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An Abstract of "International Accounting Disclosure Standards"

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INTERNATIONAL ACCOUNTING DISCLOSURE STANDARDS

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International Accounting Disclosure Standards

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INTRODUCTION

The world as we know it is getting smaller and more interconnected every day. E-mail, pagers and cellular phones, they all link people closer together whether they are across town or across the world. Just as these technological advances have increased our effectiveness to communicate with each other, so too must business corporations make advances to enhance their ability to communicate. Whether it's with a business partner across the country, or a perspective business client across the globe, corporations need to be able to translate foreign languages, exchange foreign currency, and understand foreign financial disclosures if they want to be competitive in the world of international business.

Although calculations for exchanging currencies are relatively straightforward and translators of any language can be hired, understanding foreign financial statements and other foreign disclosures is a difficult, time consuming and usually costly task. Because virtually every country in the world has its own unique set of standard rules that companies believe will provide the most important financial information, understanding and comparing this information is impossible unless the reader is familiar with that particular country's standards. Unfortunately, even if the person is familiar with the standards, comparing financial statement information may be impossible because the standards may differ in their disclosure requirements and therefore some information is available for companies in one country, but not in another country. Knowledge of this information may have a significant impact on the decisions made by a potential investor.

Consider the following simplistic example. Ms. Investor has obtained the financial statements from two different companies, A and B. Company A is located in a country that has very detailed and demanding disclosure laws. Company B is located in another country, one that does not have as "strict" disclosure laws in some areas. Assume that both companies are identical in every way except what they are required to disclose. By looking at the financial statements, Ms. Investor decides not to invest in Company A because of a particular footnote to the statements about a lawsuit brought against the company. Although the footnote states that the pending lawsuit for $5 million is not likely to be lost by the company, Ms. Investor knows that the company will at least have to incur the additional legal costs of the court case. Company B, on the other hand, does not have a corresponding footnote to the line item "legal expenses." She decides that Company B has less financial risk, on the basis of her analysis of the financial statements, and invests in that company. Because of the lack of information available, the investor has made a decision that she may not have made had she had all of the relevant information. Also, because one company is required to disclose more information, that company has lost a potential investor, as well as having to incur additional costs to comply with the additional disclosure requirements. See Appendix D concerning additional information that relates to this example.

NEED FOR STANDARDIZED REQUIREMENT

The need for both standardized disclosure requirements and their associated costs are summarized well by the CEO of Price Waterhouse, Shaun O'Malley. As the head of a multinational public accounting firm, Mr. O'Malley deals with international business issues daily and recognizes that "global accounting standards are essential to cross-border economic activit(ies)." (Rosenberg, 27) Only if management is able to obtain the information they need on a timely basis, can they use it to make prudent investment decisions in the global market. If the information is not available to them, or if the time period needed to translate the information is too great, efficiency in the market as a whole is hindered. O'Malley emphasizes the importance of the specific role of the disclosure standards within the global accounting standards. "It's a disclosure issue . . . what's needed is full and clear disclosure of finances." (Rosenberg, 27) Even if all other accounting policies were to remain unchanged, it is clear to see that if all companies were required to disclose equivalent information, comparative analysis is still vastly increased through complying with disclosure standards alone.

There are drawbacks, however, to implementing any sort of global standards. The main drawback is the direct cost to the company of preparing essentially an entire second set of financial statements; the first set being those that comply with the individual country's accounting standards, the second being those that comply with the international standards. The cost of producing the second set of financial statements, which is described by Shaun O'Malley as a "competitive cost," is the cost, from a market perspective, of preparing the financial statements that comply with the International Accounting Standards. If one company chooses to prepare the international financial statements, that company ends up paying twofold; once when it actually incurs the costs and a 'second' time because now compared to the company that did not elect to prepare the second set (and hence incur the extra costs), it is at a disadvantage in the world market.

Eventually, however, it is hoped that this problem will correct itself, assuming that at least some companies continue to implement international standards. The shift to international standards will come about much the same way that the comparative costs described above came about. That is, if more and more companies disclose international financial statements, those companies that choose not to will eventually become part of a minority in the world market. And, when most of the world only accepts the international standards, those who choose not to change over will be at a disadvantage, from an information standpoint. Consequently, demand for information for those companies will disappear and with it so will potential investors' capital. Therefore, if support for implementation of international accounting standards continues, the indirect costs to companies of not providing the information will eventually outweigh the direct costs of providing the information.

Clearly, there is a need for standardized international financial disclosure, but deciding on exactly what those standards should be and how they should be decided upon is a great undertaking. This enormous task was undertaken by an organization called the International Accounting Standards Committee (IASC) on June 29, 1973. Originally, this organization came into existence through the agreement of the accounting bodies in Australia, the United Kingdom, the United States of America, Canada, France, Germany, Japan, Mexico, the Netherlands and Ireland. The preface to the Statements of International Accounting Standards states that "(t)he business of IASC is conducted by a Board comprising representatives of thirteen countries and up to four organisations having an interest in financial reporting." The International Accounting Standards Committee's constitution states that they possess "full and complete autonomy in the setting and issue of International Accounting Standards." The objectives of the constitution also state that the IASC was established "to ensure that published financial statements comply with International Accounting Standards in all material respects and disclose the fact of such compliance." However, the objectives are also very clear about the fact that the IASC only has the authority to "*promote* their worldwide acceptance and observance," to "*persuade* governments and standard-settings bodies," and to have its members "*agree* to support the objectives of the IASC." (emphasis added) Although the International Accounting Standards set by the IASC "do not override the local regulations," voluntary compliance with other generally accepted accounting standards is how past standards were originally implemented and self-regulation of these standards is still a large part of the accounting industry in the United States today. (International Accounting Standards, 29-31)

The general format that the IASC follows to issue a standard directly reflects voluntary compliance and self-regulation in the industry. The first step the IASC takes to issue an International Accounting Standard is to "select a certain subject for detailed study." The study is performed by a Steering Committee. The Steering Committee then issues an exposure draft for consideration by the Board. If approved by at least two-thirds of the Board, the draft is then submitted to accountancy regulatory agencies, governments, and all others interested in the topic, (including those individuals who work in the field). At this time, or any other time that it is deemed necessary, a discussion paper on the topic may be issued by a majority vote of the Board.

As comments are received on the original exposure draft, they are reviewed by the Board and the exposure draft may be revised. This finally revised exposure draft is then voted upon and if it is approved by three-fourths of the Board, it is issued as an International Accounting Standard. Compliance with all International Accounting Standards, in the opinion of the IASC, will improve the quality of financial statements, increase the degree of comparability, and enhance the credibility and consequently the usefulness of financial statements throughout the world. Appendix A contains additional information concerning the International Accounting Standards Committee Board.

I have chosen to present the financial statements' disclosures from three countries, the United States, Australia and the United Kingdom, and to compare their required disclosures to the IASC required disclosures. The three specific areas I have chosen to concentrate on are disclosure of accounting policies, accounting for contingencies, and accounting for goodwill. For my comparison, I have chosen to use the 1995 financial statements from 'Honeywell Inc.' (U.S.), 'Honeywell Limited' (U.K.), and 'Honeywell Holdings PTY Limited' (Australia). By examining the disclosure differences for a single corporation, the differences found should be more related to disclosure standard issues than to differences due to different company styles. Appendix C contains the actual Notes to the Financial Statements for all three companies.

DISCLOSURE OF ACCOUNTING POLICIES

The United States' Generally Accepted Accounting Principles define accounting policies as "(t)he specific accounting principles and the methods of applying those principles that are judged by the management of the enterprise to be the most appropriate in the circumstances." (Irwin, 425) Disclosure of accounting policies must encompass identification of the policy, related accounting principles and application of those principles that have a material affect on the financial statements. Specifically, accounting principles that include any of the following must be adequately described in the accounting policies section of the financial statements:

a. A selection from existing acceptable alternatives
b. Principles and methods peculiar to the industry in which the reporting enterprise operates
c. Unusual or innovative application of generally accepted accounting principles

(Irwin, 422)

The United States standards are "flexible" as to the format and location of how accounting policies are disclosed in the financial statements, as long as they are "an integral part of its financial statements." (Irwin, 423) The standards do note, however, that it is preferable to disclose the accounting policies in a separate section "preceding the notes . . . or as the initial note."

Honeywell Inc., and Subsidiaries, U.S.A., lists their "Accounting Policies" as the first note to the financial statements. Twelve different policies are identified in slightly less than one page's length. Although "Consolidation" is listed as the first of the policies, the accompanying information is summarized in only two sentences. "Derivatives," which is listed as the tenth policy, has three paragraphs of corresponding information. The order of the listed accounting policies in note 1 to the financial statements is as follows: Consolidation, Estimates, Sales, Earnings Per Common Share, Statement of Cash Flows, Inventories, Investments, Property, Intangibles, Derivatives, Foreign Currency, and Postemployment Benefits. Information summarizing each of the policies ranges from one sentence (for Earnings Per Common Share and Investments) to a few paragraphs (for Statement of Cash Flows, Inventories, and Derivatives).

The United Kingdom's accounting standards also require the disclosure of accounting policies. Their standards require that the following accounting policies be included in the financial statements: "basis of accounting, treatment of associated companies, research and development, intangible assets, goodwill, fixed asset valuations, investment properties, leased assets and obligations," as well as other various contracts, valuations and pension information. (Wiley, U-6) The standards also explicitly state that companies must "state in their financial statements whether they comply with 'applicable accounting standards'." (Wiley, U-6)

Honeywell Limited, U.K., unlike its parent company Honeywell Inc., lists its accounting policies in a section preceding the "Notes to the accounts." The first statement made by management in the "Accounting policies" section is the above mentioned assertion that "(t)he accounts have been prepared in accordance with applicable accounting standards." (Honeywell Limited, 7) Thirteen other assertions are made by management in direct reference to accounting policies. The length of the policies is exactly one page, just slightly longer than Honeywell Inc.'s accounting policies. With the exception of the accounting policy "Accounting basis," which is described in just one sentence, the other twelve policies are described in approximately the same amount of information. However, "Foreign currency" and "Turnover and revenue recognition" both contain two paragraphs and "Acquisitions" and "Tangible fixed assets" both contain small tables. The order of the listed accounting policies is as follows: Accounting basis, Basis of consolidation, Investments, Acquisitions, Research and development, Tangible fixed assets, Intangible fixed assets, Leases, Stocks, Deferred taxation, Pension costs, Foreign currency, and Turnover and revenue recognition.

Australian accounting standards state that "all material accounting policies . . .must be describe[d] in [the] financial statements." The placement of those policies is limited to "the initial section of the notes to the financial statements." Another requirement (for public-sector reporting entities only) is to identify "the statutory reporting requirements, ministerial directives or other government authority that has determined accounting policies." (Wiley, A-26-27)

Honeywell Holdings PTY Limited and Its Controlled Entities, Australia, lists their "Summary of Accounting Policies" as the first note in the "Notes to and Forming Part of the Financial Statements." The "General System of Accounting Underlying the Accounts" prefaces the actual listing of ten different accounting policies and cites the authoritative regulations for compliance. (Honeywell Holdings, 9-12) Although the Australian subsidiary is the company with the least number of listed accounting policies, the length is more than three times that of the previous two companies at three and one-half pages. "Change in Accounting Policy" includes a small table of numbers. "Principles of Consolidation," "Foreign Currency," "Leased Assets," and "Employee Entitlements" all contain rather lengthy, detailed descriptions. The list of accounting policies is listed as follows: Principles of Consolidation, Intangibles, Foreign Currency, Depreciation, Recoverable Amount of Non-Current Assets, Inventories, Income Tax, Leased Assets, Change in Accounting Policy and Employee Entitlements.

The International Accounting Standard for disclosure of accounting policies simply states, "The significant accounting policies used should be disclosed." The only addition to this requirement is "any change that has a material effect in the current period or may have a material effect in subsequent periods, together with the effect and the reasons" should also be disclosed. (Wiley, IAS-3) It should be noted that all of the Honeywell financial statements comply with the International Accounting Standard's requirement for disclosure of accounting policies.

ACCOUNTING FOR CONTINGENCIES

The United States Generally Accepted Accounting Principles defines a contingency as "(a)n existing condition, situation, or set of circumstances involving uncertainty as to possible gain . . .or loss . . .to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur." (Irwin, 8317) Disclosure of contingencies depends upon two major factors; they are the *probability* "than an asset has been impaired or a liability has been occurred" and the ability to determine a *"reasonably estimated*" amount. (emphasis added, Irwin, 8302) If the contingency is probable, the "nature of an accrual made" is disclosed. (Irwin, 8303) If the amount of the contingency is material enough to cause the financial statements to be misleading if omitted, the amount is also disclosed. Contingency nature must also be disclosed if the contingency is considered to be at least a *reasonable possibility,* regardless of whether an amount can be estimated. If, however, an amount or a dollar amount range can be estimated, that dollar amount or amounts should also be disclosed. Certain loss contingencies, such as guarantees, are also disclosed even if "the possibility of loss may be remote." (Irwin, 8304) For these contingencies, disclosure requirements include the nature of the contingency and the amount of the guarantee.

Honeywell Inc., and Subsidiaries, U.S.A., lists "Contingencies" as Note 22 to the financial statements. Three different topics are covered, all giving substantial amounts of information and the reasoning of management on these matters. The first contingency mentioned is "Litton Litigation," which is an appealed court decision on a patent infringement against Litton Systems, Inc. Honeywell "believes that the patent judgment against Litton will be upheld on appeal . . . (therefore) no provision has been made in the financial statements with respect to this contingent liability." (Honeywell, Inc., 49) The second contingency mentioned is "Environmental Matters," in which the Environmental Protection Agency has named Honeywell as a potentially responsible party. Honeywell states, in reference to this contingency, that there is no material effect on the company. The third contingency is titled "Other Matters." It states that Honeywell has "entered into letter of credit agreements" for "certain financing instruments and insurance policies" for an amount of "approximately $135 million." (Honeywell Inc., 49)

The United Kingdom's accounting standards for contingencies are similar to the United States standards. Contingencies also must be recorded if they are "probable" and "can be estimated with reasonable accuracy." (Wiley, U-19) If an amount is not accrued for the contingency, it still must be disclosed in the financial statements. The United Kingdom, however, does not require any disclosure if the possibility of loss is considered to be remote.

