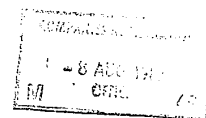


HONEYWELL CONTROL SYSTEMS LIMITED  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 1986

217803

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**HONEYWELL CONTROL SYSTEMS LIMITED**  
**REPORT OF THE DIRECTORS**

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The directors have pleasure in submitting their annual report and the audited financial statements of the company for the year ended 31 December 1986.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The activities of the company include the design, development, manufacture, sales and service of automation and related computer equipment for industrial process control; environmental control of industrial, commercial and residential buildings; precision components; equipment for the aerospace and defence industries and other related products.

During the year the company restructured its operations in order to reduce its costs in the future. The costs of the restructuring are shown as an exceptional item in these accounts.

The company discontinued the manufacture of keyboards during the year. The termination costs are shown as an extraordinary item.

In early 1987 the company expanded its operations in the fields of aerospace and defence and industrial process control by the takeover of the UK operations of two businesses whose worldwide operations were acquired by its ultimate holding company Honeywell Inc.

**RESULTS AND DIVIDENDS**

The results of the year's trading, the financial position of the company and the transfers to reserves are shown in the accompanying financial statements. The directors do not recommend payment of a dividend.

**RESEARCH AND DEVELOPMENT**

The company has its own design and development group which carries out research into electronics technology and its applications.

**DIRECTORS**

The following directors held office during the year:

J. S. McGregor - Chairman  
S. Marshall - Managing Director  
C. Cowell  
J. L. Forrester (died 6 May 1986)  
G. C. Fox (resigned 1 March 1987)  
B. Gowers (resigned 1 July 1986)  
G. S. Kermack (resigned 25 September 1986)  
J. L. Lunn (resigned 1 March 1987)  
G. McIntosh (resigned 1 March 1987)  
J. F. McNeill (resigned 31 January 1986)  
R. C. Millar  
M. M. Reakes  
D. S. Thornton

T. G. Warson (USA) was appointed a director on 1 March 1987.

**HONEYWELL CONTROL SYSTEMS LIMITED**  
**REPORT OF THE DIRECTORS**

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J. S. McGregor and S. Marshall retire by rotation, and being eligible, offer themselves for re-election.

As the company is a wholly owned subsidiary of a company incorporated outside Great Britain, the directors are not required to notify the company of interests in shares or debentures of that or any other body corporate incorporated outside Great Britain.

**DONATIONS**

The company made charitable donations of £16,315 during the year. (1985 £25,471). No political donations were made.

**EMPLOYMENT OF DISABLED PERSONS**

The company endeavours to employ disabled persons where the requirements of the job are such that the duties can be effectively covered by a handicapped or disabled person. Where employees become disabled the company endeavours to continue to employ such people provided there are duties which they can perform bearing in mind the handicap or disability.

The need to develop the careers of disabled people is accepted by the company and the necessary steps are taken to train and promote disabled employees where this is in their own and the company's best interests.

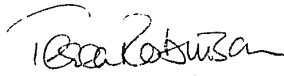
**EMPLOYEE INVOLVEMENT**

It has been the policy of the company for many years to keep employees fully informed of company affairs and to encourage their active participation. Regular meetings provide opportunities for discussions with the directors on all aspects of employee relations and company matters. Employees voluntarily participate with management in advisory committees dealing with quality and health and safety. Union representatives are consulted where appropriate. A stock option scheme is operated to enable employees to purchase shares in the ultimate holding company.

**AUDITORS**

In accordance with Section 384 of the Companies Act 1985, a resolution proposing the re-appointment of Deloitte Haskins & Sells will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

  
M.F.T. ROBINSON  
Secretary

3 July 1987

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HONEYWELL CONTROL SYSTEMS LIMITED  
REPORT OF THE AUDITORS

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We have audited the financial statements on pages 4 to 16 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1986 and of its loss and source and application of funds for the year then ended and comply with the Companies Act 1985.

