

# **Honeywell**

## **Third Quarter 2008**

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**Earnings Release**

**October 17, 2008**

# Forward Looking Statements

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Honeywell

*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 economic and industry 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.*

- **Continuing to Deliver Results in Tougher Environment**
  - Organic Sales Growth Supporting Double Digit Earnings Growth
  - Continued Strong YTD Free Cash Flow Conversion
- **Signs of Weaker Economic Conditions**
  - Select Softness Balanced With Continued Strength
  - Continue To Monitor; Proactive Cost Management
- **Honeywell Well Positioned**
  - Great Positions Aligned With Macro Trends
  - Diversified Portfolio; Global, Short / Long Cycle Mix, Installed Base
  - VPD™, HOS, FT Supporting Performance
  - Conservative Planning, Contingencies
  - Disciplined Capital Deployment
  - Strong Leadership Team

# Financial Summary

Honeywell

<i>(M)</i>	<u>3Q07</u>	<u>3Q08</u>	
<b>Sales</b>	\$8,735	\$9,275	<ul style="list-style-type: none"> <li>• <b>6% Growth</b> <ul style="list-style-type: none"> <li>◆ 3% Acq./Div. Impact</li> <li>◆ 2% F/X Impact</li> <li>◆ (1)% B&amp;GA Accruals</li> </ul> </li> </ul>
<b>Segment Profit</b>	\$1,167	\$1,158	<ul style="list-style-type: none"> <li>• <b>One-Time Impacts</b> <ul style="list-style-type: none"> <li>◆ 13.9% adjusted*</li> </ul> </li> </ul>
<i>Margin %</i>	13.4%	12.5%	
<b>Net Income</b>	\$618	\$719	<ul style="list-style-type: none"> <li>• <b>16% Growth</b></li> </ul>
<b>EPS</b>	\$0.81	\$0.97	<ul style="list-style-type: none"> <li>• <b>20% Growth</b></li> </ul>
<b>Free Cash Flow</b>	\$736	\$556	<ul style="list-style-type: none"> <li>• <b>95% Conversion YTD</b></li> </ul>

*Track Record Continues*

# 3Q EPS Walk

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<b>3Q EPS, Reported</b>	<b>\$0.97</b>	
<b>CS Gain</b>	<b>0.56</b>	<b>Gain on sale to BE Aerospace, net of incremental tax</b>
<b>B&amp;GA Accruals</b>	<b>(0.06)</b>	<b>Realignment of B&amp;GA contract milestones</b>
<b>Repositioning / Other</b>	<b>(0.23)</b>	<b>\$163M Severance, \$70M Facilities / Other</b>
<b>Environmental</b>	<b><u>(0.27)</u></b>	<b>Remediation Plans, ongoing run-rate reduction</b>
<b>3Q EPS, Adjusted</b>	<b>\$0.97</b>	

*\$0.10 - \$0.20 Annual Benefit 2009 And Beyond*

# 3Q Margin Walk

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<b>Reported Segment Margin</b>	<b>12.5%</b>
B&GA Accruals	0.6
Formula Pricing*	0.2
Acquisitions	0.3
Gustav / Ike	<u>0.3</u>
<b>Adjusted Segment Margin</b>	<b>13.9%</b>

*Strong Operational Performance*

<sup>6</sup> \*Includes Specialty Materials pass-through pricing

# 3Q Cash Deployment

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(\$B)

<b>Beginning Cash Balance</b>	<b>\$2.2</b>
Consumable Solutions Sale	0.9
Free Cash Flow	0.6
Debt Issuance, Net	0.6
Share Repurchases, Net	(1.0)
Acquisitions	(0.8)
Dividend	<u>(0.2)</u>
<b>Ending Cash Balance</b>	<b>\$2.3</b>

*Managing Liquidity*

# HON Update

Honeywell

- **What We Are Seeing**
  - Strength Across Aero OE, Defense and Space, ACS Solutions and UOP
  - Slowing Growth in Select ACS Products; AT&R Flight Hours as Anticipated
  - Monitoring Short-Cycle OE and B&GA Aftermarket Trends
  - Benefits From Prior Repositioning, FT and HOS Actions
- **What We Are Doing**
  - Fixed Costs – Continuing Census Freeze, Real Estate Actions
  - Discretionary Spending – Businesses Redoubling Reduction Efforts
  - Investment Prioritization – New Programs and Capital Expenditures Focus
  - Cash Balances – Managing Liquidity

