities - group

	At 1 January 2013 £000	Transfer in £000	Charge/ (credit) to P&L £000	Utilised £000	At 31 December 2013 £000
Property	355	-	57	-	412
Warranty	6,486	-	1,397	(915)	6,968
Contract	66	-	543	-	609
Indemnities	1,351	-	8	(423)	936
Environmental	279	-	-	(3)	276
Future losses	-	2,168	(325)	-	1,843
Other provisions	461	-	(184)	(17)	260
	<u>8,998</u>	<u>2,168</u>	<u>1,496</u>	<u>(1,358)</u>	<u>11,304</u>

The property provision is for the remaining rent and termination expenses of a vacated property. The provision is expected to be utilised by 2023.

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. Warranties range from 1 to 3 years.

The contract provision relates to future losses on long term contracts based on the estimated completion costs. The provision is expected to be utilised by February 2015.

A group company transferred its production of seat belt spares to a fellow subsidiary undertaking in 2003 and has given an indemnity for losses resulting from the difference between sales price and production cost up to €600,000 a year until 2016. Anticipated losses have been provided in these financial statements.

The provision for site closure is in respect of environmental remediation works. The expected utilisation of the provision is dependent on the chosen course of remediation which has yet to be decided.

During the year a group company acquired the business, assets and liabilities of another Honeywell company, Honeywell Enraf UK Ltd, including assets of £2,352,000 less a provision for future losses of £2,168,000, for a consideration of £184,000 in cash. The provision for future losses is expected to be utilised over 5 years.

**Notes to the financial statements**  
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**19. Pension commitments - group**

**Defined benefit plans**

**Honeywell UK Pension Scheme (HUKPS)**

Several group companies are participating employers in the Honeywell UK Pension Scheme (HUKPS) which is a funded defined benefit plan providing retirement benefits based on salary. It is closed to new entrants. Regular employer contributions to the plan by the company in 2014 are estimated to be £65,293,000. Defined benefit pension obligations are based on a full valuation of the liabilities of HUKPS as at 31 March 2011, measured using the projected unit credit method.

**Austria**

The Honeywell Austria GmbH scheme is an unfunded defined benefit plan providing retirement and termination benefits based on salary. Regular employer contributions to the plan in 2014 are estimated to be £1,046,000. Defined benefit obligations are based on a full valuation of the liabilities as at 31 December 2013, measured using the projected unit credit method.

	HUKPS 2013 £000	Austria 2013 £000	Total 2013 £000	Total 2012 £000
<i>Amounts recognised in the balance sheets</i>				<i>unaudited</i>
Fair value of plan assets	2,105,805	-	2,105,805	1,883,192
Present value of defined benefit obligations	(2,063,532)	(20,628)	(2,084,160)	(1,999,296)
	42,273	(20,628)	21,645	(116,104)
Surplus not recoverable through reduced contributions or refunds	(2,320)	-	(2,320)	-
Surplus/(deficit)	39,953	(20,628)	19,325	(116,104)
Related deferred tax asset @20% (2012 23%)	(6,842)	-	(6,842)	18,882
Net asset/(liability)	33,111	(20,628)	12,483	(97,222)
<i>Amounts recognised in profit or loss</i>				
Interest cost	88,213	700	88,913	88,253
Expected return on pension plan assets	(112,370)	-	(112,370)	(103,150)
Finance credit recognised	(24,157)	700	(23,457)	(14,897)
Exchange movement	79	594	673	(346)
Current service cost	18,372	392	18,764	17,531
Credit/(cost) recognised in profit and loss	(5,706)	1,686	(4,020)	2,288
Actual return on assets	223,882	-	223,882	130,899
<i>Amounts recognised in the statement of group total recognised gains and losses (SGTRGL)</i>				
Total actuarial gains/(losses)	64,531	(263)	64,268	(62,766)
Change in assets not recoverable in future	(2,320)	-	(2,320)	1,134
Actuarial gain/(loss) recognised in SGTRGL	62,211	(263)	61,948	(61,632)
Cumulative amount of actuarial losses recognised in SGTRGL	(467,613)	(7,115)	(474,728)	(536,676)

