

Board of Directors

| | |
|----------------------|-----------------------------------|
| Mr. Madhukar Bhagwat | (Chairman & Independent Director) |
| Mr. Norman Gilsdorf | (Director) |
| Mr. Gerard Willis | (Director) |
| Mr. Surendra Rao | (Independent Director) |
| Mr. Anant Maheshwari | (Director) |
| Mr. Vikas Chadha | (Managing Director) |
| Ms. Sneha Padve | (Company Secretary) |

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Senior Management Team

| | |
|----------------------------|-----------------------------------|
| Mr. Ananthanarayanan K. V. | Head - Legal |
| Mr. Bagaitkar Ravi | Head - Honeywell Operating System |
| Mr. Bansal Rohit | Head - Sensing & Controls |
| Mr. Bhagania Anurag | Chief Financial Officer |
| Mr. Bhatia Vivek | Head - Global Services |
| Mr. Kelkar Anant | Head - Integrated Supply Chain |
| Mr. Limaye Prasad | Head - Audit & Internal Controls |
| Mr. Mellacheruvu Praveen | Head - Strategy & Marketing |
| Mr. Mitter Kaushik | Head - Human Resources |
| Mr. Singh Priyanshu | Head - Building Solutions |
| Mr. Tumkur Savyasachi | Head - Process Solutions |

Registered Office

56 & 57, Hadapsar
Industrial Estate,
Pune 411 013.

Auditors

Price Waterhouse & Co., Bangalore
Chartered Accountants

Bankers

Citibank N. A.
Royal Bank of Scotland

Registrar & Transfer Agent:

TSR Darashaw Pvt. Ltd.
6-10, Haji Moosa Patrawala Ind. Estate,
20, Dr. E. Moses Road, Mahalaxmi,
Mumbai 400 011.

NOTICE is hereby given that the **THIRTIETH ANNUAL GENERAL MEETING** of HONEYWELL AUTOMATION INDIA LIMITED will be held at **4.00 p.m. on April 30, 2014** in Honeywell Automation India Limited, 56 & 57, Hadapsar Industrial Estate, Pune 411 013 to transact the following business:

ORDINARY BUSINESS:

1. To receive and adopt the Directors' Report and Audited Statement of Profit and Loss for the year ended December 31, 2013 and Balance Sheet as at that date.
2. To declare dividend.
3. To appoint Director in place of Mr. M.N. Bhagwat who retires by rotation and is eligible for reappointment.
4. To appoint Director in place of Mr. Norman Gilsdorf who retires by rotation and is eligible for reappointment.
5. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS:

6. **To consider and if thought fit, to pass with or without modification, the following Resolution as an Ordinary Resolution:**

To appoint a Director in place of Mr. Vikas Chadha, who was appointed as an Additional Director of the Company by the Board of Directors with effect from November 11, 2013, under Section 161 of the Companies Act, 2013 and Article 144 of the Articles of Association of the Company and who holds office upto the date of the forthcoming Annual General Meeting but who is eligible for reappointment and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of Director pursuant to the provisions of Section 257 of the Companies Act, 1956.

7. **To consider and if thought fit, to pass with or without modification, the following Resolution as an Ordinary Resolution:**

"RESOLVED THAT pursuant to the provisions of Sections 269, 309 and other applicable provisions of the Companies Act, 1956, the Company hereby approves of the appointment and remuneration of Mr. Vikas Chadha as Managing Director, with effect from January 1, 2014, upon terms and conditions set out in the draft Agreement submitted to this meeting and for identification signed by the Chairman, which is hereby specifically sanctioned with liberty to the Directors to alter and vary the terms and conditions of the said Agreement in such manner as may be agreed to between the Directors and Mr. Vikas Chadha.

NOTES:

- a) The Company's share are under the compulsory demat list. Shareholders are requested to utilize this facility to their advantage. Shareholders have been sent the ECS facility forms. Shareholders are requested to fill in the forms and take advantage of this facility.
- b) The Register of Members and Share Transfer Books of the Company will remain closed from Tuesday, April 15, 2014 to Tuesday, April 22, 2014 (both days inclusive).
- c) A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company.
- d) Members desiring any information about the Company's working are requested to write to the Company at an early date so as to enable the Management to reply at the General Meeting.
- e) Members are requested to promptly notify any change in their address to the Company's Registrars & Share Transfer Agents, namely, TSR DARASHAW PVT. LTD., 6-10 Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011.
- f) Pursuant to the provisions of Section 205 A of the Companies Act, 1956, as amended, dividend for the year ended December 31, 2006, paid on April 27, 2007 will be transferred to the Investor Education and Protection Fund of the Central Government this year. Shareholders who have not encashed the dividend warrant(s) so far for the year ended December 31, 2006 or any subsequent years are requested to make their claim to the Office of the Registrar and

Transfer Agents: TSR DARASHAW PVT. LTD., 6-10 Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011. It shall be noted that once the dividend is transferred to the Investor Education and Protection Fund as above, no claim shall lie with the Company in respect of such amount.

- g) As per the provisions of the amended Companies Act, 1956, facility for making nomination is now available for shareholders in respect of the shares held by them. Nomination forms can be obtained from the Share Registrars of the Company.
- h) Shareholders are requested to bring their copy of Annual report to the meeting.

By order of the Board of Directors

Gurgaon, February 5, 2014

Sneha Padve
Company Secretary

Registered Office:
56 & 57, Hadapsar
Industrial Estate,
Pune 411 013

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

Item Nos. 3 and 4:

| Name of Director | Mr. M.N. Bhagwat | Mr. Norman Gilsdorf |
|--|--|--|
| Date of Birth | 04.06.1932 | 18.12.1953 |
| Date of Appointment | 02.11.2004 | 06.02.2009 |
| Expertise in specific functional areas | Engineering | Engineering |
| Qualifications | <ol style="list-style-type: none"> 1. B.E. (Mechanical & Electrical), University of Pune. 2. M.S. Mechanical Engineering, University of Illinois, USA. 3. Diploma in Business Management, Bajaj Management Institute, Mumbai. | <ol style="list-style-type: none"> 1. Chemical engineering degree from Purdue University. 2. MBA in International Business and Finance from the Northwestern University. |
| List of Public Companies in which outside Directorships held as on December 31, 2013 | Kenametal India Limited Walchand People First Limited Technopolis Knowledge Park Ltd. | - |
| Chairman/ Member of the Committees of the Board of the Companies on which he is a Director as on December 31, 2013 | Audit Committee: Kennametal India Limited: Chairman Walchand People First Limited: Chairman | - |

Item No. 6:

Mr. Vikas Chadha has been appointed by the Board of Directors with effect from November 11, 2013, as an Additional Director on the Board. He, therefore, holds office only upto the date of the forthcoming Annual General Meeting and is eligible for reappointment. The Company has received a notice in writing from a member as required by Section 257 of the Companies Act, 1956, proposing the appointment of Mr. Chadha as a Director.

Mr. Vikas Chadha has been with the Honeywell Group based at Delhi since the last 5 years and has held various positions such as Director - South Asia Security System; Regional Director - South Asia Honeywell Security Systems, Honeywell International India; Regional General Manager - Honeywell Building Solutions, Honeywell Automation India Ltd. Prior to joining Honeywell, he was with McKinsey & Company. Vikas has done his BE (Hons) Electronics from Delhi College of Engineering; Post Graduate Program in Management from Indian School of Business, Hyderabad.

Mr. Vikas Chadha is concerned and interested in the matter.

Item No. 7:

Mr. Anant Maheshwari has accepted a position as President, Honeywell India and he remains on the Board of Honeywell Automation India Ltd. Consequent to this change, the Board has passed a resolution, subject to the approval of the shareholders in the Annual General Meeting, appointing Mr. Vikas Chadha as Managing Director for a period of 5 years w.e.f. January 1, 2014, on the following terms and conditions:

- I) Mr. Vikas Chadha shall, as the Managing Director, be Head of the Management Team and shall, subject to the supervision and control of the Board of Directors, be responsible for the overall conduct and functioning of the Company.
- II) **Remuneration:**
 1. Annual Gross Compensation (which includes basic pay, HRA, other allowances and commission etc.) of Rs.1,00,00,000/- (Rupees One crore) to Rs.2,50,00,000/- (Rupees Two crores, fifty lakhs only) per annum, with such increases as may be determined by the Remuneration Committee of Directors from time to time and approved by the Board of Directors of the Company. The annual increment will be merit based and take into account the Company's performance.
 2. **Commission:**

Such remuneration by way of commission (ICP), in addition to the Annual Gross Compensation payable, calculated with reference to the net profits of the Company in a particular financial year, as may be determined by the Board of Directors of the Company at the end of each financial year subject to the overall ceilings stipulated in Sections 198 and 309 of the Act. The specific amount payable to the Managing Director will be based on certain performance criteria to be laid down by the Board and will be payable annually after the annual accounts have been approved by the Board of Directors and adopted by the members. The Managing Director will also be eligible to long term incentives such as stock options, restricted units issued by Honeywell International Inc., from time to time as per Honeywell policy.
 3. **Retirals:**

Company's contribution to Provident Fund, to the extent it is not taxable under the Income Tax Act; Gratuity payable as per the rules of the Company and encashment of leave at the end of tenure shall not be included in the computation.
 4. **Minimum remuneration:**

Notwithstanding anything to the contrary herein contained wherein any financial year during the currency of the tenure of the Managing Director, the Company has no profits or inadequate profits, the Company will pay remuneration by way of salary and perquisites as specified above.
- III) The terms and conditions of the said appointment and agreement may be altered and varied from time to time by the Board, as it may, in its discretion, deem fit within the maximum amount payable to Managing Director, subject to the provisions of Section 198, 309 and 310 and Schedule XIII of the Companies Act, 1956, or any other amendments made hereafter in this regard.
- IV) There are other usual provisions in the agreement relating to termination of contract, observing strict secrecy in respect of business matters, etc.

Mr. Vikas Chadha is concerned and interested in the matter.

Dear Members,

The Directors present the **THIRTIETH ANNUAL REPORT** with the audited statements of accounts of the Company for the year ended December 31, 2013.

1. FINANCIAL RESULTS:

| Particulars | Year ended December 31, 2013 (Rs. in lacs) | Year ended December 31, 2012 (Rs. in lacs) |
|---|--|--|
| Sales & Other Income | 172563 | 167192 |
| Operating Profit | 13709 | 13365 |
| Less: Interest | 39 | 34 |
| Depreciation | 1392 | 1399 |
| Profit for the year | 12278 | 11932 |
| Provision for tax | 5390 | 3610 |
| Deferred Tax Adjustment | (1728) | (195) |
| PROFIT AFTER TAX | 8616 | 8517 |
| Profit brought forward from the previous year | 54585 | 47947 |
| Profit available for appropriations | 63201 | 56464 |
| APPROPRIATIONS | | |
| General Reserve | 862 | 852 |
| Proposed Dividend | 884 | 884 |
| Tax on proposed dividend | 150 | 143 |
| BALANCE CARRIED FORWARD | 61305 | 54585 |

2. DIVIDEND:

Final dividend @Rs.10/- per share of Rs.10/- each was recommended by the Board in their meeting held on February 5, 2014.

3. OPERATIONS:

The Management Discussion & Analysis Report annexed herewith provides full details of operational performance and business analysis of these business units.

- **Honeywell Process Solutions (HPS)** serves core industrial sectors of Refining, Oil & Gas, Pulp & Paper, Metal and Cement etc.
- **Honeywell Building Solutions (HBS)** provides solutions and services for facilities such as Commercial & Industrial Buildings, IT & ITES industry, Hospitals, Hotels, Airports etc.
- **Environment and Combustion Control (ECC)** serves multiple brands through channels and offers environmental and combustion products and solutions to commercial, hospitality and industrial segments.
- **Sensing & Control (S&C)** business provides various sensors and switches to manufacturing and automobile industry. This business serves primarily OEMs in various manufacturing industries such as auto, medical instrumentation, IT, etc.
- **Exports Business Group (EBG)** addresses manufacturing and engineering services needs of Honeywell along with some other non Honeywell customers across the globe, leveraging the cost, skills and knowledge arbitrage.

4. COMMUNITY DEVELOPMENT WORK:

HAIL remains committed to making the world a better place and expanding community outreach through wide-ranging CSR activities with focus on Education, Community Health and Environment.

Some of the initiatives under CSR were as follows:

Education:

- Sponsored 5 female students studying in College of Engineering, Pune who are economically under privileged, through the "Catalyst Project" in order to promote diversity in the engineering talent pool.
- Supported teaching skill development programs for teachers at 13 rural schools in and around Pune, benefitting over 50 teachers and 2500 students during the past year.
- The computer training program for disabled children conducted by employee volunteers is in its 5 consecutive year.
- School kits and merit scholarships have been awarded to over 106 children of contract workforce associated with the Company.
- Over 300 school kits were distributed among underprivileged children in Pune.
- The Company supported vocational skill development programs on plumbing technology conducted by the IIEDR, Wagholi.
- The Company has also supported and enabled 125 school dropouts to appear for the SSC Board exam.

Health:

- A basic health and hygiene awareness camp was conducted in association with students from BJ Medical College for over 200 students from rural areas.
- Blood donation camp for employees at Pune location led to 500 bags of blood being donated.
- The Company continues to support the "AABHA" initiative related to public health awareness in tribal areas of Kolvan valley. 22 local girls from 12 villages in the valley were trained to be "Health Messengers" for their villages.
- The Company sponsored health insurance for 50 school going children and their parents.

Environment:

- Tree plantation and conservation activities have been taken up in association with rural schools leading to the plantation of over 200 trees during the last year.
- The Company has also provided financial and volunteer support to "Project Green Thumb" focused on the de-silting of the Khadakvasala dam.

5. HONEYWELL OPERATING SYSTEM (HOS):

Your Company has been driving operational excellence initiative of Honeywell Operating System (HOS). Integrated Supply Chain function (ISC) and Global Services (GS) back office supporting the business of Honeywell Process Solutions (HPS) worked further towards sustenance of HOS maturity during 2013, after achieving Silver level accreditation in 2012. Silver is the highest level that an individual HOS site can achieve. Focus in 2014 at these HOS sites will be on Silver Excellence through adopting more advanced version of HOS strongly impacting Safety, Quality, Delivery, Cost and Inventory metrics. Additional drive in 2014 will be on (1) "HOS from day one" at new manufacturing facility of Environmental and Combustion Controls business being set up at Vadodara (Gujarat) (2) Enabling operational excellence for India business and global back office for Honeywell Building Solutions to improve Quality, Delivery and Productivity performance.

6. DIRECTORS:

As per the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. M.N. Bhagwat and Mr. Norman Gilsdorf, retire by rotation and are eligible for reappointment.

7. HUMAN RESOURCES:

Honeywell's Positive Employee Relationships (PER) strategy aims at engaged and motivated workforce and to create a positive and productive work environment.

Honeywell's Global PER Assessment Process outlines the Communication, Action Planning, Surveys (Employee and Manager Survey) and Focus Groups to make it more effective.

Honeywell has also made great strides to get the Employee Value Proposition (EVP) in place. It focuses on 5 key themes i.e. 1. Challenging work that matters 2. Right People 3. Talent and Leader Development 4. Differentiated Rewards and 5. Community Engagement.

As on December 31, 2013, the Company's employee strength was 2713 as compared to 2735 as on December 31, 2012.

8. MANAGEMENT DISCUSSION & ANALYSIS/CORPORATE GOVERNANCE REPORT:

As per Clause 49 of the Listing Agreement with the Stock Exchanges, Management Discussion and Analysis Report and Corporate Governance report are annexed and form part of the Directors Report.

9. CODE OF CONDUCT COMPLIANCE:

As per Clause 49 of the Listing Agreement with the Stock Exchanges, the declaration signed by the Managing Director affirming compliance with the Code of Conduct by Directors and Senior Management, for the Financial Year 2013 is annexed and forms part of the Directors Report.

10. DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors, based on the representations received from the Operating Management, confirm that -

- a) In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- b) They have, in the selection of the accounting policies, consulted the Statutory Auditors and have applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- c) They have taken proper and sufficient care, to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) They have prepared the annual accounts on a going concern basis.

11. AUDITORS:

M/s. Price Waterhouse & Co., Bangalore the Statutory Auditors retire at the forthcoming Annual General Meeting and are eligible for reappointment. The Company has received the certificate from the retiring auditors to the effect that the appointment, if made, will be in accordance with the limits specified in Section 224(1-B) of the Companies Act, 1956.