*Decisive Action In Slowing Environment*



# Aerospace\*

Honeywell

<i>(M)</i>	<u>3Q07</u>	<u>3Q08</u>	<u>V'07</u>	<u><i>Financial Highlights</i></u>	
Sales	\$ 3,023	\$ 3,171	5%	<ul style="list-style-type: none"> <li>• Sales up 5%                             <ul style="list-style-type: none"> <li>- Air Transport &amp; Regional up 5%                                     <ul style="list-style-type: none"> <li>◆ OE up 7%</li> <li>◆ Aftermarket up 5% (Flight Hours up 2.8%)</li> </ul> </li> <li>- Business &amp; General Aviation up 10%                                     <ul style="list-style-type: none"> <li>◆ OE up 15%</li> <li>◆ Aftermarket up 3%</li> </ul> </li> <li>- Defense &amp; Space up 2%</li> </ul> </li> <li>• Segment Profit up 5%                             <ul style="list-style-type: none"> <li>◆ 10 bps Margin Expansion                                     <ul style="list-style-type: none"> <li>+ Price / Volume</li> <li>+ Productivity</li> <li>- Inflation</li> <li>- R&amp;D Investments</li> </ul> </li> </ul> </li> </ul>	
Segment Profit	\$ 552	\$ 582	5%		
Margin	18.3%	18.4%	10 bps		
<u><i>Business Highlights</i></u>					
<ul style="list-style-type: none"> <li>+ AT&amp;R and B&amp;GA OE Growth</li> <li>+ Stable Defense &amp; Space Performance</li> <li>+ Price and Productivity Actions</li> <li>- AT&amp;R Flight Hours - Growth Decelerating as Anticipated</li> <li>- B&amp;GA Aftermarket - Softness in Smaller / Older Jets</li> </ul>					

\*Adjusted to exclude B&GA accruals and the impact of acquisitions and divestitures, see reconciliation

*Broad Portfolio Delivering*

# Automation And Control Solutions

Honeywell

<i>(M)</i>	<u>3Q07</u>	<u>3Q08</u>	<u>V'07</u>
<b>Sales</b>	\$ 3,196	\$ 3,688	15%
<b>Segment Profit</b>	\$ 373	\$ 430	15%
<b>Margin</b>	11.7%	11.7%	<i>flat</i>

  

<u><b>Business Highlights</b></u>	
<ul style="list-style-type: none"> <li>+ Continued Solutions Orders Strength</li> <li>+ Acquisitions Performing Above Plan</li> <li>+ Price and Productivity Actions</li> <li>- Continued S&amp;C and Residential Softness</li> <li>- Monitoring Short-Cycle Product Trends</li> </ul>	<h3 style="text-align: center;"><u><b>Financial Highlights</b></u></h3> <ul style="list-style-type: none"> <li>• <b>Sales up 15%</b> <ul style="list-style-type: none"> <li>◆ 11% Acquisition Impact</li> <li>◆ 2% F/X Impact</li> </ul> </li> <li>- <b>Products up 19%</b> <ul style="list-style-type: none"> <li>◆ Norcross and Metrologic Ahead of Plan</li> <li>◆ New Products and Continued Life Safety Strength</li> </ul> </li> <li>- <b>Solutions up 10%</b> <ul style="list-style-type: none"> <li>◆ Orders up 18%</li> <li>◆ Continued Middle East and China Strength</li> </ul> </li> <li>• <b>Segment Profit up 15%</b> <ul style="list-style-type: none"> <li>◆ Flat Margins                             <ul style="list-style-type: none"> <li>+ Productivity</li> <li>+ Price</li> <li>- Inflation</li> <li>- Acquisitions</li> </ul> </li> </ul> </li> </ul>