## Notes to the financial statements

for the year ended 31 December 2013

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	HUKPS 2013 £000	Austria 2013 £000	Total 2013 £000	Total 2012 £000 <i>unaudited</i>
<i>Changes in present value of defined benefit obligation</i>				
At 1 January	1,979,520	19,776	1,999,296	1,869,775
Current service cost	18,372	392	18,764	17,531
Exchange movement	182	594	776	(410)
Interest cost	88,213	700	88,913	88,253
Actuarial losses on liabilities	46,979	263	47,242	90,515
Contributions by participants	377	-	377	414
Net benefits paid out	(70,111)	(1,097)	(71,208)	(66,782)
At 31 December	2,063,532	20,628	2,084,160	1,999,296

### *Changes in fair value of scheme assets*

At 1 January	1,883,192	-	1,883,192	1,722,175
Expected return on assets	112,370	-	112,370	103,150
Actuarial gains on assets	111,510	-	111,510	27,749
Exchange movement	103	-	103	(64)
Contributions by employer	68,364	1,097	69,461	96,549
Contributions by participants	377	-	377	415
Net benefits paid out	(70,111)	(1,097)	(71,208)	(66,782)
At 31 December	2,105,805	-	2,105,805	1,883,192

### *Major asset categories as a percentage of total plan assets*

	%	%	%	%
Equities	55.0	-	55.0	51.0
Bonds	38.0	-	38.0	42.0
Property	4.0	-	4.0	4.0
Cash	3.0	-	3.0	3.0
	100.0	-	100.0	100.0

### *Main actuarial assumptions*

	%	%	%	%
Inflation (RPI)	3.4	2.5	3.4	3.0
Inflation (CPI)	2.4	n/a	2.4	2.3
Rate of general long term increases in salaries	2.9	2.5	2.9	4.0
<i>Rate of increase for pensions</i>				
Pensions subject to limited price indexation to 5%	3.2	-	3.2	2.9
Pensions subject to limited price indexation to 2.5%	2.2	-	2.2	2.1
Other pensions and deferred pensions	2.4	2.5	2.4	2.3
Discount rate for scheme liabilities	4.5	3.5	4.5	4.5
Expected rate of return	6.1	n/a	6.1	6.0

### *Mortality*

Mortality assumptions are based on standard mortality tables which allow for future mortality improvements. These tables assume that a member who retired in 2013 at age 65 will live on average for a further 23.1 years (2012 23.0 years) after retirement if male or a further 25.3 years (2012 25.2 years) if female.

### *Overall long-term rate of return*

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

**Notes to the financial statements**  
for the year ended 31 December 2013

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Amounts for current year and previous four years	2013	2012	2011	2010	2009
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Fair value of assets	2,105,805	1,883,192	1,722,175	966,237	799,403
Defined benefit obligation (DBO)	(2,084,160)	(1,999,296)	(1,869,775)	(964,918)	(945,194)
Assets not recoverable in future	(2,320)	-	1,134	(12,634)	(200)
Net surplus/(deficit)	19,325	(116,104)	(146,466)	(11,315)	(145,991)
Experience gain/(loss) on assets	111,510	27,749	(78,788)	26,387	47,418
Experience (loss)/gain on liabilities	(11,795)	(87,463)	135,861	5,376	(8,413)

**20. Called up share capital - group and company**

*Allotted, called up and fully paid*

	2013	2012
	<u>£000</u>	<u>£000</u>
At 1 January and 31 December 837,064,000 ordinary shares of £1 each	837,064	837,064

**21. Reconciliation of group shareholders' funds and movements on reserves**

Company	Called up share capital	Share premium	Profit and loss account	2013 Total	2012 Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January	837,064	1,003	167,259	1,005,326	988,974
Profit for the financial year	-	-	16,091	16,091	16,352
At 31 December	837,064	1,003	183,350	1,021,417	1,005,326
<b>Group</b>					<i>unaudited</i>
At 1 January	837,064	1,003	(298,105)	539,962	553,993
Profit for the financial year	-	-	68,826	68,826	32,791
Movement in respect of share options	-	-	1,581	1,581	1,430
Exchange adjustments offset in reserves	-	-	(6,427)	(6,427)	1,234
Actuarial gain/(loss) on pension plan	-	-	61,948	61,948	(61,632)
Deferred tax relating to pension plan	-	-	(12,416)	(12,416)	4,907
Current tax relating to pension plan	-	-	-	-	7,239
At 31 December	837,064	1,003	(184,593)	653,474	539,962

**22. Share-based payment**

*Share option plan*

The group 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 that options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the US Treasury yield curve in effect at the time of the grant.