12. OTHER INFORMATION:

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 pertaining to absorption of technology, foreign exchange earnings, is given as an Annexure to this Report and forms part of it. As per provisions of Section 219(1)(b)(iv) of the Act, the Directors' Report and Accounts are being sent to the shareholders excluding the statement giving particulars of employees under Section 217(2A) of the Act. Any Shareholder interested in obtaining a copy of the statement may write to the Company Secretary at the Registered Office of the Company.

13. ACKNOWLEDGMENT:

The Board would like to place on record its appreciation and thanks to all its employees for their contribution. The Board also wishes to acknowledge the support it has received from its investors, customers, vendors, regulatory authorities and bankers.

For and on behalf of the Board

M.N. Bhagwat
Chairman

Gurgaon, February 5, 2014

Registered Office:

56 & 57, Hadapsar Industrial Estate,
Pune 411 013

Annexure to Directors' Report

A) CONSERVATION OF ENERGY:

Your Company continues to make every effort to conserve energy required for all its operations. Some of the key initiatives undertaken in 2013 for the same are as under:

- Implementation of electrical load monitoring supervision with help of existing staff.
- Reduced number of hours of operation of AC and lighting loads.
- Changing and adding only energy efficient LED lighting in the office areas.
- Making changes to the Air conditioning to make it more energy efficient.

B) TECHNOLOGY ABSORPTION:

HAIL is an affiliate Company of Honeywell International Inc., and on merits it continues to have access to some of the latest products and technology of the parent Company. We continue to roll out new products and technology in the Indian markets.

C) FOREIGN EXCHANGE EARNINGS AND OUTGO:

(Rs. in lakhs)

| | |
|-----------------------------|--------|
| (i) Foreign exchange earned | 63,955 |
| (ii) Foreign exchange used | 60,993 |

PERFORMANCE OF KEY FINANCIAL INDICATORS AND HIGHLIGHTS OF 2013

| | 2013 (Rs. Cr.) | 2012 (Rs. Cr.) | |
|-------------------------------|-------------------|-------------------|---|
| • External orders | 1422 | 1111 | External orders up 28% |
| • Net revenue from operations | 1707 | 1661 | Net revenue up 3% |
| • Net income | 86 | 85 | Net income at 5% of net sales |
| • Cash flow from operations | 192 | -17 | Positive cash generated from operations |

INDUSTRY OUTLOOK AND OPPORTUNITIES

Your Company's operating results are significantly influenced by macro-economic trends such as industrial production, capital spending on process and building automation, commercial and infrastructure construction, commodity prices and foreign exchange variations.

In 2012, all these macro trends started slowing down, impacting growth. During 2013 (the year under review), the Indian economy continued to slow down. Capital expenditure across various sectors continued to remain stagnant with continued uncertainty in the economy. Inflation continued to remain high leading to interest rate hikes by the Reserve Bank of India, further challenging access to funds for your Company's customers. Significant adverse movement in the USD-INR exchange rate during the third quarter of 2013 has had a large impact on your Company's operating results driving costs of imported items higher. Slowdown in the industrial and infrastructure sectors has now spread to the residential construction sector as well.

Economic and industry conditions impacting industries involved in environment, security and safety also have an impact on your Company's operations. Some of the important market conditions were:

- Delays in incremental investments in sectors critical for the Process Solutions business, including refining, terminals and pipelines, power generation, transmission and distribution, and oil exploration projects continued. Overall investment trends remained uncertain.
- Trends in the construction sector for both commercial and residential verticals continued to remain muted due to sluggish demand for real estate. These trends have impacted your Company's ECC business.
- For the S&C business, slowdown in manufacturing of machinery, capital goods and auto sectors meant significant shrinkage in available opportunities. However, the increasing level of automation in industrial and off-road automotive products is a positive trend for the business.
- The changing geographic mix of global business from the developed regions (North America and Western Europe) to other geographies (e.g., the Middle East, Eastern Europe) has sustained. This affects your Company's ability to derive competitive advantages from the cost benefit of sourcing services from India by Honeywell entities.

Honeywell Process Solutions (HPS):

HPS' offerings include distributed control systems, field instruments, programmable logic controllers, emergency shutdown systems (ESD), quality controls systems (QCS), process and business performance improvement solutions and various value added services. HPS business has won several prestigious projects as well as continuing its strong position in the key vertical of oil and natural gas.

2014 is likely to be a challenging year for HPS due to the prevailing economic and political environment, which may cause delays in policy regulation, lower growth of industrial production and continued competitive pressures in the market. Opportunities in the green field refining sector are declining and your Company will have fewer opportunities due to limited investments in petrochemicals/fertilizers and upgrade/expansion of oil terminals/storage projects in India. Your Company has a strong position in each of these areas. With a suite of products and solutions that cater to these sectors, we expect that from among available opportunities, we will win a fair share of the demand.

Honeywell Building Solutions (HBS):

HBS provides building solutions that are operationally intelligent and energy efficient. As part of its intelligent buildings suite, HBS provides building management systems (HVAC, lighting and utilities monitoring and control), fire detection and alarm systems, access control systems, video surveillance systems, integrated security systems and integrated building management systems leveraging Honeywell's Enterprise Buildings Integrator™, i.e., EBI™. As part of its operational efficiency promise, HBS provides after market services for all control systems as well as comprehensive utilities operations and maintenance services for all mechanical and electrical systems in buildings. As part of its energy efficiency promise, HBS provides energy management services, energy retrofits and energy performance contracts.

The strong results in this business continued during the year. Its track record in infrastructure, IT, datacenters and office space verticals has accelerated its presence in telecom, healthcare and pharmaceutical verticals in 2013. The highlights of the year were major order wins from many large customers from telecommunications and IT.

Environment and Combustion Control (ECC):

With softening of investments in the hospitality and commercial real estate sectors, the ECC business had a tough year to sustain revenue growth, which was marginal as compared to last year. Channel volumes, expansion of distribution footprint to tier-2 and tier-3 cities and key project wins in the building management system (BMS) business were the highlights of the year. The industrial combustion control business continued to see positive trends with revival of industrial demand in the last year. Solar water heaters launched in 2009 continued to report strong sales. Government policies for encouraging renewable energy solutions are helping in leveraging large commercial opportunities in this space. The investment made in the new solar water factory in Vadodara (Gujarat) in 2013 is likely to come on stream in the first half of 2014 – this will continue to help in growing this business.

In 2012, this business also identified synergistic opportunities for a shared management and go-to-market approach with another Honeywell India entity: Honeywell Electrical Devices & Systems (ED&S). Both these businesses target similar end markets in the commercial and residential construction vertical and, therefore, can benefit by sharing their channels and support infrastructure. We believe this will continue to provide your Company an opportunity to expand its reach to tier-3 and tier-4 cities.

Consolidation of the commercial construction and real estate segments, along with urbanization in tier-2 and tier-3 cities, will continue to drive growth of the diversified product portfolio for the business. We remain cautious about the overall liquidity situation and interest rates scenario for 2014, which may affect credit availability in the commercial construction segment, thereby affecting the volume of ECC's business.

Sensing and Control (S&C):

With a slowdown in core industrial sectors, especially automotive, construction equipment and off highway equipment, S&C revenue growth rates were lower as compared to historical trends. However, on the back of strong product offering, technology and superior services, S&C growth remained flat in these difficult market conditions for the year across all lines of business, viz. electromechanical, electro sensing, and test and measurement. During the year under review, S&C secured large program orders from key customers, which are expected to support revenue growth in 2014 and beyond.

Your Company will continue to remain focused on verticals such as industrial, transportation, military, aerospace and healthcare. Another important initiative is to expand the distribution network, especially for greater coverage of industrial customers. For this, the channel management team has been expanded through re-organization, which will help the business to focus on the distribution network. During the year there have been significant new business opportunities which resulted in major wins from customers in medical and transportation industries. These new business opportunities are expected to support growth in the coming years.

Exports:

Global Services (GS) is engaged with Honeywell entities globally in providing project engineering services, product design solutions, software engineering services, systems manufacturing and staging services. GS is in a unique position to add value in terms of driving overall productivity and cost competitiveness in the current economic conditions. Strong and highly mature deployment of the Honeywell Operating System (HOS), a system designed to drive operational and business

excellence, has helped GS to over deliver on cost control and productivity metrics, while mitigating risks and challenges of a global economic downturn.

Global Manufacturing (GM) was accredited with HOS Silver certification in August 2012 and sustained this level in 2013. Compared to the previous year, GM's revenue grew marginally in spite of the global slowdown, and margins improved significantly, partly due to favorable exchange rates. Global Manufacturing's working capital improved significantly due to better inventory planning during 2013. With Honeywell's support and sponsorship, Pune became one of the four regional factories for Honeywell Process Solutions. This regional factory enables Pune to supply to the Middle East and Europe.

LEADERSHIP AND TALENT

Your Company continues to invest in Human Capital as a key enabler of business growth. Talent Management and Leadership Development is an integrated set of processes aligned with business strategy to ensure the Company has the right people, organized in right way and motivated to do the best job every day for its customers. It has mature processes like Goal Management, Performance Management and structured Feedback and Development processes. Developing leadership capability in employees is a key expectation from every business leader and the Company aggressively promotes internal movements as path to career growth. This is institutionalized through a number of processes that run consistently across the organization. One such process, the Honeywell Management Resource Review (MRR) process continually reviews leadership talent within the organization and proactively plans for succession by assessing the available talent pipeline within the Company as also within the larger Honeywell organization globally. This process runs twice a year across businesses and functions. Development plans ensure necessary focus on capability building and skills development for enabling leaders to take up larger roles.

Your Company has adopted a multi tiered framework to build Leadership Capability and develop the Leadership Bench. This includes among others the India Leadership Connect (ILC) focused on development of 30 top talent for senior leadership roles, the LEAD programme to build frontline management capability and the SDP to develop supervisory capability. The Management Trainee Program and the Graduate Engineer Trainee Programme creates the leadership pipeline at the entry level.

FINANCIALS

Overall net revenue from operations at Rs. 1,707 crores, is up 3% compared to the previous year. The domestic segment of the business registered a growth of 9%. This growth was achieved amidst competitive challenges on pricing and adverse order backlog affecting sales volumes. The exports segment revenue is lower by 9%, driven primarily by one time large export orders in the previous year.

Overall net income was Rs. 86 crores. Your Company delivered a return of 5% on sales for the year.

- Slowdown in the Indian economy and higher costs driven by inflation led to marginal growth in revenue.
- Strengthening of the US dollar led to increase in cost structure, leading to an increase in the cost of production during the year.
- Tight money market conditions, as witnessed in some delayed payments from customers, caused your Company to take higher charge on account of provision for doubtful debts and bad debts.
- Your Company continued to focus on productivity of its workforce. Average headcount for the year stood lower by 8% over the previous year.
- Corporate allocation was lower by Rs. 9.8 crores, driven by lower billing, which was partially offset by a significantly weaker rupee as invoicing of allocation is in US dollars.
- Cash flow from operations at Rs. 192 crores, (previous year negative Rs. 17 crores) reflected the initiatives taken by your Company to recover its cash position despite adverse liquidity and tight money market conditions. Your Company will continue to strive for better working capital performance by generating positive operating cash flows in proportion to its net income.

RISKS AND CONCERNS

Your Company generates a large percentage of its sales and profits from its business with Honeywell International Inc. and its Affiliates, its major shareholder. Sales to Honeywell accounted for approximately 30% and 35% of total net sales in fiscal years 2013 and 2012, respectively. Your Company's ability to maintain or grow its business with Honeywell depends upon a number of performance factors, including our ability to (i) identify emerging trends and customer requirements and develop product and service offerings superior to those of our competitors, (ii) meet or surpass the price, quality and delivery requirements of Honeywell and its end-customers in a cost-effective and competitive manner, and (iii) develop and retain employees and leaders with the necessary expertise. However, your Company cannot be assured that its level of sales and profits associated with its relationship with Honeywell will continue. Honeywell-specific business considerations (independent of its shareholdings in the Company), including changes in Honeywell's strategies regarding utilization of alternative opportunities available to it, to source products and services currently provided by your Company (including from alternative sources which Honeywell may acquire or develop within its own group), may also reduce the level and/or mix of Honeywell's business with the Company. Pricing pressures on sales of goods and services to Honeywell or a reduction in the volume or change in the mix of orders or sales to Honeywell can be expected to have a material adverse impact on the revenues and profits of the Company.

While your Company is diversified in various products, industries and geographies, major macroeconomic indicators are generally soft around investments in the process and construction industries. While your Company is expecting to achieve a fair share, the diversification is helping it to manage these recessionary trends in focusing on right business. While we continue to believe that the fundamentals appear to be strong and domestic infrastructure investments continue to be resilient, the overall competitive landscape is becoming more aggressive due to lower global volumes for most peer companies having international presence. Volatility of foreign exchange rates continues to be a concern due to large exposure to foreign currencies that the Company has on account of imports as well as exports.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

● **Internal Control Framework**

Your Company conducts its business with integrity and high standards of ethical behavior and in compliance with the laws and regulations that govern it and its business. Your Company has a well established framework of internal controls in place, supported by policies, guidelines and procedures, including suitable monitoring procedures. In addition to external audit, the financial and operating controls of your Company at various locations are reviewed regularly by the Internal Audit team as per plan approved by the Audit Committee, annually by Honeywell Asia Pacific Internal Control team for Sarbanes Oxley testing and periodically by Honeywell Corporate Audit team. The Audit Committee reviews internal audit plan, significant audit findings along with corrective actions taken by Management, adequacy of internal controls and compliance with accounting policies and accounting standards.

Your Company's Code of Conduct sets out the fundamental standards to be followed by employees in their everyday actions. Your Company also has an elaborate Integrity and Compliance program where all employees undergo trainings on Code of Conduct to become familiar with legal requirements, avoid conflicts of interest, get sensitized to acceptable work place behaviors and are tasked with upward reporting of all unethical or illegal conduct. All employees are committed to the principle of performance with integrity and ensuring that activities comply with all applicable laws. Additionally, all officers of the Company are required to certify on an annual basis that there are no transactions which are fraudulent, illegal or in violation to the Code of Conduct. Strong oversight and self monitoring policies and procedures demonstrate your Company's commitment to the highest standards of integrity.

● **Budget Control**

At the beginning of the financial year, the Annual Operating Plans are developed by the business units/departments which get approved by the Board and are rolled out in the organization. The monthly Management Information System report provides actual performance versus budgets.

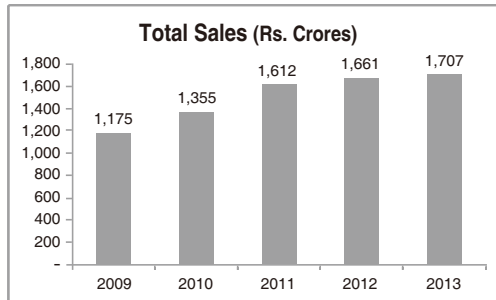
The Company has a strong operations review mechanism in place. The Management Committee, the business unit/department head review the performance of the business and the expenses on a monthly basis and corrective actions are discussed and implemented.

The Board of Directors reviews the business performance every quarter and suggests corrective actions to ensure that performance is in line with budgets.

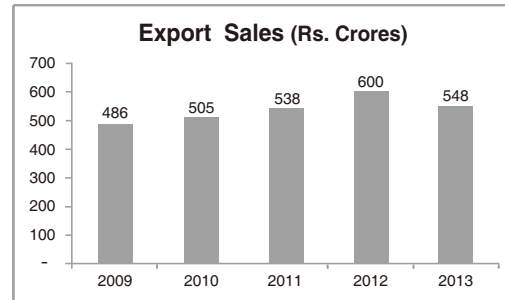
The Company has also initiated various processes to ensure fixed cost is controlled, enabling margin improvement on volume leverage. Your Company continues to take conscious efforts to reduce cost to serve and eliminate cost of poor quality, while addressing price and volume pressures in tough economic environment.

Summary

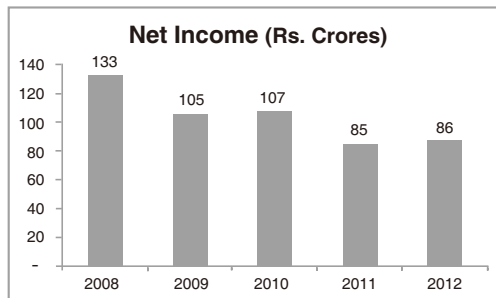
Revenue mix for the year reflects improvement in India domestic revenue. However, the overall revenue was essentially flat compared to 2012. Your Company experienced moderately higher net income for 2013. Increased competitive environment in both domestic and exports continue to be a concern which is being addressed through concentrated efforts on operational excellence, driving productivity and aggressive cost rationalization, thus making it a much leaner Company to address the challenging times ahead. Your Company is continuously driving new productivity initiatives to remain committed to the journey of profitable growth.



