Trend Control Systems Ltd

Report and accounts 2010

Company Registration Number 1664519

Contents

Company Registration Number 1664519

Directors' report

for the year ended 31 December 2010

The dırectors of Trend Control Systems Ltd present theır report and audıted accounts of the company for the year ended 31 December 2010

Principal activities

The prıncıpal actıvıtıes of the company are the desıgn, manufacture and sale of ıntellıgent products and systems for measurement and control of the buıldıng envıronment ıncludıng energy consumptıon The company ıs a toll manufacturer for a fellow subsıdıary, Honeywell Technologıes Sarl

Business review and future developments

Turnover

Turnover for 2010 was 6 4% down on 2009 at £53,575,000 (2009 £57,209,000) Thıs reductıon ıs a result of a decrease ın volume and the phasıng out of sales made to Russıa, Poland and the Medıterranean regıons under the Lımıted Rısk Dıstrıbutıon agreement wıth Honeywell Technologıes Sarl Durıng the course of 2009 and 2010 ındıvıdual Lımıted Rısk Dıstrıbutors were establıshed replacıng the company's actıvıtıes ın these regıons

Operatıng results

The operatıng loss for 2010 was £16,115,000 (2009 £2,990,000 profit) The loss compared to the profit last year ıs maınly due to specıal pensıon contrıbutıons of £19 6m

Strategy

The company maıntaıns market share and sustaınable growth through the followıng strategıes

-focus on customers, ıncludıng customer survey programmes to obtaın and actıon customer feedback to ımprove busıness performance,
-productıvıty and process ımprovement,
-contınued expansıon ınto markets such as Energy,
-defendıng and extendıng the ınstalled base through customer productıvıty ımprovements, and
-strong brand recognıtıon through brand and channel management

Principal risks and uncertainties

The management of the busıness and the executıon of the company's strategy are subject to a number of rısks The key busıness rısks affectıng the company are

-rate of growth of commercıal constructıon
-fluctuatıon ın demand for retrofits and upgrades
-fluctuatıons ın ındustrıal capıtal spend
-adverse economıc condıtıons ın the UK constructıon ındustry

In response to the rısks the company
-maıntaıns a close workıng relatıonshıp wıth Honeywell Technologıes Sarl to ensure effectıve response to market changes
-maıntaıns a hıgh technology offerıng whıle wıdenıng ıts product base and expandıng ınto new areas, and
-monıtors applıcable regulatıons to ensure products and systems provıde hıgh qualıty solutıons for current needs as dırected by Honeywell Technologıes Sarl

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

Key performance indicators
Management monitors the business using the following key indicators

Turnover	2010	2009
% change compared with the prior year	(6 4%)	*7 4%*

The change in net sales in 2010 and 2009 is attributable to the following	%	%
Price	1 0%	*2 0%*
Volume	(3 0%)	*(2 0%)*
Transfer to Limited Risk Distributors	(4 4%)	*(7 4%)*
	(6 4%)	*(7 4%)*

The reduction in turnover is a combination of a reduction in volume and the creation of new Limited Risk Distributors in Russia, Poland and the Mediterranean regions

Cost of products and services sold	2010	2009
Gross margin %	23 5%	*21 6%*

Cost of sales has reduced in line with the reduction in turnover

Operating expenses	2010	2009
% of turnover	43 6%	*6 6%*

The pension contributions of £19 6m is the main reason for the increase Other operating expenses as a % of turnover is in line with last year

Staff numbers	2010	2009
% increase year on year	(2 7%)	*8 0%*

The 3% decrease in average staffing levels is due to an increase in the time taken to fill vacancies arising in 2010

Results and dividends
The company's loss for the financial year was £11,416,000 (2009 £3,287,000 profit) which will be deducted from reserves The results for the year are shown on page 6

A final dividend of £8 36 per £1 ordinary share totalling £41,800,000 was paid (2009 £nil)

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

Jon Cooper
Madeleine Orbell
Allan Richards (resigned 21 February 2011)

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

Directors' report (continued)

for the year ended 31 December 2010

Financial instrument policies

Financial risk management

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

Interest rate risk

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

Currency risk

The company considers it has limited currency risk since it primarily transacts in sterling

Credit risk

The company's credit risk is primarily attributable to its trade receivables Credit limits are set and monitored closely as well as the past dues

Liquidity risk

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

Employment of disabled persons

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

Employee involvement

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

Statement of directors' responsibilities

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

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

In preparing these accounts, the directors are required to

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

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

Directors' report (continued)

for the year ended 31 December 2010

Disclosure of information to auditors
Each director at the date of approval of this report confirms that

