

# Citigroup Industrial Manufacturing Conference

**Roger Fradin**

*President and CEO, Automation and Control Solutions*

**March 6, 2007**

**Honeywell**

# Forward Looking Statements

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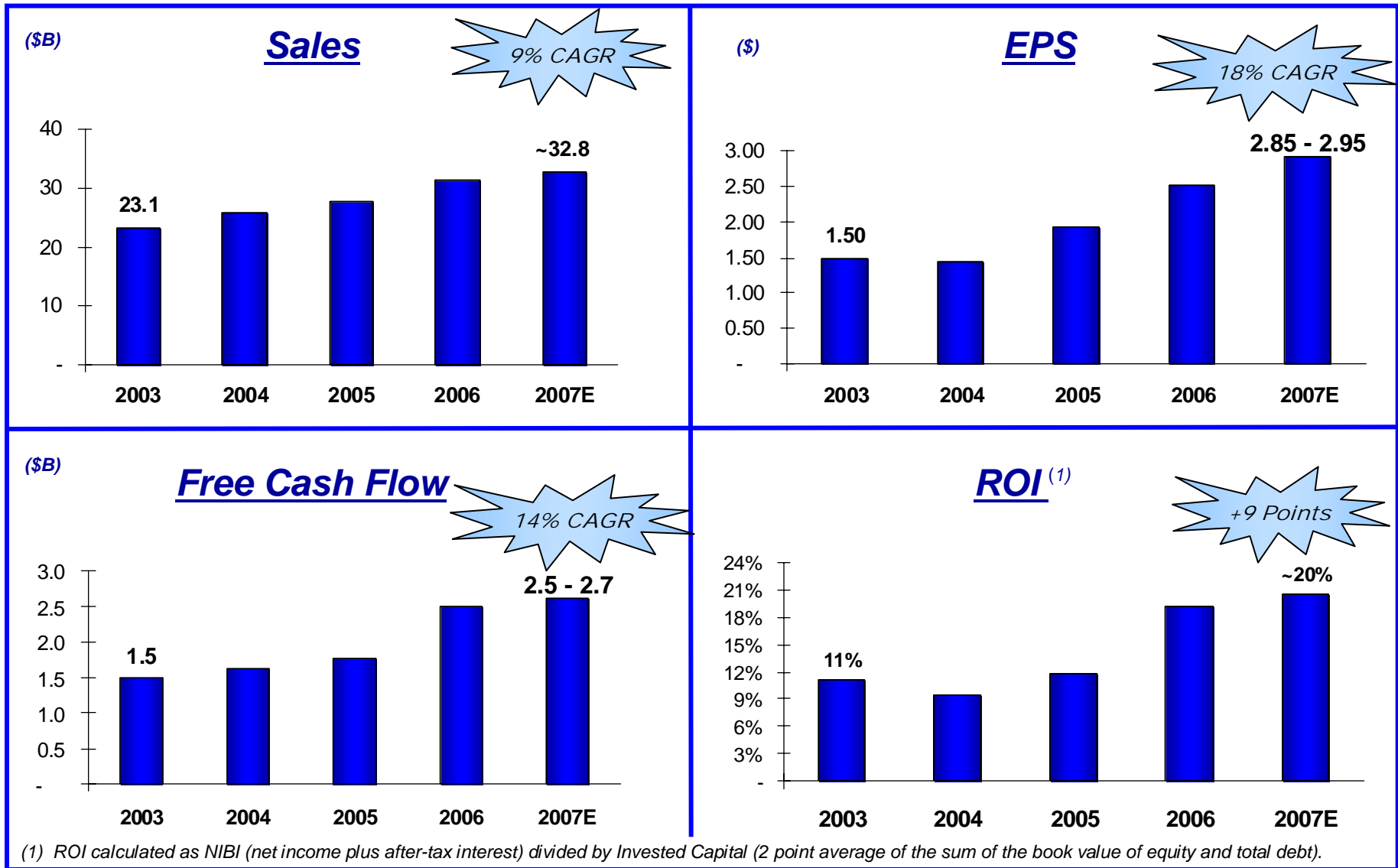
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*This report contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of fact, that address activities, events or developments that we or our management intend, 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.*

- **Portfolio Strengthened And Aligned To Macro Trends**
- **Delivering Strong Organic Growth, Margin Expansion**
- **Disciplined And Balanced Cash Deployment**
- **Establishing Performance Culture**
- **Focused On Value Creation**

# 2003 – 2007 Financials

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*Building Track Record Of Financial Performance*

