

Honeywell

Investor Update - Pension

November 16, 2010

Forward Looking Statements

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.

Today's Pension Discussion

- **Pension Accounting and Reporting**
 - Background on HON's Pension Accounting
 - New Accounting Methodology Effective 2010
- **Financial Implications**
 - Financial Reporting Impact
 - Revised 2010 Guidance
 - Preliminary 2011 Scenario
- **Pension Funding Update**
 - 2010 and 2011 Planned Contributions
 - Long-Term Pension Funding Strategy
 - Fully Funded Scenario

Pension Accounting Background

- HON Pension Accounting Not Comparable to Peers
 - Smooth Asset Returns Over 3 Years (vs. Peer Average of 5 Years)
 - Amortize Gains/Losses Over 6 Years (vs. Peer Average of 10-12 Years)
- As Result, HON Recognizes Accumulated Gains/(Losses) Faster

	<u>Pension Expense</u>			
(\$B)	<u>2009</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>
HON Current Accounting	(\$0.1)	(\$0.8)	(\$1.2)	(\$0.8)
Peer Method of Accounting	(\$0.1)	(\$0.4)	(\$0.5)	(\$0.5)
EPS \$V*	(\$0.05)	(\$0.32)	(\$0.52)	(\$0.22)

- Previously Reviewed Policy to Extend Amortization in Line with Peers
 - Longer Amortization Not Preferable Accounting
 - Therefore, Have Evaluated “Mark-To-Market” Approach
- Accounting Does Not Impact Operating Earnings, Cash Flow or Funding

* Assumes 38.5% Tax Rate on Pension Expense and Share Count of: 756M Shares in 2009; 780M Shares in 2010; 803M Shares in 2011; 811M Shares in 2012

Current Acctg Masks Underlying Operating Performance

MTM Pension Accounting

- **Annually Recognize Mark-To-Market Gains or Losses Outside Corridor in Income Statement (MTM Accounting)**
 - Corridor Calculated as 10% of the Greater of Fair Value Plan Assets or PBO*
- **Pension Expense Will Be Presented as Two Elements:**

<u>Elements</u>	<u>Components</u>	<u>Period of Recognition</u>
1) Ongoing Expense	Service Cost Interest Cost Assumed Asset Return	Quarterly
2) MTM Adjustment - Gain/Loss Outside of Corridor	Discount Rate Changes Actual Returns vs. Assumed Returns	Potential Q4 Each Year

- **IFRS Today and IASB Proposal Treat Gains / Losses as Non-Operating (OCI)***

* PBO – Pension Benefit Obligation; OCI – Other Comprehensive Income

Isolate Possible Pension Variability From Ongoing Results

Key Accounting Differences

<u>Current Accounting</u>		<u>MTM Accounting</u>	
(\$B)		(\$B)	
Pension Expense Components		Pension Expense Components	
	<u>2010E</u>		<u>2010E</u>
Ongoing	Asset return *	1.2	1.1
	Interest cost	(1.0)	(1.0)
	Service cost	(0.3)	(0.3)
	G/(L) Amortization	<u>(0.7)</u>	~ (1.4)
	Pension Income/ (Expense)	<u>(0.8)</u>	<u>~ (1.6)</u>
<p><i>*Based on Smoothed Value of Assets; 9% Assumed Rate of Return (RoA)</i></p> <ul style="list-style-type: none"> • Smoothed Value of Assets – 3 Years • Deferred Gains / Losses Outside the Corridor Amortized Over 6 Years • Recognized Gains/Losses More Rapidly in Earnings vs. Peers • \$7.5B Losses Yet to be Amortized 		<p><i>*Based on Fair Value of Assets; Utilizes 9% Assumed Rate of Return (RoA)</i></p> <p><i>**MTM Adj. Assumes 4.75% Discount Rate and 10% RoA</i></p> <ul style="list-style-type: none"> • Fair Value of Assets – No Smoothing • Gains/Losses Outside Corridor Recognized <u>Annually</u> in Q4 • Ongoing Pension Expense <u>Plus</u> Transparent 4Q MTM Adjustment • Recognize ~\$5.5B Losses in Prior Periods 	