Honeywell Limited, U.K., lists 'Contingent liabilities' as Note 20 to the accounts. "Customs and excise guarantees" are listed at the same amount as the preceding year, "Contract guarantee and other items" are listed at an amount 64% lower than the preceding year. A relatively short description about a 'judgement' outstanding at year's end is also included. A maximum amount for this contingency is listed in the note; but because the company "intends to appeal against the judgement" and "[t]he directors consider there [to be] strong grounds for the appeal to be successful," no accrual for the above listed amount has been made. (Honeywell Limited, 10)

Australian accounting standards for contingencies differ from the United Kingdom's standards only in terminology. Australia uses the terms "probable" and "reliably measur[able]."

Just as with the United Kingdom, if the possibility of loss is remote, no disclosure is required. (Wiley, A-26)

Honeywell Holdings PTY Limited and its Controlled Entities, Australia, lists "Contingent Liabilities" as Note 21 to the notes to and forming part of the accounts. The first listed contingency deals with related entities. Amounts due are disclosed for 1995 and 1994 that are due to wholly-owned subsidiaries under a deed of cross-guarantee. No pending lawsuits or judgements of any kind are listed on the financial statements of the Australian Honeywell subsidiary.

The International Accounting Standard for contingencies is similar to the treatment used by the United Kingdom and Australia. Contingent losses should be accrued if both "probable" and "reasonabl[y] estimat[able]." If both of these conditions cannot be met, disclosure is required. Disclosure is not required for 'remote[ly]' possible contingencies. (Wiley, IAS-15) See Appendix D for additional disclosures and conclusions concerning accounting for contingencies. Please note that for accounting for contingencies, the United States disclosure requirement is more rigorous than the International Accounting Standard disclosure requirement.

The United States Generally Accepted Accounting Principle defines goodwill as "the excess of the cost of any acquired enterprise over the sum of identifiable net assets." (Irwin, 26635) Goodwill must be amortized over its estimated useful life, with a limit set of 40 years. The method of amortization used should be straight-line unless certain stipulations are met and only then is an accelerated method allowable. The financial statements must disclose both "the method and period of amortization." (Irwin, 26638)

Honeywell Inc. lists goodwill under note 13, "Intangible assets." Two years, (1994 and 1995) of accumulated amortization are shown for goodwill. Other information given on goodwill in note 13 is the introduction sentence to the small table of numbers that states, "Intangible assets have been reduced by accumulated amortization as follows." (Honeywell Inc., 43) The standard above states that the method and the period of amortization must be disclosed in the financial statements. Honeywell Inc. lists both of these in note 1 Accounting Policies, under the heading "Intangibles." Straight-line amortization is used, but estimated useful life is not explicitly stated. The information simply states, "estimated useful lives of not more than 40 years for goodwill." In addition, note 1 reports that intangibles are carried at their cost. (Honeywell Inc., 40)

The United Kingdom's accounting standards for goodwill indicate "a preference for the immediate write-off of consolidation goodwill to reserves," although the option is also given to amortize the goodwill over its useful life, up to 40 years. (Wiley, U-7) In practice, however, most companies do not amortize goodwill, but instead write it off to reserves (retained earnings).

"The cumulative amount of goodwill written off in the current year and earlier years, net of any amounts attributable to subsidiaries sold, has to be disclosed." (Wiley, U-8)

In Honeywell Limited's financial statements, information about goodwill is disclosed in three separate areas. The first area that provides information pertaining to goodwill is found in the accounting policies that precede the notes to the accounts. Under the heading *Acquisitions* the amount of goodwill "arising as a result of " a certain new acquisition is disclosed. Also in the accounting policies under *Intangible fixed assets*, the definition of goodwill is stated, as well as the treatment of goodwill the company uses. Honeywell Limited has chosen to amortize goodwill "over its estimated useful life up to ten years," rather than writing it off. (Honeywell Limited, 7) The accumulated amount of goodwill written off for 1994 and 1995 is disclosed in Note 8, *Intangible fixed assets*.

Australian accounting standards define goodwill as "the difference between the fair value of the consideration given and the fair value of identifiable net assets acquired." (Wiley, A-27) If this difference does not represent goodwill, the amount should be written off to the profit and loss account. The standards require that goodwill be classified as an intangible, non-current asset and be included in the financial statements. Amortization is "by systematic charges to income over the period the company is expected to benefit from it." (Wiley, A-27) The maximum amortization period is 20 years. Disclosure is required for amortization and the accounting policy used for goodwill.

Honeywell Holdings lists goodwill under two notes, Note 1 and Note 11. Note 11 lists the amounts of goodwill for 1994 and 1995 at the cost and the amounts amortized. These amounts refer to the consolidated amount of goodwill, not the individual company. Under Note

1, 'Intangibles,' goodwill is defined and the amortization period is listed as "the period of time . . .during which the benefits are expected to arise . . .not exceeding 20 years." (Honeywell Holdings, 9) The specific period used is not given.

The International Accounting Standard for goodwill requires goodwill to be treated as an asset and "amortised by recognising it as an expense over its useful life." Straight-line basis is recommended for amortization, "unless another amortization method is more appropriate in the circumstances." Two different lengths of time are given for the maximum amortization period for goodwill, five years and twenty years. "The amortization method should not exceed five years unless a longer period, not exceeding twenty years...can be justified." Disclosure is also required of the amount and the period of time used for goodwill.

CONCLUSION

By looking at the standards for disclosure of accounting policies, accounting for contingencies, and accounting for goodwill, it is apparent that many different possibilities exist for their individual treatment. In the standards, the accounting methods appear to be quite comparable, but in practice, the differences can vary greatly. Note that although the standards for disclosure of accounting policies and accounting for contingencies are reasonably similar, the practices for accounting for goodwill have significant differences.

Accounting for goodwill in the United Kingdom is the most lenient of all of the standards, allowing amortization up to a forty year period or the option of directly writing off goodwill to reserves. “Reserves” in the United Kingdom is similar to the U.S. “Retained Earnings” which is an “amount earned by a corporation and not yet distributed to stockholders.” (Swanson, 381) Writing off all of the acquired goodwill for a single year may involve millions of dollars, affecting net income greatly. These millions of dollars affect net income in that no dollar amount for these write-offs is ever shown on the income statement, instead they are directly written off into the reserves account which appears only on the balance sheet. And, although this write-off does essentially affect accumulated net income greatly, because it does not appear on the income statement, it has "no" affect on the company's income for the currrent year. Conversely, amortizing the entire amount of goodwill over a period of up to forty years may also be used to affect net income, more directly. A company may use foresight and strategy in deciding which method would be most financially beneficial.

The United States standards for goodwill, although less lenient than the United Kingdom because no option is given to direct write off goodwill, are still rather lenient because the available length of time for amortizing goodwill is (again) forty years. Honeywell Inc. (U.S.) uses this forty-year basis to calculate its amortization for goodwill. Honeywell Limited (U.K.), being a smaller subsidiary of Honeywell Inc., uses an amortization period of only ten years. Although it does have the option of writing goodwill off directly, it does not opt to do so, unlike most U.K. companies. Note that Honeywell Holdings (U.K.) could also use a longer amortization period, up to forty years. Honeywell Holdings (Australia), another subsidiary of Honeywell Inc., uses the maximum length of 20 years allowed under Australian accounting standards for its amortization of goodwill, though it should be noted that for 1995 Honeywell Holdings consolidated financial statement information, there is no amount of amortized or acquired goodwill for the year.

By looking at the amortization tables in Appendix B, it is clear that "diversity of accounting practices [in goodwill] results in a general lack of comparability in financial reports from one country to the next." (Mueller, 42) Shown in the tables are the accounting treatment and dollar amounts of goodwill for each Honeywell company as they appear in the financial statements. Also listed at the top of the page is the option or options available under each country's standards for accounting for goodwill. The first chart shows the company's income and the actual amount of goodwill amortized for the year; British pounds and Australian dollars have been translated into U.S. dollars for ease of comparability at rates of .6568 and 1.2942 per U.S. dollar, respectively. The next two charts show the amounts of income and goodwill that would have resulted if a five or twenty year amortization period had been used for goodwill. This chart illustrates the differences between options available in each country as compared to options available under International Accounting Standards. (The numbers in the second and third charts are only approximate due to foreign currency translations and amounts due to taxation.)

Honeywell Inc. (U.S.) must amortize goodwill, using straight-line depreciation, for up to a maximum period of forty years, which it uses. If the *maximum* amortization period of the International Accounting Standards of five years is instead used, the amortization for the current increases by a multiple of eight, which in turn affects Net Income to the point that it becomes a large Net Loss. The net effect on Net Income is a negative $344.4 million, which brings the Net Income of $333.6 million down to a Net Loss of $10.8 million. If the longer *maximum* time period of twenty years under the International Accounting Standard is used, amortization for the year is doubled. The net effect on income for the year is then a decrease of $49.2 million, compared to reported net income. Overlap of the U.S. GAAP and the IAS for the accounting for goodwill is the first allowed 20 years of amortization, the *second* twenty years (from years twenty to forty) is allowed under U.S. GAAP only. Meaning, any U.S. company that elects to amortize over 20 years or less is following both U.S. GAAP and IAS; any U.S. company that elects to amortize over a period greater than 20 years, up to a maximum of 40 years, is following U.S. GAAP only.

Honeywell Limited (U.K.) has two options. It may choose to directly write off all acquired goodwill for the year, which is an amount of $989,140.80, or it may choose to amortize goodwill over a period of up to forty years. If Honeywell Limited used the International Accounting Standards maximum of five years amortization, instead of the ten that it actually uses, Profit on ordinary activities after taxation would decrease by approximately $1.5 million; if the twenty year maximum was used, Profit is increased by approximately $0.5 million. Unfortunately, Honeywell Holdings (Australia) does not have any acquired or amortized amounts of goodwill for the year that would show computational differences. However, because the Australian standards are the closest of the three to the international standards, using systematic charges to income up to twenty years, the differences would have been the smallest of the three companies.

Although the International Standards now appear to be more exacting that those of the three country's standards, the International Standards were most permissive only a few years ago. In 1993 International Accounting Standard 32, the standard establishing guidelines for goodwill, was issued. Before this time, the accounting for goodwill under the International Accounting Standards allowed the choice of immediately writing off the amount of goodwill or amortizing goodwill over its estimated useful life. No maximum time period was listed, nor was a method of amortization suggested. Although this older standard would have allowed all of the Honeywell companies looked at to conform to International Accounting Standards for goodwill, it did not realize the goal of harmonization of standards. All of the methods used by the companies, and available to be used (even if not chosen), did meet the IAS criteria, (but the differences between the options ranges from writing off all goodwill acquired during the year, to amortizing all goodwill up to a time period of forty years, and longer according to the older International Accounting Standard.) There is, however, one problem with the new International Accounting Standard. Most companies in the United Kingdom, which opt to write off all amounts of goodwill, and any United States' companies who use a forty year amortization period, are not conforming to the International Accounting Standard for the treatment of goodwill.

And, what good is a set of international standards if no one conforms to them? The International Standard is currently more strict than most country's options for accounting for goodwill, nevertheless the Board hopes that eventually investor demand will dictate the need to conform to a more universal set of standards, for the sake of comparability. Even now, "(I)f all multinational corporations observed IASC *Standards*, significant harmonization would occur." (Mueller, 44) The International Accounting Standards Committee is definitely on its way to creating the standards that the accounting community in all countries will someday conform to.

APPENDIX A

The International Accounting Standards Committee Board is comprised of "accountancy bodies in thirteen countries... and up to four other organisations with an interest in financial reporting." (International, 7) The current Board members include: Australia, Canada, France Germany, India, Japan, Malaysia, Mexico, the Nordic Federation of Public Accountants, Netherlands, South Africa, the United Kingdom, the United States of America, and representatives of the International Co-ordinating Committee of Financial Analysts' Associations, the Federation of Swiss Industrial Holding Companies, and the International Association of Financial Executives Institutes. "The Indian and South African delegations also include a representative from Sri Lanka and Zimbabwe respectively. Representatives of the European Commission and the United States Financial Accounting Standards Board attend Board meetings as observers." (International, 8)

> "Each Board Member may nominate up to two representatives and a technical adviser to attend Board meetings. IASC encourages each Board Member to include in its delegation at least one person working in the industry and one person who is directly involved in the work of the national standard setting body." (International, 7)

Each Board Member has one vote, as stated in the IASC Constitution, but the number of Board Members is not explicitly stated. The maximum number of Members from each country is also not explicitly stated.

Honeywell Inc.
United States

Treatment of Goodwill:
Options allowed under standards:
1) Amortize over estimated useful life, up to 40 years, using straight line depreciation

Option chosen:
Amortize over estimated useful life of 40 years

Income Statement

	As shown in financial statements (in dollars)	If using 5 years amortization (in dollars)	If using 20 years amortization (in dollars)
Goodwill amortized for year.......	$ 49,200,000.00	$ 393,600,000.00	$ 98,400,000.00
Net Income or Net Loss.	$ 333,600,000.00	$ (10,800,000.00)	$ 284,400,000.00
Effect on Income		$ (344,400,000.00)	$ 49,200,000.00

Honeywell Limited

United Kingdom

Treatment of Goodwill:
Options allowed under standards:
1) Amortize over estimated useful life, up to 40 years, using straight line depreciation
2) Write off to reserves **most companies choose this option

Option chosen:
Amortize over estimated useful life of 10 years

Income Statement

	As shown in financial statements (in pounds)	As shown in financial statements (in dollars)	If using 5 years amortization (in dollars)	If using 20 years amortization (in dollars)
Goodwill amortized for year...............	731,000.00	$ 1,112,971.99	$ 2,225,943.98	$ 556,486.00
Profit on ordinary activities after taxation.............	11,006,000.00	$ 16,757,003.65	$ 15,644,031.66	$ 17,313,489.64
Effect on Income			$ (1,112,971.99)	$ 556,485.99

Honeywell Holdings PTY Limited

Australia

Treatment of Goodwill:
Options allowed under standards:
1) Amortize over the period that benefit is expected, up to 20 years, using systematic charges to income

Option chosen:
Amortize over estimated useful life of 20 years

Income Statement

	As shown in financial statements		If using 5 years amortization	If using 20 years amortization
	(in Australian dollars)	(in U.S. dollars)	(in U.S. dollars)	(in U.S. dollars)
Goodwill amortized for year..........................	-	$ -	$ -	$ -
Operating profit after income tax................	5,809,000.00	$ 4,488,487.10	$ 4,488,487.10	$ 4,488,487.10
Effect on Income			$ -	$ -

APPENDIX C

NOTES TO THE 1995 FINANCIAL STATEMENTS FROM...