# Portfolio Overview



Aerospace



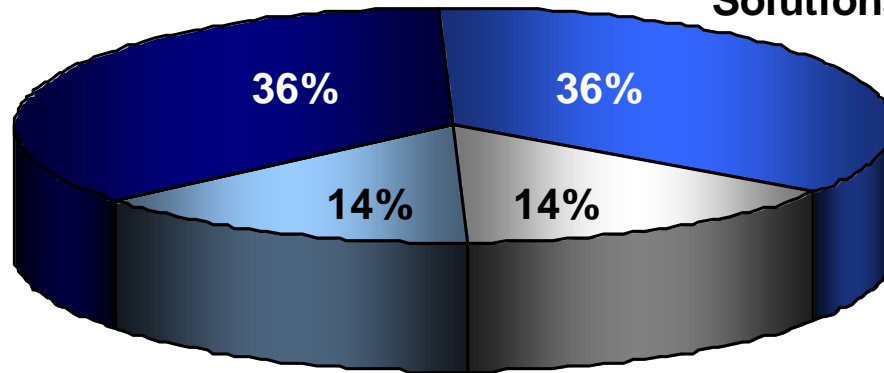
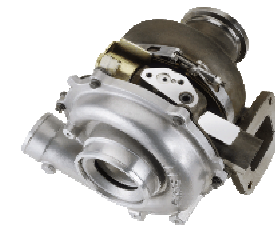
Automation & Control Solutions



Specialty Materials



Transportation Systems



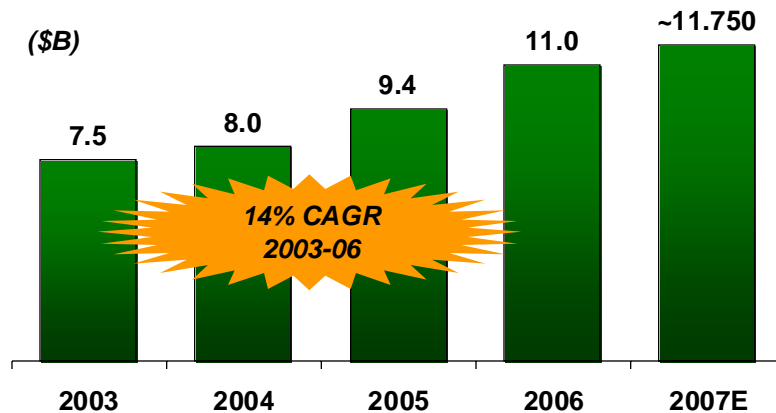
*~\$32.8B In Sales In 2007*

\* Pie Chart calculated using 2007E Sales

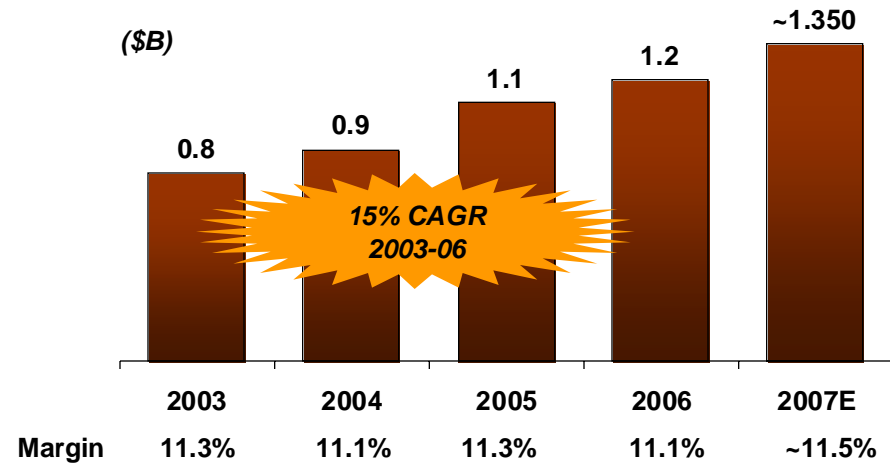
# ACS – Summary

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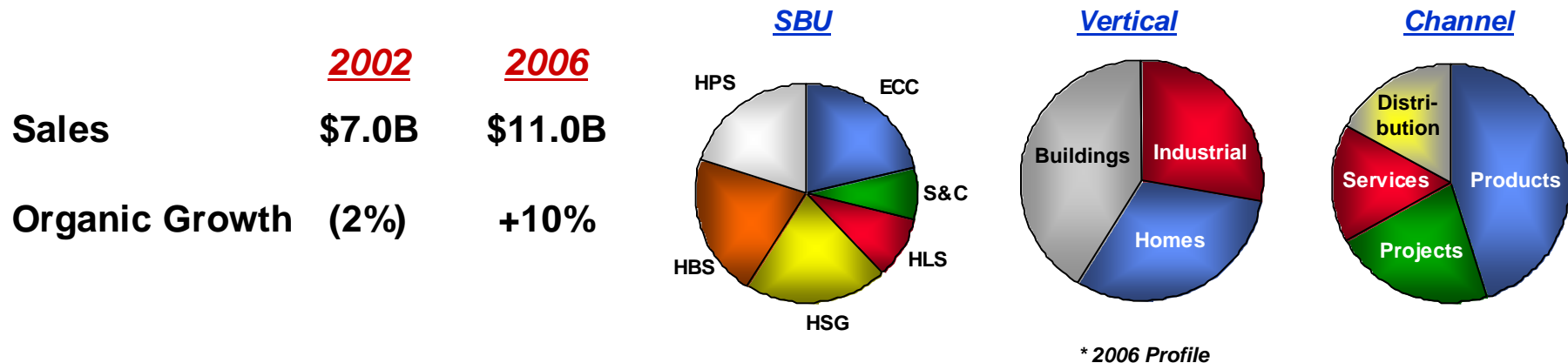
## Sales