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

By order of the board

Madeleine Orbell
Director
31 March 2011

Independent auditors' report

to the members of Trend Control Systems Ltd

We have audited the financial statements of Trend Control Systems Ltd for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors Responsibilities Statement set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Alison Cashmore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
31 March 2011

Profit and loss account

for the year ended 31 December 2010

	Note	2010 £000	*2009 £000*
Turnover	3	53,575	*57,209*
Cost of sales		(40,993)	*(44,843)*
Gross profit		12,582	*12,366*
Distribution costs		(5,360)	*(5,604)*
Administrative expenses		(23,337)	*(3,772)*
Operating (loss)/profit	4	(16,115)	*2,990*
Interest receivable and similar income	6	1,166	*1,330*
Interest payable and similar charges	6	(3,283)	*(3,246)*
(Loss)/profit on ordinary activities before taxation		(18,232)	*1,074*
Tax on (loss)/profit on ordinary activities	7	6,816	*2,213*
(Loss)/profit on ordinary activities after taxation		(11,416)	*3,287*

All amounts are derived from continuing operations

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

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented

Balance sheet

as at 31 December 2010

	Note	2010 £000	*2009 £000*
Fixed assets			
Tangible assets	9	1,626	*1,335*
Investments	10	9,636	*9,636*
		11,262	*10,971*
Current assets			
Debtors	11	92,654	*86,678*
Cash at bank and in hand		-	*50,793*
		92,654	*137,471*
Creditors: amounts falling due within one year	12	(39,565)	*(30,926)*
Net current assets		53,089	*106,545*
Total assets less current liabilities		64,351	*117,516*
Creditors amounts falling due after more than one year	13	(43,276)	*(43,276)*
Net assets		21,075	*74,240*
Capital and reserves			
Called up share capital	16	5,000	*5,000*
Share premium account	17	452	*452*
Capital redemption reserve	17	150	*150*
Profit and loss account	17	15,473	*68,638*
Total shareholders' funds	17	21,075	*74,240*

The accounts were approved by the board of directors on 31 March 2011 and were signed on its behalf by

Madeleine Orbell
Director

Notes to the accounts
for the year ended 31 December 2010

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

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

During the year amendments to FRS20 "Share-based Payment - Group Cash-Settled Share-based Payment Transactions", have been adopted The amendments to this policy have had no impact on the accounts of the company

Turnover and revenue recognition
Turnover comprises sales to customers and service revenues net of value added tax Revenue from product and service sales is recognised on delivery and when acceptance by the customer has occurred Revenue from long term contracts for custom built control systems is recognised on the percentage of completion basis once the outcome of the contract can be recognised with reasonable certainty Revenue from service contracts is recognised evenly over the period of the contract Revenue from the sale of consignment stock is recognised when the title of goods sold passes to the customer Where, for a particular contract, turnover exceeds amounts invoiced on account, the excess is included in debtors as amounts recoverable on contracts Where amounts invoiced exceed turnover, the excess is included in payment on account

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

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

Foreign currency
Transactions denominated in foreign currency are booked into the accounts using daily or monthly exchange rates prevailing when the transaction is recorded Monetary assets and liabilities which are denominated in foreign currencies are translated into pounds sterling at rates of exchange approximating to those ruling at the balance sheet date Exchange gains or losses resulting from the year's trading are reflected in the operating results for the year Exchange gains and losses from financing activities are recognised in interest income and expense Foreign currency hedges obtained from the ultimate parent company are recorded on the balance sheet as assets or liabilities and are measured at fair value Any changes in fair value are recognised in the current year profit and loss account as gains or losses on foreign exchange

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

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

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

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

Notes to the accounts (continued)

for the year ended 31 December 2010

1. Accounting policies (continued)

Tangible assets and depreciation

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

Land & buildings - leasehold improvements	3% - 5%
Plant & machinery	7% - 33%

Investments

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

Pensions

As described in note 15, the company participates in a defined benefit pension scheme for the benefit of its employees, the assets of which are held separately from those of the company in an independently administered fund The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution being determined by the actuary

Under definitions set out in FRS 17 “Retirement benefits”, the defined benefit scheme is a multi-employer pension scheme Consequently the company is unable to identify its share of the underlying assets and liabilities of the scheme Accordingly, the company has taken advantage of the exemption under FRS 17 "Retirement benefits" and has accounted for its contributions as if they were contribution made to defined contribution scheme Accordingly the contributions to the scheme are charged to the profit and loss account as they become payable