SECTION 1

Honeywell Incorporated

United States

Notes to Financial Statements

Honeywell Inc. and Subsidiaries
(Dollars in Millions Except Per Share Amounts)

NOTE 1 Accounting Policies

Consolidation
The consolidated financial statements and accompanying data comprise Honeywell Inc. and subsidiaries. All material intercompany transactions are eliminated.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires Honeywell to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Sales
Product sales are recorded when title is passed to the customer, which usually occurs at the time of delivery or acceptance. Sales under long-term contracts are recorded on the percentage-of-completion method measured on the cost-to-cost basis for engineering-type contracts and the units-of-delivery basis for production-type contracts. Provisions for anticipated losses on long-term contracts are recorded in full when they become evident.

Earnings Per Common Share
Earnings per common share are based on the average number of common shares outstanding during the year.

Statement of Cash Flows
Cash equivalents are all highly liquid, temporary cash investments with an original maturity of three months or less.

Cash flows from purchases and maturities of held-to-maturity securities are classified as cash flows from investing activities. Cash flows from contracts used to hedge cash dividend payments from subsidiaries are classified as part of the effect of exchange rate changes on cash.

Inventories
Inventories are valued at the lower of cost or market. Cost is determined using the weighted-average method. Market is based on net realizable value.

Payments received from customers relating to the uncompleted portion of contracts are deducted from applicable inventories.

Investments
Investments in companies owned 20 to 50 percent are accounted for using the equity method.

Property
Property is carried at cost and depreciated primarily using the straight-line method over estimated useful lives of 10 to 40 years for buildings and improvements, and three to 15 years for machinery and equipment.

Intangibles
Intangibles are carried at cost and amortized using the straight-line method over their estimated useful lives of not more than 40 years for goodwill; four to 17 years for patents, licenses and trademarks; and three to 24 years for software and other intangibles. Intangibles also include the asset resulting from recognition of the defined benefit pension plan minimum liability, which is amortized as part of net periodic pension cost.

Derivatives
In 1994, Honeywell adopted Statement of Financial Accounting Standards No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments." Honeywell uses derivative financial instruments such as foreign currency contracts (forwards, swaps and options) to manage its foreign currency exposure (see Notes 6, 14 and 15) and interest rate swaps to manage its exposure to interest rate fluctuations and its mix of fixed and floating interest rates (see Notes 14 and 15).

The carrying amounts of foreign currency contracts purchased to hedge firm foreign currency commitments are deferred and included in the measurement of the related foreign currency transactions. These hedges are scheduled to mature coincident with the timing of the underlying foreign currency commitments and transactions. Gains and losses from other foreign currency transactions are included in selling, general and administative expenses on the income statement and were not material in any year.

The amount to be paid or received from interest rate swaps is charged or credited to interest expense over the lives of the interest rate swap agreements. Any gains realized upon the termination of interest rate swap agreements are deferred and amortized as an adjustment to interest expense of the underlying liabilities over the original term of the interest rate swap agreements.

Foreign Currency
Foreign currency assets and liabilities are generally translated into U. S. dollars using the exchange rates in effect at the statement of financial position date. Results of operations are generally translated using the average exchange rates throughout the period. The effects of exchange rate fluctuations on translation of assets, liabilities and hedges of cash dividend payments from subsidiaries are reported as accumulated foreign currency translation and increased/(reduced) stockholders' equity $33.5 in 1995, $54.5 in 1994 and $(3.0) in 1993.

Postemployment Benefits
The enactment by Congress of the Omnibus Budget Reconciliation Act of 1993, which made Medicare the primary provider of medical benefits for disabled former employees after 29 months of disability, reduced the accumulated benefit obligation for postemployment benefits by $33.4 in 1993. This change in estimate is included in cost of sales on the income statement.

NOTE 2 Acquisitions and Sale of Assets

Honeywell acquired nine companies in 1995, 15 companies in 1994 and eight companies in 1993 for $37.7, $104.6 and $14.2 in cash, respectively. These acquisitions were accounted for as purchases, and accordingly, the assets and liabilities of the acquired entities have been recorded at their estimated fair values at the dates of acquisition. The excess of purchase price over the estimated fair values of the net assets acquired, in the amount of $32.4 in 1995, $87.4 in 1994 and $11.8 in 1993, has been recorded as goodwill and is amortized over estimated useful lives. The pro forma results for 1995, 1994 and 1993, assuming these acquisitions had been made at the beginning of the year, would not be significantly different from reported results.

In 1993, Honeywell sold its Keyboard Division to Key Tronic Corporation for $29.7 in cash, notes and common stock. Proceeds from other asset sales, including the collection of notes receivable and sale of stock received from asset sales made in previous years, amounted to $8.1 in 1995, $8.6 in 1994 and $22.9 in 1993. Gains and losses from asset sales were not material in any year and are included in selling, general and administrative expenses on the income statement.

NOTE 3 LITIGATION SETTLEMENTS

On April 16, 1993, Honeywell announced the settlement of its lawsuits against the Unisys Corporation and other parties in connection with Honeywell's 1986 purchase of the Sperry Aerospace Group. Honeywell received $70.0 in cash and notes and recorded a gain of $22.4 in 1993 to offset previously incurred costs associated with the matter. In addition, the portion of the purchase price originally allocated to goodwill and other intangibles was reduced by $47.6.

Honeywell has reached agreement with various camera manufacturers for their use of Honeywell's patented automatic focus camera technology. The total of all one-time settlements recorded in these matters, after associated expenses, resulted in a gain of $10.2 in 1993. Several settlements also included licensing agreements that require the payment of royalties to Honeywell based upon the amount of product manufactured or sold by the licensee. Autofocus royalty income from the licensing agreements amounted to $8.2 in 1994 and $31.4 in 1993, and is included in selling, general and administrative expenses on the income statement. Autofocus royalty income from licensing agreements was not material in 1995.

NOTE 4 SPECIAL CHARGES

In December 1994, Honeywell's management, with the approval of the board of directors, committed itself to a plan of action and recorded special charges of $62.7. The actions undertaken included a continuation of right-sizing the Space and Aviation Control business segment, a worldwide consolidation of manufacturing capacity, a streamlining and realignment of the overhead structure and corporate expense reductions. Special charges of $51.2 were recorded in 1993 for productivity initiatives to strengthen the company's competitiveness. Special charges include costs for work force reductions, worldwide facilities consolidation and other cost accruals.

Work force reduction costs primarily include severance costs related to involuntary termination programs instituted to improve efficiency and reduce costs. These costs amounted to $52.4 in 1994 and $43.7 in 1993. As a result of the 1994 plan, approximately 1,200 employees were terminated. Total expenditures of $42.9 in 1995 included $38.3, $3.8 and $0.8 related to costs incurred in 1994, 1993 and 1992, respectively. Total expenditures of $36.0 in 1994 included $2.9, $26.4 and $6.7 related to costs incurred in 1994, 1993 and 1992, respectively. Total expenditures of $49.8 in 1993 included $7.8 and $42.0 related to costs incurred in 1993 and 1992, respectively. Special charges of $8.0 from 1994 remain to be paid out as a result of longer-term agreements.

Facilities consolidation costs are primarily associated with consolidations of branch office space and product lines to restructure and streamline Honeywell's operations. These costs amounted to $10.3 in 1994 and $2.0 in 1993. Total expenditures of $11.4 in 1995 included $6.9, $0.4 and $4.1 related to costs incurred in 1994, 1993 and 1992, respectively. Total expenditures of $8.5 in 1994 included $1.6 and $6.9 related to costs incurred in 1993 and 1992, respectively. Total expenditures of $26.2 in 1993 related to costs incurred in 1992. Special charges of $2.6 from 1994 and $0.9 from 1992 remain to be paid out as a result of lease costs associated with vacated facilities.

Other cost accruals include costs of exiting several product lines which were no longer considered complementary to Honeywell's businesses and amounted to $5.5 in 1993. Total expenditures of $5.5 in 1994 related to costs incurred in 1993. Total expenditures of $17.0 in 1993 related to costs incurred in 1992.

Cash flows from operating activities have funded and are expected to fund all special charges.

NOTE 5 INCOME TAXES

The components of income before income taxes consist of the following:

	1995	*1994*	*1993*
Domestic	**$285.4**	$208.4	$316.9
Foreign	**220.1**	161.3	161.6
	$505.5	$369.7	$478.5

The provision for income taxes on that income is as follows:

	1995	*1994*	*1993*
Current tax expense			
United States	**$ 39.8**	$ 33.8	$ 81.7
Foreign	**59.9**	40.6	36.0
State and local	**8.9**	2.9	11.3
Total current	**108.6**	77.3	129.0
Deferred tax expense			
United States	**41.7**	13.0	17.9
Foreign	**17.5**	(0.8)	5.8
State and local	**4.1**	1.3	3.6
Total deferred	**63.3**	13.5	27.3
Provision for income taxes	**$171.9**	$ 90.8	$156.3

A favorable tax settlement reduced the 1994 provision for income taxes by $37.6 ($0.29 per share).

The enactment by Congress of the Omnibus Budget Reconciliation Act of 1993, which raised the U.S. federal statutory income tax rate for corporations from 34 percent to 35 percent retroactive to January 1, 1993, did not have a material impact on the 1993 provision for income taxes; however, the enactment of this legislation did result in a one-time gain of $9.2 ($0.07 per share) in 1993 from the revaluation of deferred tax assets.

A reconciliation of the provision for income taxes to the amount computed using U.S. federal statutory rates is as follows:

	1995	*1994*	*1993*
Taxes on income at U.S. federal statutory rates	**$176.9**	$129.4	$167.5
Tax effects of foreign income	**(11.7)**	(15.5)	(26.0)
State taxes	**9.9**	4.2	10.9
Tax effect of settlement		(37.6)	
Adjustments to effective tax rates used in recording tax assets and liabilities		2.7	
Other	**(3.2)**	7.6	3.9
Provision for income taxes	**$171.9**	$ 90.8	$156.3

Interest costs related to prior years' tax issues are included in the provision for income taxes. Taxes paid were $128.3 in 1995, $79.4 in 1994 and $111.2 in 1993.

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of Honeywell's assets and liabilities. Temporary differences comprising the net deferred taxes shown on the statement of financial position are:

	1995	1994
Employee benefits	**$101.6**	$142.2
Miscellaneous accruals	**76.4**	95.2
Excess of tax over book depreciation/amortization	**(8.4)**	(24.0)
Asset valuation reserves	**37.6**	43.0
Long-term contracts	**16.0**	4.2
State taxes	**24.3**	28.5
Pension liability adjustment	**12.7**	3.7
Other	**(53.4)**	(26.6)
	$206.8	$266.2

The components of net deferred taxes shown on the statement of financial position are:

	1995	1994
Deferred tax assets	**$463.7**	$463.8
Deferred tax liabilities	**256.9**	197.6

Provision has not been made for U.S. or additional foreign taxes on $585.2 of undistributed earnings of international subsidiaries, as those earnings are considered to be permanently reinvested in the operations of those subsidiaries. It is not practicable to estimate the amount of tax that might be payable on the eventual remittance of such earnings.

At December 31, 1995, foreign subsidiaries had tax operating loss carryforwards of $13.6.

Note 6 Foreign Currency

Honeywell has entered into various foreign currency exchange contracts (primarily Belgian francs, Deutsche marks and Canadian dollars) designed to minimize its exposure to exchange rate fluctuations on foreign currency transactions. Honeywell only uses foreign currency exchange contracts to hedge underlying exposures such as non-functional currency receivables and payables and foreign currency imports and exports. Company policy prohibits speculation in foreign currency contracts.

Foreign exchange contracts reduce Honeywell's overall exposure to exchange rate movements, since the gains and losses on these contracts offset losses and gains on the assets, liabilities and transactions being hedged. Honeywell hedges a significant portion of all known foreign exchange exposures, including intercompany transactions. The notional amount of Honeywell's outstanding foreign currency contracts, consisting of forwards, purchased options and swaps was approximately $1,262.2 and $1,088.6 at December 31, 1995, and 1994, respectively. These contracts generally have a term of less than one year.

Note 7 Investments in Debt and Equity Securities

In 1994, Honeywell adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which specifies certain accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities.

Honeywell's investments in held-to-maturity securities are reported at amortized cost in the statement of financial position as follows:

	1995	1994
Cash equivalents	**$161.6**	$124.9
Short-term investments	**9.0**	6.6
Investments and advances	**6.9**	12.9
	$177.5	$144.4

Held-to-maturity securities generally mature within one year and include the following:

	1995	1994
Time deposits with financial institutions	**$ 53.4**	$ 85.8
Commercial paper	**109.3**	42.4
Other	**14.8**	16.2
	$177.5	$144.4

Honeywell's purchases of held-to-maturity securities, consisting primarily of commercial paper, amounted to $3,528.0 and $1,674.8 in 1995 and 1994, respectively. Proceeds from maturities of held-to-maturity securities amounted to $3,494.3 and $1,673.9 in 1995 and 1994, respectively. Honeywell has no investments in trading securities, and available-for-sale securities are not material. The estimated aggregate fair value of these securities approximates their carrying amounts in the statement of financial position. Gross unrealized holding gains and losses were not material in any year.

