

# **Honeywell**

## **Third Quarter 2007**

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**Earnings Release**

**October 19, 2007**

# 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 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.*

# 3Q Overview

Honeywell

- **Financial Performance**

- **10% Sales Growth, Strong Organic Growth in Each Business**
- **Segment Profit up 13%, EPS up 23%**
- **Free Cash Flow up 16%, up 31% YTD**
- **FY 2007 EPS Guidance \$3.14 - \$3.16, High End of Range**

- **Highlights**

- **Franchise Strength: A350 XWB, Other Multi-Year Contract Wins**
- **Global Reach: Growth Across All Geographies; EMEA, AP Strong**
- **Effective Capital Allocation: ~\$1B\* Acquisitions, \$3.8B Repurchases YTD**
- **Well Positioned: Market Conditions Remain Favorable Overall**

*\*Includes Hand Held Products Inc. Acquisition Announced on October 15, 2007.*

# Financial Summary

Honeywell

| <i>(M)</i>            | <u>3Q06</u> | <u>3Q07</u> |   |
|-----------------------|-------------|-------------|---|
| <b>Sales</b>          | \$7,952     | \$8,735     | <ul style="list-style-type: none"> <li>• 10% Growth                             <ul style="list-style-type: none"> <li>◆ 9% Organic                                     <ul style="list-style-type: none"> <li>➢ 2% F/X Impact</li> </ul> </li> </ul> </li> </ul> |
| <b>Segment Profit</b> | \$1,029     | \$1,167     | <ul style="list-style-type: none"> <li>• 13% Growth</li> </ul>  |
| <i>Margin %</i>       | 12.9%       | 13.4%       | <ul style="list-style-type: none"> <li>• +50 bps</li> </ul>   |
| <b>Net Income</b>     | \$541       | \$618       | <ul style="list-style-type: none"> <li>• 14% Growth*</li> </ul>   |
| <b>EPS</b>            | \$0.66      | \$0.81      | <ul style="list-style-type: none"> <li>• 23% Growth</li> </ul>  |
| <b>Free Cash Flow</b> | \$634       | \$736       | <ul style="list-style-type: none"> <li>• 16% Increase                             <ul style="list-style-type: none"> <li>◆ 119% Conversion</li> </ul> </li> </ul>   |

\* Net Income up 18%, excluding \$19M of additional interest expense (net of tax) from 2Q07 share repurchases (40.4 million shares)

*Another Terrific Quarter*

# Aerospace

Honeywell

| <i>(M)</i>  | <u>3Q06</u> | <u>3Q07</u> | <u>V'06</u> |  |
|---|-------------|-------------|-------------|--|
| <b>Sales</b>  | \$ 2,854    | \$ 3,102    | 9%          | <p><b><u>Financial Highlights</u></b></p> <ul style="list-style-type: none"> <li>• <b>Sales up 9%</b> <ul style="list-style-type: none"> <li>◆ Organic 7%</li> <li>- <b>Air Transport &amp; Regional up 7%</b> <ul style="list-style-type: none"> <li>◆ OE up 9%</li> <li>◆ Aftermarket up 6%</li> </ul> </li> <li>- <b>Business &amp; General Aviation up 13%</b> <ul style="list-style-type: none"> <li>◆ OE up 6%</li> <li>◆ Aftermarket up 22%</li> </ul> </li> <li>- <b>Defense &amp; Space up 8%</b></li> </ul> </li> <li>• <b>Segment Profit up 12%</b> <ul style="list-style-type: none"> <li>◆ <b>50 bps margin expansion</b> <ul style="list-style-type: none"> <li>+ Productivity</li> <li>+ Volume / price</li> <li>- Inflation</li> </ul> </li> </ul> </li> </ul> |
| <b>Segment Profit</b>   | \$ 501      | \$ 560      | 12%         |  |
| <b>Margin</b>   | 17.6%       | 18.1%       | 50 bps      |  |
|   |             |             |             |  |
| <b><u>Business Highlights</u></b>   |             |             |             |  |
| <ul style="list-style-type: none"> <li>+ <b>A350 XWB win reinforces franchise strength</b></li> <li>+ <b>Strong Commercial growth</b> <ul style="list-style-type: none"> <li>◆ OE up 8%</li> <li>◆ AM up 10% (AT&amp;R flight hours up ~7%)</li> </ul> </li> <li>+ <b>Business jet industry outlook robust</b></li> <li>+ <b>Dimensions International integration on-track</b></li> </ul> |             |             |             |  |