## Segment Profit



## Transformation, Profile



*Positioned To Outperform*

# ACS... Sustaining The Transformation

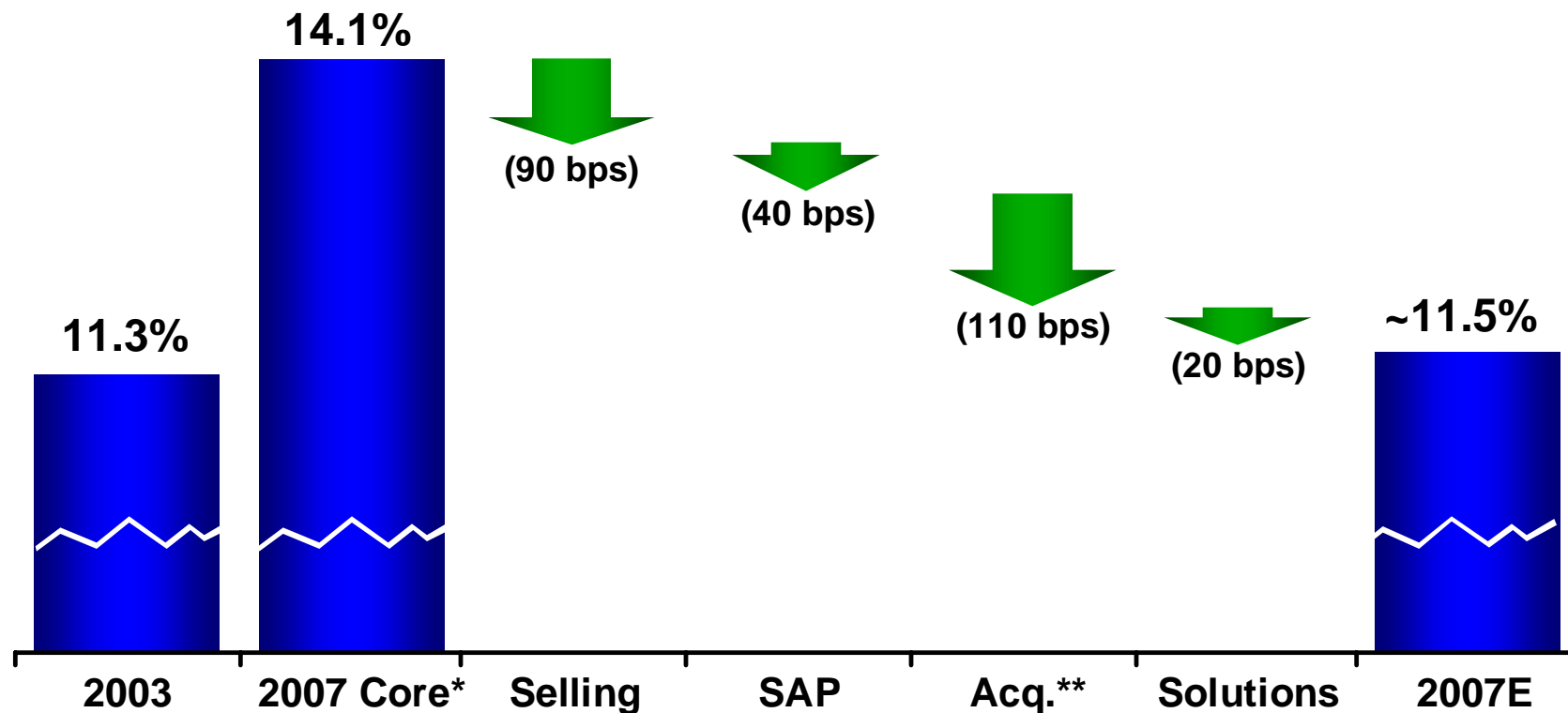
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- **5%+ Organic Growth Will Continue**
  - Good Markets and Macro-trends (e.g., Security, Energy, Productivity, Safety, Convenience / Control)
  - Focus on Fastest Growing Segments (e.g., China, India, Infrastructure)
  - Gain Share on Strength of Brand, Products / Solutions and Channel Partners
  - Expand the Size of the Pie (e.g., Labor Replacement, New Services)
- **Segment Profit Will Grow Even Faster**
  - Fixed Cost Leverage From Growth
  - Productivity From Key Initiatives (HOS, FT) and SAP

