

Summary Overview of Background and Impact of Change in Accounting Policy for Aerospace Sales Incentives

May 31, 2006

Honeywell

Honeywell 8-K Dated 5/31/2006, Background **Honeywell**

Effective the first quarter of 2006, the Company changed its accounting policy for Aerospace sales incentives. The Company provides sales incentives to commercial aircraft manufacturers and airlines in connection with their selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft. These incentives principally consist of free or deeply discounted products but also include credits for future purchases of product and upfront cash payments. Historically these incentives were capitalized and amortized to cost of products sold or product sales, on a straight-line basis over their useful economic life. Under the new policy, these costs are recognized as provided. For aircraft manufacturers, incentives are recorded when the products are delivered; for airlines, incentives are recorded when the associated aircraft are delivered by the aircraft manufacturer to the airline. While the historical policy of capitalizing and amortizing such costs was considered acceptable, the Company believes that the new policy is preferable as it will improve decision-making and internal controls for Aerospace sales incentives.

Honeywell 8-K Dated 5/31/2006, Summary

Honeywell

- **Change in accounting policy, Aerospace sales incentives**
 - **Effective First Quarter 2006**
 - **New policy preferable, improves decision-making and internal controls**
- **Current report on Form 8-K filed to apply new policy retrospectively to all periods presented in the previously filed Form 10-K for the year ended December 31, 2005**
- **Summary of revised annual and quarterly financial data attached**
- **Impact consistent with Company announcement/press release on February 16, 2006**
 - **Impact to Sales, Segment Profit, Net Income, EPS Not Material**
 - **No Change to 2006 Financial (Sales, EPS, Cash) Guidance**

Select Financial Data – Annual

Honeywell

Consolidated (\$ Millions, except per share amounts)

	2005			Years Ended December 31, 2004			2003		
	<u>As</u>	<u>As</u>	<u>Change</u>	<u>As</u>	<u>As</u>	<u>Change</u>	<u>As</u>	<u>As</u>	<u>Change</u>
	<u>Previously</u>	<u>Revised</u>		<u>Previously</u>	<u>Revised</u>		<u>Previously</u>	<u>Revised</u>	
Sales	\$ 27,653	\$ 27,652	\$ (1)	\$ 25,601	\$ 25,593	\$ (8)	\$ 23,103	\$ 23,095	\$ (8)
Income from continuing operations, before taxes	2,323	2,296	(27)	1,680	1,623	(57)	1,640	1,583	(57)
Tax expense	742	732	(10)	399	377	(22)	296	274	(22)
Net income	1,655	1,638	(17)	1,281	1,246	(35)	1,324	1,289	(35)
Earnings per share, assuming dilution	\$ 1.94	\$ 1.92	\$ (0.02)	\$ 1.49	\$ 1.45	\$ (0.04)	\$ 1.54	\$ 1.50	\$ (0.04)

Aerospace (\$ Millions)

	2005			Years Ended December 31, 2004			2003		
	<u>As</u>	<u>As</u>	<u>Change</u>	<u>As</u>	<u>As</u>	<u>Change</u>	<u>As</u>	<u>As</u>	<u>Change</u>
	<u>Previously</u>	<u>Revised</u>		<u>Previously</u>	<u>Revised</u>		<u>Previously</u>	<u>Revised</u>	
Sales	\$ 10,497	\$ 10,496	\$ (1)	\$ 9,748	\$ 9,740	\$ (8)	\$ 8,813	\$ 8,805	\$ (8)
Segment profit	1,703	1,676	(27)	1,479	1,422	(57)	1,221	1,164	(57)

Select Financial Data – Quarterly

Honeywell

Consolidated, As Revised
(\$ Millions, except per share amounts)

	2005					2004				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Sales	\$ 6,449	\$ 7,028	\$ 6,900	\$ 7,275	\$ 27,652	\$ 6,178	\$ 6,385	\$ 6,391	\$ 6,639	\$ 25,593
Net income	358	302	464	514	1,638	287	351	367	241	1,246
Earnings per share, assuming dilution	\$ 0.42	\$ 0.36	\$ 0.54	\$ 0.61	\$ 1.92	\$ 0.33	\$ 0.41	\$ 0.42	\$ 0.29	\$ 1.45

Aerospace, As Revised*
(\$ Millions)

	2005					2004				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Sales	\$ 2,500	\$ 2,651	\$ 2,620	\$ 2,725	\$ 10,496	\$ 2,304	\$ 2,450	\$ 2,464	\$ 2,522	\$ 9,740
Segment profit	378	409	429	460	1,676	294	351	371	406	1,422

* Reflects impact on previously reported segment financial data