

Honeywell Automation India Ltd.

Annual Report 2011

Board of Directors

Mr. Madhukar Bhagwat	<i>(Chairman & Independent Director)</i>
Mr. Shane Tedjarati	<i>(Director)</i>
Mr. Norman Gilsdorf	<i>(Director)</i>
Mr. Gerard Willis	<i>(Director)</i>
Mr. Surendra Rao	<i>(Independent Director)</i>
Mr. Anant Maheshwari	<i>(Managing Director)</i>
Ms. Sneha Padve	<i>(Company Secretary)</i>

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Senior Management Team

Mr. Ananthanarayanan K. V.	Head - Legal
Mr. Bagaikar Ravi	Head - Honeywell Operating System
Mr. Bansal Rohit	Head - Sensing & Controls
Mr. Biswas Amitava	Head - Process Solutions
Mr. Godbole Milind	Head - Building Solutions
Mr. Kamal Asad	Head - Strategy & Marketing
Mr. Kelkar Anant	Head - Integrated Supply Chain
Mr. Mitter Kaushik	Head - Human Resources
Ms. Nemade Snehal	Head - Audit & Internal Controls
Mr. Patil Ajay	Chief Financial Officer
Mr. Pradhan Ninad	Head - Environment & Combustion Controls
Mr. Tumkur Savyasachi	Head - Global Services

Registered Office

56 & 57, Hadapsar
Industrial Estate,
Pune 411 013

Auditors

Price Waterhouse & Co.
Chartered Accountants

Bankers

Citibank N. A.
Royal Bank of Scotland

Registrar & Transfer Agent :

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

Notice**Honeywell Automation India Ltd.
Annual Report 2011**

NOTICE is hereby given that the **TWENTY-EIGHTH ANNUAL GENERAL MEETING** of HONEYWELL AUTOMATION INDIA LIMITED will be held **at 4.00 p.m. on April 20, 2012** 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 Profit and Loss Account for the year ended December 31, 2011 and the Balance Sheet as at that date.
2. To declare dividend.
3. To appoint a Director in place of Mr. M. N. Bhagwat who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. S. Tedjarati who retires by rotation and is eligible for re-appointment.
5. To appoint Auditors and to fix their remuneration.

NOTES:

- a) The Company's shares are under the compulsory demat list. Shareholders are requested to utilise this facility to their advantage.
- b) The Register of Members and Share Transfer Books of the Company will remain closed from Thursday, April 5, 2012 to Thursday, April 12, 2012 (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 LTD., 6-10 Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011.
- f) Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, dividend for the financial year ended March 31, 2005 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 financial year ended March 31, 2005 or any subsequent financial years are requested to make their claim to the Office of the Registrar and Transfer Agents; TSR DARASHAW LTD., 6-10 Haji Moosa Patrawala Ind. Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011. It may 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 9, 2012

Sneha Padve
Company Secretary

Registered Office:

56 & 57, Hadapsar
Industrial Estate,
Pune 411 013

Notice (contd.)**Honeywell Automation India Ltd.**
Annual Report 2011**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956****Item Nos. 3 & 4:**

Name of Director	Mr. M. N. Bhagwat	Mr. Shane Tedjarati
Date of Birth	04.06.1932	16.11.1962
Date of Appointment	02.11.2004	14.10.2008
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. McGill University, Montreal- Computer Science and Mathematics. 2. University of Surrey, United Kingdom - MBA.
List of public Companies in which outside Directorships held as on December 31, 2011	Kennametal 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, 2011	Kennametal India Limited: Chairman - Audit Committee. Walchand People First Limited: Chairman - Audit Committee.	—

Directors' Report

Honeywell Automation India Ltd. Annual Report 2011

Dear Members,

The Directors present the **TWENTY-EIGHTH ANNUAL REPORT** with the audited statements of accounts of the Company for the year ended December 31, 2011.

1. FINANCIAL RESULTS :

Particulars	Year ended December 31, 2011 (Rs. in lacs)	Year ended December 31, 2010 (Rs. in lacs)
Sales & Other Income	162936	136377
Operating Profit	16136	15188
Less:Interest	84	8
Depreciation	1481	1290
Profit for the year	14570	13890
Provision for tax	4804	3655
Deferred Tax Adjustment	(948)	(270)
PROFIT AFTER TAX	10714	10505
Profit brought forward from the previous year	39331	30908
Profit available for appropriations	50046	41413
APPROPRIATIONS		
General Reserve	1071	1050
Proposed Dividend	884	884
Tax on proposed dividend	143	147
BALANCE CARRIED FORWARD	47947	39331

2. DIVIDEND:

Final dividend @Rs.10/- per share of Rs.10/- each was recommended by the Board in their meeting held on February 9, 2012.