*Continued Broad Based Strength*

# Automation And Control Solutions

Honeywell

| <i>(M)</i>  | <u>3Q06</u> | <u>3Q07</u> | <u>V'06</u> | <u><i>Financial Highlights</i></u>  |
|---|-------------|-------------|-------------|---|
| <b>Sales</b>  | \$ 2,844    | \$ 3,196    | 12%         | <ul style="list-style-type: none"> <li>• <b>Sales up 12%</b> <ul style="list-style-type: none"> <li>◆ Organic 11%                             <ul style="list-style-type: none"> <li>➢ F/X Impact 4%</li> </ul> </li> </ul> </li> <li>- <b>Products up 9%</b> <ul style="list-style-type: none"> <li>◆ Life Safety and Security driving strong performance</li> </ul> </li> <li>- <b>Solutions up 19%</b> <ul style="list-style-type: none"> <li>◆ Continued strong growth in Energy Retrofit and Refining</li> </ul> </li> </ul> |
| <b>Segment Profit</b>   | \$ 330      | \$ 373      | 13%         | <ul style="list-style-type: none"> <li>• <b>Segment Profit up 13%</b> <ul style="list-style-type: none"> <li>◆ <b>10 bps margin expansion</b> <ul style="list-style-type: none"> <li>+ Volume</li> <li>+ Productivity</li> <li>- Inflation</li> <li>- Mix</li> </ul> </li> </ul> </li> </ul>  |
| <b>Margin</b>   | 11.6%       | 11.7%       | 10 bps      |   |
| <u><b>Business Highlights</b></u>   |             |             |             |   |
| <ul style="list-style-type: none"> <li>+ Broad based global growth; all regions up</li> <li>+ Strength across Products and Solutions                             <ul style="list-style-type: none"> <li>◆ Solutions leading growth</li> </ul> </li> <li>+ Continued acquisition/integration execution</li> <li>- US residential softness</li> </ul> |             |             |             |   |

*Global Presence Driving Growth*

# Transportation Systems

Honeywell

| <i>(M)</i>                                 | <u>3Q06</u> | <u>3Q07</u> | <u>V'06</u> | <u>Financial Highlights</u>               |   |
|--|-------------|-------------|-------------|---|---|
| Sales                                      | \$ 1,111    | \$ 1,226    | 10%         | • Sales up 10%                            | ◆ F/X impact 4%   |
| Segment Profit                             | \$ 129      | \$ 124      | -4%         | - Turbo up 15%                            | ◆ Passenger vehicle growth partially offset by anticipated commercial decline |
| Margin                                     | 11.6%       | 10.1%       | -150 bps    | - CPG up 4%                               | ◆ F/X and price more than offset lower volume                                 |
| <u>Business Highlights</u>                 |             |             |             | • Segment Profit down 4%                  | ◆ 150 bps margin contraction  |
| + Passenger Vehicle strength               |             |             |             | + Turbo productivity / pricing            | - Inflation   |
| ◆ Increased diesel penetration             |             |             |             | - Platform investments, new product costs | - CPG Plant Performance   |
| ◆ Europe, Asia Pacific growth              |             |             |             |   |   |
| - Commercial Vehicle impact                |             |             |             |   |   |
| - Continued CPG challenges                 |             |             |             |   |   |
| ◆ Operational issues and new product costs |             |             |             |   |   |

*Strong Turbo; CPG Challenges*

# Specialty Materials

Honeywell

| <i>(M)</i>  | <u>3Q06</u> | <u>3Q07</u> | <u>V'06</u> | <u><i>Financial Highlights</i></u>   |
|---|-------------|-------------|-------------|--|
| <b>Sales</b>  | \$ 1,143    | \$ 1,211    | 6%          | <ul style="list-style-type: none"> <li>• <b>Sales up 6%</b> <ul style="list-style-type: none"> <li>- <b>UOP up 28%</b> <ul style="list-style-type: none"> <li>◆ Broad based product (primarily catalysts) and project growth</li> </ul> </li> <li>- <b>Fluorine Products down 15%</b></li> <li>- <b>Resins and Chemicals down 6%</b></li> <li>- <b>Specialty Products up 6%</b></li> </ul> </li> </ul> |
| <b>Segment Profit</b>   | \$ 110      | \$ 157      | 43%         | <ul style="list-style-type: none"> <li>• <b>Segment Profit up 43%</b> <ul style="list-style-type: none"> <li>◆ <b>340 bps margin expansion</b> <ul style="list-style-type: none"> <li>+ Productivity</li> <li>+ Volume</li> <li>+ Price</li> <li>- Inflation</li> </ul> </li> </ul> </li> </ul>  |
| <b>Margin</b>   | 9.6%        | 13.0%       | 340 bps     |  |
| <u><b>Business Highlights</b></u>   |             |             |             |  |
| <ul style="list-style-type: none"> <li>+ Continued strong UOP performance</li> <li>+ Robust global demand</li> <li>+ Pricing actions offsetting raws</li> <li>- Continued US residential softness impacting Fluorines</li> <li>- Planned R&amp;C plant maintenance</li> </ul> |             |             |             |  |

