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*2007 Outlook*

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*December 14, 2006*

# Forward Looking Statements

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*This report contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of fact, that address activities, events or developments that we or our management intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. Forward-looking statements are based on management’s assumptions and assessments in light of past experience and trends, current conditions, expected future developments and other relevant factors. They are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties, which can affect our performance in both the near- and long-term. We identify the principal risks and uncertainties that affect our performance in our Form 10-K and other filings with the Securities and Exchange Commission.*

# 2006 Summary

Honeywell

- **Strong Financial Performance**
  - 13% Sales Growth and 90 bps Margin Expansion
  - 31-32% EPS Growth
  - \$3.0B Cash Flow from Operations, \$2.2B Free Cash Flow
- **Portfolio Strengthened and Aligned to Macro Trends**
  - Aero – New Wins; OE Strength; New Customer Facing Organization
  - ACS – Products, Solutions Growth; Gas Detection; New Technologies
  - TS – Turbo Wins to Benefit Future; Productivity Focus Working
  - SM – UOP Strength; Base Business Growth
- **Disciplined and Balanced Cash Deployment**
  - FT, Gardiner Acquisitions; Non-core Divestitures Essentially Complete
  - Dividend Rate Increased 10% for Third Consecutive Year
  - \$1.7B Share Repurchase; Reduced Share Count 5%

*Great Progress In 2006*

# 2007 Financial Summary

Honeywell

<i>(B)</i>	<u>2006E</u>	<u>2007E</u>	<u>V'06</u>
<b>Sales</b>	~\$31.2	~\$32.6	~5%
<b>Segment Profit</b>	~\$4.1	\$4.4 - 4.5	9 - 12%
- Margin %	~13.1%	13.5 - 13.9%	40 - 80 bps
<b>EPS</b>	\$2.51 - 2.53	\$2.85 - 2.95	13 - 17%
<b>Free Cash Flow Conversion</b>	~\$2.2 +100%	\$2.4 - 2.6 +100%	9 - 18%

*Planning Strong Results Again In 2007*

# 2007 Assumptions

- **Global Growth – Modest Softening**
  - US - Lower GDP Growth
  - Europe - Stable
  - Asia - Continued Strength
- **Macro Trends Support Business Growth**
  - Safety, Security, Energy Needs, Air Travel
  - Continued Demand for Differentiated Technologies, Products, Services
- **Raw Material Prices Remain High**
  - Volatility in Commodity Prices / High Energy Costs
  - Continued Focus on Price / Productivity to Offset Inflation
- **Foreign Exchange – Consistent With 2006**

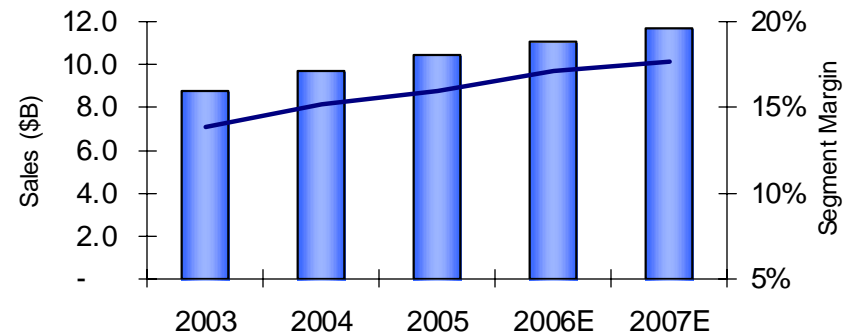
*Overall Environment Remains Favorable*

# Aerospace

Honeywell

(\$M)	<u>2006E</u>	<u>2007E</u>
<b>Sales</b>	11,100	~11,700
<b>Segment Profit</b>	1,900	~2,060
<b>Margin</b>	17.1%	~17.6%

## Sales and Segment Margin:



**2003-2007E Growth Rate**  
 Sales: 7%      Segment Profit: 14%

### Business Drivers

- + OE Production Up
  - + AT, 90+ Seat Regional, Biz Jets
  - 50-70 Seat Regional Jets
- + Global Flying Hours +4-5%
- + Defense Modernization / Logistics
- Material Cost / Supply Chain Constraints