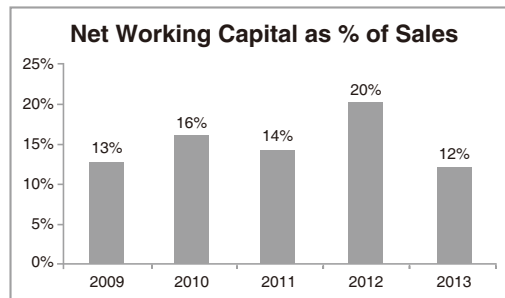
Total sales grew by 3% year on year.



Exports sales declined by 9% over prior year due to lower hardware exports orders during 2013. Global services revenue remained flat due to competitive pricing pressures, which were partly offset by productivity.



Favorable mix coupled with productivity gains and lower corporate allocation were offset by competitive pricing pressures, weaker rupee driving increase in import cost and increase in provision for doubtful debts.



Focus on liquidation of working capital has helped address the adverse trend observed in earlier year due to inflationary pressure on interest rates, liquidity crunch and extended billing milestones.

To
The Members of Honeywell Automation India Limited

Report on the Financial Statements

1. We have audited the accompanying financial statements of Honeywell Automation India Limited (the "Company"), which comprise the Balance Sheet as at December 31, 2013 and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, which we have signed under reference to this report.

Management's Responsibility for the Financial Statements

2. The Company's Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of 'the Companies Act, 1956' of India (the "Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, and to the best of our information and according to the explanations given to us, the accompanying financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2013;
 - (b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
 - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

7. As required by 'the Companies (Auditor's Report) Order, 2003', as amended by 'the Companies (Auditor's Report) (Amendment) Order, 2004', issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act (hereinafter referred to as the "Order"), and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
8. As required by section 227(3) of the Act, we report that:
 - (a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

- (d) In our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Act;
- (e) On the basis of written representations received from the directors as on December 31, 2013 and taken on record by the Board of Directors, none of the directors is disqualified as on December 31, 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number: FRN 007567S
Chartered Accountants

Jeetendra Mirchandani
Partner

Membership Number: 48125

Place : Gurgaon
Date : February 5, 2014

Annexure to Independent Auditors' Report

Referred to in paragraph 7 of the Independent Auditors' Report of even date to the members of Honeywell Automation India Limited on the financial statements as of and for the year ended December 31, 2013.

- i. (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation, of fixed assets.
 - (b) The fixed assets are physically verified by the Management according to a phased programme designed to cover all the items over a period of five years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the Management during the year and no material discrepancies have been noticed on such verification.
 - (c) In our opinion, and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.
- ii. (a) The inventory (excluding stocks with third parties) has been physically verified by the Management during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. In our opinion, the frequency of verification is reasonable.
 - (b) In our opinion, the procedures of physical verification of inventory followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
 - (c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
- iii. (a) The Company has not granted/taken any loans, secured or unsecured, to/ from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Therefore, the provisions of Clause 4(iii)(b),(c) and (d)/(f) and (g)] of the said Order are not applicable to the Company.
- iv. In our opinion and according to the information and explanations given to us, having regard to the explanation that, except for certain items of inventory which are of special nature for which suitable alternative sources do not exist, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
- v. (a) According to the information and explanations given to us, we are of the opinion that the particulars of all contracts or arrangements that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
 - (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

Referred to in paragraph 7 of the Independent Auditors' Report of even date to the members of Honeywell Automation India Limited on the financial statements as of and for the year ended December 31, 2013.

- vi. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
- vii. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
- viii. We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act, and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
- ix. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is generally regular in depositing undisputed statutory dues in respect of sales tax, Income tax, professional tax and employees' state insurance, though there has been a slight delay in a few cases, and is regular in depositing undisputed statutory dues, including provident fund, investor education and protection fund, wealth tax, service tax, customs duty, excise duty and other material dues, as applicable, with the appropriate authorities.
- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of wealth-tax, service-tax, which have not been deposited on account of any dispute. The particulars of dues of income tax, sales tax, customs duty and excise duty as at December 31, 2013 which have not been deposited on account of a dispute, are as follows

| Name of the statute | Nature of dues | Amount* (Rs. Lakhs) | Period to which the amount relates | Forum where the dispute is pending |
|---------------------------------------|---|------------------------|------------------------------------|--|
| Income Tax Act, 1961 | Income Tax | 697 | 2005-2006 | ITAT |
| Income Tax Act, 1961 | Income Tax | 2,850 | 2008-2009 | ITAT |
| Maharashtra Sales Tax Act, 1960 | CST | 103 | 2001-02 | Maharashtra Sales Tax Appellate Tribunal. |
| Maharashtra Sales Tax Act, 1960 | CST | 148 | 2002-03 | Joint Commissioner of Sales Tax (Appeals) |
| Maharashtra Sales Tax Act, 1960 | CST | 16 | 2006-07 | Joint Commissioner of Sales Tax (Appeals) |
| Maharashtra Sales Tax Act, 1960 | CST | 112 | 2007-08 | Joint Commissioner of Sales Tax (Appeals) |
| Maharashtra Value Added Tax, 2002 | MVAT | 114 | 2008-09 | Deputy Commissioner of Sales Tax (Appeals) |
| Gujarat Sales Tax Act, 1969 | CST | 39 | 2008-09 | Deputy Commissioner of Commercial Tax (Appeal IV) |
| Kerala VAT act 2003 | VAT | 81 | 2012-13 | Deputy Commissioner of Sales Tax (Appeals) |
| Rajasthan Sales Tax Act, 1994 | VAT & CST | 78 | 2006 to 2011 | Deputy Commissioner of Sales Tax (Appeals) |
| West Bengal Value Added Tax Act, 2003 | VAT | 260 | 2007-08 to 2010 – 11 | Joint Commissioner of Sales Tax (Appeals) |
| Uttar Pradesh | VAT | 91 | 2007-08 | Joint Commissioner of Sales Tax (Appeals) |
| Uttar Pradesh | VAT | 143 | 2009-10 | Joint Commissioner of Sales Tax (Appeals) |
| The Central Excise Act, 1944 | Excise duty, including applicable penalty | 2 | 2002-03 | Customs, Excise and Service Tax Appellate Tribunal |
| The Customs Act, 1962 | Penalty | 6 | 2006-07 | Customs, Excise and Service Tax Appellate Tribunal |

* Net of amount paid under protest or otherwise

Referred to in paragraph 7 of the Independent Auditors' Report of even date to the members of Honeywell Automation India Limited on the financial statements as of and for the year ended December 31, 2013.

- x. The Company has no accumulated losses as at the end of the financial year and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
- xi. As the Company does not have any borrowings from any financial institution or bank nor has it issued any debentures as at the balance sheet date, the provisions of Clause 4(xi) of the Order are not applicable to the Company.
- xii. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Therefore, the provisions of Clause 4(xii) of the Order are not applicable to the Company.
- xiii. As the provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company, the provisions of Clause 4(xiii) of the Order are not applicable to the Company.
- xiv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of Clause 4(xiv) of the Order are not applicable to the Company.
- xv. In our opinion, and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year. Accordingly, the provisions of Clause 4(xv) of the Order are not applicable to the Company.
- xvi. The Company has not raised any term loans. Accordingly, the provisions of Clause 4(xvi) of the Order are not applicable to the Company.
- xvii. The Company has not raised any loans on short term basis. Accordingly, the provisions of Clause 4(xvii) of the Order are not applicable to the Company.
- xviii. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year. Accordingly, the provisions of Clause 4(xviii) of the Order are not applicable to the Company.
- xix. The Company has not issued any debentures during the year and does not have any debentures outstanding as at the beginning of the year and at the year end. Accordingly, the provisions of Clause 4(xix) of the Order are not applicable to the Company.
- xx. The Company has not raised any money by public issues during the year. Accordingly, the provisions of Clause 4(xx) of the Order are not applicable to the Company.
- xxi. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud on or by the Company, noticed or reported during the year, nor have we been informed of any such case by the Management.

For Price Waterhouse & Co., Bangalore
Firm Registration Number: FRN: 007567S
Chartered Accountants

Place : Gurgaon
Date : February 5, 2014

Jeetendra Mirchandani
Partner
Membership Number: 48125

(Rupees in lakhs)

| Particulars | Note No. | As at December 31, 2013 | As at December 31, 2012 |
|---|----------|----------------------------|----------------------------|
| Equity and Liabilities | | | |
| Shareholders' fund | | | |
| Share capital | 2 | 884 | 884 |
| Reserves and surplus | 3 | 77,213 | 69,631 |
| | | <u>78,097</u> | <u>70,515</u> |
| Non-current liabilities | | | |
| Long-term provisions | 4 | 2,022 | 2,344 |
| | | <u>2,022</u> | <u>2,344</u> |
| Current liabilities | | | |
| Trade payables | 5 | 37,613 | 32,725 |
| Other current liabilities | 6 | 11,720 | 9,774 |
| Short-term provisions | 7 | 3,686 | 4,817 |
| | | <u>53,019</u> | <u>47,316</u> |
| Total | | <u><u>133,138</u></u> | <u><u>120,175</u></u> |
| Assets | | | |
| Non-current assets | | | |
| Fixed assets | | | |
| Tangible assets | 8a | 6,474 | 7,134 |
| Intangible assets | 8b | 33 | 36 |
| Capital work in progress | | 293 | 37 |
| | | <u>6,800</u> | <u>7,207</u> |
| Deferred tax assets(Net) | 9 | 5,959 | 4,231 |
| Long-term loans and advances | 10 | 14,052 | 11,777 |
| Other non-current assets | 11 | 2,367 | 1,359 |
| | | <u>22,378</u> | <u>17,367</u> |
| Current assets | | | |
| Inventories | 12 | 11,015 | 10,367 |
| Trade receivables | 13 | 35,373 | 37,548 |
| Cash and bank balances | 14 | 31,076 | 14,877 |
| Short-term loans and advances | 15 | 3,214 | 5,103 |
| Other current assets | 16 | 23,282 | 27,706 |
| | | <u>103,960</u> | <u>95,601</u> |
| Total | | <u><u>133,138</u></u> | <u><u>120,175</u></u> |
| Summary of significant Accounting policies | 1 | | |

The notes are an integral part of these financial statements.
This is the Balance Sheet referred to in our report of even date.

For and on behalf of the Board

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number - FRN 007567S
Chartered Accountants

Jeetendra Mirchandani
Partner
Membership No: 48125

Place : Gurgaon
Date : February 5, 2014

M.N.Bhagwat
Chairman
Sneha Padve
Company Secretary
Vikas Chadha
Managing Director
Anurag Bhagania
Chief Financial Officer

Place : Gurgaon
Date : February 5, 2014

(Rupees in lakhs)

| Particulars | Note No. | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|--|-----------------|---|---|
| Revenue from operations (gross) | 17 | 173,728 | 169,330 |
| Less: Excise Duty | | 3,029 | 3,257 |
| Revenue from operations (net) (Refer note 32) | | 170,699 | 166,073 |
| Other Income | 18 | 1,864 | 1,119 |
| Total Revenue | | 172,563 | 167,192 |
| Expenses: | | | |
| Cost of materials consumed | 19a | 85,622 | 83,888 |
| Purchases of traded goods | | 14,207 | 15,143 |
| Changes in inventories of finished goods, work-in-progress and stock-in-trade | 19b | (377) | (2,014) |
| Employee benefits expense | 20 | 29,962 | 29,729 |
| Finance costs | 21 | 39 | 34 |
| Depreciation and amortization expense | 8a&8b | 1,392 | 1,399 |
| Other expenses | 22 | 29,440 | 27,081 |
| Total Expenses | | 160,285 | 155,260 |
| Profit before tax | | 12,278 | 11,932 |
| Tax Expense: | | | |
| - Current tax | | 5,390 | 3,610 |
| - Deferred tax | | (1,728) | (195) |
| Profit for the year | | 8,616 | 8,517 |
| Earning per equity shares (In Rs.) (Refer Note No. 26) Basic and Diluted (Nominal value per share: Rs.10 (2012:Rs. 10)) | | 97.45 | 96.33 |

Summary of significant Accounting policies

1

The notes are an integral part of these financial statements.

This is the statement of Profit and Loss referred to in our report of even date.

For and on behalf of the Board

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number - FRN 007567S
Chartered Accountants

Jeetendra Mirchandani
Partner
Membership No: 48125

Place : Gurgaon
Date : February 5, 2014

M.N.Bhagwat
Chairman

Sneha Padve
Company Secretary

Place : Gurgaon
Date : February 5, 2014

Vikas Chadha
Managing Director

Anurag Bhagania
Chief Financial Officer

(Rupees in lakhs)

| Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|--|---|---|
| A. Cash flow from operating activities | | |
| Profit before taxation | 12,278 | 11,932 |
| Adjustments for: | | |
| Depreciation | 1,364 | 1,371 |
| Amortisation | 28 | 28 |
| Loss/(profit) on sale of tangible assets(net) | (16) | 21 |
| Interest income | (932) | (726) |
| Interest expense | 39 | 34 |
| Operating profit before working capital changes | 12,761 | 12,660 |
| Increase/ (decrease) in trade payables and other current liabilities | 6,839 | 621 |
| Increase/ (decrease) in provisions | (1,460) | (550) |
| (Increase) /decrease in trade and other receivables | 7,205 | (8,119) |
| (Increase) in inventories | (648) | (2,021) |
| Cash generated from operations | 24,697 | 2,591 |
| Taxes paid (net of refund, if any) | (5,547) | (4,323) |
| Net cash generated from operations | 19,150 | (1,732) |
| B. Cash flow from investing activities | | |
| Purchase of tangible/intangible assets | (1,149) | (985) |
| Sale of tangible/intangible assets | 64 | 47 |
| Interest received | 793 | 952 |
| Fixed deposit placed during the year | (1,642) | (19,415) |
| Proceeds from fixed deposits matured during the year | 2,500 | 26,000 |
| Net cash from investing activities | 566 | 6,599 |
| C. Cash flow from financing activities | | |
| Dividend paid | (1,027) | (1,027) |
| Interest paid | (39) | (34) |
| Net cash used in financing activities | (1,066) | (1,061) |
| Net change in cash and cash equivalents | 18,650 | 3,806 |
| Cash and cash equivalents as at the beginning of the year | 12,310 | 8,504 |
| Cash and cash equivalents as at the end of the year | 30,960 | 12,310 |
| Movement in cash and cash equivalents | 18,650 | 3,806 |

(Rupees in lakhs)

| Cash and cash equivalents consists of | As at December 31, 2013 | As at December 31, 2012 |
|---|----------------------------|----------------------------|
| Bank Balances | | |
| Current Accounts | 10,402 | 4,042 |
| Demand deposits (Original maturity less than 3 months) | 20,558 | 8,268 |
| | <u>30,960</u> | <u>12,310</u> |

Notes:

- 1 Cash Flow statement has been prepared under the 'Indirect Method' set out in Accounting Standard (AS) - 3: "Cash Flow Statements" as specified in the Companies (Accounting Standard) Rules 2006.
- 2 Prior year comparatives have been reclassified to conform with current year's presentation, where applicable.
- 3 Figures in brackets represent out flows of cash and cash equivalents.

In terms of our report of even date

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number - FRN 007567S
Chartered Accountants

Jeetendra Mirchandani
Partner
Membership No: 48125

Place : Gurgaon
Date : February 5, 2014

For and on behalf of the Board

M.N.Bhagwat
Chairman

Vikas Chadha
Managing Director

Sneha Padve
Company Secretary

Anurag Bhagania
Chief Financial Officer

Place : Gurgaon
Date : February 5, 2014

Notes Forming Part of Financial Statements for the Year Ended December 31, 2013**NOTE 1 - GENERAL INFORMATION AND STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****A. GENERAL INFORMATION:**

Honeywell Automation India Limited (the 'Company') is engaged primarily in business of Process Control and Management Systems field on turnkey basis and otherwise. The Company is a public limited Company and is listed on the Stock Exchange, Mumbai (BSE) and the National Stock Exchange (NSE).

SIGNIFICANT ACCOUNTING POLICIES:**B. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

These financial statements have been prepared in accordance with the generally accepted accounting principles in India under the historical cost convention on accrual basis. These financial statements have been prepared to comply in all material aspects with the accounting standards notified under Section 211(3C) [Companies (Accounting Standards) Rules, 2006, as amended] and the other relevant provisions of the Companies Act, 1956.