No Longer Amortizing Deferred Losses Going Forward

Accounting Change Considerations

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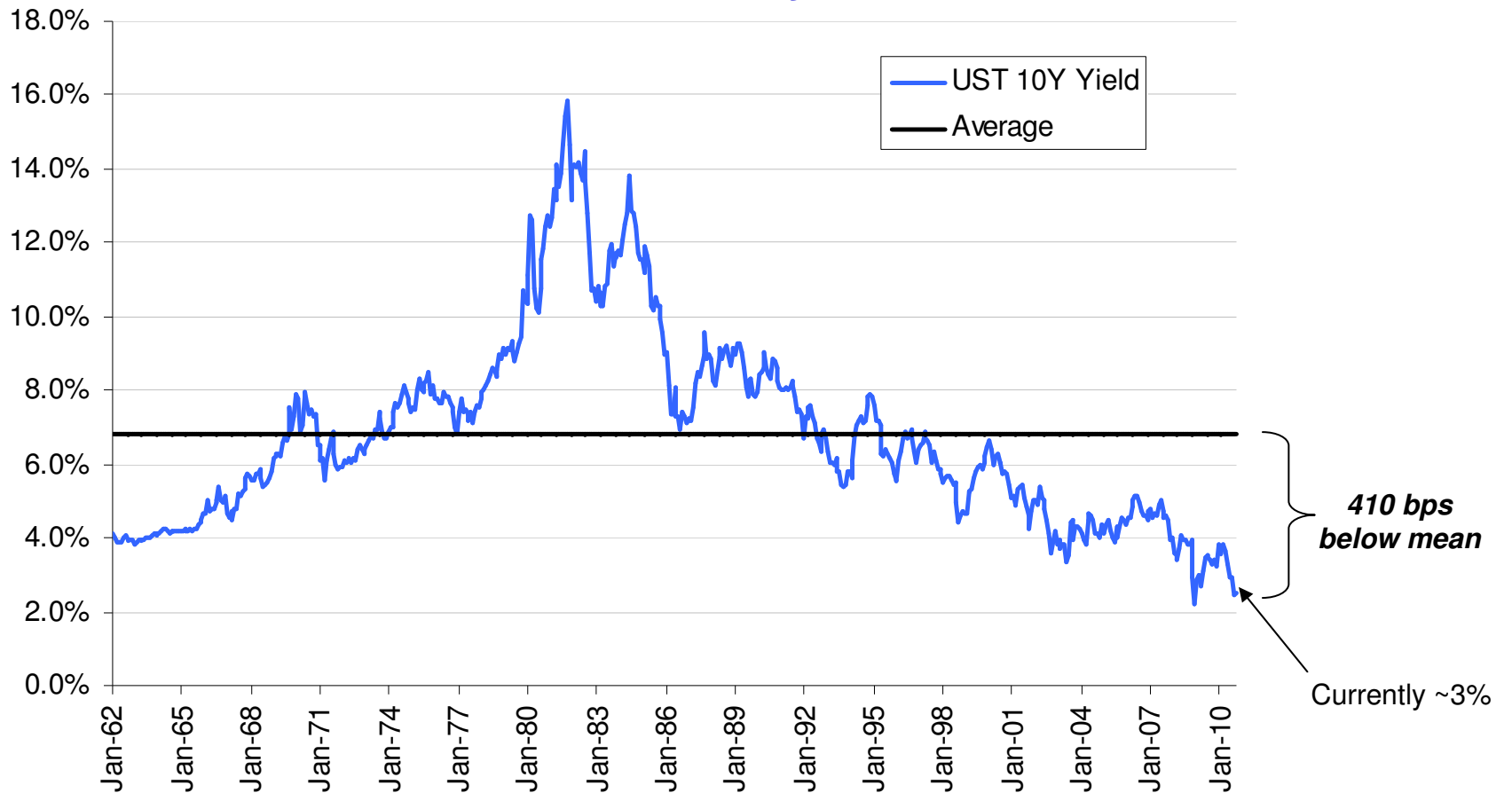
- **MTM Accounting Preferable**
 - Concurrence of Independent Auditors
- **Aligns to International Accounting Trends**
 - Both IFRS Today and IASB Proposal Utilize MTM (Adjustment Through OCI)
- **Adds Transparency to Operating Performance**
 - Recognize any Pension Gains/Losses Annually in 4Q (MTM)
- **Interest Rates at Historic Lows...Unique Opportunity**
 - Mitigates Pension Expense Downside Volatility – Rates Stable, Likely to Rise
- **Change Retrospectively Applied to Prior Periods – Financials Recast**
 - Recognize ~\$5.5B of Deferred Losses in 2010 and Prior Periods