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

Share-based payment

The company’s employees participate in share option plans operated by Honeywell International Inc , the ultimate parent company All share based payments are equity-settled and are measured at fair value at the date of grant The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the company's estimate of the number of options that will eventually vest At each balance sheet date, the company reviews its estimate of the number of options that are expected to vest

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

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

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

Notes to the accounts (continued)

for the year ended 31 December 2010

2. Cash flow statement and related party transactions

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

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

3. Segmental reporting

Turnover, stated net of value added tax, is attributable to the principal activity of the company The business is carried on in the UK and the turnover derives mainly from that origin

	2010	*2009*
Analysis of turnover by geographical market	£000	*£000*
United Kingdom	44,371	*46,009*
Rest of Europe	8,417	*9,675*
Other	787	*1,525*
	53,575	*57,209*

4. Operating (loss)/profit

	2010	*2009*
Operating (loss)/profit is stated after charging/(crediting)		
Depreciation and amortisation		
Tangible assets - owned	443	*552*
Rental charges under operating leases		
Plant and machinery	17	*35*
Other operating leases	742	*742*
(Gain)/loss on foreign exchange	(28)	*39*
Auditors' remuneration		
Audit fees - statutory audit	38	*43*

5. Employees and directors

Average number of persons employed during the year		
(including executive directors)	number	*number*
Factory and engineering	188	*185*
Selling, servicing and marketing	98	*101*
General and administration	59	*69*
	345	*355*

Staff costs	£000	*£000*
Wages and salaries	12,294	*12,398*
Social security costs	1,590	*1,544*
Pension costs - defined benefit contributions	532	*570*
Special pension contributions	19,598	-
Pension costs - defined contributions (note 15)	353	*369*
Share-based payment charge/(credit) under FRS 20 (note 18)	65	*(18)*
	34,432	*14,863*

Directors' remuneration		
Aggregate emoluments	140	*143*

The number of directors who were	number	*number*
Members of a defined benefit plan	2	*2*

During the year one director (2009 nil) exercised options over shares of Honeywell International Inc , the ultimate parent company

Notes to the accounts (continued)

for the year ended 31 December 2010

6. Interest	2010	*2009*
Interest receivable and similar income	£000	*£000*
Interest receivable from group undertakings	1,105	*1,266*
Other interest receivable	61	*64*
	1,166	*1,330*
Interest payable and similar charges		
Other interest payable	37	-
Preference share dividend	3,246	*3,246*
	3,283	*3,246*

7. Tax on profit on ordinary activities		
Current tax		
UK corporation tax on profits of the year	-	-
Adjustment in respect of prior years	(3,783)	*(2,432)*
Total current tax credit	(3,783)	*(2,432)*
Deferred tax		
Accelerated capital allowances	176	*136*
Other timing differences	63	*74*
Tax losses	(3,179)	-
Adjustment in respect of prior years	(93)	*9*
	(3,033)	*219*
Tax on profit on ordinary activities	(6,816)	*(2,213)*

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

Profit on ordinary activities before tax	(18,232)	*1,074*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(5,105)	*301*
Effects of		
Expenses not deductible for tax purposes and other permanent differences	944	*923*
Capital allowances for the year in excess of depreciation	(155)	*(136)*
Movements in general provisions and other short term timing differences	(113)	*(44)*
Group relief	-	*(1,044)*
Tax losses	3,296	-
Trading loss carried back	1,133	-
Adjustment in respect of prior years	(3,783)	*(2,432)*
Total current tax credit for the year	(3,783)	*(2,432)*

Factors that may affect future tax charges

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

Notes to the accounts (continued)

for the year ended 31 December 2010

8. Deferred taxation

Tax effect of timing differences because of	2010 £000	*2009 £000*
Differences between capital allowances and depreciation	568	*739*
Other short term timing differences	145	*119*
Tax losses	3,178	-
Total deferred tax asset	3,891	*858*
Movement in deferred tax		
At 1 January	858	*1,077*
Credit/(charge) to the profit and loss account (note 7)	3,033	*(219)*
At 31 December	3,891	*858*

9. Tangible assets

	Land & buildings £000	Plant & machinery £000	Total £000
Cost			
At 1 January 2010	629	4,613	5,242
Additions	-	728	728
Reclassifications	199	(199)	-
Transfers intra group	-	48	48
At 31 December 2010	828	5,190	6,018
Accumulated depreciation			
At 1 January 2010	545	3,362	3,907
Charge for the year	39	404	443
Transfers intra group	-	42	42
At 31 December 2010	584	3,808	4,392
Net book value			
At 31 December 2010	244	1,382	1,626
At 31 December 2009	*84*	*1,251*	*1,335*