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)** – Business serves core industrial sectors of Refining, Oil & Gas, Pulp & Paper, Metal and Cement etc.
- **Honeywell Building Solutions (HBS)** – Business provides solutions and services for facilities such as Commercial & Industrial Buildings, IT & ITES industry, Hospitals, Hotels, Airports, Mass Rapid Transit (MRT) etc.
- **Environment and Combustion Control (ECC)** – Through multi channels and multiple brands, offers environmental and combustion products and solutions to commercial, hospitality and industrial segments.
- **Sensing & Control (S&C)** – Products 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)** – Provides manufacturing and engineering services to Honeywell along with some other non Honeywell customers across the globe, leveraging the economies of scale on talent and cost arbitrage.

Directors' Report (contd.)**Honeywell Automation India Ltd.**
Annual Report 2011**4. COMMUNITY DEVELOPMENT WORK:**

HAIL is committed to its CSR activities and strongly believes that helping out even in a small way, can bring about a difference in the lives of many. Our commitment is on issues related to Health, Education & Environment.

Some of the initiatives under CSR were as follows:

Education:

- Child Sponsorship Project at Kolwan Valley near Pune. Sponsorship for health and education expenses for 50 students' upto standard 10 and Sponsorship of 5 girl students for their engineering studies.
- Different programs were organized for teachers & Students from 1st to 7th class for Maths, Geography, Chemistry, vocational courses etc. at various schools.
- Scholarship program for Contract labour children - 52 students were sponsored for school fees, books & stationery.

Health:

- Conducted two programs and medical checkup camps in and around rural areas near Pune for Health Awareness.
- Blood Donation camp were organized at different locations at Pune during the year.

Environment:

- Tree plantations at 2 schools - 250 trees planted in the schools and 150 books were given to the school library to teach the students to take care of plants.

5. DIRECTORS:

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

6. MANAGEMENT DISCUSSION & ANALYSIS/CORPORATE GOVERNANCE REPORT:

In accordance with 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.

7. CODE OF CONDUCT COMPLIANCE:

In accordance with 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 2011 is annexed and forms part of the Corporate Governance Report.

8. 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.

9. AUDITORS:

M/s. Price Waterhouse & Co., 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.

Directors' Report (contd.)**Honeywell Automation India Ltd.**
Annual Report 2011**10. 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.

In line with the initiative taken by the Ministry of Corporate Affairs ("Ministry") allowing companies to send their Annual Reports through electronic mode vide its recent circulars bearing no.17/2011 dated 21.04.2011 and 18/2011 dated 29.04.2011, your Company has started the facility to send the Annual Report to its shareholders through electronic mode, to the registered email addresses of the shareholders. We have received a response to this facility and would request more shareholders to come forward and obtain the Annual Report over email and contribute towards this Green Initiative.

11. ACKNOWLEDGEMENT:

The Board would like to place on record its appreciation and thanks to all its employees for their dedication and contribution towards the Company's performance. The Board also thanks its customers, investors, vendors, regulatory authorities and bankers for their business and support it has received from them.

For and on behalf of the Board
M. N. BHAGWAT
Chairman

Gurgaon, February 9, 2012

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 2011 for the same are as under:

- Electrical Audit was conducted by MITCON and all suggestions for energy saving were implemented.
- Energy meters are installed in office buildings to optimize energy consumption.
- Multiple air conditioning units have been closed and a single energy efficient unit has been installed in each building.
- Negotiations were done with MSEB to ensure that load shedding for our area was shifted to Sunday instead of Thursday leading to lower utilization of diesel generating set.
- Solar water heater systems have been installed in the canteen and gym facilitating lower consumption of electricity.
- Observed environment & energy conservation days' across the Company to increase awareness among employees and business associates on energy utilization and saving.

Your Company continues with its work in providing solutions to various customers through its Building Solutions and other businesses which have significant impact on energy conservation.

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 as and when they are rolled out in our part of the world.