### 2007 Financial Highlights

- ~5% Organic Growth
- ~50 bps Margin Expansion
  - Volume, Fixed Cost Leverage
  - Price, Productivity Offset Inflation
  - Great Technology Pipeline

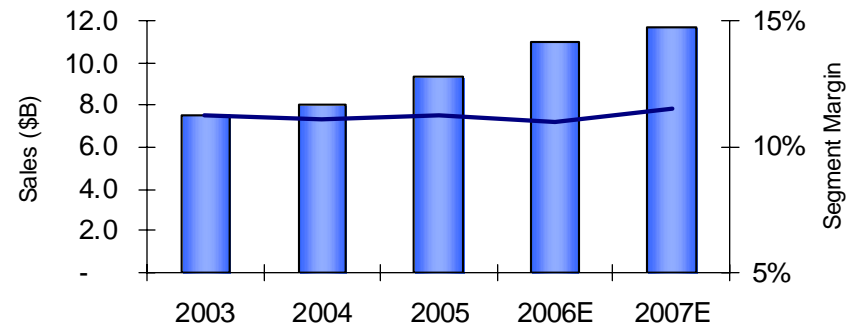
*Top Line Growth And Margin Expansion*

# Automation And Control Solutions

Honeywell

(\$M)	<u>2006E</u>	<u>2007E</u>
<b>Sales</b>	<b>11,000</b>	<b>~11,700</b>
<b>Segment Profit</b>	<b>1,220</b>	<b>~1,350</b>
<b>Margin</b>	<b>11.0%</b>	<b>~11.5%</b>

## Sales and Segment Margin:



**2003-2007E Growth Rate**  
 Sales: 12%      Segment Profit: 13%

### Business Drivers

- + Safety, Security, Energy Efficiency
- + New Products / Services Pipeline
- + Non-US Construction / Economic Trends
- + China, Middle East, India
- US Residential / Commercial Construction

### 2007 Financial Highlights

- ~6% Sales Growth (~5% Organic)
- ~50 bps Margin Expansion
  - Volume, Fixed Cost Leverage
  - Price, Productivity Offset Inflation
  - Growth Investments, RD&E and Sales

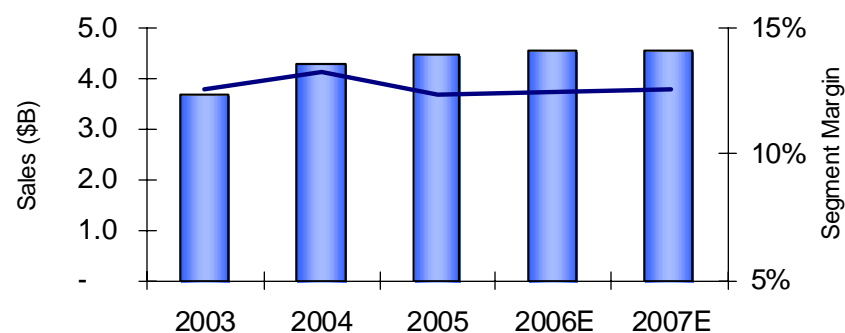
*Global Portfolio Achieving Results*

# Transportation Systems

Honeywell

(\$M)	<u>2006E</u>	<u>2007E</u>
<b>Sales</b>	<b>4,560</b>	<b>~4,560</b>
<b>Segment Profit</b>	<b>570</b>	<b>~575</b>
<b>Margin</b>	<b>12.5%</b>	<b>~12.6%</b>

## Sales and Segment Margin



**2003-2007E Growth Rate**  
 Sales: 6%      Segment Profit: 6%

### Business Drivers

- + Fuel Economy, Efficiency, Emissions
- + Turbo Win Rate, New Platforms
- + CPG Recovery, New Products
- Flat Europe Light Vehicle Production / Diesel Penetration
- N.A. Class 8 OE Production

### 2007 Financial Highlights

- Sales Flat
- ~10 bps Margin Expansion
  - Focus on Fixed Costs
  - Productivity Offsets Inflation
  - Investing for New Wins, Products