*A Great Foundation For The Future*

# 2003 – 2007 ACS Margin Expansion

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- Expanded Margins in Core by 280 bps Since 2003
- Investments Drive Future Growth and Margin Expansion

\* 2007 margin excluding investments for future growth and mix

\*\* Includes intangible amortization from acquisitions

*Margin Expansion And Investment For Future Growth*



# Competitive Landscape

Honeywell

	<i>Products</i>					<i>Projects &amp; Services</i>	
	<i>Home Comfort Controls</i>	<i>Building Controls</i>	<i>Sensing</i>	<i>Security</i>	<i>Fire Systems</i>	<i>Process Solutions</i>	<i>Building Solutions</i>
<b>Honeywell</b>	✓	✓	✓	✓	✓	✓	✓
<b>Emerson</b>	✓					✓	
<b>GE</b>			✓	✓	✓		
<b>Johnson Controls</b>		✓					✓
<b>Schneider</b>		✓	✓	✓			✓
<b>Siemens</b>	✓	✓	✓		✓	✓	✓
<b>Tyco</b>				✓	✓		
<b>UTC</b>	✓	✓		✓	✓		✓
<i>Industry Growth %</i>	2-4	2-4	5	5-6	2-5	2-4	4
<i>ACS 2006 Orders Growth %</i>		4	10	11	9	17	12

*Expanding Leadership Position In All Segments*

# Growth Focus – Emerging Markets (~\$1B Sales) **Honeywell**

## Overview

- **China** – ~9% GDP Growth, Even Stronger in Infrastructure; Localization Key
- **India** – ~8% GDP Growth, Construction 10%, Strong Energy Infrastructure Growth
- **Middle East** – Major Projects Growing 15% (Airports, Buildings, Oil & Gas)

## Middle East

### *Leveraging Installed Base*

- #1 Position in Process and Building Solutions, Life Safety, Comfort Control
- O&G and Buildings Booming
- Preference for High-End Western Goods
- Well-Established Channel Partners

## India

### *Strong Position Getting Stronger*

- Build Upon #1 Position in Process Solutions, Building Solutions, Life Safety
- Infrastructure Focus
- New Investments in Security, Life Safety, Wiring
- Engineering / R&D Center Key Advantage

## China

### *Remains Biggest Opportunity*

- Aggressive Product Localization
- New Design Centers in Shanghai and Nanjing
- Infrastructure Focus

*Investing To Outperform In Emerging Markets*

# Growth Focus – Build Presence In Buildings Honeywell

## Broad Content Coverage

### Controls



### Fire



### Security



### Wiring



### Integrated Systems



### Services

- Mini-Retrofit
- Mechanical



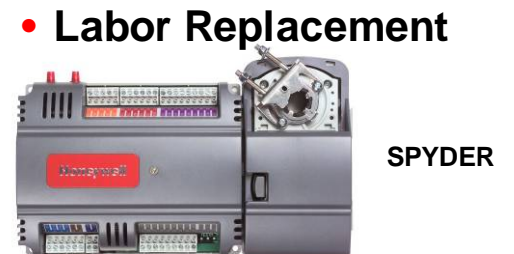
## Broad Market Coverage

### Multi-Channel / Multi-Brand Strategy

- Excellent Channel Partners and Portfolio of Brands Covering Indirect Channel
- HBS Direct for High-End, Sophisticated Segments

## Capitalizing on Trends

- Mega-Trends Favor ACS Offerings
  - Energy Cost / Scarcity
  - Security / Safety
  - End-User Influence
  - Regulation / Codes
- Leading With Innovation



- Labor Replacement
- Tridium Provides World-Class Integration Platform

*Well Positioned To Grow*

# Growth Focus – Expand Content In The Home Honeywell

## Strong Starting Position

Premier Brand **Honeywell**

Strong Channel Partners

Comfort Control



Security & Fire



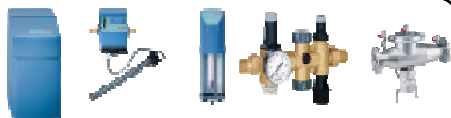
Zoning & IAQ



Combustion



Water



Structured Wiring



## Key New Products

GSM Radio



PowerVent Water Heater



6270 TOUCHCENTER



## Capitalizing on Trends

- Convenience / Control
- Energy Efficiency
- Peace of Mind
- Health / Environment
- Disruptive Technology Shifts (e.g., VoIP)