Shift To MTM Accounting In 2010

Historical Long-Term Rates

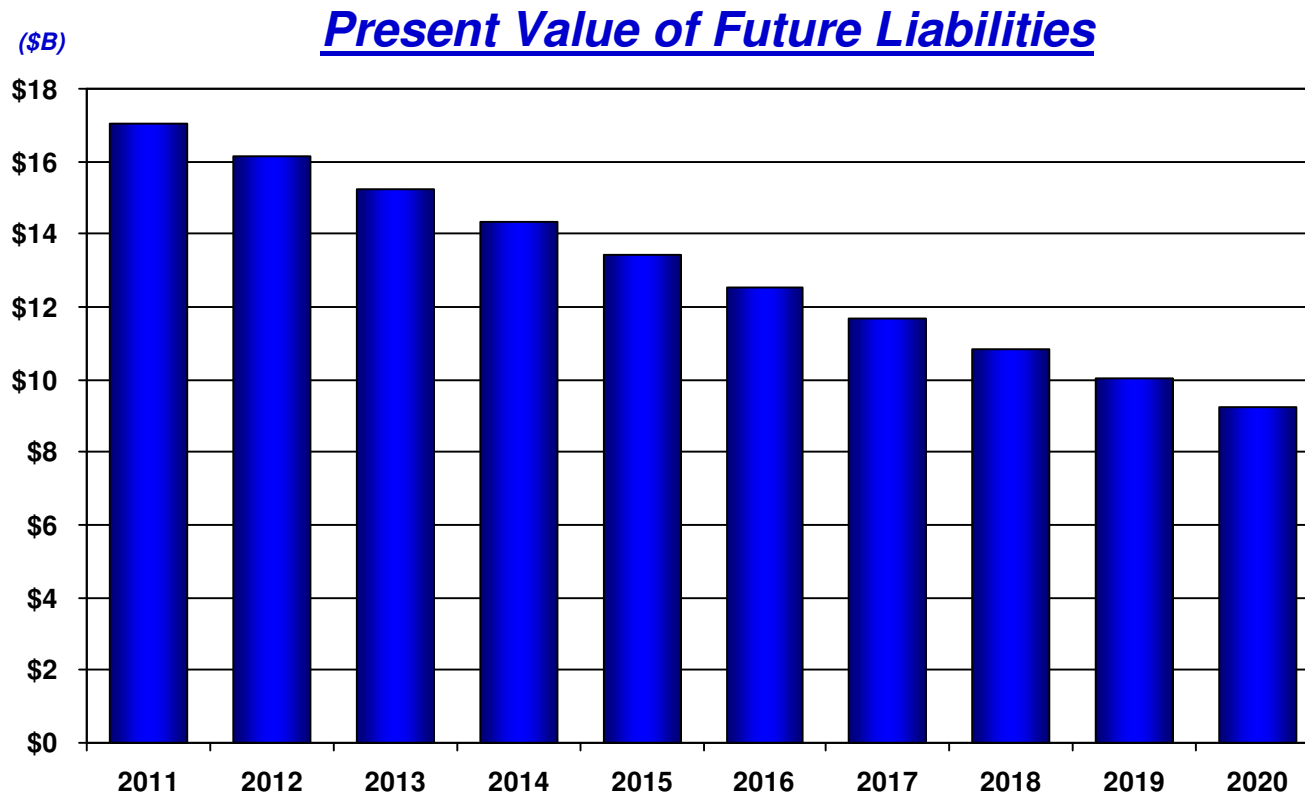
1962-2010

10 Year Treasury Rate



Rates Currently At Historical Lows

HON Liability Projections



- Liability Declines Due to Payments, Demographics and Plan Changes
- Decline in Value of Future Liability Mitigates Plan Expense and Variability

Note: HON U.S. Expected PBO, Utilizes 5.25% Discount Rate

Pension Liability Declines ~50% Over Next Decade

Financial Reporting Impact

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(\$M Except Per Share Amounts)

Current Accounting

	<u>2008</u>	<u>2009</u>	<u>2010E</u> ⁽¹⁾
Ongoing Pension Expense	70	53	(83)
G/(L) Amortization	<u>(47)</u>	<u>(161)</u>	<u>(708)</u>
Pension Income/(Expense)	<u>23</u>	<u>(108)</u>	<u>(791)</u>
PBT	3,821	2,978	2,693
Income Taxes	(1,009)	(789)	(714)
Net Income Attrib. to HON	2,792	2,153	1,965
EPS ⁽³⁾	\$3.76	\$2.85	~\$2.52
FCF ⁽⁴⁾	3,073	3,337	~3,500

MTM Accounting

	<u>2008</u>	<u>2009</u>	<u>2010E</u> ⁽²⁾
Ongoing Pension Expense	92	(296)	(207)
4Q MTM Adjustment	<u>(3,290)</u>	<u>(741)</u>	<u>~(1,411)</u>
Pension Income/(Expense)	<u>(3,198)</u>	<u>(1,037)</u>	<u>~(1,618)</u>
PBT	600	2,049	1,866
Income Taxes	226	(465)	(399)
Net Income Attrib. to HON	806	1,548	1,453
EPS ⁽³⁾	\$1.08	\$2.05	~\$1.86
FCF ⁽⁴⁾	3,073	3,337	~3,500