Land & buildings represent leasehold improvements

10. Investments

Cost and net book value	£000
At 1 January 2010 and 31 December 2010	9,636

Preference shares in group undertakings

Name of company	Interest	Principal activities	Country of incorporation
Friedland Ltd	8,590,994 preference shares of £1 each	Dormant	England

The preference shares do not entitle the company to participate in the profits or assets of the undertakings and they do not qualify as subsidiary undertakings The investments in preference shares in group undertakings are therefore treated as fixed asset investments The directors believe that the book value of investments is supported by their underlying net assets

The company is entitled to receive a dividend on its preference shares in Friedland Ltd. As of 31 December 2010 arrears of dividends amounting to £5,796,000 (2009 £5,152,000) had not been paid The directors have decided not to recognise the preference dividend income until it is formally declared by Friedland Ltd

Notes to the accounts (continued)

for the year ended 31 December 2010

11. Debtors	2010	*2009*
	£000	*£000*
Trade debtors	9,892	*11,034*
Amounts owed by group undertakings	75,045	*74,461*
Deferred taxation (note 8)	3,892	*858*
Corporation tax recoverable	3,632	*-*
Other debtors	11	*250*
Prepayments and accrued income	182	*75*
	92,654	*86,678*

Included in amounts owed by group undertakings are loans of £73,894,000 (2009 £73,297,000), that bear interest at UK base rate plus 1% All other amounts are non interest bearing All amounts are unsecured and repayable on demand

12. Creditors: amounts falling due within one year	2010	*2009*
	£000	*£000*
Bank loans and overdrafts	9,497	*-*
Payments received on account	696	*867*
Trade creditors	1,616	*1,369*
Amounts owed to group undertakings	2,987	*2,134*
Corporation tax	-	*3,005*
Taxation and social security	184	*1,109*
Accruals and deferred income	1,863	*2,966*
Accrued preference share dividends	22,722	*19,476*
	39,565	*30,926*

Amounts owed to group undertakings are unsecured, repayable on demand and non interest bearing

13. Creditors - amounts falling due after more than one year	2010	*2009*
	£000	*£000*
7 5% cumulative redeemable preference shares of £1 each - 43,275,964	43,276	*43,276*

14. Loans and other borrowings		
7 5% cumulative redeemable preference shares of £1 each - 43,275,964	*43,276*	*43,276*

The cumulative redeemable preference shares carry an entitlement to dividend at the rate of 7 5p per share per annum amounting to £3,246,000 ranking in priority to the ordinary shares in respect of dividends and capital but not conferring any right to participate further in the assets, profits or voting of the company

The company is entitled to redeem all or part of the preference shares in issue at any time after 1 January 2007 at par value together with a sum equal to the cash equivalent of any arrears, deficiency or accrual of the preference dividend calculated up to the redemption date

15. Pension commitments

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

Until 9 April 2010, the company participated in four defined benefit schemes, the Novar Pension Scheme, the Novar Executive Pension Scheme, the MK Pension Scheme and the MK Executive Pension Scheme (the "Predecessor Schemes") These schemes are closed to new entrants

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

Defined benefit sections

Honeywell UK Pension Scheme (HUKPS)

The Honeywell UK Pension Scheme is a funded defined benefit scheme providing retirement benefits based on salary It is closed to new entrants

Notes to the accounts (continued)

for the year ended 31 December 2010

15. Pension commitments (continued)

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

Main actuarial assumptions	2010	*2009*
Inflation (RPI)	3 40%	*3 40%*
Rate of general long term increases in salaries	4 40%	*4 40%*
Pension increases	4 40%	*4 40%*
Discount rate for scheme liabilities	5 50%	*5 70%*
Expected rate of return	6 90%	*6 90%*

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

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

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

Mortality assumptions

Mortality assumptions are based on standard mortality tables which allow for future mortality improvements These tables assume that a member who retires in 2010 at age 65 will live on average for a further 21 years after retirement if male or a further 24 years if female, and a member who retires in 2030 at age 65 will live on average for a further 23 years after retirement if male or a further 24 years if female

The company made contributions to this defined benefit scheme of £20,130,000 during the year (2009 £570,000) Contributions accrued at year end amounted to £nil (2009 £nil)