*DeLoitte Haskins & Sells*  
DELOITTE HASKINS & SELLS  
Chartered Accountants  
Reading

3 July 1987

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**HONEYWELL CONTROL SYSTEMS LIMITED**  
**ACCOUNTING POLICIES**

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**ACCOUNTING BASIS**

The financial statements have been prepared on the historical cost accounting basis.

**GENERAL**

The company's ultimate holding company is Honeywell Inc. a company incorporated in the United States of America. For this reason Honeywell Control Systems Limited has followed certain accounting policies used by the Honeywell Inc. Group, which are generally accepted in the United States but which are not generally followed in the United Kingdom.

**RESEARCH AND DEVELOPMENT**

All costs associated with research, engineering, product design and product development are charged against income as incurred.

**TANGIBLE FIXED ASSETS**

Depreciation is provided using the straight line method at rates calculated to write the relevant assets off over their remaining useful lives.

The annual depreciation rates used for the major categories of asset are as follows:

Buildings and Improvements	10%
Machinery and Equipment	12% to 33%

**GOVERNMENT GRANTS**

Government grants receivable under the Industry Act 1972 are credited to income in full when the grants are claimed. This method of accounting follows the accounting policy generally accepted in the United States but which is not generally followed in the United Kingdom.

**LEASES**

Leases and hire purchase contracts are accounted for either as finance or operating leases according to their nature.

**STOCKS**

Stocks are stated at the lower of cost and net realisable value. Cost is determined on the average cost basis.

**HONEYWELL CONTROL SYSTEMS LIMITED**  
**ACCOUNTING POLICIES**

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**DEFERRED TAXATION**

Provision is made under the full deferral method for taxation deferred as a result of timing differences between income for financial reporting purposes and income for tax purposes.

This method of accounting, which is used by the company in common with other members of the Honeywell Inc. group, follows the accounting policy generally accepted in the United States but which is not generally followed in the United Kingdom.

**CONTRIBUTIONS TO PENSION FUNDS**

Contributions to the pension funds charged to the profit and loss account are based on the recommendations of the actuaries (see note 18).

**TRANSLATION OF FOREIGN CURRENCIES**

Amounts receivable and payable 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 realised during the year together with those resulting from the above, are reflected in the operating profit for the year.

**TURNOVER AND ACCOUNTING FOR REVENUES**

Turnover comprises net sales to customers, including other Honeywell companies, and service revenues.

Revenue from sales of manufactured products is recognised upon shipment to the customer which generally coincides with the transfer of risk of ownership. Revenue from certain contracts for the construction of custom-built control systems is recognised on the percentage-of-completion basis.

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HONEYWELL CONTROL SYSTEMS LIMITED  
 PROFIT AND LOSS ACCOUNT  
 FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>Notes</u>	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Turnover	1	138289	129710
Cost of Sales		109035	99939
Gross Profit		29254	29771
Other operating expenses	2	22995	24194
Exceptional items	3	5968	-
Operating Profit		291	5577
Interest receivable		149	127
Profit before interest payable		440	5704
Interest payable	4	1353	1105
(Loss)/Profit on ordinary activities before taxation	1	(913)	4599
Taxation	6	(396)	1794
(Loss)/Profit on ordinary activities after taxation		(517)	2805
Extraordinary item	7	(3356)	-
(Loss)/Profit after taxation and extraordinary item	14	(3873)	2805

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HONEYWELL CONTROL SYSTEMS LIMITED  
BALANCE SHEET 31 DECEMBER 1986

	<u>Notes</u>	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Fixed Assets - Tangible Assets	8	17507	15171
Current Assets			
Stocks	9	19179	20488
Debtors	10	40053	33809
Cash at bank and in hand		4909	5609
		64141	59906
Current Liabilities			
Creditors: amounts falling due within one year	11	44149	31614
Net Current Assets		19992	28292
Total Assets less Current Liabilities		37499	43463
Provisions for Liabilities and Charges			
Deferred taxation	6	2366	4445
Other Provisions	12	1459	1471
Net Assets		33674	37547
Capital and Reserves			
Called up share capital	13	2000	2000
Share premium account		14538	14538
Profit and loss account	14	17136	21009
Shareholders' Funds		33674	37547