(1) Assumes 5.75% Discount Rate and 9% Return on Plan Assets

(2) MTM Adjustment Assumes Year-end 4.75% Discount Rate and 10% RoA

(3) 2008 and 2009 Utilize Weighted Average Shares Outstanding for the Period. 2010 Assumes Weighted Average Shares Outstanding of 780M.

(4) Excludes Cash Taxes Relating to the Sale of Consumables Solutions Business in 2008

• MTM Adjustment To Be Explained In Footnotes And MD&A
• Shareowners' Equity And Funded Status Unaffected By Accounting Change

EPS Walk

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	<u>Current Accounting</u>		<u>New Accounting</u>	
	<u>2009A</u>	<u>2010E</u>	<u>2009A</u>	<u>2010E</u>
EPS Ex-Pension	\$2.95	~\$3.14	\$2.95	~\$3.14
Ongoing Pension Exp. ⁽¹⁾	0.05	(0.06)	(0.26)	(0.16)
Gain/Loss Amortization ⁽¹⁾	(0.15)	(0.56)	-	-
4Q MTM Adjustment ^(1,2)	-	-	(\$0.64)	~(\$1.12)
Reported/Estimated EPS	\$2.85	~\$2.52	\$2.05	~\$1.86
<i>4Q MTM Adjustment</i>			<u>\$0.64</u>	<u>~\$1.12</u>
Proforma Reported/Guidance			\$2.69	~\$2.98 +11%

(1) Assumes Blended Statutory Tax Rate of 34.9% in 2009 and 38.1% in 2010 For Pension Change
(2) Utilizes 5.75% Discount Rate and 20% RoA for 2009; Assumes 4.75% Discount Rate and 10% RoA for 2010

• EPS Ex-Pension Unchanged
• Going Forward, Operating Earnings / Guidance To Include Ongoing Pension