*Productivity Focus While Investing To Support Growth*

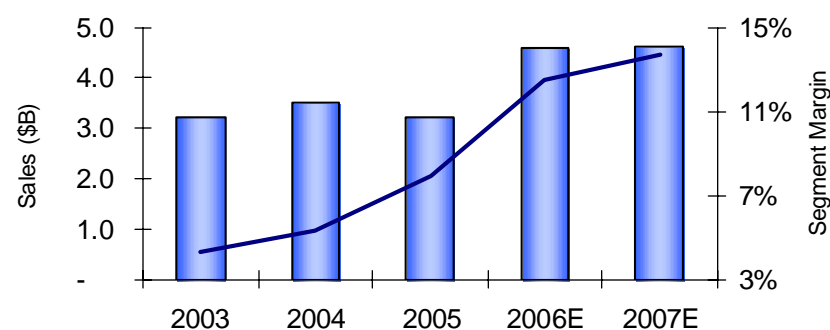


# Specialty Materials

Honeywell

(\$M)	<u>2006E</u>	<u>2007E</u>
<b>Sales</b>	<b>4,580</b>	<b>~4,625</b>
<b>Segment Profit</b>	<b>570</b>	<b>~635</b>
<b>Margin</b>	<b>12.5%</b>	<b>~13.7%</b>

## Sales and Segment Margin:



**2003-2007E Growth Rate**  
**Sales: 10%**      **Segment Profit: 47%**

## Business Drivers

- + UOP Demand, Extended Cycle
- + Focus on Differentiation
- US Residential Construction / Automotive
- Quarterly Comps vs. 2006

## 2007 Financial Highlights

- ~1% Reported, ~5% Adjusted
  - 2% Exited Businesses
  - 2% Exited Low Margin Sales
- ~120 bps Margin Expansion
  - Volume, Fixed Cost Leverage
  - Formula Pricing Offsets Raws

*Continued Significant Margin Expansion*

# Cash Generation, Deployment

- **2007 Cash Flow from Operations \$3.2 - 3.4B**
  - Free Cash Flow \$2.4 - 2.6B, 100%+ Conversion
    - Net income growth
    - Working capital turns improvement
    - Capital discipline, ~1:1 reinvestment ratio