*Strong Presence Getting Stronger*

# Growth Focus – Sell More To Installed Base

Honeywell

## Honeywell Process Solutions (HPS)

- \$17B Installed Base
- 5,000 Customers
- Global Service Footprint



### Growth Initiatives

- Migrate / Expand DCS Base
- Advanced Solutions
- Corrosion Monitoring
- Industrial Wireless
- Gas Detection
- UOP



## Honeywell Building Solutions (HBS)

- Great Relationships with Existing Customer Base
- >25,000 Service Contracts



### Growth Initiatives

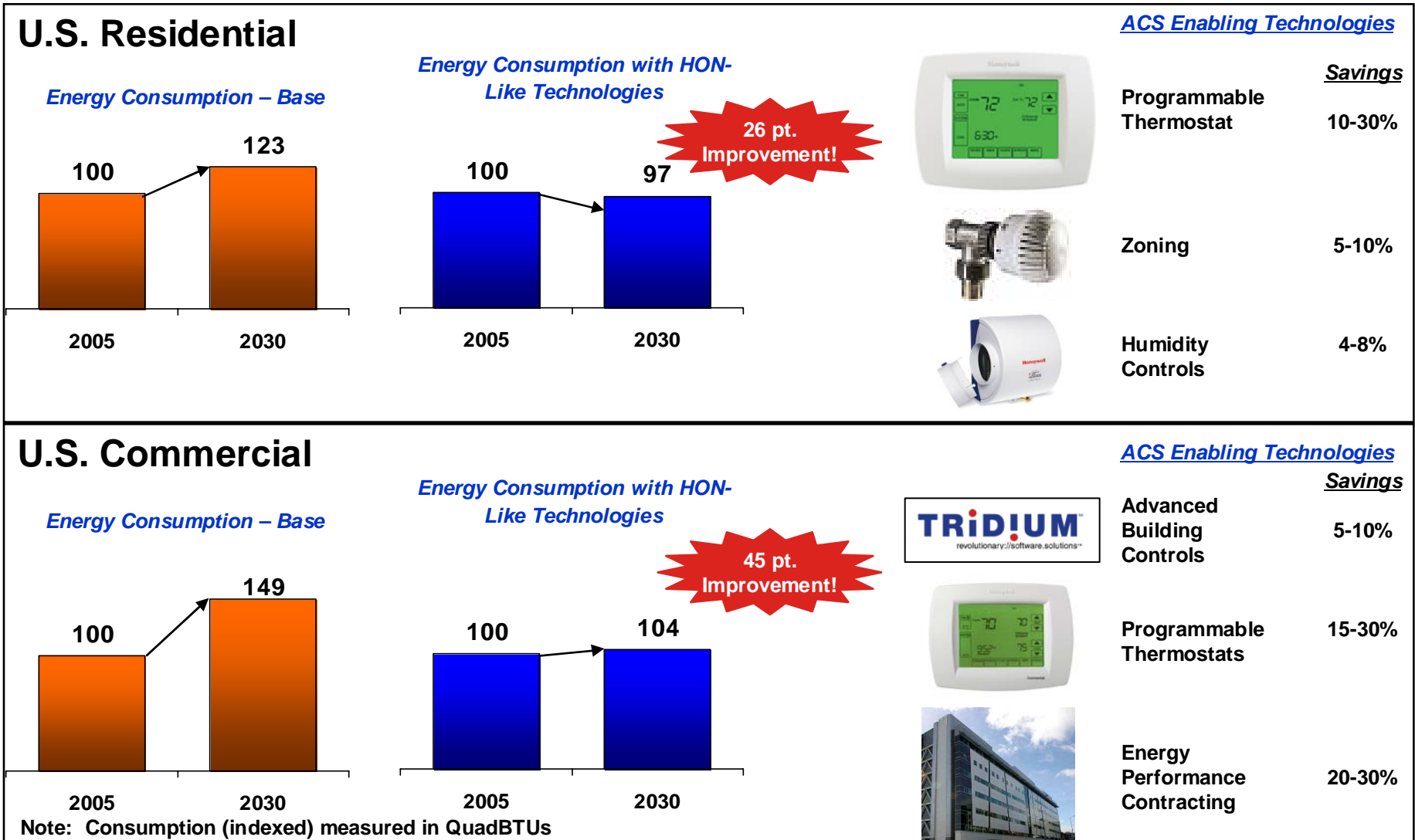
- Service-Base Management
- Mini-Retrofit
- Retro-Commissioning
- Mec. Maintenance
- Additional Content (e.g., Life Safety)



*Broader And Deeper Relationships With Customers*

# Growth Focus – Enable Energy Efficiency

Honeywell



*ACS ... Enabling Increased Energy Efficiency*

# Growth Focus – Gas Detection

## Overview

- ~\$1.9B Industry, 7% CAGR
  - Fixed / Portable Market Split 50/50

Fixed



Portable



- Key Trends / Needs
  - Demand for Portable / Personal Protection
  - Ease of Use - Smaller Size, Greater Uptime
  - Higher Reliability - Fewer False Alarms
  - Increasing Regulations Driving Growth