C) FOREIGN EXCHANGE EARNINGS AND OUTGO:

	(Rs. '000)
(i) Foreign Exchange Earned	60,492,52
(ii) Foreign Exchange Used	58,057,68

Management Discussion & Analysis Report

Honeywell Automation India Ltd. Annual Report 2011

PERFORMANCE OF KEY FINANCIAL INDICATORS AND HIGHLIGHTS OF 2011

- External Orders up by 5%
- Sales at Rs.16,125 million, up by 19%
- Net Income at Rs.1,071 million, marginally higher than last year by 2%
- Cash flow from operations was negative Rs.184 million

INDUSTRY OUTLOOK AND OPPORTUNITIES

Your Company's operating results are largely influenced by market factors such as Industrial Production, Capital Spending on Process and Building Automation, Commercial and Infrastructure Construction, Commodity prices and Foreign Exchange variations. Economic and industry conditions regarding Environment, Security and Safety end markets and Regulations also have an impact on your Company's operation. Some of the important market conditions were:

- Exports volume is largely originated through Honeywell companies around the world. During the year under review, there have been significant economic and competitive pressures caused due to slow down in developed markets. Overall geographic mix of global business is also shifting to other countries in Asia, Middle-East, South America and Eastern Europe – this change significantly reduces the cost benefit of sourcing services from India by Honeywell entities. Competitive pressures especially from developing nations in Eastern Europe and Central Asia are ever increasing with comparable options available to customers closer to their geographies.
- Government spending is critical for development of core infrastructure like Roads, Ports, Airports, Mass Transportation Systems, Energy Conservation, Safety and Electronic Security Systems etc. Such spending supports volume growth of Buildings Solutions business group of your Company, and such spending has declined.
- For Process Solutions Business, continued incremental investment in Refining, Power Generation, Transmission and Distribution, Oil Exploration projects offset due to delayed decisions in Oil Marketing and Distribution investments and private investments in Chemicals, Paper and other Small and Medium Enterprises (SME) Process Industries.
- Rapid urbanization is making Tier 2 and Tier 3 cities along with rural economy as the new growth areas for sustaining economic development. During the year under review, your Company has initiated steps to augment infrastructure in Tier 2 and Tier 3 cities which will help in sustaining business growth in coming years.

Honeywell Process Solutions (HPS):

HPS Solutions 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. Overall, 2011 has been a good year for HPS, having won several prestigious projects as well as strengthened its position in key vertical of Oil and Natural Gas. Some of the key wins were OPAL Petrochemicals, Reliance Industries and NOCL.

2012 is likely to be a challenging year for HPS due to prevailing economic and political environment which may cause delay in policy legislation, lower growth of Industrial production and continued competitive pressures in the market. Opportunities in the green field refining sector are declining and your Company shall rely heavily on the 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 industries and with the available opportunities, we expect to win a fair share of the demand. Given the vast diversity of Products and Solutions portfolio and market reach, your Company will strive to sustain our performance in 2012.

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 a building. As part of its energy efficiency promise HBS provides energy management services, energy retrofits and energy performance contracts.

This business continued its consistent track record in Airports and Office Space vertical and accelerated its presence in Healthcare and Pharmaceutical verticals in 2011. Major wins / customers include Kolkata Airport, Tata Consultancy Services, Cognizant Technology Solutions, AIIMS, Sahyadri Hospital, Dr. Reddy's Laboratories and Royal Bank of Scotland.

With a proven track record, an ability to innovate, world class large project execution capability and solid systems and processes for execution and life cycle management, this business is poised for sustained growth in 2012.

Environment and Combustion Control (ECC):

Based on increasing demand in Tier 2 and Tier 3 cities and revival in the hospitality and commercial real estate sector, ECC continued double digit growth in 2011. Channel volumes, expansion of distribution footprint to Tier 2 and Tier 3 cities, key project

Management Discussion & Analysis Report (contd.)

Honeywell Automation India Ltd. Annual Report 2011

wins in the Building Management System business were the highlights of the year. Some of the major wins were ITC Hotel, Formula 1 racing track, ESIC hospitals etc. Industrial Combustion Control business continued to see positive trends with revival of industrial demand in the last year. Solar water heaters launched in early 2009 continued to report strong sales albeit on lower base. Government policies for encouraging renewable energy solutions are helping in leveraging large commercial opportunities in this space.

Consolidation of Commercial Construction and Real Estate segment, along with urbanization of Tier 2 and Tier 3 cities, would drive growth of the diversified product portfolio for the business in 2012 and beyond. We remain cautious on the overall liquidity situation and interest rates scenario for 2012 which may affect credit availability in Commercial construction segment, which directly affect the volume of the ECC business.

Sensing and Control (S&C):

Continued strong sales and operating margin performance for S&C in 2011 over 2010 across all lines of business viz. Electromechanical, Electro Sensing, Test & Measurement and Transportation vertical for the business grew considerably in 2011 due to localization and strong demand.