The accounts on pages 4 to 16 were approved by the Board of Directors on 3 July 1987 and were signed on its behalf by:

J. S. McGregor )  
M. M. Reakes ) Directors

*James McGregor*  
*M. M. Reakes*

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HONEYWELL CONTROL SYSTEMS LIMITED  
SOURCE AND APPLICATION OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 1986

<u>Source of Funds</u>	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
(Loss)/Profit on ordinary activities before taxation	(913)	4599
Items not involving the movement of funds:		
Depreciation and amounts written off fixed assets	3946	3158
(Profit) on disposal of fixed assets	(21)	(39)
	<hr/>	<hr/>
Funds generated from operations	3012	7718
Proceeds on disposals of tangible fixed assets	637	119
	<hr/>	<hr/>
Total source of funds	3649	7837
	<hr/>	<hr/>
<u>Application of Funds</u>		
Purchase of tangible fixed assets	6898	4661
Decrease in provisions	12	10
Extraordinary item before tax (note 7)	5265	-
Taxation paid	587	1465
	<hr/>	<hr/>
Total Application of Funds	12762	6136
	<hr/>	<hr/>
Net (Application)/Source of funds	(9113)	1701
	=====	=====
The net (Application)/Source of funds is represented by the following (decrease)/increase in working capital:		
Stocks	(1309)	3785
Debtors	6244	296
Creditors falling due within one year	(14671)	(6353)
	<hr/>	<hr/>
	(9736)	(2272)
	<hr/>	<hr/>
Movement in net liquid funds:		
Cash at bank and in hand	(700)	4267
Bank overdrafts	1323	(294)
	<hr/>	<hr/>
	623	3973
	<hr/>	<hr/>
(Decrease)/Increase in working capital	(9113)	1701
	=====	=====

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HONEYWELL CONTROL SYSTEMS LIMITED  
 NOTES TO THE ACCOUNTS  
 FOR THE YEAR ENDED 31 DECEMBER 1986

1. Turnover and (loss)/profit on ordinary activities before taxation

The analysis of turnover by geographical market and (loss)/profit before taxation by class of business has not been given.

	1986 £000	1985 £000
(Loss)/Profit on ordinary activities before taxation is stated after charging:		
Depreciation and amounts written off tangible assets	3946	3158
Auditors' remuneration (including expenses)	67	50
Operating Leases -		
Hire of Plant and Machinery	2702	2726
Land and Buildings	1358	1149
and after crediting:		
Government Cash Grants	518	514

The basis of accounting for Government Cash Grants used by the Company, (see accounting policies on page 4) compared with a policy of crediting the grants to income over the lives of the related assets, has increased the profit for the year before and after taxation by £130,000 (1985 £110,000) and has increased retained earnings at 31 December 1986 by £1,120,000 (1985 - £990,000).

2. Other Operating Expenses

	1986 £000	1985 £000
Distribution Costs	12465	11403
Administration expenses	10326	12187
Other operating expenses	204	604
	22995	24194

3. Exceptional Item

Restructuring costs: asset write offs, early retirements and redundancy payments	5968	-
--	------	---

4. Interest payable

On bank overdrafts and other loans:

repayable within 5 years, not by instalments	1190	941
repayable wholly or partly in more than 5 years	163	164
	1353	1105

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HONEYWELL CONTROL SYSTEMS LIMITED  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 1986

5. Employees	1986 £000	1985 £000
Staff costs during the year:		
Wages and salaries	32213	27454
Social Security costs	2148	1786
Other pension costs	465	1956
	<hr/> 34826	<hr/> 31196
The average weekly number of persons employed by the company during the year was:		
Factory, Engineering and Support	1010	1045
Selling and Servicing	1086	1089
General and Administration	335	364
	<hr/> 2431	<hr/> 2498
Directors' remuneration:		
Staff costs include the following remuneration in respect of directors of Honeywell Control Systems Limited	£	£
Remuneration	621974	655217
	<hr/>	<hr/>

The directors' remuneration (excluding pension contributions) disclosed above included £96,103 (1985 £89,006) paid to the highest paid director, who is also the Chairman.