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Schedule VI to the Companies Act, 1956. Based on the nature of products and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current – non current classification of assets and liabilities.

C. TANGIBLE ASSETS

Tangible Assets are stated at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any.

Subsequent expenditures related to an item of fixed asset are added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance.

Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements. Any expected loss is recognised immediately in the Statement of Profit and Loss.

Losses arising from the retirement of, and gains or losses arising from disposal of fixed assets which are carried at cost are recognised in the Statement of Profit and Loss.

Depreciation is provided on a pro-rata basis on the straight-line method over the estimated useful lives of the assets or the rates prescribed under Schedule XIV of the Companies Act, 1956, whichever is higher, as follows:

| Class of Assets | Useful Lives |
|------------------------|---------------------|
| Buildings | 30 years |
| Plant and Machinery | 10 years |
| Demo Equipment | 4 years |
| Computers | 3 years |
| Office Equipment | 5 - 6 years |
| Furniture and Fixture | 5 - 10 years |
| Vehicles | 4 - 5 years |

Assets installed in leased premises are depreciated over 4 years representing average life of the lease for such premises.

D. INTANGIBLE ASSETS AND AMORTIZATION

Intangible Assets are stated at acquisition cost, net of accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortised on a straight line basis over their estimated useful lives. A rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use is considered by the management. The amortisation period and the amortisation method are reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period is changed accordingly.

Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised as income or expense in the Statement of Profit and Loss. The amortisation rates used are:

- a) Product distribution rights – HSPL are amortized over a period of 10 years.
- b) Software purchased over a period of 3 years.

E. BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in Statement of Profit and Loss in the period in which they are incurred.

F. IMPAIRMENT

Assessment is done at each Balance Sheet date as to whether there is any indication that an asset (tangible and intangible) may be impaired. For the purpose of assessing impairment, the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets, is considered as a cash generating unit. If any such indication exists, an estimate of the recoverable amount of the asset/cash generating unit is made. Assets whose carrying value exceeds their recoverable amount are written down to the recoverable amount. Recoverable amount is higher of an asset's or cash generating unit's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Assessment is also done at each Balance Sheet date as to whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased.

G. INVENTORIES

Inventories are stated at lower of cost and net realisable value. Cost is determined using the standard costing technique, which approximates the actual cost. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

H. REVENUE RECOGNITION

- i) Revenue in respect of projects for construction of plants and systems, execution of which is spread over different accounting periods, is recognized on the basis of percentage of completion method in accordance with Accounting Standard 7 – Accounting for construction contracts.
- ii) Percentage of completion is determined by the proportion that contract costs incurred for work done till date bears to the estimated total contract costs.
- iii) Difference between costs incurred plus recognized profits/ less recognized losses and the amount of invoiced sale is disclosed as contracts in progress.
- iv) Determination of revenues under the percentage of completion method necessarily involves making estimates by the Company, some of which are of a technical nature, concerning where relevant, the percentage of completion, costs to completion, the expected revenue from the contract and the foreseeable losses to completion.
- v) Contractual claims are recognized on raising of the claim. However, consequential liability to excise duty, if any, is provided for and corresponding revenue is accounted for only on settlement of the claim. Income from non-contractual claims is recognized only on acceptance of the claim by the customer.

- vi) Revenue from sales of products and services are recognized when significant risks and rewards of ownership of products are passed on to the customer or when the service is provided.
- vii) Revenue from short term software development services includes revenue from time and material and fixed price contracts. Revenue from time and material contracts are recognized as related services are performed. With reference to fixed price contracts revenue is recognized in accordance with proportionate completion method.

I. OTHER INCOME

Interest: Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

J. FOREIGN CURRENCY TRANSACTIONS

Initial Recognition

On initial recognition, all foreign currency transactions are recorded by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Subsequent Recognition

As at the reporting date, non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction. All non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

All monetary assets and liabilities in foreign currency are restated at the end of accounting period.

Exchange differences on restatement of all other monetary items are recognised in the Statement of Profit and Loss.

Forward Exchange Contracts

The premium or discount arising at the inception of forward exchange contracts entered into to hedge an existing asset/liability, is amortized as expense or income over the life of the contract. Exchange differences on such a contract are recognised in the Statement of Profit and Loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract are recognised as income or as expense for the period.

Forward exchange contracts outstanding as at the year end on account of firm commitment / highly probable forecast transactions are marked to market and the losses, if any, are recognised in the Statement of Profit and Loss and gains are ignored in accordance with the Announcement of Institute of Chartered Accountants of India on 'Accounting for Derivatives' issued in March 2008.

K. EMPLOYEE BENEFITS

Superannuation fund: Contribution towards superannuation fund for certain employees is made to the Life Insurance Corporation, where the Company has no further obligations. Such benefits are classified as Defined Contribution Schemes as the Company does not carry any further obligations, apart from the contributions made on a monthly basis.

Provident Fund: Provident Fund contributions are made to a Trust administered by the Company. The Company's liability is actuarially determined (using the Projected Unit Credit method) at the end of the year and any shortfall in the fund size maintained by the Trust set up by the Company is additionally provided for. Actuarial losses/gains are recognised in the Statement of Profit and Loss in the year in which they arise.

Gratuity: The Company provides for gratuity, a defined benefit plan (the "Gratuity Plan") covering eligible employees in accordance with the Payment of Gratuity Act, 1972. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment. The Company's liability is actuarially determined (using the Projected Unit Credit method) at the end of each year. Actuarial losses/ gains are recognised in the Statement of Profit and Loss in the year in which they arise.

Compensated Absences: Accumulated compensated absences, which are expected to be availed or encashed within 12 months from the end of the year end are treated as short term employee benefits. The obligation towards the same is measured at the expected cost of accumulating compensated absences as the additional amount expected to be paid as a result of the unused entitlement as at the year end.

Accumulated compensated absences, which are expected to be availed or encashed beyond 12 months from the end of the year end are treated as other long term employee benefits. The Company's liability is actuarially determined (using the Projected Unit Credit method) at the end of each year. Actuarial losses/ gains are recognised in the Statement of Profit and Loss in the year in which they arise.

Termination Benefits: Termination benefits in the nature of voluntary retirement benefits are recognised in the Statement of Profit and Loss as and when incurred.

L. TAXATION

Tax expense for the period, comprising current tax and deferred tax, are included in the determination of the net profit or loss for the period. Current tax is measured at the amount expected to be paid to the tax authorities in accordance with the taxation laws prevailing in the respective jurisdictions.

Deferred tax is recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets. Deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the Balance Sheet date. At each Balance Sheet date, the group reassesses unrecognised deferred tax assets, if any.

Current tax assets and current tax liabilities are offset when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle the asset and the liability on a net basis. Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off assets against liabilities representing current tax and where the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.

Minimum Alternative Tax credit is recognised as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. Such asset is reviewed at each Balance Sheet date and the carrying amount of the MAT credit asset is written down to the extent there is no longer a convincing evidence to the effect that the Company will pay normal income tax during the specified period.

M. PROVISIONS AND CONTINGENCIES

Provisions: Provisions are recognised when there is a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and there is a reliable estimate of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the Balance sheet date and are not discounted to its present value.

Contingent Liabilities: Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events where it is either not probable that an outflow of resources will be required to settle or a reliable estimate of the amount cannot be made, is termed as a contingent liability.

N. LEASES

As a lessee: Payments made under operating leases are charged to the Statement of Profit and Loss on a straight-line basis over the period of the lease.

O. CASH AND CASH EQUIVALENTS

In the cash flow statement, cash and cash equivalents includes cash in hand, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

P. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

Notes to the financial statements

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|--|----------------------------|----------------------------|
| Note 2 - Share capital | | |
| Authorised: | | |
| 10,000,000 (December 31, 2012: 10,000,000) equity shares of Rs.10 each | 1,000 | 1,000 |
| | 1,000 | 1,000 |
| Issued: | | |
| 8,841,697 (December 31, 2012: 8,841,697) equity shares of Rs.10 each | 884 | 884 |
| | 884 | 884 |
| Subscribed and paid up | | |
| 8,841,523 (December 31, 2012: 8,841,523) equity shares of Rs. 10 each (fully paid up) | 884 | 884 |
| Total | 884 | 884 |

(a) Rights, preferences and restrictions attached to the shares

Equity shares: The Company has one class of equity shares having a par value of Rs.10 per share. Each shareholder is eligible for one vote per share held. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting, except in case of interim dividend. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company after distribution of all preferential amounts, in proportion to their shareholding.

(b) Reconciliation of shares:

| | As at December 31, 2013 | | As at December 31, 2012 | |
|---|-------------------------|-------------------|-------------------------|-------------------|
| | Number of shares | (Rupees in lakhs) | Number of shares | (Rupees in lakhs) |
| Equity shares | | | | |
| Balance as at the beginning and end of the year | 8,841,523 | 884 | 8,841,523 | 884 |

(c) Shares held by Holding Company and subsidiary of Holding Company

| | As at December 31, 2013 | | As at December 31, 2012 | |
|---|-------------------------|-------------------|-------------------------|-------------------|
| | Number of shares | (Rupees in lakhs) | Number of shares | (Rupees in lakhs) |
| Equity shares: | | | | |
| Honeywell Asia Pacific Inc. (Holding Company) | 6,631,142 | 663 | 6,631,142 | 663 |

(d) Number of shares held by shareholders holding more than 5% of the aggregate shares in the Company

| | As at December 31, 2013 | | As at December 31, 2012 | |
|---|-------------------------|------------|-------------------------|------------|
| | Number of shares | Percentage | Number of shares | Percentage |
| Honeywell Asia Pacific Inc. (Holding Company) | 6,631,142 | 75 | 6,631,142 | 75 |

- a) 6,631,142 (December 31, 2012 : 6,631,142) Equity shares constituting 75% (December 31,2012 75%) of the paid-up capital of the Company are held by Honeywell International Inc., the ultimate holding Company, through its 100% subsidiary, Honeywell Asia Pacific Inc.
- b) The Company has not allotted any shares as fully paid up bonus shares or pursuant to contract(s) neither payment being received in cash during 5 years immediately preceding December 31, 2013.

Notes to the financial statements

| (Rupees in lakhs) | | |
|---|----------------------------|----------------------------|
| | As at December 31, 2013 | As at December 31, 2012 |
| Note 3 - Reserves and surplus | | |
| Securities Premium Account | | |
| Balance as at the beginning and end of the year | 1,577 | 1,577 |
| General Reserve | | |
| Balance as at the beginning of the year | 13,469 | 12,617 |
| Add: Transferred from Surplus in the Statement of Profit and Loss during the year | 862 | 852 |
| Balance as at the end of the year | <u>14,331</u> | <u>13,469</u> |
| Surplus in the Statement of Profit and Loss | | |
| Balance as at the beginning of the year | 54,585 | 47,947 |
| Profit for the year | 8,616 | 8,517 |
| Less: Appropriations | | |
| Proposed dividend on equity shares for the year | 884 | 884 |
| Dividend distribution tax on proposed dividend on equity shares | 150 | 143 |
| Transfer to General Reserve | 862 | 852 |
| Balance as at the end of the year | <u>61,305</u> | <u>54,585</u> |
| Total | <u><u>77,213</u></u> | <u><u>69,631</u></u> |

| (Rupees in lakhs) | | |
|--|----------------------------|----------------------------|
| | As at December 31, 2013 | As at December 31, 2012 |
| Note 4 - Long-term provisions | | |
| Provision for employee benefits | | |
| Gratuity and other retirement benefits (Refer note 40) | 333 | 597 |
| Other provisions | | |
| Provision for litigations/ disputes (Refer note 39) | 1,521 | 1,511 |
| Provision for Warranty (Refer note 39) | 168 | 236 |
| Total | <u><u>2,022</u></u> | <u><u>2,344</u></u> |

| (Rupees in lakhs) | | |
|------------------------------------|----------------------------|----------------------------|
| | As at December 31, 2013 | As at December 31, 2012 |
| Note 5 - Trade payables | | |
| Trade payables [Refer note 27 (b)] | 37,028 | 29,882 |
| Acceptances | 585 | 2,843 |
| Total | <u><u>37,613</u></u> | <u><u>32,725</u></u> |

Notes to the financial statements

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|--|----------------------------|----------------------------|
| Note 6 - Other current liabilities | | |
| Advances from customers | 1,714 | 1,488 |
| Creditors for capital goods | 11 | 18 |
| Employee benefits payable | 5,451 | 5,633 |
| Statutory dues (including Provident Fund and Tax deducted at Source) | 326 | 580 |
| Other payables | 324 | 213 |
| Unclaimed dividend* | 21 | 19 |
| Unearned revenue (Refer note 38) | 3,873 | 1,823 |
| Total | 11,720 | 9,774 |

* Includes amount payable towards Investor Education and Protection Fund u/s 205C of the Companies Act, 1956. Rs. NIL

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|---|----------------------------|----------------------------|
| Note 7 - Short-term provisions | | |
| Provision for employee benefits | | |
| Compensated absences | 737 | 679 |
| Gratuity and other retirement benefits (Refer note 40) | 316 | 517 |
| Other provisions | | |
| Proposed dividend on equity shares for the year | 884 | 884 |
| Dividend distribution tax on proposed dividend on equity shares | 150 | 143 |
| Provision for warranty (Refer note 39) | 445 | 462 |
| Provision for estimated cost to complete on contracts (Refer note 39) | 1,154 | 2,132 |
| Total | 3,686 | 4,817 |

Note 8a - Tangible assets

(Rupees in lakhs)

| Assets | Gross block | | | As at December 31, 2013 | Depreciation | | | As at December 31, 2013 | Net block | |
|------------------------|-----------------------------|------------|------------|-------------------------------|----------------------------|-----------------|--------------------------|-------------------------------|-------------------------------|-------------------------------|
| | As at January 1, 2013 | Additions | Deductions | | Upto January 1, 2013 | For the year | Disposal/ Adjustments | | As at December 31, 2013 | As at December 31, 2013 |
| Land | 30 | - | - | 30 | - | - | - | - | 30 | 30 |
| Buildings | 3,818 | - | - | 3,818 | 783 | 141 | - | 924 | 2,894 | 3,035 |
| Plant and machinery | 4,997 | 155 | 1 | 5,151 | 2,745 | 386 | 0 | 3,131 | 2,020 | 2,252 |
| Computers | 2,965 | 235 | 145 | 3,055 | 2,340 | 462 | 137 | 2,665 | 390 | 625 |
| Furniture and fixtures | 1,449 | - | - | 1,449 | 768 | 131 | - | 899 | 550 | 681 |
| Office equipments | 287 | 1 | - | 288 | 175 | 23 | - | 198 | 90 | 112 |
| Vehicles | 921 | 361 | 273 | 1,009 | 522 | 221 | 234 | 509 | 500 | 399 |
| Total | 14,467 | 752 | 419 | 14,800 | 7,333 | 1,364 | 371 | 8,326 | 6,474 | 7,134 |
| Previous Year | 14,325 | 1,205 | 1,063 | 14,467 | 6,957 | 1,371 | 995 | 7,333 | 7,134 | 7,368 |

Note 8b - Intangible assets

(Rupees in lakhs)

| Assets | Gross block | | | As at December 31, 2013 | Upto January 1, 2013 | Depreciation | | As at December 31, 2013 | Net block | |
|----------------------------------|-----------------------------|-----------|------------|-------------------------------|----------------------------|-----------------|--------------------------|-------------------------------|-------------------------------|-------------------------------|
| | As at January 1, 2013 | Additions | Deductions | | | For the year | Disposal/ Adjustments | | As at December 31, 2013 | As at December 31, 2013 |
| Product Distribution Rights HSPL | 1,060 | - | - | 1,060 | 1,060 | - | - | 1,060 | - | - |
| Computer software | 102 | 25 | - | 127 | 66 | 28 | - | 94 | 33 | 36 |
| Total | 1,162 | 25 | - | 1,187 | 1,126 | 28 | - | 1,154 | 33 | 36 |
| Previous year | 1,148 | 15 | 1 | 1,162 | 1,099 | 28 | 1 | 1,126 | 36 | 49 |

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|--|----------------------------|----------------------------|
|--|----------------------------|----------------------------|

Note 9 - Deferred tax assets**a) Deferred tax liability**

| | | |
|-------------------------------|---|------|
| Depreciation and amortisation | - | (34) |
|-------------------------------|---|------|

b) Deferred tax assets

| | | |
|--|--------------|--------------|
| Depreciation and amortisation | 5 | - |
| Provision for doubtful debts | 2,904 | 1,933 |
| Provision for earnest money deposit and security deposit | 80 | 79 |
| Provision for estimated cost to complete | 350 | 538 |
| Provision for compensated absence | 250 | 281 |
| Provision for inadmissible expenses | 1,823 | 899 |
| Gratuity | 70 | 87 |
| Bonus | 323 | 309 |
| Others | 154 | 139 |
| Deferred tax assets (Net) | 5,959 | 4,231 |