The fair value of each stock option grant made during 2012 was estimated on the grant date using the Black-Scholes model using the following weighted-average assumptions consistent with the requirements of FRS20:

The group 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.

	2013	2012
Expected volatility	24.73%	30.36%
Expected annual dividend yield	2.55%	2.57%
Risk-free rate of return	0.91%	1.16%
Expected option term (years)	5.5	5.6

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Share options during the year	2013 number	2013 price £	2012 number <i>unaudited</i>	2012 price £ <i>unaudited</i>
Outstanding at 1 January	460,535	25 28	742,460	24 98
Granted	71,200	46 10	139,650	31 23
Exercised	(154,775)	24 21	(209,075)	20 72
Transferred in	36,000	31 75	85,300	30 39
Transferred out	(122,005)	32 99	(255,900)	28 83
Forfeited	(14,875)	22 73	(41,900)	29 69
Outstanding at 31 December	276,080	35 89	460,535	25 28
Exercisable at 31 December	88,380	26 47	235,685	26 69

### Weighted average life and average exercise price by range

	2013 Number outstanding	2013 Weighted average life in years	2013 Weighted exercise price £	2012 Number outstanding <i>unaudited</i>	2012 Weighted average life in years <i>unaudited</i>	2012 Weighted exercise price £ <i>unaudited</i>
Exercise price (range)						
£14 05-£19 99	6,880	2 7	19 52	52,005	5 0	19 19
£20 00-£26 99	54,525	4 7	23 93	133,430	5 5	23 80
£27 00-£33 99	18,850	4 2	30 05	49,900	5 5	30 03
£34 00-£37 47	124,625	7 6	36 43	225,200	8 5	36 37
Total	276,080	7 1	35 60	460,535	6 9	30 10

### 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.

Restricted stock units outstanding during the year	2013 number	2013 price £	2012 number <i>unaudited</i>	2012 price £ <i>unaudited</i>
Outstanding at 1 January	228,327	29 37	350,078	27 94
Granted	29,120	49 92	46,775	37 18
Exercised	(84,340)	27 21	(65,322)	20 28
Transferred in	19,139	32 11	24,859	28 61
Transferred out	(70,853)	30 02	(112,054)	28 85
Forfeited	(11,093)	35 13	(16,009)	27 93
Outstanding at 31 December	110,300	42 91	228,327	29 37
Exercisable at 31 December				
Weighted average remaining contractual life at 31 December	2 11 years		1 02 years	

The charge for the year relating to share based payment plans was £1,739,000 (2012 £1,229,000)

After deferred tax the total charge was £2,654,000 (2012 £1,988,000)

### 23. Capital commitments - group

	2013 £000	2012 £000 <i>unaudited</i>
Commitments contracted for but not yet provided	422	449

## Notes to the financial statements

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### 24. Operating lease commitments - group

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

#### Land and buildings

expiring in within one year  
expiring in two to five years  
expiring in more than five years

	2013	2012
	<u>£000</u>	<u>£000</u>
		<i>unaudited</i>
	2,391	519
	7,715	3,329
	5,683	3,423
	<u>15,789</u>	<u>7,271</u>

#### Other leases

expiring in within one year  
expiring in two to five years

	2013	2012
	<u>£000</u>	<u>£000</u>
	1,537	141
	6,272	139
	<u>7,809</u>	<u>280</u>

### 25. Contingent liabilities

The group, with other Honeywell companies in the UK, has provided a bank guarantee under a composite accounting agreement. Under this agreement, bank interest is calculated on the net position after setting off positive and overdrawn cash balances. The maximum contingent liability under this agreement is the total of overdrawn balances held by the Honeywell companies in the agreement, amounting to £470,197,000 (2012 £431,583,000). Positive cash balances held by the companies in the agreement exceeded overdrawn balances in 2013 and 2012.

#### Guarantees

The company has given a guarantee to the creditors of its UK subsidiaries who have taken the exemption from audit of their annual financial statements under section 479A of the Companies Act 2006. The subsidiaries are listed in note 27.

Performance guarantees amounting to £1,328,000 (2012 £ 4,128,000) have been given to customers of a fellow group company, Honeywell Turki-Arabia Ltd.

### 26. Parent undertakings

The immediate parent undertaking is Honeywell Group Holding UK, a company incorporated in England.

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 financial statements. Copies of their financial statements 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).