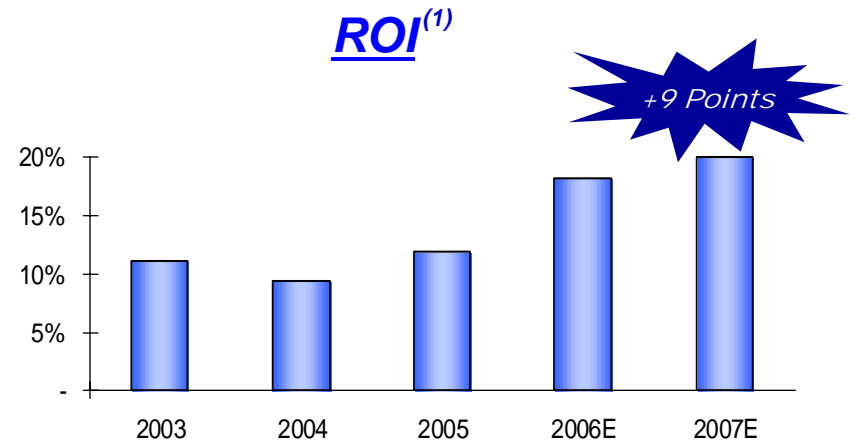
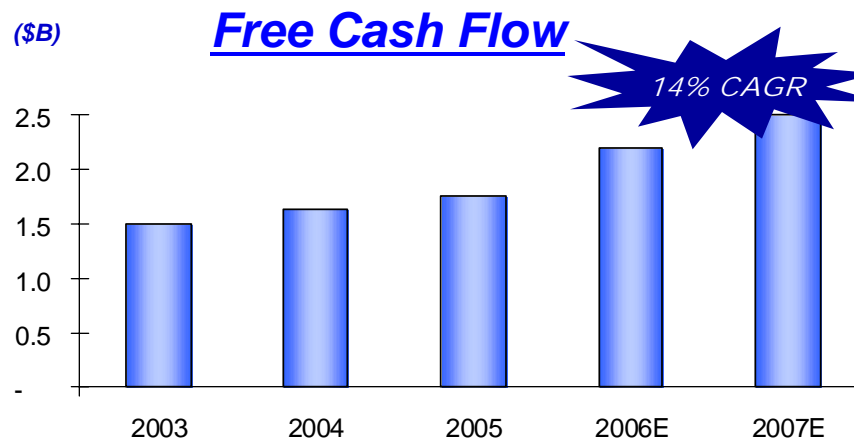
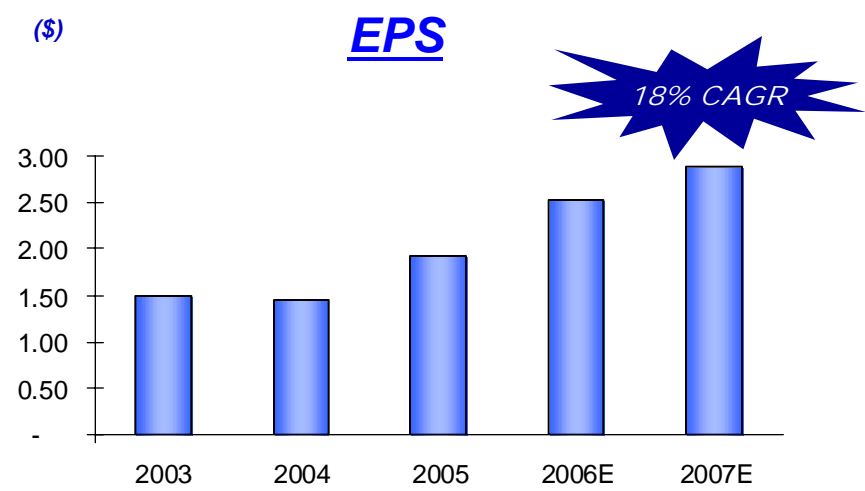
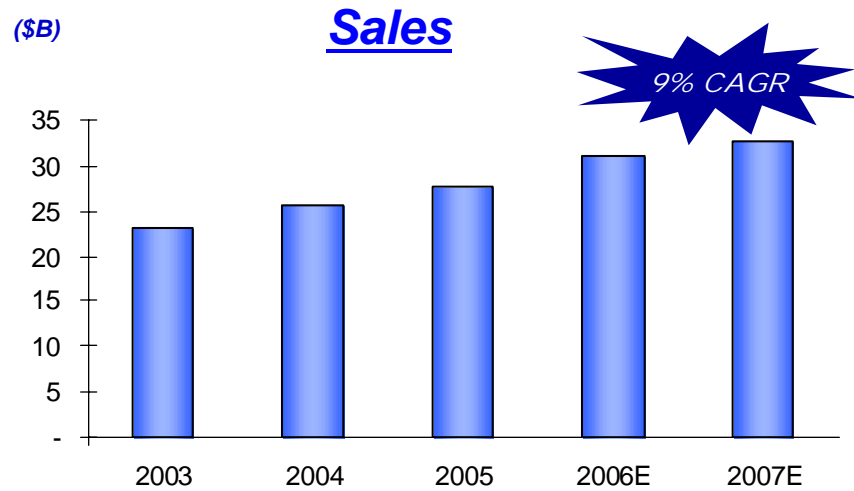
## Deployment

- **Acquisitions**
  - Bolt-ons / adjacencies, technologies in businesses we like
  - Strong pipeline, disciplined process (identification → integration)
- **Competitive Dividend Payout**
  - Yield ~2.4%
- **Share Repurchase**
  - Continue to buy shares to offset dilution; opportunistic otherwise
  - Average fully diluted share count, ~810M shares

*\$2.4 – 2.6B Of Free Cash Flow*

# 2003 – 2007E Financials

**Honeywell**



<sup>(1)</sup>ROI calculated as NIBI (net income plus after-tax interest) divided by Invested Capital (2 point average of the sum of the book value of equity and total debt).