Deferred tax assets and deferred tax liabilities have been offset as they relate to the same governing taxation laws

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|--|----------------------------|----------------------------|
|--|----------------------------|----------------------------|

Note 10 - Long-term loans and advances

Unsecured, considered good (unless otherwise stated)

| | | |
|---|---------------|---------------|
| Security deposits | | |
| Considered good | 1,318 | 821 |
| Considered doubtful | 54 | 51 |
| | <u>1,372</u> | <u>872</u> |
| Less: Allowance for doubtful security deposits | 54 | 51 |
| | <u>1,318</u> | <u>821</u> |
| Other loans and advances | | |
| Capital advance | 109 | - |
| Balances with Government authorities | 8,676 | 7,164 |
| Taxes paid in advance less provisions (current tax) | 3,949 | 3,792 |
| [Net of Provision for tax Rs. 30,962 lakhs (Previous year Rs. 25,572 lakhs)] | | |
| Total | 14,052 | 11,777 |

Notes to the financial statements

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|---|----------------------------|----------------------------|
| Note 11 - Other non-current assets | | |
| Unsecured, considered good (unless otherwise stated): | | |
| Deposit against bank guarantee | 1,595 | - |
| Long term trade receivables | | |
| Considered good | 772 | 1,359 |
| Considered doubtful | 436 | 402 |
| | <u>1,208</u> | <u>1,761</u> |
| Less: Provision for doubtful debts | 436 | 402 |
| Total | <u><u>2,367</u></u> | <u><u>1,359</u></u> |

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|--|----------------------------|----------------------------|
| Note 12 - Inventories | | |
| Raw materials [includes in transit: Rs. 1,196 lakhs (previous year: Rs. 1,335 lakhs)] | 6,490 | 6,219 |
| Work-in progress | 414 | 281 |
| Finished goods | 603 | 436 |
| Traded goods | 3,508 | 3,431 |
| Total | <u><u>11,015</u></u> | <u><u>10,367</u></u> |

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|---|----------------------------|----------------------------|
| Note 13 - Trade receivables | | |
| Unsecured, considered good (unless otherwise stated) | | |
| Outstanding for a period exceeding six months from the date they are due for payment: | | |
| Considered good | 172 | 960 |
| Considered doubtful | 5,443 | 4,579 |
| | <u>5,615</u> | <u>5,539</u> |
| Others | | |
| Considered good | 35,201 | 36,588 |
| Considered doubtful | 64 | 178 |
| | <u>35,265</u> | <u>36,766</u> |
| Less: Provision for doubtful debts | 5,507 | 4,757 |
| Total | <u><u>35,373</u></u> | <u><u>37,548</u></u> |

Notes to the financial statements

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|--|----------------------------|----------------------------|
| Note 14 - Cash and bank balances | | |
| Cash and cash equivalents | | |
| Bank balances | | |
| In current accounts | 10,402 | 4,042 |
| Demand deposits (Original maturity less than 3 months) | 20,558 | 8,268 |
| | <u>30,960</u> | <u>12,310</u> |
| Other bank balances | | |
| Long term deposits with original maturity more than 3 months but less than 12 months | - | 2,500 |
| Deposits against bank guarantee | 95 | 48 |
| Unpaid dividend account | 21 | 19 |
| Total | <u><u>31,076</u></u> | <u><u>14,877</u></u> |

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|--|----------------------------|----------------------------|
| Note 15 - Short-term loans and advances | | |
| Unsecured, considered good (unless otherwise stated) | | |
| Loans and advances to related parties | 173 | 196 |
| Other loans and advances | | |
| Earnest money deposit | | |
| Considered good | 193 | 242 |
| Considered doubtful | 180 | 190 |
| | <u>373</u> | <u>432</u> |
| Less: Provision for doubtful deposits | 180 | 190 |
| | <u>193</u> | <u>242</u> |
| Advances recoverable in cash or kind | 911 | 2,069 |
| Security deposits | 180 | 333 |
| Balances with government authorities | 648 | 939 |
| Prepaid expenses | 137 | 142 |
| Advances to employees | 972 | 1,182 |
| Total | <u><u>3,214</u></u> | <u><u>5,103</u></u> |

(Rupees in lakhs)

| | As at December 31, 2013 | As at December 31, 2012 |
|---|----------------------------|----------------------------|
| Note 16 - Other current assets | | |
| Unsecured, considered good | | |
| Interest accrued on deposits with banks | 186 | 47 |
| Unbilled services | 276 | 1,009 |
| Contracts in progress (Refer note 38) | 22,820 | 26,650 |
| Total | <u><u>23,282</u></u> | <u><u>27,706</u></u> |

Notes to the financial statements

| | (Rupees in lakhs) | |
|--|---|---|
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
| Note 17 - Revenue from operations (gross) | | |
| Revenue from operations (gross) | | |
| Manufactured products and jobs | 105,392 | 98,998 |
| Traded products | 20,797 | 18,979 |
| Sale of services | 47,528 | 51,321 |
| Other operating revenue | | |
| Scrap sale | 11 | 9 |
| Refund of taxes and duties | - | 23 |
| Total | 173,728 | 169,330 |

| | (Rupees in lakhs) | |
|---|---|---|
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
| Note 18 - Other Income | | |
| Interest - On fixed deposits with banks | 932 | 726 |
| Liabilities no longer required written back | 111 | 155 |
| Foreign exchange gain (Net) | 727 | 199 |
| Profit on assets sold/ discarded (net) | 16 | - |
| Miscellaneous income | 78 | 39 |
| Total | 1,864 | 1,119 |

| | (Rupees in lakhs) | |
|---|---|---|
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
| Note 19a - Cost of materials consumed | | |
| Raw materials consumed (Refer note 33 and 34) | | |
| Opening inventory | 6,219 | 6,212 |
| Add: Purchases (net) | 85,893 | 83,895 |
| Less: Inventory at the end of the year | 6,490 | 6,219 |
| Cost of raw materials consumed during the year | 85,622 | 83,888 |

| | (Rupees in lakhs) | |
|---|---|---|
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
| Note 19b - Changes in inventories of finished goods, work-in-progress and traded goods | | |
| (Increase)/ decrease in stock | | |
| Stock at the beginning of the year | | |
| Finished goods | 436 | 392 |
| Work in progress | 281 | 342 |
| Trading goods | 3,431 | 1,400 |
| Total (A) | 4,148 | 2,134 |
| Stock at the end of the year | | |
| Finished goods | 603 | 436 |
| Work in progress | 414 | 281 |
| Trading goods | 3,508 | 3,431 |
| Total (B) | 4,525 | 4,148 |
| (Increase)/ decrease in stock (A-B) | (377) | (2,014) |

Notes to the financial statements

| | (Rupees in lakhs) | |
|---|---|---|
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
| Note 20 - Employee benefit expenses | | |
| Salaries, wages and bonus | 28,015 | 27,412 |
| Contribution to Provident and Other Funds (Refer note 40) | 1,292 | 1,639 |
| Staff welfare expenses | 655 | 678 |
| Total | 29,962 | 29,729 |

| | (Rupees in lakhs) | |
|-------------------------------|---|---|
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
| Note 21 - Finance cost | | |
| Interest | 39 | 34 |
| Total | 39 | 34 |

| | (Rupees in lakhs) | |
|--|---|---|
| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
| Note 22 - Other expenses | | |
| Power and fuel | 869 | 1,016 |
| Rent [(Refer note 1 (N) and 25)] | 2,462 | 2,583 |
| Rates and taxes | 1,151 | 325 |
| Repairs and maintenance | | |
| Building | 13 | 26 |
| Plant and machinery | 111 | 113 |
| Others | 1,006 | 701 |
| | 1,130 | 840 |
| Auditors remuneration | | |
| As Auditors | 41 | 40 |
| Others (including tax audit) | 23 | 23 |
| Out of pocket expenses | 1 | 2 |
| | 65 | 65 |
| Travelling and conveyance | 10,140 | 9,862 |
| Communication expenses | 779 | 724 |
| Insurance | 149 | 140 |
| Loss on sale / write off of tangible and intangible assets (net) | - | 21 |
| Sales commission | 47 | 78 |
| Bad debts written off | 1,548 | 1,131 |
| Liquidated damages written off | 756 | 935 |
| Provision for doubtful debts | 2,553 | 397 |
| Corporate overhead allocations | 6,165 | 7,150 |
| Directors fees | 4 | 4 |
| Miscellaneous expenses | 1,622 | 1,810 |
| Total | 29,440 | 27,081 |

Notes to the financial statements**23. Segment Reporting:**

Business segment has been considered as the primary segment and geographical segment has been considered as the secondary segment. Automation & Control systems being the only business segment constitute one single primary segment in the context of Accounting Standard - 17 on Segment Reporting.

The Company has two geographical segments, viz. Domestic and Exports. Revenue from geographical segments based on location of customers is given below:

| Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|--------------|---|---|
| Domestic | 115,910 | 106,027 |
| Export | 54,789 | 60,046 |
| Total | 170,699 | 166,073 |

Fixed assets used in the Company's business or liabilities contracted have not been identified to any segment as the fixed assets and services are used interchangeably between segments. Accordingly no disclosure relating to total segment assets and liabilities is made.

24. Related Party Disclosure:

List of related parties (as identified and certified by the Management)

| | |
|---|--|
| i) Parties where control exists | |
| Honeywell Asia -Pacific Inc., Holding Company Honeywell International Inc., Ultimate Holding Company | |
| Other related parties with whom transactions have taken place during the year: | |
| ii) Fellow Subsidiaries | |
| Honeywell Middle East B.V. Honeywell Technology Solutions Qatar Honeywell Tianjin Limited Honeywell Controls and Automation India Pvt. Ltd. Honeywell B.V. Honeywell & Co. Oman L.L.C. Honeywell Pte Ltd. Honeywell Automation & Control Solutions South Africa (Pty) Ltd. Honeywell Kuwait KSC. Automation and Control Solutions, S. de R.L. de C.V. Honeywell Europe N.V. Honeywell Systems (Thailand) Ltd. Honeywell Ltd. (Hong Kong) Enraf B.V. Honeywell Technology Solutions Lab Pvt. Ltd. Pittway Systems Technology Group Europe Ltd. Honeywell Taiwan Inc. Callidus Technologies India Pvt. Ltd. Honeywell Building Solutions GmbH Novar Systems Ltd. Honeywell Middle East FZE Honeywell Controls International Ltd. Tridium Inc. Honeywell Limited (New Zeland) Honeywell Austria Gesellschaft mbh Honeywell A.B. Matrikon Pty Ltd. Trend Control Systems Ltd. Honeywell (China) Advanced Solutions Co., Ltd. Honeywell Southern Africa (Proprietary) Ltd. Honeywell Japan Inc. | Honeywell International (India) P. Ltd. Honeywell Limited Australia Honeywell Limited Honeywell Enraf Americas, Inc. Honeywell Measurex (Ireland) Ltd. Honeywell Turkey Arabia Ltd. Honeywell Controls System Limited Honeywell International Middle East Ltd. MST Technology GMBH Honeywell Security France S.A. Honeywell GMBH Honeywell S.A. (Belgium) Honeywell Airport Systems GmbH Honeywell s.r.l. UOP India Pvt. Ltd. Honeywell Engineering Sdn. Bhd. Honeywell Co, Ltd. Honeywell S.L. Honeywell Portugal, Automacao e Contolo, S.A. Honeywell Automation & control Solutions Caribbean Ltd. Honeywell AS Norway Honeywell OY Matrikon Middle East Co WLL Honeywell Environmental & Combustion Controls (Tianjin) Co., Ltd. Honeywell International s.a.r.l. Honeywell Sensing & Control China Co, Ltd. Honeywell Technologies SARL Honeywell AG Matrikon Inc. Matrikon Industrial Solutions India Pvt. Ltd. Honeywell Chile S.A. |

Notes to the financial statements

| | | |
|-------------|---|--|
| | <p>Honeywell A/S (Denmark) ADI-Gardiner NV Honeywell China co. Ltd. PT Honeywell Indonesia Life Safety Distribution AG Honeywell Analytics Asia Pacific Co.Ltd. Honeywell Otomasyon ve Kontrol Sistemleri Sanayi ve Ticaret A.S. Honeywell Analytics Inc, Sinpoec Honeywell Tianjin Ltd. ZAO Honeywell Maxon Corporation Honeywell ASCa Inc. Maxon Combustion Equipment (Shanghai) Co.,Ltd. Maxon International BVBA Fire Sentry Corporation Inncom International Inc Bryan Donkin RMG Gas Controls Ltd. Honeywell, S.L. [Spain] Honeywell spol. s.r.o. [Slovak Republic] Honeywell NV [Belgium]</p> | <p>Honeywell Aerospace B.V. Honeywell Turbo Technologies (India) Private Limited Honeywell Electrical Devices and Systems India Limited Honeywell do Brasil Ltda. Honeywell Egypt Limited Honeywell EOOD Matrikon International, Inc. Novar GmbH Honeywell Integrated Technology (China) Co. Ltd. Ademco Asia Pacific Ltd. Tridium Asia Pacific Pte Ltd. Honeywell Beijing Technology solution Honeywell Romania s.r.l. Enraf Marine Systems S.A.S. Honeywell Europe Services S.A.S. Honeywell Automation and Control Solutions West Africa Ltd. Honeywell Automation Controls LLP Honeywell (Macau) Limited Honeywell Sp. z o.o. Honeywell Life Safety AS</p> |
| iii) | Key Management Personnel | |
| | Mr. Anant Maheshwari, Managing Director (Upto Decmber 31,2013) | |
| | Other related parties with whom transactions have not taken place during the year: | |
| iv) | Fellow Subsidiaries | |
| | <p>Enraf Tanksystem SA Honeywell Safety Products Chuzhou Co., Limited Honeywell Szabalyozastechnikai es Automatizalasi Kft. Honeywell ManageAbility Leasing Company Brazil LLC Honeywell Humanitarian Relief Foundation Inc. Honeywell C.A. Caradon Friedland Inc. Novar Link Inc. SM Acquisition Corp. Honeywell Analytics Holdings Inc. Integrated Guidance Systems LLC Tampa Waters LLC Microelectronics & Computer Technology Corp. Honeywell Aerospace Professional Services, S. de R.L. de C.V. Honeywell Aerospace De Puerto Rico, Inc. Honeywell Automation Controls System LLP (Kazakhstan) Honeywell Finance (Cyprus) Limited Honeywell Colombia S.A. Honeywell Luxembourg Finance SARL Hand Held Products, Inc. Energy Services Group, LLC Hand Held Products International Limited Honeywell Angola Lda HONEYWELL URUGUAY S.R.L. Innovative Security Systems LLC Honeywell Bermuda Holdings III LP Honeywell International Avionics China Inc. Honeywell International Wheels & Brakes China Inc. Akuacom, LLC E-MON, LLC Honeywell ESCO Hungary Energy Service Company Limited</p> | <p>Honeywell ECC novar Matrikon Deutschland AG Novar Controls Corporation Honeywell Specialty Materials Korea Ltd. Notifier Sicherheitssysteme GmbH Duraplug (M) Sdn Bhd Honeywell ACS Ventures LLC Brand-Rex Inc. (Philippines) Honeywell Analytics Asia Pacific Co. Ltd. Honeywell Global Finance LLC Automation and Control Solutions Holding Mexico, S. de R.L. de C.V. 801 Route 440 Funding Co., LLC Honeywell Building Solutions SES Corporation Honeywell Aerospace Servicios, S. de R.L. de C.V. Northern Computers Internacional Cia. Limitada (Ecuador) MMComm, LLC Honeywell ManageAbility Leasing Company Jamaica LLC Honeywell Capital Management LLC Honeywell Holdings (Thailand) Co., Ltd. Honeywell Aerospace Avionics Malaysia Sdn Bhd UOP Malaysia Sdn Bhd Callidus Technologies, L.L.C. Grimes Aerospace Company Honeywell International Services SRL Honeywell Automation and Control Products Limited Honeywell International Flight Controls China Inc. Honeywell International APU China Inc. Honeywell Iraq LLC Honeywell HBS Solutions LLC Sperian Protection USA, Inc. Honeywell Friction Materials Sp.z.o.o. in liquidation</p> |