The number of other directors who received emoluments (excluding pension contributions) in the following ranges were:

	1986	1985
£1 -£5000	1	-
£25001-£30000	1	-
£30001-£35000	-	1
£35001-£40000	-	5
£40001-£45000	4	4
£45001-£50000	4	-
£50001-£55000	-	1
£55001-£60000	-	1
£60001-£65000	1	-
	<hr/> 11	<hr/> 12
	<hr/>	<hr/>

One director waived emoluments in the year.

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HONEYWELL CONTROL SYSTEMS LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 1986  
NOTES TO THE ACCOUNTS

The number of senior employees other than directors who received remuneration in the following ranges was:

	<u>1986</u>	<u>1985</u>
£30001-£35000	8	2
£35001-£40000	1	-

6. **Taxation**

£000                      £000

The taxation (credit)/charge for the year comprises:

U.K. Corporation tax at 36.25%

Current

Deferred

595	2053
(991)	(259)
<u>          </u>	<u>          </u>
(396)	1794
<u>          </u>	<u>          </u>

The charge for the year has been reduced by £137,000 (1985 £154,000) in respect of non-taxable Government grants.

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HONEYWELL CONTROL SYSTEMS LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 1986  
NOTES TO THE ACCOUNTS

6. Taxation (Continued)	1986 £000	1985 £000
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Deferred taxation is provided in the accounts as follows:

Tax effect of timing differences due to:

Excess of tax allowances over depreciation	5607	5612
Other Items	(3241)	(1167)
	<u>2366</u>	<u>4445</u>

The movement in deferred taxation in the year was made up as:

Opening balance	4445	4254
Transfer to profit and loss account	(991)	(259)
Transfer to extraordinary item	(1088)	-
Transfer from current tax	-	450
	<u>2366</u>	<u>4445</u>

If generally accepted accounting practice in the United Kingdom were followed (see accounting policies on page 5) it is estimated that the deferred tax provision would be reduced by £1,280,000 (1985 £844,000) and that accordingly retained earnings at 31 December 1986 would be increased by the same amount. The potential liability according to United Kingdom accounting practice would be £1,086,000 (1985 £3,601,000).

	1986 £000	1985 £000
7. Extraordinary Item		
Discontinuance of keyboard manufacturing : asset write offs, early retirements, and redundancy payments	5265	-
Taxation credit thereon at 36.25%		
- Current	(821)	-
- Deferred	(1088)	-
	<u>3356</u>	<u>-</u>

HONEYWELL CONTROL SYSTEMS LIMITED  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 1986

8. Tangible Fixed Assets

<u>Cost</u>	<u>Freehold Land and Buildings £000</u>	<u>Short Lease hold £000</u>	<u>Plant and Machinery £000</u>	<u>Fixtures Fittings Tools and Equipment £000</u>	<u>Total £000</u>
At 1 January 1986	2991	1513	15276	4638	24418
Reclassification	356	-	-	(356)	-
Additions	2760	-	3045	1093	6898
Disposals	(51)	-	(2720)	(1390)	(4161)
	—	—	—	—	—
At 31 December 1986	6056	1513	15601	3985	27155
	—	—	—	—	—
<u>Depreciation</u>					
At 1 January 1986	294	225	7051	1677	9247
Reclassification	36	-	-	(36)	-
Charge for year	163	47	3252	484	3946
Eliminated in respect of disposals	(39)	-	(2615)	(891)	(3545)
	—	—	—	—	—
At 31 December 1986	454	272	7688	1234	9648
	—	—	—	—	—
<u>Net Book Value</u>					
At 31 December 1986	5602	1241	7913	2751	17507
	—	—	—	—	—
At 31 December 1985	2697	1288	8225	2961	15171
	—	—	—	—	—

The short leasehold has been capitalised as a finance lease (see accounting policies on page 4) the corresponding lease obligation being shown under provisions (note 12).