## ACS Positioned to Win

- Leading Position ~\$400M Sales
- Synergies with All ACS SBUs

Consumer CO



Transportation Gas Sensor



Fire & Gas Control System



*Big New Growth Space For ACS*

# Growth Focus – More Sensors Everywhere

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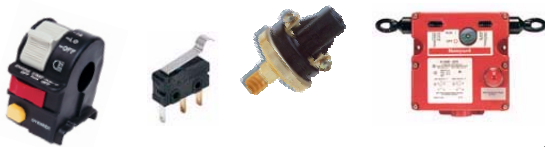
## Extensive Portfolio

#1  
Globally **Honeywell**

Speed & Direction, Position, Pressure,  
Thermal, Test & Measurement



Basic / Limit Switches, Custom  
Controls, Aerospace Products



## Investing in Next Generation of Sensors

Consumer  
Sensor  
Module



Smart  
Position  
Sensor



Medical Respiratory



## Focused on Key Verticals

### Consumer Electronics

- Mobile Phones

### Industrial

- Embedded OEM and Intelligent Sensing

### Medical

- Respiratory

### Transportation

- Diesel Emissions

### Aerospace

- Pressure Sensors and Switches

## Capitalizing on Trends...

- Megatrends Favor ACS Offerings
  - Safety / Security
  - Monitor & Control
  - Productivity
  - Energy Efficiency
- Leading with Innovation
  - Wireless
  - Miniaturization
  - Low Cost
  - Low Power
  - Rugged
  - Non-Intrusive

*Well Positioned To Capitalize On Favorable Trends*




# Growth Focus – Key Technologies

	<i>Market / Technology Trends</i>	<i>Key ACS Programs</i>
<b>Sensors</b> 	<ul style="list-style-type: none"> <li>• Miniaturization</li> <li>• Wireless / Remote Sensing</li> <li>• Gas Detection and Evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Emissions Sensors</li> <li>• Gas / Chem / Fire Sensors</li> <li>• SAW Pressure and Torque</li> <li>• Nano-Enabled Sensors</li> <li>• Micro Gas Chromatograph</li> </ul>
<b>Wireless</b> 	<ul style="list-style-type: none"> <li>• Robust / Harsh Environments</li> <li>• Self-Defining Networks</li> <li>• Leverage Global Platforms (802.11, 802.15.4, GSM)</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial Wireless (RAPTOR)</li> <li>• Wireless Location and Tracking</li> <li>• Next Generation Wireless</li> <li>• Wireless Home Systems</li> </ul>
<b>Security</b> 	<ul style="list-style-type: none"> <li>• Crowd Security / Surveillance</li> <li>• Identity Tracking</li> <li>• Biometric Access Control</li> </ul>	<ul style="list-style-type: none"> <li>• CFAIRS</li> <li>• Appearance Models</li> <li>• Cyber Security</li> <li>• tHz Trace Detection</li> </ul>
<b>Knowledge Services</b> 	<ul style="list-style-type: none"> <li>• “Intuitive Controls”</li> <li>• Intelligibility</li> <li>• Usability</li> </ul>	<ul style="list-style-type: none"> <li>• First Responder 3D Display</li> <li>• Tools Usability</li> <li>• Non-Linear Controller</li> </ul>

*Investing To Secure Future ACS Growth*

# Growth – VPD™ (Thermostats)

**Beta**




- Designed in China
- Reuses 80% of Gamma
- 26% Cycle Time Reduction

**Commercial Vision Pro**



- Reuses 95% of Vision Pro
- Commercial Feature Set
- 75% Cycle Time Reduction

**Gamma**



- Reuses 80% of Delta
- 29% Cycle Time Reduction

**Vision Pro**



- Customization Capability
- 39% Cycle Time Reduction

## VPD™ Cycle Time Reduction Driven by Re-use

- Knowledge and Expertise
- Standard Circuits
- Modular, Re-usable Software

Supported by Electronics Excellence

**More New Products, Built Off Existing Platforms**



**Delta IAQ**



**Omega**



**EU Gamma**



**Vision Pro Wireless**

*VPD™ – Getting More Out Of Our Growth Investments*

# Margin Expansion – Key Initiatives

## Value Engineering

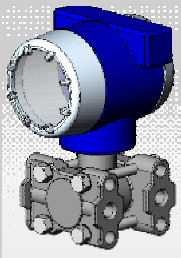
- 2006 VE Savings up 60% vs. 2005
- 80 Dedicated VE Resources

### VE Example #1 – HLS Fire Call Point



- Reduced Part Count by 92%
- Reduced Cost by 33%!

### VE Example #2 – HPS Transmitter



- Redesigned Meter Body and Purchased Components
- 30% Cost Reduction!