Your Company will continue to remain focused on verticals like Industrial, Transportation, Military/Aerospace and Medical. Another important initiative is expansion of distribution network especially for greater coverage of industrial customers. During the year there have been significant new business opportunities (NBOs), which resulted in major wins with customers like Mahindra and Mahindra, Kirloskar Oil Engines etc. These NBOs are expected to provide strong referral as well as revenue growth in coming years.

Exports:

Global Services (GS) mainly provides various engineering services, product manufacturing solutions and other software engineering services. These services are mainly provided to Honeywell companies around the world. With prevailing economic and competitive scenario in rest of the world, GS are under tremendous pressure to meet productivity targets and meet competitive pricing. Your Company has reviewed the billing rates and consequently lower billing rates are agreed to with effect from January, 2012. These changes to billing rates are carried out after considering prevalent economic conditions, cost pressures and service availability through competition.

GS has adopted Honeywell Operating Systems (HOS), which is designed to improve service performance and cost optimisation, thereby representing a holistic approach to operational excellence. The team continues to drive maturity of these processes in the business. The business continued to drive cost and engineering productivity under this framework. Service expansion to other Honeywell companies has diversified the business. This has also resulted in skill expansion within the team.

The global manufacturing initiative is now stabilizing with steady demand from Honeywell companies. The business made earnest efforts to sustain profitability in light of weak global economic volumes. Your Company has limited risk and return on this initiative as it purely works as a manufacturer for global associate companies of Honeywell. During the year under review, certain products belonging to Airport Securities Group (ASG) were added to your Company's global manufacturing operations.

FINANCIALS

Overall Net Sales at Rs. 16,125 million, up 19% compared to previous year, reporting a strong revenue growth in the given economic conditions, as all segments have not completely recovered from the recessionary trends. The exports segment of the business registered a good growth of 11.6%. This growth was achieved amidst competitive challenges on pricing and adverse order backlog mix affecting sales volumes. The domestic business growth was an impressive 23%, representing a strong execution on backlog contracts.

Overall Net Income was Rs 1,071 million, marginally up by 2%, primarily due to

- Strong focus on cost optimization actions and to increase productivity in a competitive domestic environment to sustain profitability.
- Corporate allocation is lower by Rs.103 million, as allocation in 2010 included charges of prior year representing your Company's share of international expenses charged by Honeywell International to all its affiliate companies in compliance with global Transfer Pricing regulations. Also refer to Note 20 of Schedule 16, page 37.
- The unfavourable revenue mix, lower gross margin caused due to cost inflation on labour and manufacturing expenses driving overall cost of goods sold higher by 200 bps. Besides, green field installed base of the Company, due to competitive environment contributes lower margins. Participation in such green field projects provide long term returns over the life cycle of such projects to your Company.
- Competitive pressure on margins in the project and product business driven by lower selling prices as a result of the competitive market environment.
- Your Company continues to invest in attracting top talent and also to remain a preferred employer. During the year, manpower expense was higher by 28% which was caused due to 8% increase in headcount and wage rate inflation seen in the industry.
- During the year your Company was under severe pressure due to tight money market conditions and a very challenging business, economic environment, which caused the company to take higher charge on account of Liquidated Damages, Provision for Doubtful Debts and Bad Debt by 83% year on year.

Management Discussion & Analysis Report

Honeywell Automation India Ltd. Annual Report 2011

Cash flow from operations reflected adverse liquidity and tight money market conditions, Cashflow was negative Rs.184 million, (previous year positive Rs.456 million) primarily due to large infrastructure projects having extended payment milestones and constrained credit markets in the overall commercial construction space resulted in increased working capital. While your Company was able to mitigate some risk on working capital, the overall project receivable and retentions increased beyond the proportion of project revenues thereby causing stress on overall cash flow from operations. Your Company will continue to strive to have better working capital performance in 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 the Honeywell group (Honeywell), its major shareholder. Sales to Honeywell accounted for approximately 31% and 32% of total net sales in fiscal years 2011 and 2010, 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 alternate opportunities available to it to source products and services currently provided by your 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. 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. Your Company has reviewed billing rates for services rendered to Honeywell, with effect from January 2012. These rates reflect the current competitive and economic environment and it is estimated that such impact on your Company's total revenue will be approximately up to 1.5% in 2012.

While your Company is diversified in various products, industries and geographies, major macro economic indicators are generally cautious around investments in the Process and the Construction Industries. While your Company is expecting to achieve a fair share in the reduced opportunities due to global recession, the diversification is helping it to manage these recessionary trends in focusing on right business. We continue to believe that the fundamentals appear to be strong and domestic infrastructure investments continue to be resilient, however 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.