Note 8 Receivables

Receivables have been reduced by an allowance for doubtful accounts as follows:

	1995	1994
Receivables, current	**$34.5**	$31.1
Long-term receivables	**0.7**	0.7

Receivables include approximately $20.1 in 1995 and $21.9 in 1994 billed to customers but not paid pursuant to contract retainage provisions. These balances are due upon completion of the contracts, generally within one year.

Unbilled receivables related to long-term contracts amount to $314.0 and $295.9 at December 31, 1995, and 1994, respectively, and are generally billable and collectible within one year.

Long-term, interest-bearing notes receivable from the sale of assets have been reduced by valuation reserves of $1.8 in 1995 and $1.9 in 1994 to an amount that approximates realizable value.

In 1992, Honeywell entered into a three-year agreement, with a large international banking institution, whereby it can sell an undivided interest in a designated pool of trade accounts receivable up to a maximum of $50.0 on an ongoing basis and without recourse. As collections reduce accounts receivable sold, Honeywell may sell an additional undivided interest in new receivables to bring the amount sold up to the $50.0 maximum. Proceeds received from the sale of receivables are included in cash flows from operating activities in the statement of cash flows and amounted to $22.4 in 1995, $34.4 in 1994 and $193.7 in 1993. The uncollected balance of receivables sold amounted to $1.5 and $2.4 at December 31, 1995, and 1994, respectively, and averaged $2.7 and $4.2 during those respective years. The discount recorded on sale of receivables is included in selling, general and administrative expenses on the income statement and amounted to $0.2, $0.4 and $0.7 in 1995, 1994 and 1993, respectively. Honeywell, as agent for the purchaser, retains collection and administrative responsibilities for the participating interests sold.

NOTE 9 INVENTORIES

	1995	*1994*
Finished goods	**$356.6**	$297.4
Inventories related to long-term contracts	**73.6**	89.1
Work in process	**159.5**	156.9
Raw materials and supplies	**204.7**	216.8
	$794.4	$760.2

Inventories related to long-term contracts are net of payments received from customers relating to the uncompleted portions of such contracts in the amounts of $56.4 and $32.5 at December 31, 1995, and 1994, respectively.

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

	1995	*1994*
Land	**$ 77.7**	$ 78.2
Buildings and improvements	**585.8**	623.4
Machinery and equipment	**2,100.3**	1,937.3
Construction in progress	**93.3**	77.9
	$2,857.1	$2,716.8

NOTE 11 FOREIGN SUBSIDIARIES

The following is a summary of financial data pertaining to foreign subsidiaries:

	1995	*1994*	*1993*
Net income	**$ 142.9**	$ 121.5	$ 119.8
Assets	**$1,849.4**	$1,742.3	$1,546.5
Liabilities	**802.8**	726.4	620.5
Net assets	**$1,046.6**	$1,015.9	$ 926.0

Insofar as can be reasonably determined, there are no foreign exchange restrictions that materially affect the financial position or the operating results of Honeywell and its subsidiaries.

NOTE 12 INVESTMENTS IN OTHER COMPANIES

Following is a summary of financial data pertaining to companies 20 to 50 percent owned. The principal company included is Yamatake-Honeywell Co., Ltd., of which Honeywell owns 24.2 percent of the outstanding common stock. This investment had a market value of $316.3 and $327.3 at December 31, 1995, and 1994, respectively.

	1995	*1994*	*1993*
Sales	**$2,065.1**	$1,877.0	$1,866.7
Gross profit	**743.5**	680.7	682.4
Net income	**54.2**	48.4	69.8
Equity in net income	**13.6**	10.5	17.8
Current assets	**$1,400.6**	$1,371.4	$1,297.0
Noncurrent assets	**598.8**	616.8	588.2
	1,999.4	1,988.2	1,885.2
Current liabilities	**742.6**	841.6	704.5
Noncurrent liabilities	**327.8**	225.8	359.3
	1,070.4	1,067.4	1,063.8
Net assets	**$ 929.0**	$ 920.8	$ 821.4
Equity in net assets	**$ 236.8**	$ 225.5	$ 200.3

NOTE 13 INTANGIBLE ASSETS

Intangible assets have been reduced by accumulated amortization as follows:

	1995	*1994*
Goodwill	**$ 49.2**	$ 42.3
Patents, licenses and trademarks	**75.8**	175.4
Software and other intangibles	**168.1**	152.4

NOTE 14 DEBT

SHORT-TERM DEBT

Honeywell had general purpose lines of credit available totaling $1,089.2 at December 31, 1995. Committed revolving credit lines with 21 banks total $725.0, which management believes is adequate to meet its financing requirements, including support of commercial paper and bank note borrowings. These lines have commitment fee requirements. There were no borrowings on these lines at December 31, 1995. The remaining credit facilities of $364.2 have been arranged by non-U.S. subsidiaries in accordance with customary lending practices in their respective countries of operation. Borrowings against these lines amounted to $5.3 at December 31, 1995. The weighted-average interest rate on short-term borrowings outstanding at December 31, 1995, and 1994, respectively, was as follows: commercial paper, 6.0 percent and 5.7 percent; and notes payable, 6.5 percent and 5.8 percent.

Short-term debt consists of the following:

	1995	1994
Commercial paper	$ 65.0	$125.0
Notes payable	62.8	102.2
Current maturities of long-term debt	184.6	133.4
	$312.4	$360.6

Long-Term Debt

	1995	1994
Honeywell Inc.		
8% dual-currency yen/U.S. dollar notes due 1995		$120.2
7⅞% due 1996	$100.0	100.0
6¼% Deutsche mark bonds due 1997	104.7	95.2
7.15% to 7.71% medium-term notes due 1998	50.0	30.0
7.36% to 7.46% medium-term notes due 1999	70.5	70.5
7.35% medium-term notes due 2000	75.0	
7.45% medium-term notes due 2001	16.0	
7.48% medium-term notes due 2002	10.0	
8⅝% due 2006	100.0	100.0
9½% to 10½% due 2003 to 2010	2.0	10.2
Subsidiaries		
9.6% Canadian dollar notes due 1996	84.4	82.0
7.0% to 10.0% due 1996 to 2001, various currencies	53.0	26.8
	665.6	634.9
Less amount included in short-term debt	184.6	133.4
	$481.0	$501.5

The 8 percent dual-currency yen/U.S. dollar notes matured in August 1995. These notes were repaid at a fixed exchange rate and were linked to a currency exchange agreement that resulted in a fixed U.S. dollar interest cost of 10.5 percent.

The 6¼ percent Deutsche mark bonds due 1997 are linked to a currency exchange agreement that converts principal and interest payments into fixed U.S. dollar obligations with an interest cost of 8.17 percent.

In August 1994, Honeywell initiated a $500.0 medium-term note program whereby it may issue notes with maturities of nine months to 30 years denominated in U.S. dollars or foreign currencies with fixed or variable interest rates. Honeywell issued $121.0 and $100.5 of U.S. dollar fixed-rate medium-term notes in 1995 and 1994, respectively.

Honeywell utilizes interest rate swaps to manage its interest rate exposures and its mix of fixed and floating interest rates. In 1992, Honeywell entered into interest rate swap agreements effectively converting $100.0 of its 8⅝ percent debentures due 2006 from fixed-rate debt to floating-rate debt based on six-month LIBOR rates. During 1993, $50.0 of the $100.0 swap was terminated resulting in a gain of $0.9, which was amortized over the remaining life of the swap agreement. In 1993, Honeywell entered into interest rate swap agreements effectively converting the 9.6 percent Canadian dollar notes due 1996 to floating-rate debt based on three-month Canadian bankers acceptance rates. In 1994, Honeywell entered into interest rate swap agreements effectively converting $30.0 of medium-term notes due 1998 and $70.5 of medium-term notes due 1999 to floating rate debt based on three-month LIBOR rates. In 1995, interest rate swap agreements were initiated to effectively convert $40.0 of medium-term notes back to fixed-rate debt. The swap agreements for the 9.6 percent Canadian dollar notes expire in December 1996 and for the medium-term notes: $20.0 in December 1996, $20.0 in July 1997, $20.0 in May 1998, $10.0 in September 1998, $50.0 in August 1999 and $20.5 in September 1999. The swap agreement for 8⅝ percent debentures expired in September 1995.

Annual sinking-fund and maturity requirements for the next five years on long-term debt outstanding at December 31, 1995, are as follows:

1996	$184.6
1997	108.9
1998	97.5
1999	71.1
2000	75.1

Interest paid amounted to $86.0, $69.1 and $63.9 in 1995, 1994 and 1993, respectively.

Note 15 Fair Value of Financial Instruments

All financial instruments are held for purposes other than trading. The estimated fair values of all nonderivative financial instruments approximate their carrying amounts in the statement of financial position with the exception of long-term debt. The estimated fair value of long-term debt is based on quoted market prices for the same or similar issues or on current rates available to Honeywell for debt of the same remaining maturities. The carrying amount of long-term debt was $665.6 and $634.9 at December 31, 1995, and 1994, respectively; and the fair value was $702.6 and $630.3 at December 31, 1995, and 1994, respectively.

The carrying amount of interest rate swaps was zero at December 31, 1995 and 1994. The gross unrealized market loss on interest rate swaps was $4.7 and $7.5 at December 31, 1995, and 1994, respectively. The carrying amount of foreign currency contracts was $25.7 and $18.3 at December 31, 1995, and 1994, respectively. The gross unrealized market gain on foreign currency contracts was $32.5 and $26.6 and the gross unrealized market loss was $27.8 and $28.3 at December 31, 1995, and 1994, respectively. The estimated fair value of interest rate swaps and foreign currency contracts, which is the gross unrealized market gain or loss, is based primarily on quotes obtained from various financial institutions that deal in these types of instruments.

Honeywell is exposed to credit risk to the extent of nonperformance by the counterparties to the foreign currency contracts and the interest rate swaps discussed above. However, the credit ratings of the counterparties, which consist of a diversified group of financial institutions, are regularly monitored and risk of default is considered remote.

Note 16 Leasing Arrangements

As lessee, Honeywell has minimum annual lease commitments outstanding at December 31, 1995, with the majority of the leases having initial periods ranging from one to 10 years. Following is a summary of operating lease information:

	Operating Leases
1996	$105.6
1997	82.5
1998	60.7
1999	44.5
2000	34.2
2001 and beyond	131.0
	$458.5

Rent expense for operating leases was $143.4 in 1995, $136.9 in 1994 and $134.2 in 1993.

Substantially all leases are for plant, warehouse, office space and automobiles. A number of the leases contain renewal options ranging from one to 10 years.

NOTE 17 CAPITAL STOCK

	Common Stock	Additional Paid-In Capital	Treasury Stock
Balance January 1, 1993	$282.7	$423.8	$(1,219.0)
Purchase of treasury stock – 6,916,868 shares			(240.0)
Issued for employee stock plans – 1,907,165 treasury shares		7.7	30.6
110,934 shares canceled	(0.2)		
Balance December 31, 1993	282.5	431.5	(1,428.4)
Purchase of treasury stock – 5,223,800 shares			(168.0)
Issued for employee stock plans – 962,242 treasury shares		15.4	19.9
42,570 shares canceled	(0.1)		
Balance December 31, 1994	282.4	446.9	(1,576.5)
Purchase of treasury stock – 3,090,400 shares			**(129.3)**
Issued for Honeywell Foundation pledge – 1,000,000 treasury shares		**13.4**	**21.7**
Issued for employee stock plans – 1,814,714 treasury shares		**21.0**	**33.9**
159,296 shares canceled	**(0.2)**		
Balance December 31, 1995	**$282.2**	**$481.3**	**$(1,650.2)**

KEY EMPLOYEE PLANS

In 1993, the board of directors adopted, and the stockholders approved, the 1993 Honeywell Stock and Incentive Plan. The plan, which terminates December 31, 1998, provides for the award of up to 7,500,000 shares of common stock. The purpose of the plan is to further the growth, development and financial success of Honeywell and its subsidiaries by aligning the personal interests of key employees, through the ownership of shares of common stock and through other incentives, to those of Honeywell stockholders. The plan is further intended to provide flexibility to Honeywell in its ability to compensate key employees and to motivate, attract and retain the services of such key employees who have the ability to enhance the value of Honeywell and its subsidiaries. Awards made under the plan may be in the form of stock options, restricted stock or other stock-based awards. The plan replaced existing similar plans, and awards currently outstanding under those plans were not affected. There were 9,099,612 shares reserved for all key employee plans at December 31, 1995.

Options to purchase common stock have been granted to key employees at 100 percent of the market price on date of grant. The following is a summary of stock options under all plans:

	1995	*1994*	*1993*
Granted –			
Number of shares	**1,891,333**	1,001,250	969,173
Price per share	**$31-$48**	$33-$36	$31-$38
Exercised –			
Number of shares	**1,248,457**	320,337	1,020,769
Price per share	**$15-$38**	$12-$33	$12-$33
Outstanding December 31 –			
Number of shares	**5,963,023**	5,346,237	4,739,683
Price per share	**$15-$48**	$15-$38	$12-$38

Options totaling 4,086,647 shares at prices ranging from $16 to $38 were exercisable at December 31, 1995.

Restricted shares of common stock are issued to certain key employees as compensation. Restricted shares are awarded with a fixed restriction period, usually five years, or with a restriction period that may be shortened dependent on the achievement of performance goals within a specified measurement period. Participants have the rights of stockholders, including the right to receive cash dividends and the right to vote. Restricted shares forfeited revert to Honeywell at no cost. Restricted shares issued totaled 212,781 in 1995, 141,376 in 1994 and 533,995 in 1993. The cost of restricted stock is charged to income over the restriction period and amounted to $3.2 in 1995, $5.6 in 1994 and $6.3 in 1993. At December 31, restricted shares outstanding pursuant to key employee plans totaled 746,150 in 1995, 767,209 in 1994 and 775,861 in 1993.