Notes to the financial statements

| | |
|---|--|
| <p>Honeywell Turbo Sp.z.o.o. Honeywell Plastics S.A. Asahi-Schwebel (Taiwan) Co., Ltd. Honeywell Specialty Chemicals (Singapore) Pte Ltd. SN-Centro de Pesquisas e Promocao de Sulfato de Amonio Ltda. Honeywell Electronic Materials (Thailand) Co., Ltd. Honeywell International de Mexico, S. de R.L. de C.V. Compania Metalurgica de Parral, S.A. FMP Automotivo (Malaysia) Sdn Bhd FMP Group (Australia) Pty Ltd. Prestolite International de Mexico, S.A. Norplex Oak India Limited Allied-Signal Global Finance B.V. Honeywell Aerospace Singapore Pte. Ltd. Universal Assets Inc. CFE Company Light Helicopter Turbine Engine Company Honeywell International Asia Pacific Inc. Honeywell Energy Services Inc. International Auto Parts Limited (a/k/a Interzapchast) Honeywell Technology Solutions Inc. yet2.com Honeywell Aircraft Leasing LLC Honeywell Funding LLC Babcock & Wilcox Technical Services Pantex, LLC Honeywell Holding AG (Switzerland) Honeywell Aerospace s.r.o.</p> | <p>Ademco Brasil Ltda. Honeywell Britannia Finance Ltd. Honeywell-Asiatic Pte Ltd. King Radio S.A. Allied Chemical do Brasil Comercio e Participacoes, Ltda. Allied Chemical Nuclear Products, Inc. Compania Industrial de Fluorita, S.A. FMP Group Pty Ltd. AlliedSignal Foreign Sales Corporation Rubix Limited Liability Company Cheshire Castings Ltd. Honeywell Systems (Philippines), Inc. Morristown Airport Customs Association Honeywell Optoelectronica S. de R.L. de C.V. ADI de Mexico S.A. de C.V. BRH LLC (f/k/a Honeywell Intellectual Properties Inc.) AlliedSignal TBS Holdings, Inc. Honeywell, S.A. de C.V. Honeywell Bremsbelag GmbH Alchem Assurance Limited Turbodina S.A.I.y.C. Baker Electronics, Inc. Honeywell Controls, S.A. Friction Materials LLC Cordiem, LLC Xian System Sensor Electronics Ltd.</p> |
| Other related parties with whom transactions have not taken place during the year: | |
| Fellow Subsidiaries | |
| <p>Honeywell Peru S.A. Honeywell Dominicana C. Por A. Honeywell S.A.I.C. Honeywell Federal Manufacturing & Technologies, LLC Authentication Technologies LLC Honeywell Electronic Materials, Inc. Honeywell Resins & Chemicals LLC Vindicator Technologies, Inc. Honeywell HomMed LLC 465 Route 440 Property LLC Novar International PTE Limited MK Electric (Malaysia) SDN BHD MK Electric (Singapore) Pte Ltd. Honeywell Building Solutions West, Inc. Aeronautical Communication International LLC Ademco Internacional de Mexico S.A. de C.V. UltraGlas Power Products L.L.C. Honeywell ManageAbility Leasing Company Jamaica LLC</p> | <p>ADI of Puerto Rico, Inc. Honeywell Latinoamericana, S.A. Honeywell Specialty Materials, LLC Honeywell POMS Corp. Honeywell China Inc. Honeywell ManageAbility Service Company Jamaica LLC Honeywell Oil & Gas Exploration LLC Bayfront Redevelopment LLC International Turbine Engine Company LLC Select Electric (M) SDN BHD MK Cable Management (Saudi Arabia) Limited MK Electric Zimbabwe (Private) Limited Honeywell Electronic Chemicals LLC AlarmNet, Inc. Honeywell ManageAbility Leasing Company Suriname LLC Honeywell ManageAbility Service Company Suriname LLC HoltraChem Manufacturing Company, L.L.C. Pharmaceutical Fine Chemicals Portuguesa Producao e Comercio de Productos Farmaceuticos Ltda.</p> |

Notes to the financial statements

Transactions with Related Parties

(Rupees in lakhs)

| Description of the nature of transactions | Volume of transactions during | | Amount Outstanding as at December 31 | | | |
|---|-------------------------------|---------------|--------------------------------------|--------------|--------------|--------------|
| | 2013 | 2012 | 2013 | | 2012 | |
| | | | Receivable | Payable | Receivable | Payable |
| Sale of goods, services and reimbursement of expenses | | | | | | |
| <u>Holding Company</u> | | | | | | |
| Honeywell International Inc. | 18,670 | 29,174 | 1,593 | - | 2,766 | - |
| Total | 18,670 | 29,174 | 1,593 | - | 2,766 | - |
| <u>Fellow Subsidiaries</u> | | | | | | |
| Honeywell Ltd. (Australia) | 7,840 | 3,702 | 1,510 | - | 1,349 | - |
| Other Fellow Subsidiaries | 23,900 | 24,443 | 4,058 | - | 4,111 | - |
| Total | 31,740 | 28,145 | 5,568 | - | 5,460 | - |
| Purchase of goods, services and fixed assets (including GIT) | | | | | | |
| <u>Holding Company</u> | | | | | | |
| Honeywell International Inc. | 8,192 | 10,076 | - | 1,347 | - | 1,460 |
| Total | 8,192 | 10,076 | - | 1,347 | - | 1,460 |
| <u>Fellow Subsidiaries</u> | | | | | | |
| Honeywell Measurex (Ireland) Limited | 7,718 | 13,179 | - | 626 | - | 2,056 |
| Honeywell International (India) Pvt. Limited | 4,458 | 5,555 | - | 1,273 | - | 921 |
| Other Fellow Subsidiaries | 15,569 | 18,091 | - | 3,383 | - | 3,893 |
| Total | 27,745 | 36,825 | - | 5,282 | - | 6,870 |
| Remuneration to Key Management Personnel | | | | | | |
| Anant Maheshwari | 128 | 125 | - | - | - | 1 |
| Total | 128 | 125 | - | - | - | 1 |
| Commission | | | | | | |
| Anant Maheshwari | 35 | 33 | - | - | 35 | 33 |
| Total | 35 | 33 | - | - | 35 | 33 |

The Company generates a large percentage of its sales and profits from its business with the Honeywell group (Honeywell), its major shareholder. Sales to Honeywell accounted for approximately 30% and 35% of our total net sales in fiscal years 2013 and 2012 respectively. The Company's ability to maintain or grow its business with Honeywell depends upon a number of performance factors. However, the Company cannot be assured that its level of sales and profits associated with its relationship with Honeywell will continue. Honeywell-specific business considerations (independent of its shareholding in the Company), including changes in Honeywell's strategies regarding utilization of alternate opportunities available to it to source products and services currently provided by the Company (including from alternate sources which Honeywell may acquire or develop within its own group), may also reduce the level and/or mix of Honeywell's business with the Company.

Notes to the financial statements

25. Lease Transactions:

As a Lessee in Operating Lease

Rentals for office premises under operating leases of Rs. 2,462 ('lakhs) [Previous Year Rs. 2,583 ('lakhs)] have been included under 'Rent Expenses'.

Non cancelable

The Company has hired premises under non-cancelable operating lease arrangements at stipulated rentals. The future minimum lease payments under these leases as of December 31, 2013 are as follows:

(Rupees in lakhs)

| | Not later than 1 year | Later than 1 year but not later than 5 years | Later than 5 years |
|------------------------|-----------------------|--|--------------------|
| Minimum lease payments | 600 (571) | 1,345 (2,189) | - (894) |

Previous year figures are indicated in brackets.

26. Earning per share (EPS):

EPS is calculated by dividing the profit attributable to the equity shareholders by the average number of shares outstanding during the year. The basic and diluted earnings per share have been calculated as under:

| | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|--|--------------------------------------|--------------------------------------|
| Profit after tax (Rs. in lakhs) | 8,616 | 8,517 |
| Weighted average number of equity shares | 8,841,523 | 8,841,523 |
| Basic/ Diluted earnings per share (Rs.) | 97.45 | 96.33 |
| Face value per share (Rs.) | 10 | 10 |

Notes to the financial statements

27. a) Estimated amount of contracts remaining to be executed on capital accounts and not provided for (net of advances) - Rs. 366 ('lakhs) [Previous year Rs. 165('lakhs)].
- b) Disclosure in accordance with Section 22 of Micro, Small and Medium Enterprises Development Act, 2006.

(Rupees in lakhs)

| Sr.No | Particulars | December 31, 2013 | December 31, 2012 |
|-------|--|-------------------|-------------------|
| i) | The principle amount and the interest due thereon remaining unpaid to any supplier as at the end of the accounting year | | |
| | - Principal amount outstanding | 288 | 32 |
| | - Interest thereon | 32 | 0 |
| ii) | The amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year | - | - |
| | - Interest paid in terms of Section 16 | - | - |
| | - Delayed principal payments | 685 | 599 |
| iii) | The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006 | | |
| | - Normal Interest accrued during the year, for all the delayed payments, as per the agreed terms and not as payable under the Act | - | - |
| | - Normal Interest payable during the year, for the period of delay in making payment, as per the agreed terms and not as payable under the Act. | - | - |
| iv) | The amount of interest accrued and remaining unpaid at the end of each accounting year | | |
| | - Total interest accrued during the year | 23 | 40 |
| | - Total Interest remaining unpaid out of the above as at the balance sheet date | 23 | 40 |
| v) | The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006. | | |
| | Outstanding interest at the end of previous year | 111 | 71 |
| | Outstanding interest at the end of current year | 134 | 111 |

The Company has compiled this information based on intimations received from suppliers of their status as Micro or Small enterprises and / or its registration with the appropriate authority under Micro, Small and Medium Enterprises Development Act, 2006.

Notes to the financial statements

28. A) Provision for taxation has been made after considering the various allowances / deductions available and after excluding profits derived from undertaking registered with Software Technology Parks of India under section 10A and unit registered under Special Economic Zone under Section 10AA of the Income Tax Act, 1961.
- B) The tax year for the Company being April 1 to March 31, provision for current taxation for the year is the aggregate of the provision made for the three months ended March 31, 2013 and the provision based on the figures for the remaining nine months ended December 31, 2013, the ultimate tax liability of which will be determined on the basis of the figures for the period April 1, 2013 to March 31, 2014.

29. Foreign Currency Exposures:

Unhedged by derivative instruments/ or otherwise

(Rupees in lakhs)

| Particulars | As at December 31, 2013 | As at December 31, 2012 |
|---------------------------------------|----------------------------|----------------------------|
| a) Liability - Trade Creditors | | |
| In GBP | 2 | 1 |
| (Equivalent approximate in Rs.) | 219 | 133 |
| In USD | 127 | 146 |
| (Equivalent approximate in Rs.) | 7,848 | 8,008 |
| In EURO | - | 10 |
| (Equivalent approximate in Rs.) | - | 715 |
| In CAD | * | * |
| (Equivalent approximate in Rs.) | 9 | - |
| In AUD | * | 1 |
| (Equivalent approximate in Rs.) | 6 | 34 |
| In JPY | 319 | - |
| (Equivalent approximate in Rs.) | 188 | - |
| In SGD | * | * |
| (Equivalent approximate in Rs.) | * | 4 |
| In CNY | 24 | 28 |
| (Equivalent approximate in Rs.) | 238 | 243 |
| In NOK | * | * |
| (Equivalent approximate in Rs.) | * | 1 |
| In ZAR | 1 | * |
| (Equivalent approximate in Rs.) | 3 | - |
| In CHF | - | * |
| (Equivalent approximate in Rs.) | - | - |
| In SEK | - | 1 |
| (Equivalent approximate in Rs.) | - | 4 |

Notes to the financial statements

(Rupees in lakhs)

| Particulars | As at December 31, 2013 | As at December 31, 2012 |
|-------------------------------------|----------------------------|----------------------------|
| b) Asset - Trade Receivables | | |
| In GBP | 1 | 1 |
| (Equivalent approximate in Rs.) | 55 | 94 |
| In EURO | 2 | 2 |
| (Equivalent approximate in Rs.) | 195 | 142 |
| In AUD | * | * |
| (Equivalent approximate in Rs.) | * | 2 |
| In USD | 135 | 188 |
| (Equivalent approximate in Rs.) | 8,313 | 10,351 |
| c) Asset - Bank Balances | | |
| In USD | 102 | 27 |
| (Equivalent approximate in Rs.) | 6,275 | 1,506 |

In addition to the above, the Company has entered into certain foreign currency forward contracts against highly probable forecast transactions relating to its purchases and sales. The foreign currency forward contracts in respect of highly probable forecast transactions outstanding at the balance sheet date aggregate as follows:

| Particulars | Against | As at December 31, 2013 | As at December 31, 2012 |
|-------------|----------|-------------------------|-------------------------|
| EURO | Payables | 28 | - |

* Amount below the rounding off norm adopted by the Company.

30. Employee Stock Option Schemes:

The Company has a Employees Stock Option Plans (Stock Options "SO" and Restricted Units "RU") in operation for certain employees, which is administered by Honeywell International Inc. the ultimate holding Company. Since the payments/ issue of shares, if any, under the plan are proposed to be made directly by Honeywell International Inc without any chargeback to the Company, no accounting/disclosure for the plan has been made by the Company.

31. Contingent Liabilities:

(Rupees in lakhs)

| Particulars | As at December 31, 2013 | As at December 31, 2012 |
|---|----------------------------|----------------------------|
| a) Income Tax claims against the Company | 8,344 | 6,172 |
| b) Excise duty claims against the Company | 3 | 4 |
| c) Sales tax refunds/claims against the Company | 2,584 | 2,336 |
| d) Customs duty claims against the Company | 292 | 292 |
| e) Claims against the Company not acknowledged as debts | 1,516 | 1,790 |

Notes to the financial statements

32. Details of products manufactured, traded and services rendered:

(Rupees in lakhs)

| | Opening stock | Sales | Closing stock |
|--|-------------------------|-----------------------------|-------------------------|
| i. Manufactured products (net of excise duty) | | | |
| Systems | - | 20,337 | - |
| | - | (37,342) | - |
| Transmitters | - | 4,353 | - |
| | - | (4,659) | - |
| Others (Including bought out and reimbursements) | 436 (392) | 77,673 (53,772) | 603 (436) |
| ii. Traded products | 3,432 | 20,797 | 3,508 |
| Various | (1,400) | (18,979) | (3,432) |
| iii. Services rendered | - | 47,528 | - |
| | - | (51,321) | - |
| Total | 3,868 (1,792) | 170,688 (166,073) | 4,111 (3,868) |

Previous year figures are indicated in brackets.

33. Details of raw materials consumed:

(Rupees in lakhs)

| Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|-----------------------------------|---|---|
| Components for System Integration | 85,622 | 83,889 |
| Total | 85,622 | 83,889 |

34. Details of imported and indigenous components, stores and spare parts consumed and percentage of each, to total consumption:

(Rupees in lakhs)

| Particulars | % | For the year ended December 31, 2013 | % | For the year ended December 31, 2012 |
|--------------|----|---|----|---|
| Imported | 32 | 26,978 | 49 | 40,989 |
| Indigenous | 68 | 58,644 | 51 | 42,900 |
| Total | | 85,622 | | 83,889 |

35. CIF value of imports:

(Rupees in lakhs)

| Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|------------------|---|---|
| a) Capital goods | 255 | 106 |
| b) Raw materials | 47,418 | 54,533 |
| Total | 47,673 | 54,639 |

Notes to the financial statements

36. Expenditure in foreign currency:

(Rupees in lakhs)

| Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---------------------------------------|---|---|
| 1) Travelling | 6,183 | 6,588 |
| 2) Professional and consultation fees | 95 | 48 |
| 3) Corporate allocation | 5,215 | 6,115 |
| 4) Others | 1,827 | 1,123 |
| Total | 13,320 | 13,874 |

37. Earnings in Foreign Currency:

(Rupees in lakhs)

| Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|----------------------|---|---|
| FOB value of exports | 22,443 | 29,213 |
| Services | 24,466 | 24,671 |
| Reimbursements | 7,880 | 6,162 |
| Others | 9,166 | 9,572 |
| Total | 63,955 | 69,618 |

38. Contracts in Progress:

(Rupees in lakhs)

| Particulars | | 2013 | 2012 |
|-------------|--|---------|---------|
| a) | Aggregate amount recognized as contract revenue | 76,665 | 69,324 |
| b) | In respect of Contracts in Progress as on Dec 31 | | |
| i. | Aggregate amount of contract costs incurred and recognized profits (less recognized losses) as at end of the financial year for all contracts in progress up to as at that date. | 241,422 | 276,130 |
| ii. | Amount of customer advances received | 420 | 532 |
| iii. | Amount of retentions | 1,224 | 1,821 |
| c) | Gross amount due from customers for contract work | 22,820 | 26,650 |
| d) | Gross amount due to customers for contract work | 3,873 | 1,823 |
| e) | (c) - (d) | 18,947 | 24,827 |

39. Disclosure as required by AS -29:

(Rupees in lakhs)

| | Disputed statutory matters | | Warranty [Refer Note 1 (h)] | | Provision for estimated cost to complete on contracts | | Total | |
|---------------------|----------------------------|-------|-------------------------------|------|---|-------|-------|-------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Opening balance | 1,511 | 1,248 | 698 | 500 | 2,132 | 3,531 | 4,341 | 5,279 |
| Additions | 10 | 295 | 381 | 704 | 729 | 814 | 1,120 | 1,813 |
| Utilizations | - | 32 | 368 | 418 | - | - | 368 | 450 |
| Reversals | - | - | 98 | 88 | 1,707 | 2,213 | 1,805 | 2,301 |
| Total | 1,521 | 1,511 | 613 | 698 | 1,154 | 2,132 | 3,288 | 4,341 |
| Current portion | - | - | 445 | 462 | 1,154 | 2,132 | 1,599 | 2,594 |
| Non current portion | 1,521 | 1,511 | 168 | 236 | - | - | 1,689 | 1,747 |

Notes to the financial statements**A. Disputed statutory matters mainly include:**

- a) Provision for disputed statutory matters comprises matters under litigation with Sales Tax and Local authorities.
- b) The amount of provision made by the Company is based on the estimate made by the Management considering the facts and circumstances of each case.