	2010	*2009*	*2008*
Fair value by class of asset	£000	*£000*	*£000*
Corporate bonds	286,200	*44,600*	*124,700*
Government bonds	18,300	*131,500*	*40,300*
Equities	493,600	*393,400*	*346,100*
Properties	37,700	*37,800*	*40,400*
Cash/liquid assets	42,600	*117,200*	*24,000*
Total fair value of assets	878,400	*724,500*	*575,500*
Present value of plan liabilities	(884,600)	*(844,900)*	*(660,600)*
Less assets not considered to be recoverable in the future	(2,000)	*(200)*	-
Net pension liability	(8,200)	*(120,600)*	*(85,100)*
Related deferred tax asset	(5,184)	*8,316*	*23,828*
Deferred tax on excess pension contributions deductible in future years	5,647	*5,647*	-
Net pension deficit	(7,737)	*(106,637)*	*(61,272)*

Defined contribution sections

Contributions to defined contribution plans during the year were £353,000 (2009 £369,000) Contributions accrued at year end amounted to £nil (2009 £nil)

16. Called up share capital	2010	*2009*
Authorised, called up, allotted and fully paid	£000	*£000*
5,000,000 ordinary shares of £1 each	5,000	*5,000*

Notes to the accounts (continued)

for the year ended 31 December 2010

17. Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	2010 Total £000	*2009 Total £000*
At 1 January	5,000	452	150	68,638	74,240	*70,953*
Profit for the financial year	-	-	-	(11,416)	(11,416)	*3,287*
Capital contribution in respect of share options				51	51	-
Dividend paid - £8 36 per £1 ordinary share	-	-	-	(41,800)	(41,800)	-
At 31 December	5,000	452	150	15,473	21,075	*74,240*

18. Share-based payments

Share option scheme

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

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

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

	2010	*2009*
Expected volatility	29 39%	*35 78%*
Expected annual dividend yield	3 00%	*4 26%*
Risk-free rate of return	2 64%	*2 53%*
Expected option term (years)	5 4	*5 8*

Share options outstanding during the year	2010 number	2010 price*	*2009 number*	*2009 price**
Outstanding at 1 January	3,450	£20 67	*8,485*	*£20 64*
Granted	8,500	£24 76	-	-
Exercised	(225)	£20 67	-	-
Transferred	-	-	*(4,900)*	*£25 23*
Forfeited	-	-	*(135)*	*£19 28*
Outstanding at 31 December **	11,725	£23 63	*3,450*	*£20 67*
Exercisable at 31 December	3,225	£20 67	*6,550*	*£21 52*

*The price is the weighted average exercise price
** Share options outstanding at 31 December have a weighted average remaining contractual life of 7 87 years

Restricted stock units

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

Notes to the accounts (continued)

for the year ended 31 December 2010

18. Share-based payments (continued)

Restricted stock units outstanding during the year	2010 number	2010 price*	*2009 number*	*2009 price**
Outstanding at 1 January	2,100	£23 48	*6,480*	*£22 59*
Granted	5,259	£24 76	*1,050*	*£21 02*
Exercised	-	-	*(3,800)*	*£20 72*
Transferred	339	£27 72	*(1,630)*	*£29 14*
Outstanding at 31 December **	7,698	£25 75	*2,100*	*£23 48*

*The price is the weighted average exercise price
** Share options outstanding at 31 December have a weighted average remaining contractual life of 1 88 years

Charge for the year relating to share based payment plans	2010 £000	*2009 £000*
Charge/(credit) before tax	65	*(18)*
Deferred tax (credit)/(charge)	(53)	*39*
Charge after tax	12	*21*

19. Operating lease commitments

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

Land and buildings	2010 £000	*2009 £000*
expiring in two to five years	742	-
expiring after five years	-	*678*
	742	*678*
Other leases		
expiring in two to five years	14	*14*

20. Contingent liabilities

All UK Honeywell group companies have entered into a composite accounting agreement whereby each company has provided a guarantee to the bank This agreement permits the set-off of balances, on a group basis, for interest purposes The maximum liability arising from this arrangement, on a group basis, is the total overdraft balances held by group companies amounting to £470,428,000 (2009 £659,538,000) Positive cash balances held in the group exceeded the overdraft balances in 2010 and 2009

The company has entered into a number of forward contacts for foreign currencies, principally to sell Australian Dollar, Euros and US Dollar At 31 December 2010 the value of contracts outstanding was to sell Australian Dollar £132,000 (2009 £102,000) sell US Dollar £19,000 (2009 £1,279,000) and sell Euro £459,000 (2009 nil)

21. Ultimate parent undertakings

The immediate parent undertaking is Novar Electrical Holdings Ltd

The ultimate parent undertaking and controlling party is Honeywell International Inc , a company incorporated in the USA, which is the smallest and largest group to consolidate these accounts Copies of these accounts are publicly available and can be obtained from Corporate Publications, PO Box 2245, Morristown, New Jersey 07962-2245, USA or from the Internet at www honeywell com