HONEYWELL CONTROL SYSTEMS LIMITED  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 1986

9. Stocks	1986 <u>£000</u>	1985 <u>£000</u>
Raw materials and consumables	3094	3980
Work in progress	7968	8906
Finished goods and goods for resale	8117	7602
	<u>19179</u>	<u>20488</u>
10. Debtors falling due within one year		
Trade debtors	27149	24410
Amounts owed by group companies	11475	6257
Other debtors	441	1029
Prepayments and accrued income	588	1724
	<u>39653</u>	<u>33420</u>
Debtors falling due after more than one year:		
Future amounts receivable under contract retentions	400	389
	<u>40053</u>	<u>33809</u>
Total Debtors		
11. Creditors: amounts falling due within one year		
Bank overdrafts	1397	2720
Payments received on account	96	263
Trade creditors	4435	4422
Amounts owed to group companies	19689	12934
Corporation Tax	1176	1989
Other Taxation and social security	1663	1407
Other creditors	14377	5793
Accruals and deferred income	1316	2086
	<u>44149</u>	<u>31614</u>

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HONEYWELL CONTROL SYSTEMS LIMITED  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 1986

	1986 £000	1985 £000
12. Other Provisions		
Obligation under capitalised lease of land and buildings (note 8)	1459	1471
13. Called up share capital		
Authorised, allotted, called up and fully paid 2,000,000 ordinary shares of £1 each	2000	2000
14. Profit and Loss Account		
Retained earnings at 1 January 1986	21009	18204
(Loss)/Profit for the year	(3873)	2805
Retained earnings at 31 December 1986	17136	21009
15. Capital Commitments		
Future capital expenditure:		
Contracted for, but not provided for in the accounts	692	2375
Authorised by the directors but not yet contracted for	1042	881

In addition to the commitments above, the directors have authorised £4,423,000 for the acquisition of two businesses as mentioned in the report of the directors on page 1 (1985-nil).

16. Lease Commitments

At 31 December 1986 the company had annual commitments under non-cancellable leases as follows:

	1986		1985	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases:				
Expiring within one year	36	670	18	885
Expiring between two and five years inclusive	485	-	91	-
Expiring in over five years	744	-	1015	-
	1265	670	1124	885

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HONEYWELL CONTROL SYSTEMS LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 1986  
NOTES TO THE ACCOUNTS

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	1986 £000	1985 £000
17. Contingent Liabilities:		
Contract guarantee obligations and other items	7625	5796

The company, together with other subsidiaries of Honeywell Limited, has given composite guarantees in respect of loan and overdraft facilities granted to the group, which amounted to £17,000,000 at 31 December 1986 (1985 £7,500,000) against which £7,142,000 was borrowed at that date (1985 £2,500,000).

18. Pension Commitments

The company has a number of pension schemes for its employees. The actuarial valuation by R. Watson & Sons at 31 March 1982 indicated that there were sufficient assets in each fund to secure the benefits of existing pensioners and to provide paid-up pensions to present employees on the basis of present salaries and credited periods of service.

On 18 December 1986 R. Watson & Sons formally recommended that company contributions be suspended for the plan year ending 31 March 1987. A full actuarial valuation as at 31 March 1986 is currently in progress, the results of which are not yet available. However, in the opinion of the directors, the valuation at 31 March 1986 is likely to reveal a surplus after taking account of the suspension of contributions for the plan year ending 31 March 1987.