2010 MTM Sensitivity

- **2010 MTM Adjustment Forecast Approximately \$1.4B**
 - **Base Assumptions*: 4.75% Discount Rate, 10% Rate of Return**
 - **Reasonable Range Shaded Below**

(\$M)		Rate of Return				
		5.0%	7.5%	10.0%	12.5%	15.0%
Discount Rate	5.25%	(1,170)	(920)	(670)	(420)	(170)
	5.00%	(1,550)	(1,260)	(1,010)	(760)	(510)
	4.75%	(2,030)	(1,720)	(1,411)	(1,110)	(860)
	4.50%	(2,540)	(2,220)	(1,900)	(1,590)	(1,280)

*US Plan Assumptions; Range Shown Equals Estimated Global MTM Adjustment

Actual MTM Adjustment Determined 12/31/10

2011 Implications

- 2011 Pension Expense Forecast Significantly Reduced with MTM

<u>Current Accounting</u>		<u>MTM Accounting*</u>	
(\$B)		(\$B)	
Pension Expense Components	<u>2011E</u>	Pension Expense Components	<u>2011E</u>
Asset return	1.2	Asset return	1.1
Interest cost	(0.9)	Interest cost	(0.9)
Service cost	(0.4)	Service cost	(0.4)
G/(L) Amortization	(1.1)	4Q MTM Adjustment	-
Pension Income/ (Expense)	<u>(1.2)</u>	Pension Income/ (Expense)	<u>(0.2)</u>

- Ongoing Pension Expense ~\$200M (\$50M per Quarter)
 - Prospectively Lowering Assumed Rate of Return from 9% to 8%
- Potential Gains/Losses Outside Corridor Recognized Annually in Q4

*Assumes \$1 Billion Contribution in 2010 and 2011, 10% RoA for 2010, a 4.75% December 31, 2010 Discount Rate, and 8% RoA Assumption for 2011.

2011 Pension Guidance Excludes Any MTM Adjustment

2011 MTM Sensitivity

- **MTM Adjustment Significantly Influenced By Interest Rates**
 - 2011 YE Consensus 10-Year Treasury Rates +100 bps
 - Assuming Rates Increase, Reasonable Range Shaded Below

Discount Rate	(\$M)	Rate of Return				
		-5%	0%	5%	10%	15%
6.25%		0	0	96	232	538
6.00%		0	0	0	120	256
5.75%		(120)	0	0	4	140
5.50%		(440)	0	0	0	17
5.25%		(838)	(190)	0	0	0
5.00%		(1,306)	(599)	0	0	0
4.75%		(1,778)	(1,072)	(364)	0	0
4.50%		(2,274)	(1,566)	(860)	(152)	(10)

- **MTM Adjustment Also Impacted by Corridor Capacity**
 - No Available Capacity Entering 2011

**Assumes \$1 Billion Contribution in 2010 and 2011, 10% Return for 2010, a 4.75% December 31, 2010 Discount Rate, and 8% RoA Assumption for 2011.*

Likely Increase In Rates Mitigates MTM Adjustment

Corridor Defined

- **10% of Greater of Fair Value of Assets or PBO ~\$2B**
 - Provides Buffer Against Gains/Losses in Given Period
- **MTM Adjustment Equals Gains/Losses Outside the Corridor**
 - Cumulative Losses Remaining in Corridor Jan 1, 2011

Actuarial Losses Applied To Corridor

(\$B)

Deferred Losses 12/31/10	~(\$7.5)
Losses Allocated to Prior Periods	~ <u>\$5.5</u>
Losses Remaining in Corridor 1/1/11	~(\$2.0)

- **In The Future, Corridor Capacity Driven by Interest Rate Increases, Asset Returns and Pension Funding**