*UOP Driving Growth*



# 2007 Financial Summary

Honeywell

| <b>(B)</b>             | <b><u>9 Mos'07</u></b> | <b><u>V'2006</u></b> | <b><u>2007E</u></b> | <b><u>V'2006</u></b> |
|------------------------|------------------------|----------------------|---------------------|----------------------|
| <b>Sales</b>           |                        |                      |                     |                      |
| Aerospace              | \$9.0                  | 10%                  | ~\$12.2             | ~10%                 |
| Automation & Control   | \$9.0                  | 13%                  | ~\$12.3             | ~12%                 |
| Transportation Systems | \$3.7                  | 8%                   | ~\$4.9              | ~7%                  |
| Specialty Materials    | <u>\$3.6</u>           | 2%                   | <u>~\$4.8</u>       | ~3%                  |
| Total Honeywell        | \$25.3                 | 10%                  | ~\$34.2             | ~9%                  |
| <b>Segment Profit</b>  | \$3.4                  | 13%                  | ~\$4.6              | ~13%                 |
| <i>Segment Margin</i>  | 13.4%                  | +50 bps              | ~13.5%              | 50 bps +             |
| <b>EPS</b>             | \$2.25                 | 24%                  | \$3.14 - \$3.16     | ~25%                 |
| <b>FCF</b>             | \$2.0                  | 31%                  | ~\$3.0              | ~20%                 |

*4Q07 Sales ~\$8.9B*

*4Q07 EPS \$0.89 - 0.91, Up 24 - 26%*

# 2008 Economic / Industry Outlook

Honeywell

- **Overall Outlook**
  - Developed Markets Slower Growth; Developing Markets Continued Strength
  - Some Industry Specific Weakness (e.g. US Residential, US Automotive)
  - Macro Trends Favorable (Safety, Security, Energy Efficiency, Air Travel)
  - Continued Demand for Honeywell Technologies, Products, Services
- **Industry Highlights**
  - AERO – OE Production, Global Flying Hours, Defense Budget Up
  - ACS – Global Growth; Increased Infrastructure Spend
  - TS – PV Diesel Penetration and New Platforms; CV Rebound
  - SM – Global Growth; Increased Energy Demand; Capacity Expansion
- **2008 Outlook Call – December 12th**

*Honeywell Well Positioned*

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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

| <u>(\$M)</u>                                   | <u>3Q06</u>    | <u>3Q07</u>    |
|--|----------------|----------------|
| Sales  | \$7,952        | \$8,735        |
| Cost of Products and Services Sold             | (6,111)        | (6,646)        |
| Selling, General and Administrative Expenses   | (1,037)        | (1,144)        |
| Operating Income                               | <u>\$804</u>   | <u>\$945</u>   |
| FAS 123R, Stock Option Expense <sup>(1)</sup>  | \$20           | \$13           |
| Repositioning and Other Charges <sup>(1)</sup> | 105            | 104            |
| Pension and OPEB Expense <sup>(1)</sup>        | 100            | 105            |
| Segment Profit                                 | <u>\$1,029</u> | <u>\$1,167</u> |
| Operating Income                               | \$804          | \$945          |
| ÷ Sales  | <u>\$7,952</u> | <u>\$8,735</u> |
| Operating Income Margin %                      | <u>10.1%</u>   | <u>10.8%</u>   |
| Segment Profit                                 | \$1,029        | \$1,167        |
| ÷ Sales  | <u>\$7,952</u> | <u>\$8,735</u> |
| Segment Profit Margin %                        | <u>12.9%</u>   | <u>13.4%</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>3Q06</u> | <u>3Q07</u> |
|--|-------------|-------------|
| Cash Provided by Operating Activities          | \$796       | \$910       |
| Expenditures for Property, Plant and Equipment | (162)       | (174)       |
| Free Cash Flow                                 | <u>634</u>  | <u>736</u>  |
| <br>   |             |             |
| Cash Provided by Operating Activities          | \$796       | \$910       |
| ÷ Net Income                                   | <u>541</u>  | <u>618</u>  |
| Operating Cash Flow Conversion %               | <u>147%</u> | <u>147%</u> |
| <br>   |             |             |
| Free Cash Flow                                 | \$634       | \$736       |
| ÷ Net Income                                   | <u>541</u>  | <u>618</u>  |
| Free Cash Flow Conversion %                    | <u>117%</u> | <u>119%</u> |