To the extent the Company is confident that it may have a strong case that portion is disclosed under contingent liabilities.

- c) The timing and the amount of cash flows that will arise from these matters will be determined by the Appellate Authorities only on settlement of these cases.

B. Provision for Estimated Cost to complete on Contracts

A provision for estimated cost to complete on construction contracts is recognized when it is probable that the contract cost will exceed total contract revenue. The provision shall be utilized as and when the contract gets executed.

C. Warranty

Provision for warranty is considered based on the rolling average warranty expense incurred in the preceding 12 months, the warranty period for which ranges from 12 months to 24 months from the date of handover of the project.

40. Disclosures in accordance with Revised AS- 15 on "Employee Benefits":**A. Defined contribution plans**

The Company has recognized the following amounts in the statement of profit and loss for the year:

(Rupees in lakhs)

| Sr. No. | Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---------|--|--------------------------------------|--------------------------------------|
| 1 | Contribution to employees' superannuation fund | 112 | 117 |
| | Total | 112 | 117 |

B. Defined benefit plans (gratuity and other retirement benefits)**i. Changes in the present value of obligation**

(Rupees in lakhs)

| Sr. No. | Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---------|---|--------------------------------------|--------------------------------------|
| 1 | Present value of obligation as at beginning of the year | 2,265 | 1,715 |
| 2 | Interest cost | 177 | 135 |
| 3 | Past service cost | - | - |
| 4 | Current service cost | 322 | 331 |
| 5 | Curtailment cost/(credit) | - | - |
| 6 | Settlement cost/(credit) | - | - |
| 7 | Benefits paid | (153) | (192) |
| 8 | Actuarial (gain)/loss | (168) | 276 |
| 9 | Present value of obligation as at end of the year | 2,443 | 2,265 |

Notes to the financial statements

ii. Changes in fair value of plan assets

(Rupees in lakhs)

| Sr. No. | Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---------|---|--------------------------------------|--------------------------------------|
| 1 | Present value of obligation as at beginning of the year | 1,260 | 962 |
| 2 | Expected return on plan assets | 144 | 101 |
| 3 | Actuarial gain/(loss) | (57) | (29) |
| 4 | Employers' contribution | 706 | 404 |
| 5 | Assets distributed on settlement | - | - |
| 6 | Employees' contribution | - | - |
| 7 | Benefits paid | (137) | (178) |
| 8 | Present value of obligation as at end of the year | 1,916 | 1,260 |

iii. a. Amount recognized in the Balance Sheet (for gratuity) including a reconciliation of the present value of defined benefit obligation and the fair value of assets

(Rupees in lakhs)

| Sr. No. | Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---------|---|--------------------------------------|--------------------------------------|
| 1 | Present value of funded obligation | 2,443 | 2,265 |
| 2 | Fair value of plan assets | 1,917 | 1,260 |
| 3 | Net liability recognized in the Balance Sheet | 526 | 1,005 |

iii. b. Amount recognized in the Balance Sheet (for provident fund) including a reconciliation of the present value of defined benefit obligation and the fair value of assets

(Rupees in lakhs)

| Sr. No. | Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---------|---|--------------------------------------|--------------------------------------|
| 1 | Present value of funded obligation | 8,791 | 7,084 |
| 2 | Fair value of plan assets | 8,668 | 6,975 |
| 3 | Net liability recognized in the Balance Sheet | 123 | 109 |

iv. Expenses recognized in the Statement of Profit and Loss

(Rupees in lakhs)

| Sr. No. | Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---------|---|--------------------------------------|--------------------------------------|
| 1 | Current service cost | 322 | 331 |
| 2 | Past service cost | - | - |
| 3 | Interest cost | 177 | 135 |
| 4 | Expected returns on plan assets | (144) | (101) |
| 5 | Curtailment cost/(credit) | - | - |
| 6 | Settlement cost/(credit) | - | - |
| 7 | Net actuarial (gain)/loss | (111) | 273 |
| 8 | Employees' contribution | - | - |
| 9 | Total expenses recognized in the Statement of Profit and Loss | 244 | 638 |

Notes to the financial statements

v. Percentage of each category of plan assets to total fair value of plan assets

| | Particulars | 2013 | 2012 |
|---|-----------------------|------|------|
| 1 | Insurer managed funds | 100% | 100% |

vi. The overall expected rate of return on assets is based on the expectation of the average long term rate of return expected on investments of the Fund during the estimated term of the obligations.

vii. The actual return on plan assets is as follows

(Rupees in lakhs)

| | Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---|------------------------------|---|---|
| a | Actual return on plan assets | 87 | 72 |

viii. Following are the principal actuarial assumptions used as at the balance sheet date

(Rupees in lakhs)

| | Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|---|---|---|---|
| 1 | Discount rate | 9.00% | 8.10% |
| 2 | Expected rate of return on plan assets | 9.35% | 9.35% |
| 3 | Rate considered for actuarial valuation for PF interest shortfall | 8.75% | 8.25% |
| 4 | Salary escalation rate - management staff | 6.00% | 6.00% |

The estimates of future salary increases considered in actuarial valuation takes into account inflation, seniority, promotion and other relevant factors.

ix. The amounts pertaining to defined benefit plans are as follows:-

(Rupees in lakhs)

| Sr. No. | Particulars | As at December 31, 2013 | As at December 31, 2012 | As at December 31, 2011 | As at December 31, 2010 | As at December 31, 2009 |
|----------|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| a | Gratuity plan (funded/unfunded) | | | | | |
| i | Defined benefit obligation | 2,443 | 2,265 | 1,715 | 1,391 | 1,028 |
| ii | Plan assets | 1,916 | 1,261 | 963 | 1,039 | 634 |
| iii | Surplus/(deficit) | (408) | (879) | (752) | (352) | (394) |
| iv | Experience adjustment plan liabilities | (23) | (205) | (270) | (193) | (87) |
| v | Experience adjustment plan assets | (57) | (28) | 6 | 7 | 5 |

x. Expected contribution to the funds in the next year

(Rupees in lakhs)

| Particulars | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|----------------|---|---|
| Gratuity | 300 | 500 |
| Provident fund | 330 | 580 |

Notes to the financial statements

41. Proposed dividend:

The final dividend proposed for the year is as follows.

(Rupees in lakhs)

| Particulars | As at December 31, 2013 | As at December 31, 2012 |
|--|----------------------------|----------------------------|
| On equity shares of Rs. 10 each | | |
| Amount of dividend proposed (Rs. in lakhs) | 884 | 884 |
| Dividend per equity shares (Rs.) | 10 | 10 |

42. Previous year figures have been regrouped, wherever necessary to conform with current year's presentation.

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number - FRN 007567S
Chartered Accountants

Jeetendra Mirchandani
Partner
Membership No: 48125

Place : Gurgaon
Date : February 5, 2014

For and on behalf of the Board

M.N.Bhagwat
Chairman

Vikas Chadha
Managing Director

Sneha Padve
Company Secretary

Anurag Bhagania
Chief Financial Officer

Place : Gurgaon
Date : February 5, 2014

Company's Philosophy on the Code of Governance

The revised Corporate Governance Code incorporated in Clause 49 of the Listing Agreement of the Stock Exchanges is applicable to your Company with effect from the financial year January 1, 2006. The Company continues to have Independent Directors on the Board who are actively involved in all the important policy matters. Your Company strives to ensure that it follows the Code of Corporate Governance not only in letter but also in spirit to ensure transparency, accountability and integrity.

Board of Directors

Composition:

The Board comprises of 3 Directors nominated by the Promoters, Honeywell International, 2 Independent Directors and a Managing Director. The Company has an Independent Non-Executive Chairman and one-third of the total number of Directors are Independent Directors [as per Clause 49(I)(A)].

Remuneration of Directors

The Non-Executive Directors (NEDs) are paid remuneration by way of Commission and Sitting Fees. The commission is paid at a rate not exceeding one percent per annum of the net profits of the Company calculated in accordance with the provisions of Sections 198, 349 and 350 of the Companies Act, 1956.

A Sitting Fee of Rs. 20,000/- per Board, Audit Committee and Remuneration Committee Meetings and Rs. 10,000/- for Investor Grievance Committee Meetings attended by the Non-Executive Directors is paid to them [as per Clause 49(I) (B)].

Committees of the Board:

None of the Directors on the Board is a Member on more than 10 Committees and Chairman of more than 5 Committees [as per Clause 49(I)(C)] across all the companies in which he is a Director. All the Directors have made the requisite disclosures regarding Committee positions occupied by them in other companies.

The Board met four times on the following dates during the year ended December 31, 2013 and the gap between two meetings did not exceed four months:

| | |
|------------------|-------------------|
| February 6, 2013 | May 3, 2013 |
| July 18, 2013 | November 11, 2013 |

As required by Annexure 1 to Clause 49 of the Listing Agreement with the Stock Exchanges, all the necessary information was placed before the Board from time to time.

The names and categories of the Directors on the Board, their attendance at Board Meetings held during the year and at the last Annual General Meeting, as also the number of Directorships and Committee positions as held by them in other public limited companies as on December 31, 2013 are given below:

| Name | Category | No. of Board Meetings attended during 2013 | Attendance at the last AGM held on May 3, 2013 | No. of Directorships in other public limited companies | No. of Committee positions held in other public limited companies | |
|--|--|--|--|--|---|--------|
| | | | | | Chairman | Member |
| Mr. M.N. Bhagwat (Chairman) | Independent Non-Executive | 4 | Yes | 3 | 2 | 0 |
| Mr. Shane Tedjarati* | Promoter Not Independent Non-Executive | 1 | Yes | Nil | Nil | Nil |
| Mr. Gerard Willis | Promoter Not Independent Non-Executive | 2 | No | Nil | Nil | Nil |
| Mr. Anant Maheshwari Managing Director** | Executive Director | 4 | Yes | Nil | Nil | Nil |
| Mr. S.L. Rao | Independent Non-Executive | 4 | Yes | 3 | 2 | Nil |

| Name | Category | No. of Board Meetings attended during 2013 | Attendance at the last AGM held on May 3, 2013 | No. of Directorships in other public limited companies | No. of Committee positions held in other public limited companies | |
|----------------------|--|--|--|--|---|--------|
| | | | | | Chairman | Member |
| Mr. Norman Gilsdorf | Promoter Not Independent Non-Executive | 2 | Yes | Nil | Nil | Nil |
| Mr. Jim Bujold*** | Promoter Not Independent Non-Executive | 2 | No | Nil | Nil | Nil |
| Mr. Vikas Chadha**** | Additional Director | 1 | No | Nil | Nil | Nil |

* Resigned w.e.f. June 19, 2013.

** Mr. Anant Maheshwari has resigned as the Managing Director w.e.f. December 31, 2013 but would continue to remain on the Board as a Director.

*** Appointed w.e.f. June 21, 2013 and resigned w.e.f. November 11, 2013.

**** Mr. Vikas Chadha has been appointed as Managing Director, subject to the approval of the shareholders, w.e.f. January 1, 2014.

Audit Committee

The Committee is constituted with Mr. S.L. Rao as the Chairman of the Committee and Mr. Gerard Willis and Mr. M.N. Bhagwat as the members [as per Clause 49(II)(A)]. The members of the Committee have the relevant experience in the field of financial reporting and accounting statements. Ms. Sneha Padve, Company Secretary acts as the Secretary to the Committee. Audit Committee meetings are attended by the Chief Financial Officer, Legal Head and the Company Secretary. The representatives of the Internal Auditors and the Statutory Auditors are invited to the meetings.

The terms of reference of the Audit Committee as stipulated by the Board are in accordance with all the items listed in Clause 49 (II)(D) of the Listing Agreement as follows:

1. Oversee the Company's financial reporting process and the disclosure of financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending the appointment/removal of external auditors, fixing audit fees and approving payments for any other services.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing with management the annual financial statements before submission to the board, with particular reference to:
 - Matters required to be included in the Director's Responsibility Statement in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
 - Changes, if any, in accounting policies and practices and reasons for the same.
 - Major accounting entries involving estimates based on exercise of judgement by management.
 - Qualifications in draft audit report.
 - Significant adjustments made in the financial statements arising out of audit findings.
 - Compliance with listing and other legal requirements relating to financial statements.
 - Disclosure of any related party transactions.
5. Reviewing with the management, the quarterly financial statements before submission to the board for approval.
6. Reviewing with the management, performance of statutory and internal auditors, the adequacy of internal control systems.
7. Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.

8. Discussions with internal auditors of any significant findings and follow-up thereon.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is a suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussions with external auditors before the audit commences, about the nature and scope of audit as well as have post-audit discussions to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

The Audit Committee met on the following dates during the year ended 31st December 2013:

| | |
|------------------|-------------------|
| February 6, 2013 | May 2, 2013 |
| July 18, 2013 | November 11, 2013 |

Attendance at the Audit Committee Meeting:

| Name of Director | No. of Meetings held | No. of Meetings Attended |
|------------------|----------------------|--------------------------|
| Mr. S.L. Rao | 4 | 4 |
| Mr. G. Willis | 4 | 2 |
| Mr. M.N. Bhagwat | 4 | 4 |

The Audit Committee mandatorily reviews all the information required as per Clause 49 (II) (E).

Remuneration Committee:

The Company had constituted the Remuneration Committee in line with the requirements of Clause 49 of the Listing Agreement. The broad terms of reference are to determine and recommend to the Board, compensation payable and appraisal of the Managing Director's performance. The specific amount payable to the Managing Director will be based on certain performance criteria to be laid down by the board and will be payable annually after the annual accounts have been approved by the board of directors and adopted by the members.

The Remuneration Committee comprises of the following three Directors of the Company:

| | |
|---------------------|--|
| Mr. M.N. Bhagwat | Chairman - Independent, Non-Executive Director |
| Mr. S.L. Rao | Member - Independent, Non-Executive Director |
| Mr. Norman Gilsdorf | Member - Promoter, Not Independent, Non-Executive Director |

The Committee met on February 5, 2014, to appraise and decide the commission to be paid to Mr. Anant Maheshwari and compensation payable to Mr. Vikas Chadha, Managing Director.

The Company pays remuneration to its Managing Director by way of salary, perquisites and allowances (a fixed component) and commission (a variable component). Salary is paid within the range approved by the Shareholders. The Board on the recommendations of the Remuneration Committee approves the annual increments (effective 1st April each year).

The Board fixes a ceiling on perquisites and allowances as a percentage of salary. Commission is calculated with reference to the net profit of the Company in a particular financial period and is determined by the Board of Directors at the end of the financial period based on the recommendations of the Remuneration Committee, subject to the overall ceiling as stipulated in Sections 198 and 309 of the Companies Act, 1956.

Given below are the details of Remuneration paid to Non-Executive Directors for the year January to December 2013 for attending Board Meetings and various Board constituted Committee Meetings.