## SAP Implementation

- Kicked Off in 2005
- First Implementation Underway in UK
- Full Rollout Globally by 2010
- Will Deliver \$100M+ Savings
  - Finance, ISC, IT Primary Levers
  - Project Management for HBS / HPS
- Current ACS Structural Complexity
  - 100+ ACS Legacy ERPs
  - 800+ ACS Rooftops
- Best Practice Implementation
  - ~50% ACS SAP Leaders From Other SBGs With Implementation Experience

*Continued Progress In Key Areas*

# Margin Expansion – HOS

## Implementation Focus

Comprehensive Focus on a Common Operating System ... Not “Just” Lean & Six Sigma Tools

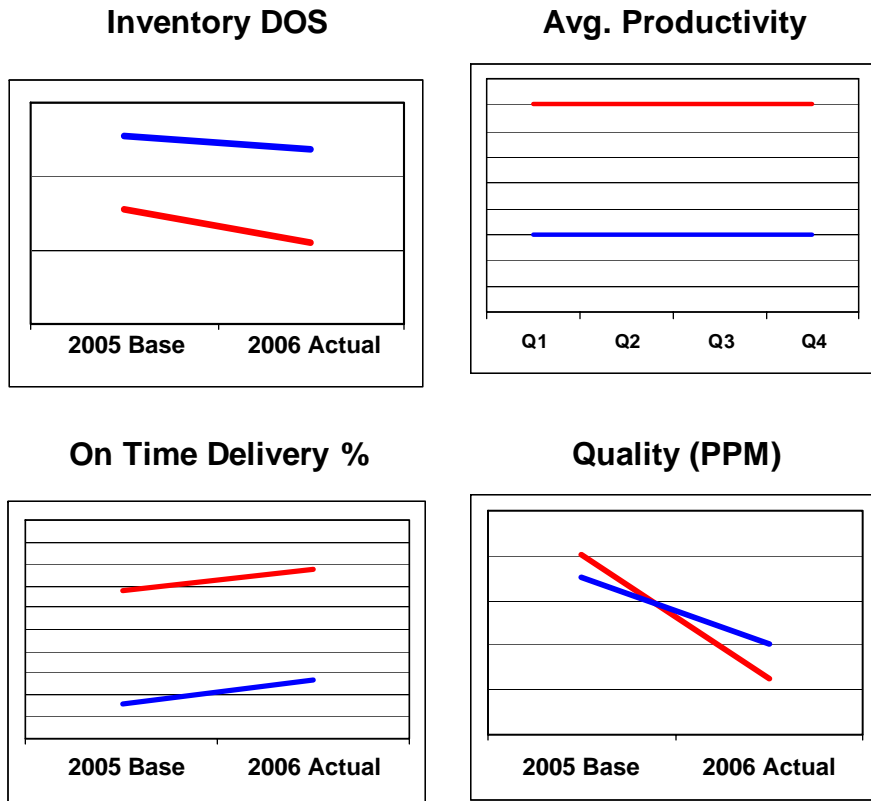
More Mature Sites Delivering Step-Change Results Across ACS

- **Emmen** – Improved Quality by 59%, Inventory by 52%
- **St Charles** – Improved Quality by 51%
- **Phx IM&C** – Improved Quality by 75%, Cost by 10%, Inventory by 24%
- **Freeport** – Improved Delivery by 7 Points, Cost by 9%

14 Factories Launched in 2006, Another 12 in 2007 Plus Pilots in Engineering and Distribution Centers

## 2006 Comparative Results

— HOS Phase 4 Sites — Non-HOS Manufacturing



*HOS And SIOP Readiness Assessments... Enablers Of Next-Level Performance Progress*

# Summary

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Honeywell

- **Transformation That Began in 2002 Now Bearing Fruit... Strengthened Portfolio, Improving Performance**
- **Strong Growth From All ACS Businesses in 2006... Outperforming Their Peers**
- **ACS Structured to Deliver Double Digit Profit Growth... and Margin Expansion... in 2007 and Beyond**
- **High Quality Acquisitions – Both in The Past and The Future – Will Make a Great Franchise Even Better**

*ACS A Major Contributor To Honeywell Growth*

**Honeywell**

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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**

<b>(\$B)</b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
Cash Provided by Operating Activities	\$2.2	\$2.2	\$2.4
Expenditures for Property, Plant and Equipment	(\$0.7)	(\$0.6)	(\$0.6)
Free Cash Flow	<u>\$1.5</u>	<u>\$1.6</u>	<u>\$1.8</u>
Cash Provided by Operating Activities	\$2.2	\$2.2	\$2.5
÷ Net Income	\$1.3	\$1.2	\$1.6
Operating Cash Flow Conversion %	<u>171%</u>	<u>181%</u>	<u>149%</u>
Free Cash Flow	\$1.5	\$1.6	\$1.8
÷ Net Income	\$1.3	\$1.2	\$1.6
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**