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

**Honeywell**

| <i>(\$M)</i>                                   | <b>9 Mos'06</b> | <b>9 Mos'07</b> |
|--|-----------------|-----------------|
| Sales  | \$23,091        | \$25,314        |
| Cost of Products and Services Sold             | (17,738)        | (19,287)        |
| Selling, General and Administrative Expenses   | (3,125)         | (3,360)         |
| Operating Income                               | <u>\$2,228</u>  | <u>\$2,667</u>  |
| FAS 123R, Stock Option Expense <sup>(1)</sup>  | \$61            | \$54            |
| Repositioning and Other Charges <sup>(1)</sup> | 350             | 408             |
| Pension and OPEB Expense <sup>(1)</sup>        | 344             | 251             |
| Segment Profit                                 | <u>\$2,983</u>  | <u>\$3,380</u>  |
| Operating Income                               | \$2,228         | \$2,667         |
| ÷ Sales  | \$23,091        | \$25,314        |
| Operating Income Margin %                      | <u>9.6%</u>     | <u>10.5%</u>    |
| Segment Profit                                 | \$2,983         | \$3,380         |
| ÷ Sales  | \$23,091        | \$25,314        |
| Segment Profit Margin %                        | <u>12.9%</u>    | <u>13.4%</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**

| <i>(\$M)</i>                                   | <u>9 Mos'06</u> | <u>9 Mos'07</u> |
|--|-----------------|-----------------|
| Cash Provided by Operating Activities          | \$1,970         | \$2,471         |
| Expenditures for Property, Plant and Equipment | (433)           | (457)           |
| Free Cash Flow                                 | <u>1,537</u>    | <u>2,014</u>    |
| <br>   |                 |                 |
| Cash Provided by Operating Activities          | \$1,970         | \$2,471         |
| ÷ Net Income                                   | \$1,498         | \$1,755         |
| Operating Cash Flow Conversion %               | <u>132%</u>     | <u>141%</u>     |
| <br>   |                 |                 |
| Free Cash Flow                                 | \$1,537         | \$2,014         |
| ÷ Net Income                                   | \$1,498         | \$1,755         |
| Free Cash Flow Conversion %                    | <u>103%</u>     | <u>115%</u>     |

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

**Honeywell**

| <b>(\$B)</b>                                   | <b>2006</b>   | <b>2007E</b>   |
|--|---------------|----------------|
| Sales  | \$31.4        | ~\$34.2        |
| Cost of Products and Services Sold             | (24.1)        | ~(25.9)        |
| Selling, General and Administrative Expenses   | (4.2)         | ~(4.6)         |
| Operating Income                               | <u>\$3.1</u>  | <u>~\$3.7</u>  |
| FAS 123R, Stock Option Expense <sup>(1)</sup>  | \$0.1         | ~0.1           |
| Repositioning and Other Charges <sup>(1)</sup> | 0.5           | ~0.5           |
| Pension and OPEB Expense <sup>(1)</sup>        | 0.4           | ~0.3           |
| Segment Profit                                 | <u>\$4.1</u>  | <u>~\$4.6</u>  |
| Operating Income                               | \$3.1         | ~\$3.7         |
| ÷ Sales  | <u>\$31.4</u> | <u>~\$34.2</u> |
| Operating Income Margin %                      | <u>9.9%</u>   | <u>~10.8%</u>  |
| Segment Profit                                 | \$4.1         | ~\$4.6         |
| ÷ Sales  | <u>\$31.4</u> | <u>~\$34.2</u> |
| Segment Profit Margin %                        | <u>13.0%</u>  | <u>~13.5%</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**

| <b>(\$B)</b>                                   | <b>2006</b>  | <b>2007E</b>  |
|--|--------------|---------------|
| Cash Provided by Operating Activities          | \$3.2        | ~\$3.8        |
| Expenditures for Property, Plant and Equipment | (0.7)        | ~(0.8)        |
| <b>Free Cash Flow</b>                          | <b>\$2.5</b> | <b>~\$3.0</b> |
| <br>   |              |               |
| Cash Provided by Operating Activities          | \$3.2        | ~\$3.8        |
| ÷ Net Income                                   | \$2.1        | ~\$2.4        |
| <b>Operating Cash Flow Conversion %</b>        | <b>154%</b>  | <b>~158%</b>  |
| <br>   |              |               |
| Free Cash Flow                                 | \$2.5        | ~\$3.0        |
| ÷ Net Income                                   | \$2.1        | ~\$2.4        |
| <b>Free Cash Flow Conversion %</b>             | <b>119%</b>  | <b>~125%</b>  |

**Honeywell**