EMPLOYEE STOCK MATCH PLANS

In 1990, Honeywell adopted Stock Match and Performance Stock Match plans under which Honeywell matches, in the form of Honeywell common stock, certain eligible U.S. employee savings plan contributions. Shares issued under the stock match plans totaled 571,905 shares in 1995, 634,561 shares in 1994 and 643,913 shares in 1993 at a cost of $24.2, $20.7 and $22.3, respectively. There were 1,141,829 shares reserved for employee stock match plans at December 31, 1995.

STOCK PLEDGE

In 1993, Honeywell pledged to the Honeywell Foundation a five-year option to purchase 2,000,000 shares of common stock at $33 per share. This option is transferable to charitable organizations and exercisable in whole or in part, subject to certain conditions, from time to time during its term. Shares purchased under the option totaled 1,000,000 in 1995. No shares were purchased under this option in 1994 or 1993.

PREFERENCE STOCK

Twenty-five million preference shares with a par value of $1 have been authorized. None have been issued at December 31, 1995.

Note 18 Retained Earnings

	1995	1994	1993
Balance January 1	**$2,600.4**	$2,447.3	$2,247.0
Net income	**333.6**	278.9	322.2
Dividends			
1995 – $1.01 per share	**(128.2)**		
1994 – $0.97 per share		(125.8)	
1993 – $0.9075 per share			(121.9)
Balance December 31	**$2,805.8**	$2,600.4	$2,447.3

Included in retained earnings are undistributed earnings of companies 20 to 50 percent owned, amounting to $144.7 at December 31, 1995.

Note 19 Segment Information

Honeywell is a global controls company focused on creating value through control technology. Honeywell serves customers worldwide through operations engaged in the design, development, manufacture, marketing and service of control solutions in three industry segments – Home and Building Control, Industrial Control and Space and Aviation Control.

Home and Building Control provides products and services to create efficient, safe, comfortable environments by offering controls for heating, ventilation, humidification and air-conditioning equipment; security and fire alarm systems; home automation systems; energy-efficient lighting controls; and building management systems and services. Customers include building managers and owners; distributors and wholesalers; heating, ventilation and air conditioning manufacturers; home builders; home owners; and original equipment manufacturers.

Industrial Control produces systems for the automation and control of process operations in industries such as oil refining, oil and gas drilling, pulp and paper manufacturing, food processing, chemical manufacturing and power generation; solid-state sensors for position, pressure, air flow, temperature and current; precision electromechanical switches; manual controls; advanced vision-based sensors; fiber-optic components; and solenoid valves used in fluid control and processing industries. Customers include appliance manufacturers; automotive companies; food processing companies; oil and gas producers; refining and petrochemical companies; pharmaceutical companies; paper companies; and utilities.

Space and Aviation Control is a full-line avionics supplier and systems integrator for commercial, military and space applications, providing automatic flight control systems; electronic cockpit displays; flight management systems; navigation, surveillance and warning systems; severe weather avoidance systems; and flight reference sensors. Customers include airframe manufacturers; international, national and regional airlines; NASA; prime U.S. defense contractors; and the U.S. Department of Defense.

The "other" category comprises primarily research and development operations, such as Solid State Electronics Center and Honeywell Technology Center, that are not a significant part of Honeywell's operations either individually or in the aggregate.

Information concerning Honeywell's sales, operating profit and identifiable assets by industry segment can be found on page 29. This information for 1995, 1994 and 1993 is an integral part of these financial statements. Sales include external sales only. Intersegment sales are not significant. Corporate and other assets include the assets of the entities in the "other" category and cash, short-term investments, investments, property and deferred taxes held by corporate.

Following is additional financial information relating to industry segments:

	1995	1994	1993
Capital expenditures			
Home and Building Control	**$ 87.2**	$ 95.6	$ 73.6
Industrial Control	**73.0**	73.6	72.8
Space and Aviation Control	**42.9**	54.9	58.4
Corporate and other	**35.0**	38.3	27.3
	$238.1	$262.4	$232.1
Depreciation and amortization			
Home and Building Control	**$ 87.4**	$ 71.8	$ 67.9
Industrial Control	**69.3**	67.1	59.9
Space and Aviation Control	**109.7**	120.0	127.0
Corporate and other	**26.5**	28.5	30.1
	$292.9	$287.4	$284.9

Honeywell engages in material operations in foreign countries, the majority of which are located in Europe. Other geographic areas of operation include Canada, Latin America and Asia Pacific.

Following is financial information relating to geographic areas:

	1995	1994	1993
External sales			
United States	**$4,087.5**	$3,824.7	$3,895.1
Europe	**1,858.9**	1,528.5	1,441.2
Other areas	**784.9**	703.8	626.7
	$6,731.3	$6,057.0	$5,963.0
Transfers between geographic areas			
United States	**$ 318.6**	$ 293.3	$ 246.7
Europe	**67.1**	46.3	36.9
Other areas	**61.5**	54.3	47.6
	$ 447.2	$ 393.9	$ 331.2
Total sales			
United States	**$4,406.1**	$4,118.0	$4,141.8
Europe	**1,926.0**	1,574.8	1,478.1
Other areas	**846.4**	758.1	674.3
Eliminations	**(447.2)**	(393.9)	(331.2)
	$6,731.3	$6,057.0	$5,963.0

	1995	1994	1993
Operating profit			
United States	**$ 425.4**	$ 343.7	$ 384.1
Europe	**191.7**	139.1	140.2
Other areas	**55.7**	41.2	44.4
Operating profit	**672.8**	524.0	568.7
Interest expense	**(83.3)**	(75.5)	(68.0)
Litigation settlements			32.6
Equity income	**13.6**	10.5	17.8
General corporate expense	**(97.6)**	(89.3)	(72.6)
Income before income taxes	**$ 505.5**	$ 369.7	$ 478.5
Identifiable Assets			
United States	**$2,331.1**	$2,356.2	$2,337.5
Europe	**1,375.0**	1,303.1	1,111.4
Other areas	**461.4**	434.9	357.1
Corporate	**892.7**	791.7	792.1
	$5,060.2	$4,885.9	$4,598.1

Honeywell transfers products from one geographic region for resale in another. These transfers are priced to provide both areas with an equitable share of the overall profit.

Operating profit is net of provisions for special charges amounting to $62.7 and $51.2 in 1994 and 1993, respectively, (see Note 4) as follows: United States, $23.2 and $22.4; Europe, $29.6 and $20.3; other areas, $9.9 in 1994. General corporate expense includes special charges of $8.5 in 1993.

General corporate expense has been reduced by royalty income of $8.2 in 1994 and $31.4 in 1993 (see Note 3).

NOTE 20 PENSION PLANS

Honeywell and its subsidiaries have noncontributory defined benefit pension plans that cover substantially all of their U.S. employees. The plan covering non-union employees provides pension benefits based on employee average earnings during the highest paid 60 consecutive calendar months of employment during the 10 years prior to retirement. The plan covering union employees provides pension benefits of stated amounts for each year of credited service. Funding for these plans is provided solely through contributions from Honeywell determined by the board of directors after consideration of recommendations from the plans' independent actuary. Such recommendations are based on actuarial valuations of benefits payable under the plans.

The components of net periodic pension cost for U.S. defined benefit pension plans are as follows:

	1995	1994	1993
Service cost of benefits earned during the period	**$ 50.5**	$ 53.8	$ 48.3
Interest cost of projected benefit obligation	**222.8**	201.5	198.9
Actual return on assets	**(400.8)**	(73.3)	(225.7)
Net amortization and deferral	**228.9**	(92.6)	69.3
	$101.4	$ 89.4	$ 90.8

Following is a summary of assumptions used in the accounting for the U.S. defined benefit plans.

	1995	1994	1993
Discount rate used in determining present values	**7.5%**	8.5%	7.5%
Annual increase in future compensation levels	**3.5%**	4.5%	4.0%
Expected long-term rate of return on assets	**8.5%**	8.5%	8.5%

Employees in foreign countries who are not U.S. citizens are covered by various retirement benefit arrangements, some of which are considered to be defined benefit pension plans for accounting purposes. The net cost of all foreign pension plans amounted to $(3.6) in 1995, $1.2 in 1994 and $14.2 in 1993.

The components of net periodic pension cost for foreign defined benefit pension plans are as follows:

	1995	1994	1993
Service cost of benefits earned during the period	**$31.2**	$30.3	$25.8
Interest cost of projected benefit obligation	**55.7**	47.6	46.3
Actual return on assets	**(90.6)**	(43.2)	(111.7)
Net amortization and deferral	**(3.2)**	(37.1)	50.7
	$(6.9)	$(2.4)	$11.1

Assumptions used in the accounting for foreign defined benefit plans were:

	1995	1994	1993
Discount rate used in determining present values	**4.5-9.5%**	4.5-9.0%	5.0-9.0%
Annual increase in future compensation levels	**2.0-7.25%**	2.0-8.0%	2.0-8.0%
Expected long-term rate of return on assets	**5.5-9.0%**	5.5-9.5%	6.0-9.5%

The plans' funded status as of September 30 and amounts recognized in Honeywell's statement of financial position for its pension plans are summarized on page 48.

1995 (U.S. and Foreign)	*Plans Whose Assets Exceed Accumulated Benefits*	*Plans Whose Accumulated Benefits Exceed Assets*
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$(503.3)**	**$(2,778.7)**
Accumulated benefit obligation	**$(506.5)**	**$(2,988.4)**
Projected benefit obligation	**$(631.4)**	**$(3,236.0)**
Plan assets at fair value	**809.2**	**2,740.5**
Projected benefit obligation (in excess of) less than plan assets	**177.8**	**(495.5)**
Remaining unrecognized net transition obligation (asset)	**(68.6)**	**11.1**
Unrecognized prior service cost	**3.8**	**205.9**
Unrecognized net (gain) loss	**(34.6)**	**259.8**
Fourth-quarter 1995 contributions to plans		**36.1**
Adjustment to recognize minimum liability		**(220.2)**
Overfunded (unfunded) pension asset (liability) recognized in the statement of financial position	**$ 78.4**	**$ (202.8)**

1994 (U.S. and Foreign)	*Plans Whose Assets Exceed Accumulated Benefits*	*Plans Whose Accumulated Benefits Exceed Assets*
Actuarial present value of benefit obligations:		
Vested benefit obligation	$(409.2)	$(2,412.7)
Accumulated benefit obligation	$(414.7)	$(2,581.3)
Projected benefit obligation	$(587.6)	$(2,847.8)
Plan assets at fair value	723.8	2,386.9
Projected benefit obligation (in excess of) less than plan assets	136.2	(460.9)
Remaining unrecognized net transition obligation (asset)	(76.3)	5.2
Unrecognized prior service cost	1.7	233.4
Unrecognized net loss	10.6	160.4
Fourth-quarter 1994 contributions to plans		24.8
Adjustment to recognize minimum liability		(129.4)
Overfunded (unfunded) pension asset (liability) recognized in the statement of financial position	$ 72.2	$ (166.5)

Adjustments recorded to recognize the minimum liability required for defined benefit pension plans whose accumulated benefits exceed assets amounted to $220.2 in 1995 and $129.4 in 1994. A corresponding amount was recognized as an intangible asset to the extent of unrecognized prior service cost and unrecognized transition obligation. At December 31, 1995, $32.6 of excess minimum liability resulted in a reduction in stockholders' equity, net of income taxes, of $19.9. At December 31, 1994, $9.6 of excess minimum liability resulted in a reduction in stockholders' equity, net of income taxes, of $5.9.

Plan assets are held by trust funds devoted to servicing pension benefits and are not available to Honeywell until all covered benefits are satisfied after a plan is terminated. The assets held by the trust funds consist of a diversified portfolio of fixed-income investments and equity securities.

NOTE 21 POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Substantially all of Honeywell's domestic and Canadian employees who retire from Honeywell between the ages of 55 and 65 with 10 or more years of service are eligible to receive health-care benefits, until age 65, identical to those available to active employees. Honeywell funds postretirement benefits on a pay-as-you-go basis.

The components of net periodic postretirement benefit cost are as follows:

	1995	*1994*	*1993*
Service cost of benefits earned during the period	**$11.5**	$10.4	$11.5
Interest cost on accumulated postretirement benefit obligation	**23.1**	18.0	22.2
Net amortization	**1.1**	0.5	
	$35.7	$28.9	$33.7

The amounts recognized in Honeywell's statement of financial position are as follows:

	1995	*1994*
Accumulated postretirement benefit obligation:		
Retirees	**$ 90.4**	$ 87.7
Fully eligible active plan participants	**63.8**	58.7
Other active plan participants	**175.5**	151.8
Unrecognized prior service cost	**(6.9)**	(7.7)
Unrecognized net gain (loss)	**(14.8)**	2.3
Accrued postretirement benefit cost	**$308.0**	$292.8

The discount rate used in determining the APBO was 7.0 percent in 1995 and 8.0 percent in 1994. The assumed health-care cost trend rate used in measuring the APBO was 8.2 percent in 1996, then declining by 0.5 percent per year to an ultimate rate of 5.5 percent. The health-care cost trend rate assumption has a significant effect on the amounts reported. For example, a one percent increase in the health-care trend rate would increase the APBO by 11.3 percent at December 31, 1995, and the net periodic postretirement benefit cost by 13.6 percent for 1995.

NOTE 22 CONTINGENCIES

LITTON LITIGATION

On March 13, 1990, Litton Systems, Inc. filed suit against Honeywell in U.S. District Court, Central District of California, alleging Honeywell patent infringement relating to the process used by Honeywell to coat mirrors incorporated in its ring laser gyroscopes; attempted monopolization and predatory pricing by Honeywell of certain alleged markets for products containing ring laser gyroscopes; and intentional interference by Honeywell with Litton's prospective advantage in European markets and with its contractual relationships with Ojai Research, Inc., a California corporation. Honeywell generally denied Litton's allegations, contested both the validity and infringement of the patent, and alleged that the patent had been obtained by Litton's inequitable conduct before the United States Patent and Trademark Office. Honeywell also filed counterclaims against Litton alleging, among other things, that Litton's business and litigation conduct violated federal and state laws, causing Honeywell considerable damage and expense.