Sensitivity: 25 BPS Increase ~\$500M Corridor Capacity

Pension Strategy

- **Today: Estimated Funded Status ~77% at 2010 Year End**
 - Flat to 2009 Due to Precipitous Drop in Discount Rate (~100 bps)
 - Includes \$1B Planned Contributions in 2010 and 10%+ Asset Returns
- **Strategy 1: Plans to Achieve Fully Funded by 2015**
 - \$1B Cash Contribution Planned in 2011
 - 2012-2015 Funding Amounts TBD (Discount Rate and RoA Dependent)
 - Sensitivity: 1 Point Discount Rate Increase ~ \$2B Funded Status
- **Strategy 2: As Approach Fully Funded, Evaluate Asset Mix**
 - Investment / Liability Matching Reduces Pension Expense Variability
 - Lower Rate of Return Assumption As Asset Mix Shifts

• *Future Pension Funding Manageable*
• *Pension Variability Reduced By Funding/Other Actions*

Illustrative Fully Funded Scenario

- Plan to Achieve Fully Funded Status by 2015
 - Shaded Boxes Indicate MTM Adjustment at 95% Probability

		Rate of Return						
		-10%	-5%	0%	6.5%	10%	15%	20%
Discount Rate	6.50%	0	130	270	1,020	1,610	2,440	3,270
	6.25%	0	30	170	590	1,170	2,000	2,830
	6.00%	0	0	70	250	730	1,560	2,390
	5.75%	0	0	0	140	270	1,100	1,930
	5.50%	(290)	0	0	30	130	630	1,460
	5.25%	(620)	0	0	0	10	150	980
	5.00%	(1,060)	(200)	0	0	0	30	470
	4.75%	(1,520)	(600)	0	0	0	0	50
	4.50%	(2,000)	(1,080)	(150)	0	0	0	0

**Based on Fully Funded Status, No Unamortized Gain or Loss at Beginning of Year, Pension Asset Mix Shifted to Match Pension Liability Duration; 6.5% Assumed Rate of Return and 4.75% Discount Rate.*

Approximately 5% Probability Of MTM Adj. >\$600M

Summary

Today: Pension Accounting Distorts Reported Results and Perceptions

New: Comprehensive Approach to Pension Management

- **Preferable Accounting Change, Improved Transparency**
- **\$7.5B Deferred Losses No Longer Amortized in Future Periods**
 - 2011 Ongoing Pension Expense ~\$200M, Any MTM Adjustment Isolated to 4Q
- **Today's Historic Low Interest Rates – Unique Opportunity**
 - Timing Likely Represents Upside – Discount Rate Buffer
 - Access Credit Markets, Enables Attractive Pre-funding
- **Smart Funding Strategy**
 - 2010 and 2011 \$1B Each; 2012-2015 TBD (Discount Rate and RoA Dependent)
- **Steps to Mitigate Variability Going Forward**
 - Lower Return on Assets Assumption (Move From 9% to 8% RoA 2011)
 - Evaluate Asset Mix / Liability Duration Matching as Approach Fully Funded

Enhance Visibility Of HON Operating Performance

Appendix

Glossary

Actuarial gains or losses – Result from either 1) a change in the value of plan assets due to actual returns differing from that assumed, or 2) a change in the PBO resulting from changed discount rates or other actuarial assumptions.

Corridor – The greater of 10% of plan assets or PBO. Under MTM, plan assets are measured at fair value. Under current accounting, plan assets are measured at smoothed value.

Expected PBO – Same as PBO, but also includes assumption for future service.

Expected return on plan assets – Product of the expected rate of return and the value of the plan assets.

Funded Status – The difference between Plan assets at fair value and the PBO.

Interest cost – Represents the accretion of interest on the PBO during the year using the current discount rate.

Mark-To-Market (MTM) accounting – Includes: ongoing pension expense recorded quarterly (comprising service and interest costs, and assumed returns on plan assets); and recognition in the fourth quarter each year of any gains and losses outside of the corridor. Such gains and losses arise from experience, including asset returns, different from what had been assumed, and changes in actuarial assumptions.

Matching strategy – Liability driven investment strategy with a greater concentration of fixed income securities to better align plan assets with liabilities.