### 27. Subsidiary undertakings

The company's principal subsidiaries, all of which are 100% owned unless otherwise indicated, are as follows. Company registration numbers are given for UK subsidiaries which have taken the exemption from audit under section 479A of the Companies Act 2006.

<u>Name of company</u>	<u>Principal activity</u>	<u>Registration number</u>	<u>Country of incorporation</u>
<i>Directly held subsidiaries - audit exempt under section S479A</i>			
Garrett Thermal Systems UK Ltd	Holding company	3327983	England
<i>Indirectly held subsidiaries - audit exempt under S479A</i>			
BW Europe Ltd	Gas detection equipment	3887202	England
City Technology Ltd	Gas sensors	1326515	England
First Technology (2002) Ltd	Finance company	4624611	England
First Technology Ltd	Holding company	1882393	England
First Technology Overseas Ltd	Holding company	4302488	England
FT Finance Ltd	Holding company	2504094	England
FT North America (Holdings) Ltd	Holding company	5054486	England
FT North America Ltd	Holding company	5054501	England
Honeywell Group Holding UK II	Holding company	3896222	England
Garrett Thermal Systems Ltd	Heat exchangers	3427415	England
Honeywell Acquisitions II Ltd	Holding company	5667809	England
Honeywell Acquisitions Ltd	Holding company	5319521	England
Honeywell Avionics Systems Ltd	Staff supply	2160822	England

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Honeywell Control Systems Ltd	Control systems	217803	England
Honeywell Holdings Ltd	Holding company	3560836	England
Honeywell International UK Ltd	Holding company	78289	England
Honeywell Normalair-Garrett (Holdings) Ltd	Staff supply	406281	England
Honeywell Security UK Ltd	Intruder/ fire detection equipment	1248725	England
Honeywell UK Ltd	Various*	301598	England
KAC Alarm Company Ltd	Security systems	1205354	England
Novar (Stelrad) Ltd	Finance company	2226002	England
Novar ED&S Ltd	Electric and electronic connection equipment systems	189291	England
Novar Electrical Holdings Ltd	Holding company	866782	England
Novar Europe Ltd	Holding company	557280	England
Novar Holdings Ltd	Holding company	1891545	England
Novar International Ltd	Finance company	2957947	England
Novar Ltd	Holding company	2262172	England
Novar Properties Ltd	Property holding company	2340596	England
Novar Systems Ltd	Fire and security	264047	England
Pillar Electrical Overseas Ltd	Holding company	277288	England
Pittway Systems Technology Group Europe Ltd	Life safety systems	2247430	England
The Hymatic Engineering Company Ltd	Avionics equipment	331969	England
Trend Control Systems Ltd	Building management systems	1664519	England

\*Honeywell UK Ltd activities include the manufacture of turbo-chargers, the repair and maintenance of aircraft wheels and brakes, and the manufacture of navigation and mission role aviation equipment

### Indirectly held subsidiaries - not audit exempt under S479A

<u>Name of company</u>	<u>Principal activity</u>	<u>% holding if not 100%</u>	<u>Country of incorporation</u>
AlliedSignal Holdings BV	Holding company	54.9	Netherlands
B&W Technologies Inc	Gas detection equipment		USA
BW Research LP	Gas detection research		Canada
BW Technologies LP	Gas detection equipment		Canada
BW Technologies Ltd	Gas detection equipment		Canada
First Technology Sarl	Holding company		Luxembourg
Hansaholding SGPS Lda	Holding company		Portugal
Honeywell Austria GmbH	Gas detection equipment		Austria
Honeywell Automation and Control Solutions South Africa (Pty) Ltd	Control systems	74.9	South Africa
Honeywell Electrical Devices & Systems India Ltd	Electrical devices and systems		India
Honeywell Life Safety Austria GmbH	Fire and security		Austria
Honeywell Southern Africa (Pty) Ltd	Control systems		South Africa
Inozemne Pidpriemstvo Honeywell Ukraine	Control systems		Ukraine
MK Electric International Ltd	Finance company		Jersey
Normalair Garrett Manufacturing Pty Ltd	Finance company		Australia
Novar European Holdings BV	Holding company		Netherlands
Novar Holding GmbH	Holding company		Austria
Novar Overseas Holdings BV	Holding company		Netherlands
Novar Vermoegensverwaltungs GmbH	Holding company		Austria