On January 9, 1995, Judge Mariana Pfaelzer of the U.S. District Court set aside an August 1993 jury verdict and damage award of $1,200.0 against Honeywell in the patent and interference with contract case. She ruled, among other things, that the Litton patent was unenforceable because it was obtained by inequitable conduct and invalid because it was an invention that would have been obvious from combining existing processes. She further ruled that if her judgment were ever subsequently vacated or reversed on appeal, Honeywell would be granted a new trial on the issue of damages because the jury's 1993 award was inconsistent with the clear weight of the evidence and permitting it to stand would constitute a miscarriage of justice. Litton has appealed to the Court of Appeals for the Federal Circuit, Washington, D.C. Briefs for the appeal have been submitted by the parties and oral arguments were presented December 8, 1995. In the companion antitrust case, Honeywell filed a motion for summary judgment to dismiss all of Litton's claims. The motion was denied, and the trial for those claims commenced November 20, 1995, before Judge Pfaelzer and a different jury.

Honeywell believes that the patent judgment against Litton will be upheld on appeal, and that Litton's antitrust claims are without merit. As a result, no provision has been made in the financial statements with respect to this contingent liability.

Environmental Matters

Honeywell's manufacturing sites generate both hazardous and nonhazardous wastes, the treatment, storage, transportation and disposal of which are subject to various local, state and national laws relating to protection of the environment. Honeywell is in varying stages of investigation or remediation of potential, alleged or acknowledged contamination at currently or previously owned or operated sites and at off-site locations where its wastes were taken for treatment or disposal. In connection with the cleanup of various off-site locations, Honeywell, along with a large number of other entities, has been designated a potentially responsible party (PRP) by the U.S. Environmental Protection Agency under the Comprehensive Environmental Response, Compensation and Liability Act or by state agencies under similar state laws (Superfund), which potentially subject PRPs to joint and several liability for the costs of such cleanup. In addition, Honeywell is incurring costs relating to environmental remediation pursuant to the federal Resource Conservation and Recovery Act. Based on Honeywell's assessment of the costs associated with its environmental responsibilities, compliance with federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and in the opinion of Honeywell management, will not have a material effect on Honeywell's financial position, net income, capital expenditures or competitive position. Honeywell's opinion with regard to Superfund matters is based on its assessment of the predicted investigation, remediation and associated costs, its expected share of those costs and the availability of legal defenses. Honeywell's policy is to record environmental liabilities when loss amounts are probable and reasonably estimable.

Other Matters

Honeywell is a party to a large number of other legal proceedings, some of which are for substantial amounts. It is the opinion of management that any losses in connection with these matters will not have a material effect on Honeywell's net income, financial position or liquidity.

Honeywell has entered into letter of credit agreements with various financial institutions to support certain financing instruments and insurance policies aggregating approximately $135.0 at December 31, 1995.

Note 23 Quarterly Data (Unaudited)

1995	***1st Qtr.***	***2nd Qtr.***	***3rd Qtr.***	***4th Qtr.***
Sales	**$1,478.7**	**$1,655.6**	**$1,680.3**	**$1,916.7**
Cost of sales	**1,013.2**	**1,137.8**	**1,148.1**	**1,285.1**
Net income	**54.7**	**68.9**	**84.2**	**125.8**
Per share	**0.43**	**0.54**	**0.66**	**0.99**
1994	*1st Qtr.*	*2nd Qtr.*	*3rd Qtr.*	*4th Qtr.*
Sales	$1,347.9	$1,463.8	$1,507.6	$1,737.7
Cost of sales	917.3	1,001.8	1,011.9	1,151.1
Net income	47.7	56.9	69.4	104.9
Per share	0.36	0.44	0.54	0.81

The fourth quarter of 1994 includes special charges of $62.7, or $37.6 ($0.29 per share) after income taxes (see Note 4). The fourth quarter of 1994 also includes a reduction of the provision for income taxes of $37.6 ($0.29 per share) related to a favorable tax settlement (see Note 5).

			Common Stock Price (New York Stock Exchange Composite)	
		Dividends Per Share	*High*	*Low*
1995	**First Quarter**	**$.25**	**$38½**	**$30¾**
	Second Quarter	**.25**	**44¼**	**36¾**
	Third Quarter	**.25**	**46½**	**40⅝**
	Fourth Quarter	**.26**	**49½**	**39¼**
1994	First Quarter	$.24	$35½	$31¼
	Second Quarter	.24	34½	30½
	Third Quarter	.24	36⅞	31
	Fourth Quarter	.25	35⅝	28¼

Stockholders of record on February 2, 1996, totaled 32,529.

Note 24 Subsequent Event

On February 12, 1996, Honeywell announced that it had entered into a definitive agreement to acquire Duracraft Corp. for approximately $283.0 in cash. Under the terms of the agreement, which was unanimously approved by the boards of directors of both companies, a Honeywell subsidiary will commence an all-cash tender offer for all the shares of Duracraft. The offer is conditioned upon, among other things, there having been validly tendered, and not withdrawn prior to the expiration of the tender offer, a number of Duracraft shares which equal two-thirds of the shares outstanding on a fully diluted basis and the receipt of all necessary regulatory approvals. The offer is not subject to financing. Duracraft Corp. develops, manufactures and markets consumer household products in five major areas: heaters, fans, humidifiers, air cleaners and vaporizers. The acquisition will be accounted for as a purchase and will be included in the Home and Building Control industry segment.

SECTION 2

Honeywell Limited

United Kingdom

Accounting policies

The accounts have been prepared in accordance with applicable accounting standards. The accounting policies adopted are set out below.

Accounting basis
The accounts are prepared under the historical cost convention.

Basis of consolidation
The consolidated accounts are based on the accounts of Honeywell Limited and all its subsidiary undertakings for the year ended 31 December 1995. When subsidiary undertakings are acquired, turnover and trading results are included in the consolidated profit and loss account from the date of acquisition under the acquisition method of accounting.

Investments
Honeywell Limited's interest in subsidiary undertakings and other investments is shown at cost less provision for any permanent diminution in value.

Acquisitions
100% of the issued share capital of First Move Facilities Management Limited was acquired on 19 July 1995 for a consideration of £1,564,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was £1,506,000.
The following table explains the adjustments made to the book value of the major category of assets and liabilities acquired to arrive at the fair values included in the consolidated financial statements at the date of acquisition:

	Book Amount £000	Revaluation £000	Fair Value to Group £000
Fixed assets	214	(82)	132
Current assets	745	(268)	477
Creditors and provisions	(662)	111	(551)
	297	(239)	58

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

Tangible fixed assets
Depreciation is provided using the straight line method at rates calculated to write off the relevant assets over their remaining useful lives. The annual depreciation rates used for the major categories of asset are:

Freehold buildings	5%
Short leaseholds	10% or life of lease if under 10 years
Plant and machinery	8% to 33%
Leased motor vehicles	25%
Fixtures and fittings	6% to 17%

Intangible fixed assets
Goodwill represents the difference between the purchase price of subsidiary undertakings acquired and the fair value of their underlying net assets. Goodwill is written off over its estimated useful life up to ten years.
Know-how is written off over its remaining useful life, estimated at four years.

Leases
Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge over the remaining balance of the obligation. Rental costs under operating leases are charged to the profit and loss account in equal amounts over the periods of the leases.

Stocks
Stocks are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and appropriate production overheads.

Deferred taxation
Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes. It is calculated at anticipated future tax rates on differences expected to reverse in the future.

Pension costs
The expected costs of providing pensions are recognised over the period the group derives benefit from the employees' services.

Foreign currency
Amounts receivable and payable which are denominated in foreign currencies are translated into pounds sterling at rates of exchange approximating to those ruling at the balance sheet date. Exchange gains or losses resulting from the year's trading are reflected in the operating result for the year.

Foreign exchange gains and losses arising from the retranslation of investments in overseas net assets are immaterial to the group and are reflected in the operating result for the year.

Turnover and revenue recognition
Turnover comprises net sales to customers, including Honeywell Inc., group companies outside the Honeywell Limited group, and rental and service revenues. Revenue from sales of manufactured products is recognised on shipment to the customer, which coincides with transfer of risk of ownership.
Revenue from certain contracts for tailor-made control systems is recognised on the percentage of completion basis. Where the revenue recognised for a particular contract exceeds the progress payments received or receivable, the excess is disclosed within debtors as amounts recoverable on contracts.

Notes to the accounts

for the year ended 31 December 1995

1. Results by segment

The group operates substantially within Europe. The analysis of turnover, operating profit and net assets by class of business is as follows:

	1995	*1994*
Turnover	£000	*£000*
Home and building control	136,417	*132,966*
Industrial	116,474	*106,788*
Space and aviation	16,651	*18,590*
	269,542	*258,344*
Operating profit		
Home and building control	7,925	*8,128*
Industrial	9,126	*9,952*
Space and aviation	1,443	*3,164*
	18,494	*21,244*
Net assets		
Home and building control	47,830	*40,386*
Industrial	45,807	*35,042*
Space and aviation	6,749	*8,359*
Net assets attributable to operations	100,386	*83,787*
Cash and cash equivalents	3,063	*9,947*
Finance lease obligation	-	*(17)*
Bank loan	(30,000)	*(16,274)*
	73,449	*77,443*

2. Other operating expenses

Research and development	2,629	*2,482*
Distribution costs	22,630	*21,363*
Administrative expenses	17,483	*13,706*
	42,742	*37,551*

3. Interest payable

On amounts repayable within five years on bank overdrafts and other loans	3,503	*2,550*
On finance leases	6	*406*
	3,509	*2,956*

4. Employees and directors

Average number of persons employed during the year	Number	*Number*
Factory and engineering	1,016	*946*
Selling, servicing and marketing	1,428	*1,458*
General and administration	244	*294*
	2,688	*2,698*

Staff costs	£000	*£000*
Wages and salaries	59,047	*55,695*
Social security costs	5,087	*5,357*
Pension costs	997	*1,427*
	65,131	*62,479*

Directors' remuneration		
Emoluments	327	*304*

Emoluments excluding pension contributions paid to the Chairman who is the highest paid director were £211,399 (£1994 £198,658).

The numbers of other directors in the following remuneration bands were:

	1995	*1994*
Up to £5,000	1	*1*
£105,001 -£110,000	-	*1*
£115,001 -£120,000	1	-

The directors had no interests in shares or debentures in the company or any other company in the UK group. They are not required to notify the company of interests in shares or debentures in the ultimate parent company as it is incorporated outside the UK.

5. Pension commitments

The group operates a number of pension schemes in the UK. The main pension scheme which makes benefits available to the majority of the group's employees, is a funded defined benefit pension scheme. The assets of the scheme are held separately from the group in a trustee administered fund.

Pension cost is assessed in accordance with the advice of a qualified actuary using the projected unit funding method. The most recent valuation was at 30 September 1994. The assumptions which have the most significant effect on the results of the valuation are those relating to the return and dividend growth of investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 2.5% higher than the annual increase in salaries and 5% higher than the annual increase in present and future pensions, and that the dividend growth would be 2% below the annual increase in salaries. At 1 October 1994, the scheme's assets had a market value of £245m and were estimated to be sufficient to cover 156% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Contributions of the group's subsidiary undertakings have been suspended for the plan periods ending 30 September 1995 and 1996 on the recommendation of the actuary.

Provision for liabilities and charges include a provision of £3,175,000 (1994 £2,612,000) for the difference between the amounts recognised as cost and the amounts funded or paid directly.

6. Profit before taxation

	1995 £000	*1994 £000*
Profit on ordinary activities before taxation is stated after charging:		
Depreciation and amortisation		
Owned assets	5,737	*6,140*
Assets held under finance leases	34	*2,253*
Intangible fixed assets		*835*
Rental charges under operating leases		
Plant and machinery		*1,084*
Other operating leases		*3,581*
Auditors' remuneration		
Auditing	191	*174*
Other services	96	*76*

7. Tax on profit on ordinary activities

	1995 £000	*1994 £000*
UK corporation tax at 33% (1994 33%)		
Current tax	6,176	*8,059*
Deferred tax	42	*161*
Adjustment to prior years		
Current tax	-	*(221)*
	6,218	*7,999*

8. Intangible fixed assets

	Goodwill £000	Knowhow £000	Total £000
Cost			
At 1 January 1995	6,689	660	7,349
Additions	1,506	-	1,506
At 31 December 1995	8,195	660	8,855
Depreciation			
At 1 January 1995	1,853	548	2,401
Amount written off in the year	731	112	843
At 31 December 1995	2,584	660	3,244
Net book value			
At 31 December 1995	5,611	-	5,611
At 31 December 1994	*4,836*	*112*	*4,948*

The cumulative amount of goodwill written off relating to businesses currently in the group is £3,005,000 (1994 £2,274,000).

9. Tangible fixed assets

	Land and buildings		Plant, machinery, and motor vehicles		Fixtures & fittings	Total
	Freehold £000	Short lease £000	Owned £000	Leased £000	£000	£000
Cost						
At 1 January 1995	16,775	7,514	40,136	281	5,994	70,700
Additions	193	160	4,820	-	1,338	6,511
Subsidiary acquired	-	-	151	-	27	178
Disposals	(1)	(1,951)	(903)	(159)	(265)	(3,279)
At 31 December 1995	16,967	5,723	44,204	122	7,094	74,110
Depreciation						
At 1 January 1995	1,868	2,596	25,936	179	2,378	32,957
Charge for the year	445	559	4,021	34	712	5,771
Subsidiary acquired	-	-	37	-	9	46
Disposals	-	(1,886)	(577)	(125)	(208)	(2,796)
At 31 December 1995	2,313	1,269	29,417	88	2,891	35,978
Net book value						
At 31 December 1995	14,654	4,454	14,787	34	4,203	38,132
At 31 December 1994	*14,907*	*4,918*	*14,200*	*102*	*3,616*	*37,743*

10. Investments (Other)

	1995 £000	*1994 £000*
10. Investments (Other)	200	-

During the year £200,000 was invested in a privately held UK registered company.