Your Company has initiated aggressive cost and productivity actions while remaining optimistic that the recessionary trends will subside in the near future and we would emerge a stronger Company in the future.

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 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 by the Internal Audit team, as per plan approved by the Audit Committee, Honeywell Internal Controls team for Sarbanes Oxley testing and the Honeywell Corporate Audit team. The significant findings are presented to the Audit Committee. The Audit Committee, at their meetings, also reviews with rigor, the closure of actions committed by the management.

Your Company's Code of Conduct sets out the fundamental standards to be followed by employees in their everyday actions. Your Company also has a very elaborate Integrity and Compliance program where employees are required to undergo trainings to become familiar with the legal requirements, avoid conflicts of interest sensitized to work place behaviors and are tasked with upward reporting of all unethical and 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 whether there have been any 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 Operations plans are developed by the Business Units / Departments which get approved by the Board and are rolled out in the Organization. The weekly and 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.

Management Discussion & Analysis Report

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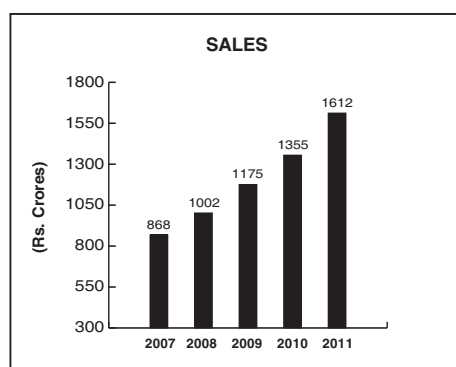
The Board of Directors review the business performance every Quarter and suggest the corrective actions to ensure that performance is in line with the budgets.

The Company has also initiated various process to ensure fixed cost remain fixed, 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.

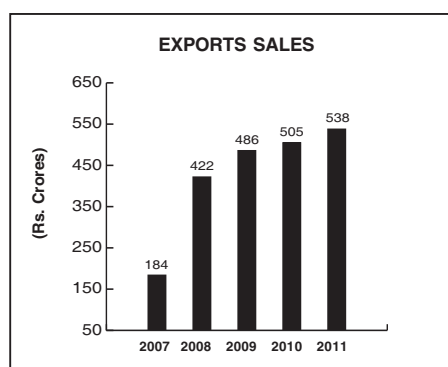
Summary

A more balanced revenue mix of domestic revenue v/s exports revenue saw a moderate earning performance for 2011. Increased competitive environment in both domestic and exports opportunities continues to be a concern which is being addressed through concentrated efforts on operational excellence, driving productivity, and aggressive cost rationalization thus making us a much leaner Company to address the challenging times ahead.

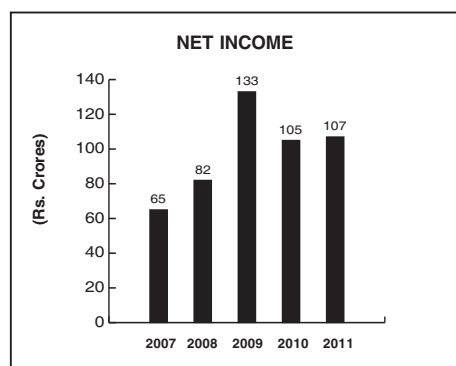
FINANCIAL PERFORMANCE



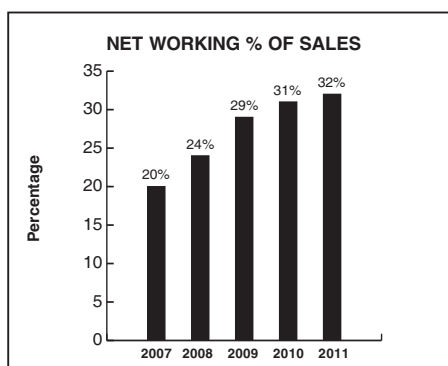
Total Sales grew by a strong 19% year on year. Strong domestic sales growth of 26%, while exports growth is muted due to global economic environment.



Exports sales growth marginally up by 6% over prior year due to global lines manufacturing and hardware. Engineering services revenue grew by modest 5%.



Marginal growth in Net Income by 2% over prior year due to productivity gain and lower corporate expenses allocation offset by unfavorable sales mix, competitive pressures on margin, increased employee related expenses.



Inflationary pressure on interest rates, liquidity crunch and extended billing milestones caused increased amount of working capital investment.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable securities, laws and regulations. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include overall global economic conditions, domestic manufacturing and service sector growth, foreign exchange stability and stable credit environment.