*Executing In Slower Growth Environment*

# Transportation Systems

Honeywell

<i>(M)</i>	<u>3Q07</u>	<u>3Q08</u>	<u>V'07</u>	
Sales	\$ 1,226	\$ 1,156	-6%	• Sales down 6% <ul style="list-style-type: none"> <li>◆ F/X Impact 6%</li> </ul>
Segment Profit	\$ 124	\$ 102	-18%	- Turbo down 9% <ul style="list-style-type: none"> <li>◆ Declining Production Volumes; European Consumer Shift</li> </ul>
Margin	10.1%	8.8%	(130) bps	- CPG down 4% <ul style="list-style-type: none"> <li>◆ F/X and Price More Than Offset by Lower Volume</li> </ul>
<b><u>Business Highlights</u></b>				- Friction Materials up 3% <ul style="list-style-type: none"> <li>◆ F/X and Pricing Actions</li> </ul>
<ul style="list-style-type: none"> <li>+ Continued New Platform Wins</li> <li>- Weak European and US OE Production</li> <li>- Turbo Customer Launch Delays</li> <li>- High Diesel Prices Impacting Penetration</li> <li>- Continued CPG Challenges</li> </ul>				• Segment Profit down 18% <ul style="list-style-type: none"> <li>◆ 130 bps Margin Contraction               <ul style="list-style-type: none"> <li>+ Productivity</li> <li>- Turbo Volume</li> <li>- Platform Investments</li> </ul> </li> </ul>

*Challenging Environment*

# Specialty Materials

Honeywell

<i>(M)</i>	<u>3Q07</u>	<u>3Q08</u>	<u>V'07</u>	<u><i>Financial Highlights</i></u>	
Sales	\$ 1,211	\$ 1,321	9%	• Sales up 9%	
Segment Profit	\$ 157	\$ 158	1%	- UOP down 14%	◆ Timing of Catalyst Sales (occurred in 1H08)
Margin	13.0%	12.0%	(100) bps	- Resins and Chemicals up 52%	◆ Formula Pricing Benefits
<u><i>Business Highlights</i></u>				- Fluorine Products up 18%	
+ UOP Backlog Growth > Sales				- Specialty Products up 3%	
+ R&C Plant Performance				• Segment Profit up 1%	◆ 100 bps Margin Contraction
+ Price and Productivity Actions				+ Price	
- Hurricane Impacts				+ Productivity	
- Global Commodity Demand				- Raw Materials Formula Pricing	
				- Hurricane Impacts	

*UOP Mix, Formula Pricing, Hurricane Impacts*

# 2008 Financial Summary

Honeywell

<b>(B)</b>	<u>9 Mos'08</u>	<u>V'2007</u>	<u>2008E</u>	<u>V'2007</u>
<b>Sales</b>				
Aerospace	\$9.4	5%	~\$12.7	~4%
Automation & Control	\$10.5	16%	~\$14.2	~14%
Transportation Systems	\$3.8	2%	~\$4.8	~(4)%
Specialty Materials	<u>\$4.2</u>	15%	<u>~\$5.5</u>	~14%
Total Honeywell	\$27.8	10%	~\$37.2	~8%
<b>EPS</b>	\$2.79	24%	\$3.76 - \$3.80	~20%
<b>FCF</b>	\$2.0	(2)%	~\$3.2	~2%

*4Q08 Sales ~\$9.4B, Up ~2%*  
*4Q08 EPS \$0.97 - \$1.01, Up 7% - 11%*

# 2009 Economic / Industry Outlook

Honeywell

- **Overall Outlook**

- **Some Impact Expected From Global Slowdown In All Markets**
- **HON Approach To Plan Conservatively, Ensure Contingencies**
- **Disciplined Capital Deployment, Maintain Liquidity**
- **Benefiting From Repositioning and Productivity Actions**

- **Industry Highlights**

- **AERO – OE Production, Defense Budget Up; Slower Global Flying Hours**
- **ACS – Continued Solutions Growth; Some Products Softening**
- **TS – Reduced Global Production and Diesel Penetration**
- **SM – Strong Demand For UOP Solutions; Weaker Commodity Markets**

*2009 Outlook Call – December 9th*

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

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

**Honeywell**

(\$M)	<b>3Q07</b>	<b>3Q08</b>
<b>Sales</b>	<b>\$8,735</b>	<b>\$9,275</b>
<b>Cost of Products and Services Sold</b>	<b>(6,646)</b>	<b>(7,476)</b>
<b>Selling, General and Administrative Expenses</b>	<b>(1,144)</b>	<b>(1,309)</b>
<b>Operating Income</b>	<b>\$945</b>	<b>\$490</b>
<b>Stock Based Compensation <sup>(1)</sup></b>	<b>13</b>	<b>31</b>
<b>Repositioning and Other <sup>(1, 2)</sup></b>	<b>104</b>	<b>601</b>
<b>Pension and OPEB Expense <sup>(1)</sup></b>	<b>105</b>	<b>36</b>
<b>Segment Profit</b>	<b>\$1,167</b>	<b>\$1,158</b>
<b>Operating Income</b>	<b>\$945</b>	<b>\$490</b>
<b>÷ Sales</b>	<b>\$8,735</b>	<b>\$9,275</b>
<b>Operating Income Margin %</b>	<b>10.8%</b>	<b>5.3%</b>
<b>Segment Profit</b>	<b>\$1,167</b>	<b>\$1,158</b>
<b>÷ Sales</b>	<b>\$8,735</b>	<b>\$9,275</b>
<b>Segment Profit Margin %</b>	<b>13.4%</b>	<b>12.5%</b>