11. Capital commitments

	1995 £000	*1994 £000*
Contracted for but not provided in the accounts	733	*1,022*
Authorised by the directors but not yet contracted for	1,015	*1,435*

12. Operating lease commitments

	1995 £000	*1994 £000*
Annual commitment at 31 December		
Land and buildings		
expiring in 1996	-	*1,137*
expiring 1997-2000	113	*84*
expiring after 2000	2,606	*2,517*
	2,719	*3,738*
Other leases		
expiring in 1996	3,317	*1,035*
expiring 1997-2000	2,641	*2,570*
	5,958	*3,605*

Notes to the accounts

for the year ended 31 December 1995

13. Stocks

	1995 £000	*1994 £000*
Raw materials	8,832	*8,895*
Work in progress	721	*1,323*
Finished goods for sale	11,478	*8,840*
	21,031	*19,058*

14. Debtors

	1995	*1994*
Amounts falling due within one year		
Trade debtors	37,899	*33,302*
Amounts owed by Honeywell Inc group companies	40,851	*35,542*
Other debtors	1,570	*1,720*
Prepayments and accrued income	6,112	*5,815*
Advance corporation tax recoverable	3,750	*3,750*
Certificate of tax deposit	-	*1,250*
Amounts recoverable on contracts	17,616	*10,715*
	107,798	*92,094*
Amounts falling due in more than one year		
Contract retentions	413	*543*
	108,211	*92,637*

15. Deferred tax asset

	1995	*1994*
Unprovided deferred tax asset/ (liability)		
Tax allowances less depreciation	(1,309)	*(1,498)*
Other items	1,871	*2,389*
	562	*891*

16. Creditors

	1995	*1994*
Amounts falling due within one year		
Bank Loan	-	*1,732*
Finance lease obligations due 1996	-	*17*
Payments received on account	1,706	*1,043*
Trade creditors	24,316	*22,535*
Amounts owed to Honeywell Inc group companies	23,491	*20,955*
Corporation tax	10,396	*12,804*
Other taxation and social security	2,998	*278*
Other creditors	2,875	*7,494*
Accruals and deferred income	3,749	*2,827*
	69,531	*69,685*
Amounts falling due after more than one year		
Long term debt in respect of building (secured by mortgage upon property)	-	*14,542*
Long term debt (unsecured)	30,000	*-*
	30,000	*14,542*

The loan is repayable within 2 to 5 years.

17. Provisions for liabilities and charges

	1995 £000	*1994 £000*
Pensions	3,175	*2,612*
Deferred taxation	93	*51*
	3,268	*2,663*

	Pension £000	Deferred Taxation £000	Total £000
Balance at 1 January 1995	2,612	51	2,663
Profit and loss account charge	563	42	605
Balance at 31 December 1995	3,175	93	3,268

18. Called up share capital

	1995 £000	*1994 £000*
Authorised, allotted, and fully paid		
275,000 ordinary shares of £1 each	275	*275*

19. Movements on shareholders' funds

	1995	*1994*
At 1 January	77,443	*79,774*
Profit for the year after taxation	11,006	12,669
Dividends paid	(15,000)	*(15,000)*
At 31 December	73,449	*77,443*

20. Contingent liabilities

	1995	*1994*
Customs and excise guarantees	2,660	*2,660*
Contract guarantee and other items	2,332	*3,630*
	4,992	*6,290*

Since the year end judgement has been made against a subsidiary company, Honeywell Control Systems Limited in a claim which was outstanding at the year end. The directors estimate that the maximum potential liability is approximately £650,000. The company intends to appeal against the judgement.

The directors consider there are strong grounds for the appeal to be successful and accordingly no provision for the potential liability has been made in the accounts.

21. Subsidiaries

Honeywell Southern Africa (Proprietary) Limited, a company incorporated in South Africa, is wholly owned by Honeywell Control Systems Limited. It sells and services industrial products and systems. Details of other group companies are provided in note 22.

Notes to the company balance sheet

for the year ended 31 December 1995

22. Fixed assets - investments	1995 £000	*1994 £000*
Cost and net book value		
Balance at 1 January	28,428	28,428
Additions	1,564	-
Balance at 31 December	29,992	28,428

All investments are in ordinary shares in subsidiary undertakings. The principal subsidiary undertakings are Honeywell Control Systems Limited, which designs, develops, manufactures, sells and services environmental control equipment for commercial and residential buildings, and industrial products and systems, including precision components and automation equipment for controls, and Honeywell Avionics Systems Limited which provides avionics support. Both subsidiary undertakings are wholly owned and registered in England and Wales. The group has a number of small or inactive subsidiary undertakings whose results are also consolidated in these accounts.

23. Debtors	1995 £000	*1994 £000*
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	51,441	*16,541*
Amount owed by other group companies	-	*12,174*
Other debtors	233	*354*
Advance corporation tax recoverable	3,750	*3,750*
	55,424	*32,819*
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	25,000	*25,000*

24. Creditors		
Amounts falling due within one year		
Bank Overdraft	1,902	*1,732*
Amounts owed to subsidiary undertakings	44,302	*38,497*
Corporation tax	2,474	*3,541*
Other creditors	1,131	*77*
	49,809	*43,847*
Amounts falling due after more than one year		
Long term debt (unsecured)	30,000	-
Long term debt (secured on property)	-	14,542

The loan is repayable within 2 to 5 years.

25. Called up share capital	1995 £000	*1994 £000*
Authorised, allotted, and fully paid		
275,000 ordinary shares of £1 each	275	*275*

26. Profit and loss account		
Balance at 1 January	26,043	*26,039*
(Loss)/profit for the year after dividends	(1,045)	*4*
Balance at 31 December	24,998	*26,043*

The profit and loss account for the company has been omitted under the exemption permitted by section 230 of the Companies' Act 1985. Profit for the year before dividends paid was £13,955,000 (1994 profit £15,004,000).

27. Movement on shareholders' funds	1995 £000	*1994 £000*
At 1 January	31,770	*31,766*
Retained (loss)/profit for the year after dividends	(1,045)	*4*
At 31 December	30,725	*31,770*

28. Ultimate parent company

The company's ultimate parent company is Honeywell Inc., a company incorporated in the USA. The annual report of Honeywell Inc. is available from Honeywell House, Arlington Business Park, Bracknell, Berkshire, RG12 1EB.

SECTION 3

Honeywell Holdings PTY Limited

Australia

HONEYWELL HOLDINGS PTY LIMITED
AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1995

1. SUMMARY OF ACCOUNTING POLICIES

GENERAL SYSTEM OF ACCOUNTING UNDERLYING THE ACCOUNTS

The accounts have been prepared using the historical cost convention, except for certain assets which are at valuation. The accounts have been prepared in accordance with Schedule 5 of the Corporations Regulations, applicable Accounting Standards and Urgent Issues Group Consensus Views, and comply with other requirements of the law.

ACCOUNTING POLICIES WHICH HAVE BEEN SIGNIFICANT IN THE PREPARATION AND PRESENTATION OF THE ACCOUNTS

(a) PRINCIPLES OF CONSOLIDATION

The consolidated accounts have been prepared by combining the financial statements of all the entities that comprise the economic entity known as Honeywell Holdings Pty Limited, being the holding company (the chief entity) and its subsidiaries (controlled entities) as defined in AASB 1024 "Consolidated Accounts." A list of controlled entities appears in Note 22. Consistent accounting policies have been employed in the preparation and presentation of the consolidated accounts.

The consolidated accounts include the information and results of each controlled entity from the date on which the company obtained control and until such time as the company ceased to control such entity.

In preparing the consolidated accounts, all intercompany balances and transactions are eliminated in full.

(b) INTANGIBLES

Goodwill representing the difference between the acquisition cost and the fair value of net assets of businesses acquired, is amortised over the period of time, not exceeding 20 years, during which the benefits are expected to arise.

(c) FOREIGN CURRENCY

All foreign currency transactions during the year have been brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate existing at that date.

Exchange differences are brought to account in the profit and loss statement of the financial period in which they arise except that:

(i) exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and
(ii) exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation are taken directly to the foreign currency translation reserve.

Financial statements of self-sustaining foreign subsidiaries are translated at balance date using the current rate method and exchange differences are brought to account by entries made directly to the foreign currency translation reserve.

(d) DEPRECIATION

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and investment properties. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

(e) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have been discounted to their present value.

(f) INVENTORIES

Inventories are valued at the lower of cost and net realisable value (including an appropriate portion of fixed and variable overhead expenses where applicable). The cost of inventories is determined either on a weighted average basis or by specific identification.

(g) INCOME TAX

Tax effect accounting principlies have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

(h) LEASED ASSETS

Leased assets classified as finance leases are capitalised as fixed assets. The amount initially brought to account is the present value of minimum lease payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Capitalised leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are charged as an expense in the period in which they are incurred.

(i) CHANGE IN ACCOUNTING POLICY

Changes in accounting policy have been effected as a result of the application of applicable accounting standard AASB 1028 "Accounting for Employee Entitlements". In accordance with the transitional provisions of the standard, opening retained profits have been adjusted for the net amount of the following adjustments to assets and liabilities as at 1 January 1995.

	1995 $'000
Provision for employee entitlements	1,420
Future income tax benefit	(511)
	909

(j) EMPLOYEE ENTITLEMENTS

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, sick leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values.

Provisions made in respect of other employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the economic entity in respect of services provided by employees up to the reporting date.

2. OPERATING PROFIT

	Consolidated		Company	
	1995 $'000	1994 $'000	1995 $'000	1994 $'000
The operating profit before income tax includes the following items of revenue and expense:				
Revenues				
Sales revenue	271,986	251,174	-	-
Dividends received				
- wholly owned controlled entities	-	-	33,550	-
Other operating revenue				
Interest received/receivable:				
- other persons	488	308	-	-
Proceeds on sale of property, plant and equipment	-	256		-
Other	75	657	-	-
Total operating revenue	272,549	252,395	33,550	-

	Consolidated 1995 $'000	Consolidated 1994 $'000	Company 1995 $'000	Company 1994 $'000
2. OPERATING PROFIT (CONTINUED)				
Expenses				
Interest paid/payable:				
- other persons	214	327	-	-
- related bodies corporate	1,497	-	-	-
Bad and doubtful debts:				
- bad debts written off	1,368	820	-	-
- provision for doubtful debts	1,222	987	-	-
Depreciation of property, plant and equipment	5,922	5,869	-	-
Amortisation of leased assets	2	4	-	-
Amortisation of capitalised spares	1,302	1,105	-	-
Amortisation of other assets	2,172	1,980	-	-
Loss on sale of property, plant and equipment	13	547	-	-
Transfers to provisions:				
- long service leave	1,717	656	-	-
- annual leave	2,115	955		-
Net (gain)/loss on foreign exchange	325	251	-	-
Amortisation of goodwill	-	434	-	-
Remuneration of auditors of holding company:				
- auditing the accounts	107	95	-	-
- other services	10	15	-	-
Remuneration of auditors of controlled entities:				
- auditing the accounts	25	30	-	-

	Consolidated 1995 $'000	Consolidated 1994 $'000	Company 1995 $'000	Company 1994 $'000
3. ABNORMAL ITEMS				
Abnormal Expenses				
Anticipated legal settlement	-	(4,600)	-	-
Income tax benefit	-	1,518	-	-
	-	(3,082)	-	-
Adjustment to Income Tax Expense				
Future income tax benefit no longer required	2,112	-	-	-
Income tax overprovided in prior years	-	5,300	-	-
Abnormal Items Net of Income Tax	2,112	2,218	-	-

4. REMUNERATION OF DIRECTORS

The directors of Honeywell Holdings Pty Limited during the year were:

J H Wolfraad
P F Myles

	Consolidated 1995 $'000	Consolidated 1994 $'000	Company 1995 $'000	Company 1994 $'000
Aggregate income received or due and receivable by the directors from Honeywell Holdings Pty Limited, its controlled entities and related corporations.	1,328	607	1,117	391
The number of directors of the holding company whose total income falls within the following bands commencing at $0 is as follows:				
$150,000 - $159,999			-	1
$190,000 - $199,999			1	-
$230,000 - $239,999			-	1
$920,000 - $930,000			1	
Prescribed benefits given by the company and any associate to a prescribed superannuation fund or otherwise in connection with the retirement from a prescribed office:				
Directors of the company	-	-	-	-

	Consolidated 1995 $'000	Consolidated 1994 $'000	Company 1995 $'000	Company 1994 $'000
5. INCOME TAX				
(a) The prima facie income tax expense on pre-tax accounting income reconciles to the income tax expense/(benefit) in the accounts as follows:				
Operating profit	10,311	5,992	-	-
Income tax expense (benefit) calculated at 36% (1994: 33%) of operating profit	3,712	1,977	-	-
Tax effect of permanent differences				
Amortisation of goodwill	-	143	-	-
Non-deductible expenses	294	710	-	-
Fringe benefits tax	-	81	-	-
Research and development expenditure	(198)	(165)	-	-
Research and development expenditure related to prior years	(977)	-	-	-
Other items	(18)	45	-	-
	2,813	2,791	-	-
Abnormal Items:				
Future income tax benefit no longer required	2,112	-	-	-
Tax overprovided in prior years	-	(5,300)	-	-
Effect on future income tax benefit and provision for deferred income tax due to the change in rate of income tax from 33% to 36%	(120)	-	-	-
	4,805	(2,509)	-	-
Prior years overprovision	(303)	-	-	-
Income tax expense/(benefit) attributable to operating profit	4,502	(2,509)	-	-
(b) Income tax expense/(benefit) comprises:				
Current income tax payable	(582)	(118)	-	-
Provision for deferred income tax	2,123	235	-	-
Future income tax benefit	2,961	(2,626)	-	-
	4,502	(2,509)	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