PBO – Projected Benefit Obligation represents the present value of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. PBO is measured using an assumption as to future pay increases.

Service cost – Represents the increase in the PBO due to employee service in the current year, i.e. the present value of benefits attributed to service in the current year.

Smoothed asset value – A calculated value of plan assets that smooths asset gains and losses over a certain period (for Honeywell, three years).

Reconciliation Of Free Cash Flow

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(\$B)	<u>2008</u>	<u>2009</u>	<u>2010E</u>
Cash Provided by Operating Activities	\$3.8	\$3.9	~\$4.1
Expenditures for Property, Plant and Equipment	(0.9)	(0.6)	~(0.6)
Free Cash Flow	2.9	3.3	~3.5
Cash taxes relating to the sale of Consumables Solutions business	0.2	-	-
Free Cash Flow excluding cash taxes relating to the sale of the Consumables Solutions business	<u>\$3.1</u>	<u>\$3.3</u>	<u>~\$3.5</u>

Financial Summary – Current And MTM Accounting Honeywell

(\$M except per share amounts)

<u>Current Accounting</u>	2009					2010E				
	<u>Q1¹</u>	<u>Q2¹</u>	<u>Q3¹</u>	<u>Q4¹</u>	<u>FY¹</u>	<u>Q1¹</u>	<u>Q2¹</u>	<u>Q3¹</u>	<u>Q4E²</u>	<u>FYE²</u>
Ongoing Pension Income/(Expense)	9	16	10	18	53	(24)	(13)	(20)	(26)	(83)
Amortization	(36)	(45)	(40)	(40)	(161)	(176)	(178)	(177)	(177)	(708)
Pension Income/(Expense)	(27)	(29)	(30)	(22)	(108)	(200)	(191)	(197)	(203)	(791)
Income from Continuing Operations Before Taxes	543	626	798	1,011	2,978	553	648	705	787	2,693
Tax (Expense)/Benefit	(144)	(166)	(179)	(300)	(789)	(160)	(172)	(208)	(174)	(714)
Net Income	399	460	619	711	2,189	393	476	497	613	1,979
Net Income Attributable to Noncontrolling Interest	2	10	11	13	36	7	8	(2)	1	14
Net Income Attributable to Honeywell	397	450	608	698	2,153	386	468	499	612	1,965
EPS	0.54	0.60	0.80	0.91	2.85	0.50	0.60	0.64	0.78	2.52

<u>MTM Accounting</u>	2009					2010E				
	<u>Q1¹</u>	<u>Q2¹</u>	<u>Q3¹</u>	<u>Q4¹</u>	<u>FY¹</u>	<u>Q1¹</u>	<u>Q2¹</u>	<u>Q3¹</u>	<u>Q4E²</u>	<u>FYE²</u>
Ongoing Pension Income/(Expense)	(74)	(76)	(77)	(69)	(296)	(51)	(47)	(51)	(58)	(207)
4Q MTM Adjustment	0	0	0	(741)	(741)	0	0	0	(1,411)	(1,411)
Pension Income/(Expense)	(74)	(76)	(77)	(810)	(1,037)	(51)	(47)	(51)	(1,469)	(1,618)
Income from Continuing Operations Before Taxes	496	579	751	223	2,049	702	792	851	(479)	1,866
Tax (Expense)/Benefit	(119)	(138)	(148)	(60)	(465)	(206)	(218)	(255)	280	(399)
Net Income	377	441	603	163	1,584	496	574	596	(199)	1,467
Net Income Attributable to Noncontrolling Interest	2	10	11	13	36	7	8	(2)	1	14
Net Income Attributable to Honeywell	375	431	592	150	1,548	489	566	598	(200)	1,453
EPS	0.51	0.57	0.77	0.20	2.05	0.63	0.73	0.76	(0.25)	1.86

1- Utilizes Weighted Average Shares Outstanding for the Period.

2- 2010 Q4E and FYE Assume Weighted Average Shares Outstanding of 790 and 780 Million, Respectively.