*Continuing To Build Performance Track Record*

# Summary

Honeywell

**Sales: ~\$32.6B**

**EPS: \$2.85 – 2.95**

**FCF: \$2.4 – 2.6B**

*“Low End”*

- Lower Global Growth
- Unfavorable Mix - Aero OE / AM, ACS Products / Solutions
- Inflation / Productivity Worse
- Lower Pension Discount Rate
- Euro < \$1.25

*“High End”*

- + Stronger Global Growth
- + Favorable Mix - Aero OE / AM, ACS Products / Solutions
- + Inflation / Productivity Better
- + Higher Pension Discount Rate
- + Euro > \$1.25

*2007 Another Great Year*

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*Appendix*  
*Reconciliation of non-GAAP Measures*  
*to GAAP Measures*

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# Reconciliation of Free Cash Flow to Cash Provided by Operating Activities and Calculation of Cash Flow Conversion

**Honeywell**

(\$M)	<u>2003</u>	<u>2004</u>	<u>2005</u>
Cash Provided by Operating Activities	\$2,199	\$2,253	\$2,442
Expenditures for Property, Plant and Equipment	<u>(655)</u>	<u>(629)</u>	<u>(684)</u>
Free Cash Flow	<u>1,544</u>	<u>1,624</u>	<u>\$1,758</u>
Cash Provided by Operating Activities	\$2,199	\$2,253	\$2,442
÷ Net Income	<u>1,289</u>	<u>1,246</u>	<u>\$1,638</u>
Operating Cash Flow Conversion %	<u>171%</u>	<u>181%</u>	<u>149%</u>
Free Cash Flow	\$1,544	\$1,624	\$1,758
÷ Net Income	<u>1,289</u>	<u>1,246</u>	<u>\$1,638</u>
Free Cash Flow Conversion %	<u>120%</u>	<u>130%</u>	<u>107%</u>

# Reconciliation of Segment Profit to Operating Income and Calculation of Segment Profit and Operating Income Margin **Honeywell**

<u>(\$B)</u>	<u>2006E</u>	<u>2007E</u>
Sales	\$31.2	\$32.6
Cost of Products and Services Sold	(24.1)	(24.9) - (25.0)
Selling, General and Administrative Expenses	(4.0)	(4.1)
Operating Income	<u>\$3.1</u>	<u>\$3.5 - 3.6</u>
FAS 123R, Stock Option Expense <sup>(1)</sup>	0.1	0.1
Repositioning and Other Charges <sup>(1)</sup>	0.4	0.4
Pension and OPEB Expense <sup>(1)</sup>	0.5	0.4
Segment Profit	<u>\$4.1</u>	<u>\$4.4 - 4.5</u>
Operating Income	\$3.1	\$3.5 - 3.6
÷ Sales	<u>\$31.2</u>	<u>\$32.6</u>
Operating Income Margin %	<u>9.9%</u>	<u>10.7 - 11.1%</u>
Segment Profit	\$4.1	\$4.4 - 4.5
÷ Sales	<u>\$31.2</u>	<u>\$32.6</u>
Segment Profit Margin %	<u>13.1%</u>	<u>13.5 - 13.9%</u>

(1) Included in costs of products and services sold and selling, general and administrative expenses

# Reconciliation of Free Cash Flow to Cash Provided by Operating Activities and Calculation of Cash Flow Conversion

**Honeywell**

<u>(\$M)</u>	<u>2006E</u>	<u>2007E</u>
Cash Provided by Operating Activities	\$3,000	\$3,200 - 3,400
Expenditures for Property, Plant and Equipment	(800)	(800)
Free Cash Flow	<u>\$2,200</u>	<u>\$2,400 - 2,600</u>
Cash Provided by Operating Activities	\$3,000	\$3,200 - 3,400
÷ Net Income	<u>\$2,075 - 2,100</u>	<u>\$2,300 - 2,400</u>
Operating Cash Flow Conversion %	<u>+140%</u>	<u>+140%</u>
Free Cash Flow	\$2,200	\$2,400 - 2,600
÷ Net Income	<u>\$2,075 - 2,100</u>	<u>\$2,300 - 2,400</u>
Free Cash Flow Conversion %	<u>+100%</u>	<u>+100%</u>



**Honeywell**