Non-Executive Directors:

(Rs. in '000)

| Director | Sitting Fees | Commission | Shareholding |
|------------------|--------------|------------|--------------|
| Mr. M.N. Bhagwat | 190 | 1600 | 700 |
| Mr. S.L. Rao | 180 | 1500 | Nil |

The criteria for determination of commission to non-executive independent directors as approved by the Board include roles, responsibilities and contribution to the Company as Chairman/member of the Board and various Committees of the Board. Criteria also include attendance at the meeting of the Board and various Board Committees.

The Directors nominated by Honeywell do not accept any sitting fees or commission.

Managing Director:

(Rs. in '000)

| Name | Salary & Allowances | Commission for the year 2013 |
|----------------------|---------------------|------------------------------|
| Mr. Anant Maheshwari | 12823 | 3500 |

Mr. Anant Maheshwari has resigned as the Managing Director w.e.f. December 31, 2013 but would continue to remain on the Board as a Director.

Mr. Vikas Chadha has been appointed, subject to the approval of the shareholders in the forthcoming Annual General Meeting, as the Managing Director w.e.f. January 1, 2014.

Period of Contract of MD : 5 years from January 1, 2014.

The Contract may be terminated by either party giving the other party three months' notice or the Company paying three months' salary in lieu thereof.
Severance fees – Nil

Shareholders'/Investors' Grievance Committee

The Shareholders'/Investors' Grievance Committee is constituted as follows:

Mr. M.N. Bhagwat - Chairman, Independent Non-Executive Director
Mr. Anant Maheshwari - Member - Director

The Committee met on November 11, 2013 during the last financial year.

Name, designation & address of Compliance Officer:

Ms. Sneha Padve
Company Secretary,
56&57, Hadapsar Indl. Est.
Pune 411 013
Phone: 020-66008187
Fax no. 020-66039800

No. of queries received from the investors from 1.1.2013 to 31.12.2013 comprising of Non-receipt of Dividend Warrants, Non-receipt of securities sent for transfer, Demat etc. 10

No. not solved to the satisfaction of the investor as on 31.12.2013 0

No. of pending share transfers as on 31.12.2013 0

Details on General Meetings:

Location, date and time of General Meetings held during the last 3 years:

The last three AGMs were held on –21.04.2011, 20.04.2012 and 03.05.2013

AGM held on 21.04.2011 was held at Saffire, Honeywell Automation India Limited, Pune 411 013 at 3.00 p.m.

AGM held on 20.04.2012 was held at Saffire, Honeywell Automation India Limited, Pune 411 013 at 3.00 p.m.

AGM held on 03.05.2013 was held at Saffire, Honeywell Automation India Limited, Pune 411 013 at 2.00 p.m.

| | |
|--|----|
| Whether Special Resolutions passed in the last 3 AGMs: | No |
| Whether Special Resolutions - | |
| (a) Were put through postal ballot last year - | No |
| Details of voting pattern - | NA |
| Person who conducted the postal ballot exercise - | NA |
| (b) Are proposed to be conducted through postal ballot - | No |
| Procedure for postal ballot - | NA |

Disclosures

Related Party Transactions:

Related party transactions [as per Clause 49(IV)(A)] are defined as the transactions of the Company of a material nature, with its promoters, the directors or the management, their subsidiaries or relatives, etc. that may have potential conflict with the interests of the Company at large.

Among the related party transactions are contracts or arrangements, made by the Company from time to time with Companies in which the Directors are interested. All these contracts or arrangements are entered in a Register of Contracts under Section 301 of the Companies Act, 1956 and the register is placed before every Board Meeting.

All transactions covered under the related party transactions are regularly ratified and/or approved by the Board. There were no material transactions during the year 2013 that are prejudicial to the interest of the Company.

Risk Management:

The Company's Risk Management Processes ensures that the management controls risks through means of a properly defined framework. This Risk Register is reviewed monthly by the Managing Director and the CFO and also quarterly by the Board of Directors.

Statutory Compliance, Penalties and Strictures:

The Company has complied with the requirements of the Stock Exchange/SEBI and Statutory Authority on all matters relating to capital markets during the last three years. There are no penalties or strictures imposed on the Company by the Stock Exchanges or SEBI or any statutory authorities relating to the above.

Statutory Compliance:

The Legal Head, the Company Secretary and Chief Financial Officer of the Company act as Compliance Officers who advise the Company on compliance issues with respect to the laws of various jurisdictions in which the Company has its business activities and ensure that the Company is not in violation of laws of any jurisdiction where the Company operates. The Compliance Officers ensure that the business operations of the Company are not in contravention of any laws.

Whistle Blower Policy:

The Company has put in place a mechanism for the employees to reach out to the Business Conduct Leaders to report any non-compliance and no personnel have been denied access to the Audit Committee.

Code of Conduct:

The board members and senior managerial personnel have affirmed compliance with the Honeywell code of conduct for the current year.

Compliance with Clause 49:

The Company strives to be fully compliant with the non-mandatory requirements of this clause.

- The Board:** The Chairman of the Board is based at Mumbai.
- Remuneration Committee:** This committee has been constituted and is responsible for all payments to be made to the Directors.
- Shareholder Rights:** The Company publishes the financial results in two newspapers and also uploads them in HAIL website. Therefore, no individual intimations are sent to the shareholders.
- Audit Qualifications:** The Company does not have a history of audit qualifications.
- Training of Board Members:** All Board members have been made fully familiar with all Business operations of the Company.

6. **Mechanism for evaluating non-executive Board Members:** Such a mechanism already exists.

7. **Whistle Blower Policy:** This policy has been put in place.

Means of Communication:

Quarterly Results:

Which newspapers normally published in:

Economic Times, Maharashtra Times

Any website, where displayed:

www.honeywellautomationindia.com

Whether it also displays official news releases; and the presentations made to institutional investors/analysts

Yes

Whether MD&A is a part of Annual Report or not:

Yes

General Shareholder Information

AGM: Date, time and venue-

April 30, 2014 at 4.00 p.m. at Honeywell Automation India Limited, 56 & 57, Hadapsar Industrial Estate, Pune 411 013

As required under clause 49 VI (A), particulars of Directors seeking reappointment are given in the Explanatory Statement to the Notice of the Annual General Meeting to be held on April 30, 2014.

Financial Calendar -

Year ending

December 31

AGM

April 30, 2014

Dividend Payment Date -

May 15, 2014

Date of Book Closure -

Tuesday, April 15, 2014 to Tuesday, April 22, 2014 (both days inclusive)

Listing on Stock Exchanges

The Company's shares are listed on the following 2 Stock Exchanges in India:

The Stock Exchange, Mumbai Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001

National Stock Exchange of India Limited
Bandra Kurla Complex, Mumbai 400 051

The Company had paid annual listing fees to each of the above exchanges for the financial year 2013-14.

Stock Code –

The Stock Exchange, Mumbai :

Equity Shares (physical form) : 174

(demat form) : 517174

Market Price Data – BSE

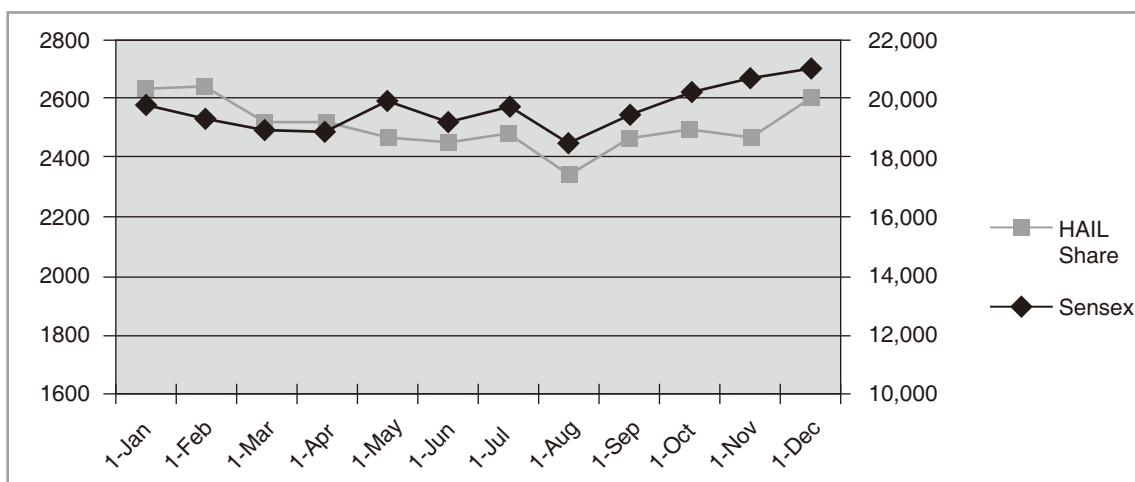
| Month | High | Low |
|----------------|------|------|
| January 2013 | 2795 | 2476 |
| February 2013 | 2799 | 2488 |
| March 2013 | 2595 | 2456 |
| April 2013 | 2634 | 2400 |
| May 2013 | 2575 | 2375 |
| June 2013 | 2675 | 2230 |
| July 2013 | 2635 | 2335 |
| August 2013 | 2476 | 2201 |
| September 2013 | 2620 | 2320 |
| October 2013 | 2563 | 2433 |
| November 2013 | 2632 | 2312 |
| December 2013 | 2781 | 2450 |

NSE Stock Symbol: HONAUT

Market Price Data – NSE

| Month | High | Low |
|----------------|------|------|
| January 2013 | 2788 | 2457 |
| February 2013 | 2675 | 2500 |
| March 2013 | 2602 | 2460 |
| April 2013 | 2639 | 2401 |
| May 2013 | 2592 | 2376 |
| June 2013 | 2739 | 2324 |
| July 2013 | 2699 | 2340 |
| August 2013 | 2498 | 2230 |
| September 2013 | 2645 | 2330 |
| October 2013 | 2590 | 2401 |
| November 2013 | 2634 | 2351 |
| December 2013 | 2785 | 2474 |

Comparison of Monthly Average of BSE SENSEX V/S HAIL Price



Registrar and Share Transfer Agents:

TSR Darashaw Pvt. Ltd.,
6-10, Haji Moosa Patrawala Ind. Estate,
20, Dr. E. Moses Road, Near Famous Studio,
Mahalaxmi, MUMBAI - 400 011
Tel: (022) 66568484
Fax: (022) 66568494
E-mail: csg-unit@tsrdarashaw.com
Website: <http://www.tsrdarashaw.com>

Share Transfer System:

Share Transfers in physical form can be lodged with TSR Darashaw Pvt. Ltd. at the above mentioned address or at their branch offices, addresses of which are available on their website.

The Transfers are normally processed within 15 days if the documents are complete in all respects. Certain Directors and the Company Secretary are severally empowered to approve transfers.

Distribution of Shareholding December 31, 2013:

| Number of Ordinary Shares held | Number of Shares | |
|--------------------------------|------------------|----------------|
| | 31-12-2013 (%) | 31-12-2012 (%) |
| 1 to 500 | 7.30 | 8.01 |
| 501 to 1000 | 0.81 | 0.95 |
| 1001 to 2000 | 0.54 | 0.67 |
| 2001 to 3000 | 0.15 | 0.29 |
| 3001 to 4000 | 0.37 | 0.49 |
| 4001 to 5000 | 0.17 | 0.21 |
| 5001 to 10000 | 1.02 | 1.07 |
| Over 10000 | 89.64 | 88.31 |
| Total | 100.00 | 100.00 |

Categories of Shareholders December 31, 2013:

| Category | No. of shareholders | No. of shares held |
|---|---------------------|--------------------|
| Foreign Promoters | 1 | 6631142 |
| Non Resident Individuals | 184 | 14701 |
| Foreign Institutional Investors | 9 | 24405 |
| Banks | 3 | 969 |
| Other Insurance Company | 1 | 5098 |
| Mutual Funds / UTI | 20 | 1209239 |
| Central Government / State Governments(s) | 1 | 285 |
| Domestic Companies | 355 | 123449 |
| Resident Individuals | 9815 | 831421 |
| Trust & Charitable Institutions | 5 | 814 |
| | 10394 | 8841523 |

Dematerialisation of shares and liquidity : The Company has arrangements with National Securities Depository Ltd. (NSDL) as well as the Central Depository Services (India) Ltd. (CDSL) for demat facility. 98.51 % of the Company's share capital is dematerialised as on 31.12.2013.

The Company's shares are regularly traded on the Bombay Stock Exchange and the National Stock Exchange of India Limited.

Outstanding GDRs/ADRs Warrants of any Convertible Instruments, conversion date and likely impact on equity : Nil

Plant locations : N.A.

Address for correspondence : Honeywell Automation India Limited,
56 & 57, Hadapsar Industrial Estate,
Pune 411 013
Tel: (020) 66039400
Fax: (020) 66039800
E-mail: acsindia@honeywell.com
Website: www.honeywellautomationindia.com

Declaration – Code of Conduct

As per Clause 49 of the Listing Agreement with the Stock Exchanges, all Board Members and Senior Management personnel have affirmed compliance with the applicable Honeywell Code of Conduct for the financial year 2013.

For **Honeywell Automation India Limited**

Place : Gurgaon
Date : February 5, 2014

Vikas Chadha
Managing Director

Auditors' Certificate regarding compliance of conditions of Corporate Governance

To the Members of
HONEYWELL AUTOMATION INDIA LIMITED

We have examined the compliance of conditions of Corporate Governance by Honeywell Automation India Limited, for the year ended December 31, 2013, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Price Waterhouse & Co., Bangalore**
Firm Registration Number: FRN 007567S
Chartered Accountants

Place : Gurgaon
Date : February 5, 2014

Jeetendra Mirchandani
Partner
Membership Number: 48125

HONEYWELL AUTOMATION INDIA LIMITED
Regd. Office : 56 & 57, Hadapsar Industrial Estate, Pune - 411 013.

ATTENDANCE SLIP

I hereby record, my presence at the THIRTIETH ANNUAL GENERAL MEETING of the Company at Honeywell Automation India Ltd., 56 & 57 Hadapsar Industrial Estate, Pune 411 013 at 4.00 p.m. on Wednesday, April 30, 2014.

NAME OF SHAREHOLDER/PROXY

FOLIO NO. _____ NO. OF SHARES HELD _____

SIGNATURE OF THE
ATTENDING MEMBER/PROXY

NOTES :

- (1) Shareholder/Proxyholder wishing to attend the meeting must bring the Attendance Slip to the meeting and hand over at the entrance duly signed.
- (2) Shareholder/Proxyholder desiring to attend the meeting should bring his copy of the Annual Report for reference at the meeting.

Cut here

HONEYWELL AUTOMATION INDIA LIMITED
PROXY

Regd. Office : 56 & 57, Hadapsar Industrial Estate, Pune - 411 013.

I/We

Of _____ in the district of _____ being
a member/members of the above-named Company, hereby appoint
of _____ in the district of _____ or
failing him, _____ of _____ as

my/our Proxy to attend and vote for me/us and on my/our behalf at the Thirtieth Annual General Meeting of the Company at Honeywell Automation India Ltd., 56 & 57 Hadapsar Industrial Estate, Pune 411 013 at 4.00 p.m. on Wednesday, April 30, 2014 and at any adjournment thereof.

Signed this _____ day of _____ 2014.

Signature Shareholder

Affix
Revenue
Stamp

Reference Folio No.

No of shares held

This form is to be used _____ the resolution. Unless otherwise instructed the proxy will act as he thinks fit.
* in favour of
* against

* strike out whichever is not desired.

NOTE : The proxy must be returned so as to reach the Registered Office of the Company at 56 & 57, Hadapsar Industrial Estate, Pune 411 013, not less than FORTY-EIGHT HOURS before the time for holding the aforesaid meeting.

Honeywell Automation India Limited





56 & 57, Hadapsar Industrial Estate,
Pune-411013 (India)

Tel. : 91- 20 6603 9400

Fax : 91- 20 6603 9905

FORM A

Format of covering letter of the annual audit report to be filed with the stock exchanges

| | | |
|---|---|--|
| 1 | Name of the Company | Honeywell Automation India Limited |
| 2 | Annual financial statements for the year ended | 31 st December, 2013 |
| 3 | Type of Audit observation | Unqualified |
| 4 | Frequency of observation | Not Applicable |
| | <p>To be signed by:</p> <p>Vikas Chadha <i>Managing Director</i></p> <p>Anurag Bhagania <i>Chief Financial Officer</i></p> <p>Jeetendra Mirchandani <i>Partner</i> <i>Membership No.48125</i> <i>Price Waterhouse & Co., Bangalore</i> <i>Firm Registration Number: 007567S</i> <i>Chartered Accountants</i></p> <p>S.L.Rao <i>Non- Executive Director (Independent)- Audit Committee Chairman</i></p> |     |

SP