	Consolidated 1995 $'000	Consolidated 1994 $'000	Company 1995 $'000	Company 1994 $'000
6. CASH				
Cash	1,263	2,345	-	-
Short term deposits	19,908	10,615	-	-
	21,171	12,960	-	-
7. CURRENT RECEIVABLES				
Trade debtors	55,210	48,783	-	-
less: provision for doubtful debts	(774)	(916)	-	-
	54,436	47,867	-	-
Amounts receivable from controlled entities		-	30,788	30,788
Amounts receivable from other related companies	2,857	1,761	-	-
Other debtors and prepayments	15,300	10,210	-	-
	72,593	59,838	30,788	30,788
8. CURRENT INVENTORIES				
- At cost				
Raw materials and stores	776	586	-	-
Work in progress	2,692	3,551	-	-
Finished goods	17,609	13,708	-	-
	21,077	17,845	-	-
9. NON-CURRENT RECEIVABLES				
Trade debtors	422	279	-	-

	Consolidated 1995 $'000	Consolidated 1994 $'000	Company 1995 $'000	Company 1994 $'000
10. PROPERTY, PLANT AND EQUIPMENT				
Land - at cost	60	60	-	-
Buildings - at cost	1,794	1,794	-	-
less: accumulated depreciation	(249)	(220)	-	-
	1,545	1,574	-	-
Equipment, machinery and leasehold improvements				
- at cost	52,153	48,269	-	-
less: accumulated depreciation	(31,904)	(26,228)	-	-
	20,249	22,041	-	-
- plant and equipment under finance lease	21	42	-	-
less: accumulated amortisation	(9)	(24)	-	-
	12	18	-	-
Total plant and equipment	20,261	22,059	-	-
Total property, plant and equipment	21,866	23,693	-	-
The directors' estimate of the current value of interests in land and buildings based upon the most recent valuations (31 December 1993)	1,691	1,691	-	-
11. INTANGIBLES				
Goodwill - at cost	2,168	2,168	-	-
Accumulated amortisation	(2,168)	(2,168)	-	-
	-	-	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

	Consolidated 1995 $'000	Consolidated 1994 $'000	Company 1995 $'000	Company 1994 $'000
12. OTHER NON CURRENT ASSETS				
Future income tax benefits attributable to:				
Timing differences	3,958	6,515	-	-
	3,958	6,515	-	-
Other	-	-	-	-
	3,958	6,515	-	-
13. CURRENT CREDITORS AND BORROWINGS				
Unsecured:				
Trade creditors				
- Related companies	7,662	5,181	-	-
- Other	33,365	27,137	-	-
Amounts payable to related bodies corporate	43,492	-	-	-
	84,519	32,318	-	-
14. CURRENT PROVISIONS				
Taxation	408	3,755	-	-
Employee entitlements (Note 17)				
- long service leave	3,988	2,943	-	-
- annual leave	4,514	3,967	-	-
Warranty	291	332	-	-
Anticipated legal settlement	-	4,600	-	-
	9,201	15,597	-	-
15. OTHER CURRENT LIABILITIES				
Other accruals	1,672	1,555	-	-
Unearned revenue	2,845	2,805	-	-
	4,517	4,360	-	-
16. NON-CURRENT PROVISIONS				
Provision for deferred income tax	4,521	2,256	-	-

	Consolidated		Company	
	1995 $'000	1994 $'000	1995 $'000	1994 $'000
17. EMPLOYEE ENTITLEMENTS				
The aggregate employee entitlement liability recognised and included in the accounts is as follows:				
Provision for employee entitlements - Current (Note 14)	8,502	6,910	-	-
18. SHARE CAPITAL				
(a) Authorised capital 750,000 ordinary shares of $2.00 each	1,500	1,500	1,500	1,500
(b) Issued capital 725,000 ordinary shares of $2.00 each fully paid	1,450	1,450	1,450	1,450
19. RESERVES				
Foreign Currency Translation Reserve				
Balance at beginning of financial year	515	478	-	-
Surplus from translation of financial statements of foreign operations	380	37	-	-
Balance at end of financial year	895	515	-	-

	Consolidated		Company	
	1995 $'000	1994 $'000	1995 $'000	1994 $'000
20. COMMITMENTS FOR EXPENDITURE				
(a) Capital expenditure commitments:				
Plant and equipment				
Not later than one year	1,614	1,313	-	-
(b) Operating leases				
The economic entity has lease commitments in respect of non-cancellable operating leases for plant and premises due for payment in ensuing years as follows:				
Not later than one year	8,293	8,611	-	-
Later than one year but not later than two years	6,778	7,227	-	-
Later than two years but not later than five years	10,396	10,810	-	-
Later than five years	13,566	14,280	-	-
	39,033	40,928	-	-
21. CONTINGENT LIABILITIES				
(a) Related entities				
The company has entered into a deed of cross-guarantee with certain wholly-owned subsidiaries. The names of these wholly-owned subsidiaries are detailed in Note 22 and the total liabilities of these wholly-owned subsidiaries (excluding amounts owed to the company itself) are:	97,151	50,405	97,151	50,405
(b) Other persons				
Guarantee provided in respect of contractor payments received	25,744	20,221	-	-
	122,895	70,626	97,151	50,405

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

22. INVESTMENT IN CONTROLLED ENTITIES

Name of Corporation	Place of Incorporation	Class of Share	% Owned		Book Value of Investment	
			1995	1994	1995	1994
			$	$		
Chief Entity						
Honeywell Holdings Pty Ltd	NSW					
Controlled Entities						
Honeywell Limited (1)	NSW	ORD $5	100%	100%	5	5
Blendair Pty Limited (1)	NSW	ORD $2	100%	100%	23,000	23,000
* Honeywell Holdings Limited	NZ	ORD $1	100%	100%	7,217,037	7,217,037
* Honeywell (Wholesale) Limited	NZ	ORD $1	100%	100%	76	76
* Honeywell Limited	NZ	ORD $1	100%	100%	698,708	698,708
					7,938,826	7,938,826
Less: Investments held by controlled entities					(698,784)	(698,784)
					7,240,042	7,240,042

* Audited by an associated firm of the holding company auditors.

(1) These wholly-owned controlled entities have entered into a deed of cross guarantee with Honeywell Holdings Pty Limited pursuant to Australian Securities Commission Class Order 95/1530 and are relieved from the requirement to prepare audited accounts. These entitites, who are parties to the deed of cross guarantee, have aggregate assets of $135,058,000, aggregate liabilities of $97,151,000 and aggregate profit after income tax of $4,920,000.

Companies incorporated overseas carry on business in the country of incorporation.

Investments in the controlled entities incorporated in Australia are at officers' valuation 1 July 1975 and were valued by officers of the company having regard to the underlying net assets of the controlled entities. The valuation was not made in accordance with a policy of regular revaluation of investments in controlled entities. Investments in the controlled entities incorporated in New Zealand are at cost after adjustment for a dividend paid from pre-acquisition earnings.

23. SEGMENT INFORMATION

The company is involved in the manufacture, sales and service of automation equipment in Australia, New Zealand and Fiji.

	Revenue		Results		Assets	
	1996 $'000	1995 $'000	1996 $'000	1995 $'000	1996 $'000	1995 $'000
Australia	249,913	235,506	5,371	7,654	129,387	112,332
New Zealand	22,636	16,889	438	847	11,700	8,799
Total	272,549	252,395	5,809	8,501	141,087	121,130

24. CONTRIBUTION TO GROUP PROFIT

The contribution by each company in the economic entity to the consolidated net profit, after consolidation adjustments and income tax was:

	1995 $'000	1994 $'000
Honeywell Holdings Pty Limited	-	-
Honeywell Limited (Australian company)	5,677	7,739
Blendair Pty Limited	(306)	(85)
Honeywell Holdings Limited	-	-
Honeywell (Wholesale) Limited	-	-
Honeywell Limited (New Zealand company)	438	847
	5,809	8,501

25. NON-HEDGED FOREIGN CURRENCY BALANCES

The Australian dollar equivalent of non-hedged foreign currency balances are included in the accounts as follows:

	Consolidated 1995 $'000	Consolidated 1994 $'000	Company 1995 $'000	Company 1994 $'000
UNITED STATES DOLLARS:				
Cash - Current	956	1,329	-	-
Receivables - Current	278	678	-	-
Creditors and borrowings - Current	325	2,345	-	-

26. SUPERANNUATION COMMITMENTS

All employees of the company are entitled to lump sum benefits from the economic entity's retirement plan. The retirement plan provides defined benefits calculated on years of service commencing from the employee's date of joining the plan and in accordance with Australian taxation guidelines.

Members contribute at a rate of 3% of their wages and salaries. The company's contribution varies and is dependent on the financial status of the plan as advised by the plan's actuaries.

The last actuarial assessment was performed by Tim Boden, BSc, FIA of the AMP Society (fund manager) on 31 December 1995.

The actuarial assessment indicated that sufficient funds were available to meet all benefits that would have been vested under the plan in the event of termination of the plan and voluntary or compulsory termination of each employee in the economic entity.

Accrued Benefits, Vested Benefits and Net Market Value of Plan Assets

	$'000
Accrued Benefits (31/12/95)	37,339
Net market value of assets (31/12/95)	53,296
Difference	$15,957

The difference between the accrued benefits and net market value of plan assets have not been recognised in the accounts of the company. Contributions to the plan, amounting to $1,616,000, are expressed as incurred.

27. ECONOMIC DEPENDENCY

The economic entity's sales of control equipment depended, throughout the financial year covered by these accounts, on the supply of equipment and components from related corporations.

28. RELATED PARTY DISCLOSURES

The parent entity is Honeywell Inc. a company incorporated in the United States of America.

Ownership interests held in controlled entities are disclosed in Note 22. Balances with controlled entities and other related parties are disclosed in notes 7 and 13.

The name of the persons who were Directors of the company during the course of the year are as set out in Note 4.

Transactions involving entities subject to common control:

Type of Transaction	1995	1994	Class of Related Party	1995[a] $'000	1994[a] $'000
Purchase of equipment and components	Normal commercial terms and conditions	Normal commercial terms and conditions	Entities subject to common control	$42,424	$32,901

[a] Includes purchases of equipment and components from:

1995 $'000	1994 $'000
Honeywell Inc (USA) $31,419	Honeywell Inc (USA) $25,889
Honeywell AG (Germany) $1,743	Honeywell A.G. (Germany) $1,047
Honeywell Ltd (UK) $877	Honeywell Ltd (UK) $638
Honeywell Emmen (Netherlands) $1,247	Honeywell Emmen (Netherlands) $498
Honeywell Ltd (Canada) $975	Honeywell Ltd (Canada) $466

	CONSOLIDATED		COMPANY	
	1995 $'000	1994 $'000	1995 $'000	1994 $'000

29. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	CONSOLIDATED 1995 $'000	CONSOLIDATED 1994 $'000	COMPANY 1995 $'000	COMPANY 1994 $'000
Cash at beginning of the year				
Cash	2,345	529	-	-
Deposits at call	10,615	3,370	-	-
	12,960	3,899	-	-
Cash at the end of the year				
Cash	1,263	2,345	-	-
Deposits at call	19,908	10,615	-	-
	21,171	12,960	-	-

(b) Reconciliation of Net Cash provided by Operating Activities to Operating Profit after Income Tax

	CONSOLIDATED 1995 $'000	CONSOLIDATED 1994 $'000	COMPANY 1995 $'000	COMPANY 1994 $'000
Operating profit after taxation	5,809	8,501	33,550	-
Loss on disposal of non-current assets	13	547	-	-
Depreciation and amortisation of non-current assets	7,224	7,411	-	-
Increase in deferred tax payable	2,265	127	-	-
(Decrease) in provision for tax	(3,347)	(2,273)	-	-
Reclassification of PSD lines	3,337	2,881	-	-

	CONSOLIDATED		COMPANY	
	1995 $'000	1994 $'000	1995 $'000	1994 $'000

29. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

Movement in FCTR	380	37	-	-
(Increase)/Decrease in:				
Current receivables	(12,755)	(10,726)	-	-
Inventories	(4,534)	7,450	-	-
Non-current receivables	(143)	(38)	-	-
FITB	3,068	(2,616)	-	-
Increase/(Decrease) in:				
Trade Creditors	8,709	631	-	-
Current provisions	(4,469)	5,377	-	-
Other current liabilities	157	664	-	-
Net cash provided by operating activities	5,714	17,973	33,550	-

(c) **Financing facilities**

The economic entity had the following facilities at 31 December :

	Facility $'000	Drawn $'000	Unused $'000
Overdraft facility	2,000	-	2,000
Money market line	30,000	-	30,000
	32,000	-	32,000

These facilities are subject to annual review

APPENDIX D

The "Ms. Investor" example given in the introduction, referring to differences in disclosure requirements, illustrates the situation that exists in actual disclosed contingency information for Honeywell Inc., Honeywell Limited and Honeywell Holdings. Honeywell Inc. (U.S.) has in-depth contingency disclosure information that covers more than a half of a page, including extensive information on two different contingency matters. The contingency information from Honeywell Limited (U.K.) covers only one fourth this area, and gives no specifics surrounding the judgement mentioned. Honeywell Holdings (Australia) has a contingency footnote that covers almost one page, including number tables. However, this contingency footnote is entirely composed of information that relates to transactions with other wholly-owned Honeywell subsidiaries, and gives no information that pertains to outside contingencies such as pending lawsuits, judgements, or court appeals. Although this vast difference in information disclosed may be due to the fact that the United Kingdom and Australian Honeywell companies do not have as many probable and reasonably estimatable contingencies, it is unknown with certainty. Much of the information given by Honeywell Inc. (U.S.) is information that gives background knowledge about the contingency situation, which although is strictly voluntary, is very helpful in informing a prospective investor more fully about the company.

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