(1) Included in cost of products and services sold and selling, general and administrative expenses  
(2) Includes repositioning, asbestos, environmental expenses and equity income (beginning 1/1/2008)



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

**Honeywell**

<i>(\$M)</i>	<b>3Q07</b>	<b>3Q08</b>
Cash Provided by Operating Activities	\$910	\$769
Expenditures for Property, Plant and Equipment	(174)	(213)
Free Cash Flow	<u>736</u>	<u>556</u>
Cash Provided by Operating Activities	\$910	\$769
÷ Net Income	618	719
Operating Cash Flow Conversion %	<u>147%</u>	<u>107%</u>
Free Cash Flow	\$736	\$556
÷ Net Income	618	719
Free Cash Flow Conversion %	<u>119%</u>	<u>77%</u>

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

**Honeywell**

(\$B)	<u>2007</u>	<u>2008E</u>
Sales	\$34.6	~\$37.2
Cost of Products and Services Sold	(26.3)	~(28.4)
Selling, General and Administrative Expenses	(4.6)	~(5.1)
Operating Income	<u>\$3.7</u>	<u>~\$3.7</u>
Stock Based Compensation <sup>(1)</sup>	0.1	~0.1
Repositioning and Other <sup>(1, 2)</sup>	0.6	~1.1
Pension and OPEB Expense <sup>(1)</sup>	0.3	~0.1
Segment Profit	<u>\$4.7</u>	<u>~\$5.0</u>
Operating Income	\$3.7	~\$3.7
÷ Sales	<u>\$34.6</u>	<u>~\$37.2</u>
Operating Income Margin %	<u>10.7%</u>	<u>~10.2%</u>
Segment Profit	\$4.7	~\$5.0
÷ Sales	<u>\$34.6</u>	<u>~\$37.2</u>
Segment Profit Margin %	<u>13.5%</u>	<u>~13.3%</u>

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

(2) Includes repositioning, asbestos, environmental expenses and equity income (beginning 1/1/2008)

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

**Honeywell**

<b>(\$B)</b>	<b>2007</b>	<b>2008E</b>
Cash Provided by Operating Activities	\$3.9	~\$4.1
Expenditures for Property, Plant and Equipment	(0.8)	~(0.9)
<b>Free Cash Flow</b>	<b>\$3.1</b>	<b>~\$3.2</b>
Cash Provided by Operating Activities	\$3.9	~\$4.1
÷ Net Income	\$2.4	~\$2.8
<b>Operating Cash Flow Conversion %</b>	<b>160%</b>	<b>~146%</b>
Free Cash Flow	\$3.1	~\$3.2
÷ Net Income	\$2.4	~\$2.8
<b>Free Cash Flow Conversion %</b>	<b>129%</b>	<b>~114%</b>

# Reconciliation of Adjusted Aerospace Sales and Segment Profit to Reported Aerospace Sales and Segment Profit

**Honeywell**

3Q08 Aerospace, \$M	Sales			Segment Profit			Segment Margin		
	2007	2008	V%	2007	2008	V%	2007	2008	V
Adjusted	3,023	3,171	5%	552	582	5%	18.3%	18.4%	10 bps
Acquisitions / Divestitures, net	79	4		8	(1)				
B&GA Accruals	-	(65)		-	(65)				
Reported	3,102	3,110	0%	560	516	-8%	18.1%	16.6%	-150 bps

3Q08 Sales Growth	AT&R OE	AT&R AM	B&GA OE	B&GA AM
Adjusted	7%	5%	15%	3%
Acquisitions / Divestitures, net	-18%	-1%	0%	0%
B&GA Accruals	0%	0%	-19%	0%
Reported	-11%	4%	-4%	3%

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