<b>(\$B)</b>	<b>2005</b>	<b>2006</b>
<b>Sales</b>	<b>\$27.6</b>	<b>\$31.4</b>
<b>Cost of Products and Services Sold</b>	<b>(21.5)</b>	<b>(24.1)</b>
<b>Selling, General and Administrative Expenses</b>	<b>(3.7)</b>	<b>(4.2)</b>
<b>Operating Income</b>	<b>\$2.4</b>	<b>\$3.1</b>
<b>FAS 123R, Stock Option Expense <sup>(1)</sup></b>	<b>\$0.0</b>	<b>\$0.1</b>
<b>Repositioning and Other Charges <sup>(1)</sup></b>	<b>0.4</b>	<b>0.5</b>
<b>Pension and OPEB Expense <sup>(1)</sup></b>	<b>0.6</b>	<b>0.4</b>
<b>Segment Profit</b>	<b>\$3.4</b>	<b>\$4.1</b>
<b>Operating Income</b>	<b>\$2.4</b>	<b>\$3.1</b>
÷ <b>Sales</b>	<b>\$27.6</b>	<b>\$31.4</b>
<b>Operating Income Margin %</b>	<b>8.7%</b>	<b>9.9%</b>
<b>Segment Profit</b>	<b>\$3.4</b>	<b>\$4.1</b>
÷ <b>Sales</b>	<b>\$27.6</b>	<b>\$31.4</b>
<b>Segment Profit Margin %</b>	<b>12.2%</b>	<b>13.0%</b>

(1) Included in cost 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>2005</b>	<b>2006</b>
<b>Cash Provided by Operating Activities</b>	<b>\$2.4</b>	<b>\$3.2</b>
<b>Expenditures for Property, Plant and Equipment</b>	<b>(0.6)</b>	<b>(0.7)</b>
<b>Free Cash Flow</b>	<b>\$1.8</b>	<b>\$2.5</b>
<b>Cash Provided by Operating Activities</b>	<b>\$2.4</b>	<b>\$3.2</b>
÷ <b>Net Income</b>	<b>\$1.6</b>	<b>\$2.1</b>
<b>Operating Cash Flow Conversion %</b>	<b>149%</b>	<b>154%</b>
<b>Free Cash Flow</b>	<b>\$1.8</b>	<b>\$2.5</b>
÷ <b>Net Income</b>	<b>\$1.6</b>	<b>\$2.1</b>
<b>Free Cash Flow Conversion %</b>	<b>107%</b>	<b>119%</b>

# 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>
<b>Sales</b>	<b>\$31.4</b>	<b>\$32.8</b>
<b>Cost of Products and Services Sold</b>	<b>(24.1)</b>	<b>(25.1) - (25.2)</b>
<b>Selling, General and Administrative Expenses</b>	<b>(4.2)</b>	<b>(4.1)</b>
<b>Operating Income</b>	<b>\$3.1</b>	<b>\$3.5 - 3.6</b>
<b>FAS 123R, Stock Option Expense<sup>(1)</sup></b>	<b>\$0.1</b>	<b>0.1</b>
<b>Repositioning and Other Charges<sup>(1)</sup></b>	<b>0.5</b>	<b>0.4</b>
<b>Pension and OPEB Expense<sup>(1)</sup></b>	<b>0.4</b>	<b>0.4</b>
<b>Segment Profit</b>	<b>\$4.1</b>	<b>\$4.4 - 4.5</b>
<b>Operating Income</b>	<b>\$3.1</b>	<b>\$3.5 - 3.6</b>
÷ <b>Sales</b>	<b>\$31.4</b>	<b>\$32.8</b>
<b>Operating Income Margin %</b>	<b>9.9%</b>	<b>10.7 - 11.0%</b>
<b>Segment Profit</b>	<b>\$4.1</b>	<b>\$4.4 - 4.5</b>
÷ <b>Sales</b>	<b>\$31.4</b>	<b>\$32.8</b>
<b>Segment Profit Margin %</b>	<b>13.0%</b>	<b>13.5 - 13.9%</b>

(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	\$3.3 - 3.5
Expenditures for Property, Plant and Equipment	(0.7)	(0.8)
<b>Free Cash Flow</b>	<b>\$2.5</b>	<b>\$2.5 - 2.7</b>
Cash Provided by Operating Activities	\$3.2	\$3.3 - 3.5
÷ Net Income	\$2.1	\$2.3 - 2.4
<b>Operating Cash Flow Conversion %</b>	<b>154%</b>	<b>+140%</b>
Free Cash Flow	\$2.5	\$2.5 - 2.7
÷ Net Income	\$2.1	\$2.3 - 2.4
<b>Free Cash Flow Conversion %</b>	<b>119%</b>	<b>+100%</b>